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The Subprime Mortgage Crisis:

Causes, Consequences, Resolutions, and Regulations

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Abstract

Subprime mortgage crisis is a financial, as well as real estate crisis originated in the United States mortgage market. It is because of saturation in the real estate market and growth in the debts, as well as the mortgage outstanding that it occurred. Furthermore, the crisis was attributed to the bursting the United States real estate market bubble. The effects of the crisis were fast to spread and seriously affected all the banks and the mortgage market all over the world leading to their closure. Thus, despite the fact that the crisis originated in the US real estate market, the effects of the crisis have been felt all over the world. This creates a valuable experience that is worth some study, at least to understand the causes, consequences, resolutions, and regulations that could have been in place to avoid the crisis, and measures that can be put in place to avoid a repeat of the same in the future.

THE SUBPRIME mortgage crisis: causes, consequences, resolutions, and regulations

Subprime lending is lending to those people that have a reduced ability to pay their debts perhaps due to failure or foreclosure. Therefore, subprime loans are given to those individuals that once had the capability to pay the loan, but due to factors such as bankruptcy, their ability to repay the loan has reduced. The mortgage originator has the right to seize the person's property or even foreclosure if the mortgagee does not pay off the loan as agreed. The issue of subprime lending complicated the situation in the mortgage market, a market that was already experiencing financial difficulties. Real estates in the United States were overpriced; thus, mortgage originators were not able to recover their mortgages even after seizing the property from mortgage defaulters (Krugman, 2009). This was the main cause of the subprime mortgage crisis.

This topic is extremely crucial, as most of the investors do not know what kind of investments they want to venture into and this leads to the wrong choice of investment. Most of them have suffered the consequences of losing all their investment and being declared bankrupt. The study on this topic will enlighten individuals on the real estate mortgage market, as well as the risks associated with the venture into this market. It will also ensure that one knows when and where not to invest in such kind of business. The mortgage market can be a successful investment if well managed, unlike the mentality held by many, more so, after the crisis that it is a total failure.

The main cause of subprime mortgage crisis was the high default rate in the real estate mortgage market (Krugman, 2009). This occurred since many house owners were unable to pay their mortgage. In the boom period, prior to the crisis, interest rates in the mortgage market increased abruptly as there were more debts and less income. However, on reaching its peak in 2006, the housing market bubble burst. This had an immense impact on the real estate market as it led to recession. Most of the investors became bankrupt, and they registered a lot of loses during the period. However, the private sector and banks tried to remedy the increase in recession by lending to the government. The inflow of cash from the private sector and banks helped in bringing down the interest rates charged to debtors. However, investors in the real estate market suffered huge losses since they had not insured their property against any risk.

The subprime crisis has brought in many consequences; it can be blamed for bankruptcy and foreclosures that were witnessed in the real estate market. Those that invested totally in the housing market ended up with precisely nothing after it collapsed. However, this has helped many people such as the mortgage brokers, borrowers, and lenders among others learn how to invest. Most people lost their trust in the housing mortgage business; thus, players in the real estate business have a lot to do to restore the confidence that people had in the market. They have a duty to try to convince the investors, as well as the mortgagees that the real estate market offers a valuable investment opportunity. Furthermore, the real estate market suffered massive losses from the high default rates; thus, measures need to be put in place to recoup the losses and to regain the stability that was once enjoyed in the market.

The agencies, policy makers, and the government have an idea on how to deal with the crisis. In the United States, the government has allocated extra resources on the real estate market to help them gain stability and start again. Furthermore, the government is responsible for ensuring that the incidence is not repeated; this can be undertaken by taking the necessary measures such as hedging against various risks. This is achievable by insuring the real estate property to avoid massive losses in case of a unprecedented loss. The real estate markets also have vowed to diversify; by so doing, they spread their risk portfolio in case something terrible happens in the real estate market. Diversification will also be critical in ensuring that the real estate are invested in different markets, as well as increase the number of investments. This will increase the success of the real estate market and reduce the fear among the people on investing in the market.

The government ensures that it regulates all the amount of debts issued, as well as incentives. This enables it to access and monitor the cash flow of its finances. Furthermore, it enables the government to account for all revenues and expenses. These measures should be applied in the mortgage market. Prior to issuance of large amounts of money, it is critical to assess the credibility, as well as the client's ability to repay the loan. This is for formality reasons as failure to pay the loan will lead to losses. The lack of proper screening of the mortgage clients was the main cause of the high default rates in the subprime mortgage market. The subprime mortgage crisis has affected so many investors leading to some being bankrupt. It is therefore, crucial to note that in case of a crisis the investor is extremely vulnerable and should always have an alternative way to protect his interests. Any investment is bound to experience some crisis hence it is not only the mortgage investment that experience this kind of problem.

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