

## **History Repeats Itself, The Mortgage Crisis Today**

The main difference between the S&L Crisis and what is now being called the Subprime lending Crisis is that during the S&L crisis institutions were the principals in the majority of the mortgages that went bad. These defaults caused the market collapse described above.

In the current subprime lending crisis, the mortgage principals are almost all homeowners and the mortgages that are at issue are on residential properties. Similar to the S&L crisis, the market is being affected by both reduced capital availability from lenders and rapid depreciation of property values in many areas. This crisis is further exacerbated by the following issues:

1. Homeowners purchased much more property than they could actually afford due to the exotic mortgage programs they used as previously explained.
2. Prices in many areas were artificially inflated by the increased buying power of those individuals that previously could not qualify. Artificially because so many of the mortgages that were issued used introductory or temporary rates that increase and borrowers can no longer afford the payments.
3. New construction was pushed, in many areas, to all time highs. This again caused an artificial inflation of the market due to speculative investors purchasing new construction properties for resale.
4. Many individuals purchased second homes either as investment or as true second homes that again created a false appreciation in the residential market.
  - a. In 2004 36% of all homes were investment or second homes.
  - b. In 2005 vacation and investment home sales accounted for almost 4 out of 10 total residential sales. Investment homes accounted for 27.7% of all purchases and vacation homes were 12.2% of all sales.
  - c. In 2006 Second home sales dropped however they still accounted for 36% of all residential property sold.
5. In the rush to invest many individuals actually purchased more than one property building inventories of residential property for which there was not a second purchaser.

6. Since late 2006 when issues in the market started becoming apparent, 214 major mortgage lenders have gone out of business.
7. Company closures have significantly decreased the options that homeowners have when purchasing a new or investment home.
8. In addition to company closures, those lenders that are still in business have reduced their product offering and in many cases eliminated entire categories of loans that were previously driving residential sales.
9. In many areas distressed homeowners are either selling short or have already gone through the foreclosure process and these listings are on the market further depressing property values.