

Prepared by:

Ain

Basirah

Zaty

Najwa



U.S. Subprime Mortgage Crisis: Policy Reactions (B)

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The rise of subprime lending
Some homeowners took advantage of the increased property of their home to refinance their home with lower interest rates and take out second mortgages against the added value to use for consumer spending.
By 2007, U.S. households' debt as a percentage of income rose to 100% (2000, 68% higher than the average amount in the decade).

Housing Price Crash
The economist stated that the decline means price have been growing more slowly or dropping for 19 consecutive months.
This major and unexpected decline in house prices means that many borrowers have zero equity in their homes.
Their homes were worth less than their mortgage.
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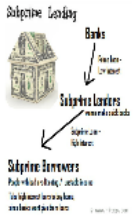
The collapse of industrial mortgage crisis
In late 2006, the collapse of subprime mortgage market has set in a motion a chain reaction of economic and financial adversity that has spread to global financial markets.
The collapse had created depression-like conditions in the housing market, and pushed the U.S. economy to the brink of recession.
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Equity home Falls to Loan
Many U.S. homeowners found themselves with homes that were worth less than the outstanding balance on their mortgage loans which is homeowners' debt on their houses exceeds their equity.
The number of delinquent payments and defaults exceeded the expectations of lenders and investors, which eroded the value of subprime mortgage-backed investments and dried up credit markets overnight.
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Subprime loans set to "reset"
An estimated 1 million to 2 million borrowers would be unable to avoid foreclosure and the borrowers lose their home. The losses also extend beyond borrowers.
The foreclosure process typically costs lenders added legal fees, taxes due until the property is sold and lost equity in a house that must be priced to sell in a falling market. The added inventory of unsold homes further weakens local housing markets, depressing the value of other nearby homes.

What is Subprime Mortgage Crisis??
Subprime Loan
A loan given to people with a bad credit rating.
Subprime mortgage crisis
A set of events and conditions where a steep rise in home foreclosures in 2006 seemingly out of control in 2007.
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Credit Crunch
Banks and lending institutions have tightened their credit requirements and are looking for more quality of potential loan applications.
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Impact on their market and other industries
Increased defaults on mortgage loans led to mortgage-backed securities companies.
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Prime Borrowers Let Hard
As home prices continue to fall and banks continue to tighten credit, the price of prime credit has risen. Borrowers who are being pulled off their mortgages or have early withdrawal and credit cards.
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The rise of subprime lending
New homeowners took advantage of the increased property of their home to refinance their home with lower interest rates and take out second mortgages against the added value to use for consumer spending.
In turn, U.S. household debt as a percentage of income rose to 80% in 2006, 20% higher than the original amount in the decade.

Housing Price Crash

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Subprime Lending



Subprime Borrowers
People who have bad credit and are not able to get a loan from a bank.

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Credit Crunch

As banks and other lending institutions struggle to deal with the credit crunch, they are more likely to apply for more restrictive loan conditions. Lending more slowly or generally not applying at all.

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Impact on their market and other industries
Credit crunch and other factors have led to a sharp drop in the value of mortgage-backed securities.
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Prime borrowers hit hard
As home prices continue to fall and home equity drops, lenders are forced to sell homes at a loss. This has led to a sharp decline in the value of home equity and a loss of confidence in the housing market.
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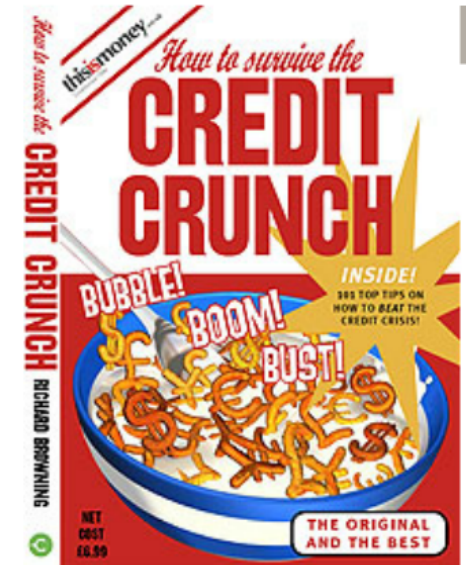
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Credit Crunch



- Banks and lender cutting back the credit
- Rejects credit card application
- Bigger deposits for house purchase
- Looking more closely at personal loan application

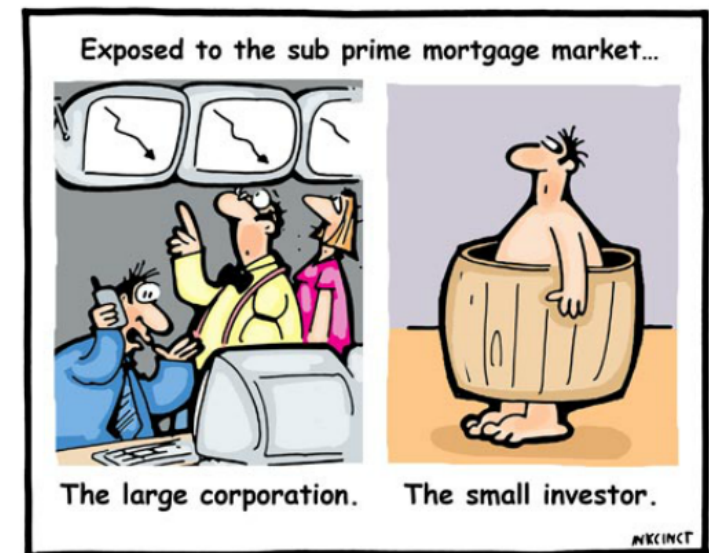
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Impact on stock market and other industries

Creditors suffered significant losses due to mortgage payment defaults or mortgage asset devaluation

Eg: Metal & mining companies



Prime borrowers hit hard



As home prices continue to fall and banks constrict their lending standards, people with prime credit histories now are falling behind on their payments for home loans, auto loans and credit cards.

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