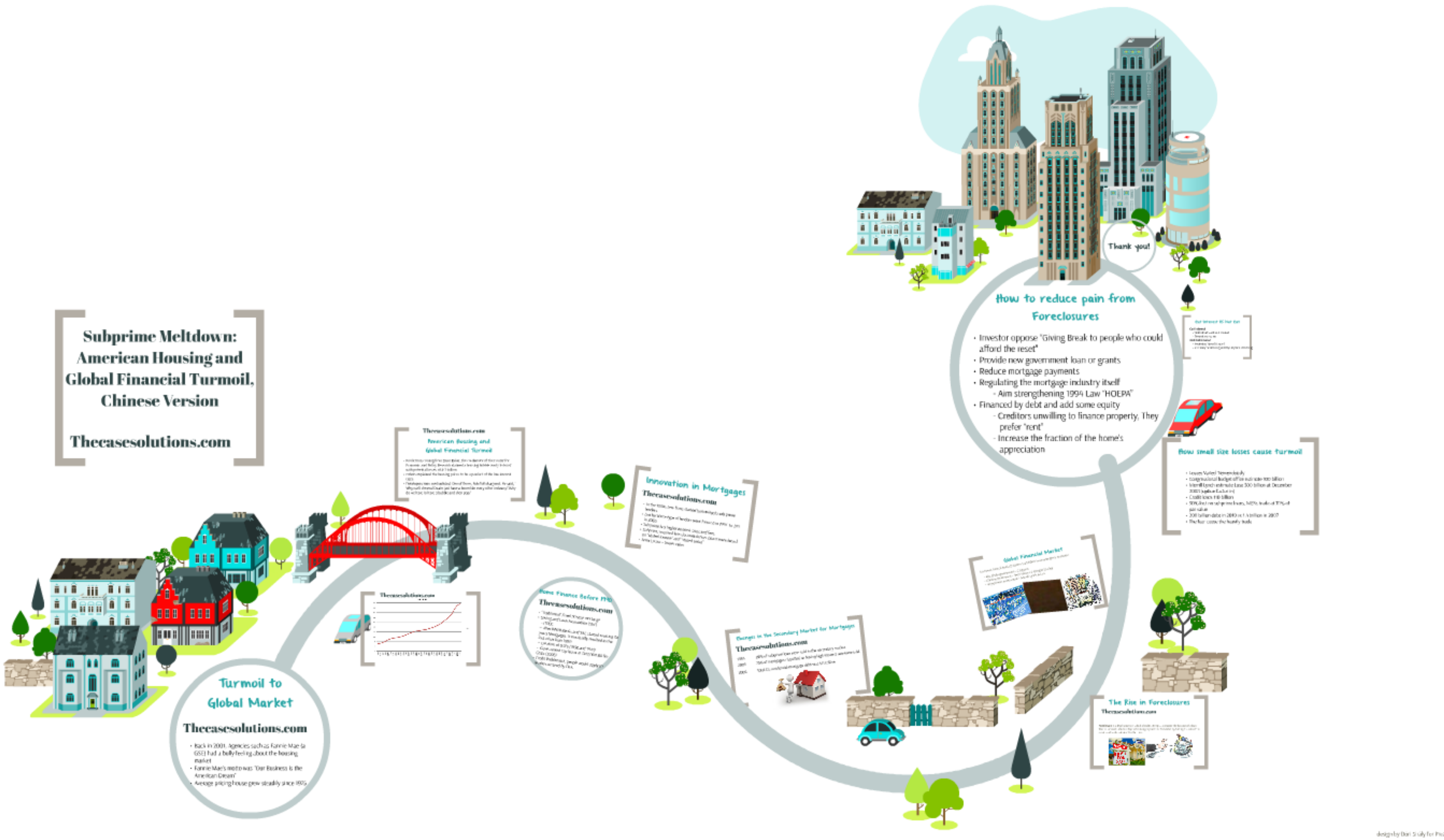

Subprime Meltdown: American Housing and Global Financial Turmoil, Chinese Version
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American Housing and Global Financial Turmoil
Innovation in Mortgages
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Changes in the Secondary Market for Mortgages
Thecasesolutions.com
Global Financial Market
Thank you!
How to reduce pain from Foreclosures
• Investor oppose "Giving Break to people who could afford the reset"
• Provide new government loan or grants
• Reduce mortgage payments
• Regulating the mortgage industry itself
- Aim strengthening 1994 Law "HOEPA"
• Financed by debt and add some equity
- Creditors unwilling to finance property, They prefer "rent"
- Increase the fraction of the home's appreciation
How small size losses cause turmoil
The Rise in Foreclosures
Thecasesolutions.com
Turmoil to Global Market
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• Back in 2001, Agencies such as Fannie Mae (a GSE) had a bully feeling about the housing market
• Fannie Mae's motto was "Our Business is the American Dream"
• Average pricing house grew steadily since 1995

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Turmoil to Global Market

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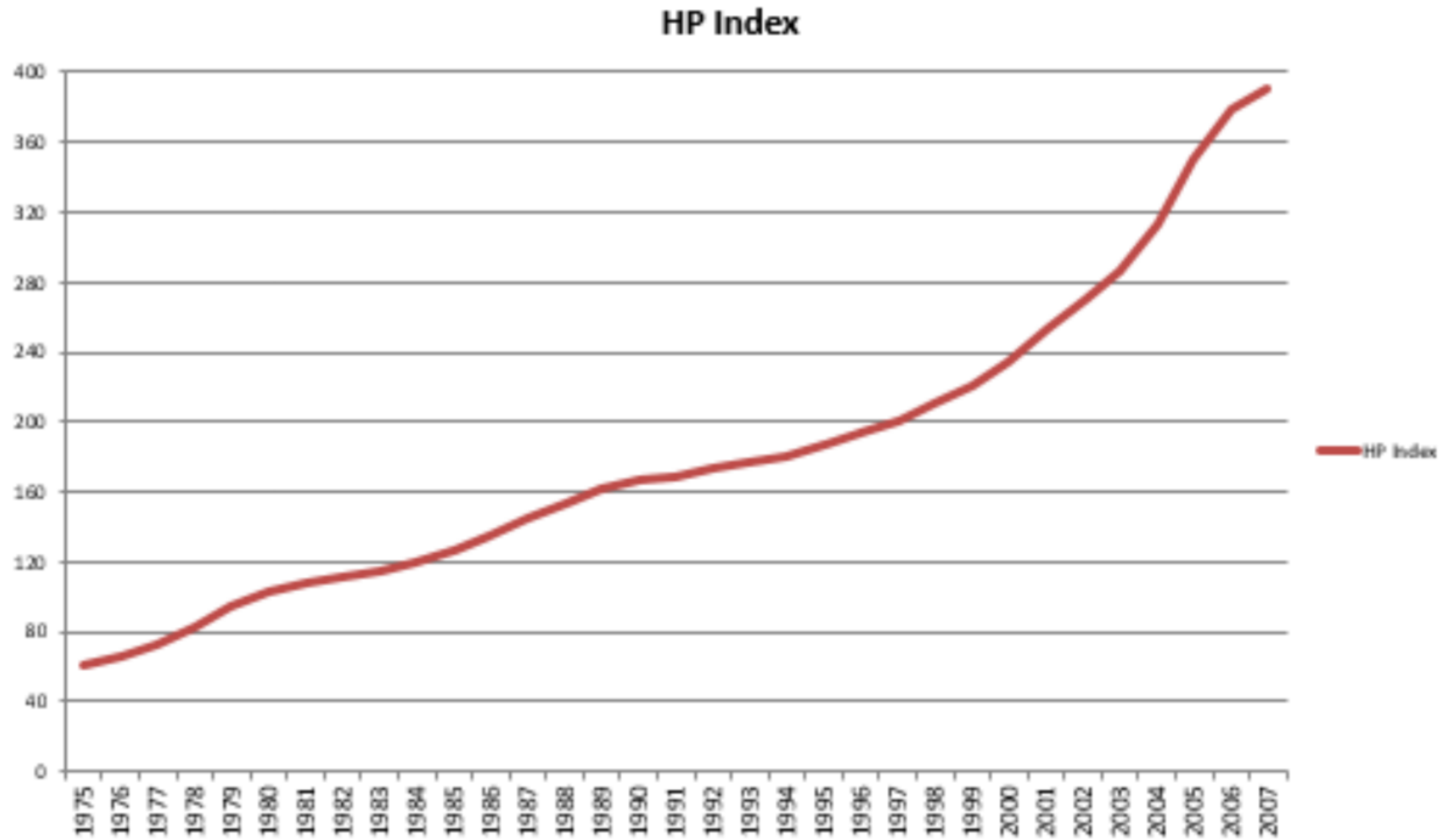

American Housing and Global Financial Turmoil

- Predictions coming from Dean Baker, the co-director of the Center for Economic and Policy Research claimed a housing bubble ready to burst with potential losses of 2-3 trillion.
- Others explained the housing prices to be a product of the low interest rates
- Developers were contradicted. One of them , Bob Toll disagreed. He said, “ Why can’t the real Estate just have a boom like every other industry? Why do we have to have a bubble and then pop?

Home Finance Before 1990

Thecasesolutions.com

- "Traditional" Fixed 30 year mortgage
- Saving and Loan Association (S&L)
  -- HOLC
  -- After WWII Banks and S&L started creating 30 years Mortgages. It eventually resulted in the S&L crisis from 1980
  -- Creation of GSEs (1938 and 1970)
  -- Government cap loans at $417,000.00 for GSEs (2006)
- Credit Problematic people would apply to lenders insured by FHA.

Innovation in Mortgages

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- In the 1990s new firms started borrowing to sub prime lenders.
- List for these type of lenders went from 63 in 1993 to 205 in 2005.
- Subprime has higher interest rates and fees.
- Subprime required less documentation. Loans were based on “stated income” and “stated value”
- Arms Loans – teaser rates

Changes in the Secondary Market for Mortgages

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1995	28% of subprime loan were sold in the secondary market
2005	73% of mortgages classified as having high interest rate were sold
2006	Total US residential mortgage debt was $11 trillion

The Rise in Foreclosures

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Foreclosure is a legal process in which a lender attempts to recover the balance of a loan from a borrower, who has stopped making payments to the lender, by forcing the sale of the asset used as the collateral for the loan.