If You Think Getting A Home Loan Is Hard Right Now Just Wait

September 30, 2010 - An announcement made JP Morgan Chase today may just be writing on a wall. And the message being written looks like it will be a double whammy for the economy. First, based on their announcement, getting a home loan may be about to get much more difficult. Second, it may be the precursor from the financial community for another bank bailout request. What was the announcement and why do we think it is very bad news? Well, Chase has announced that it is halting 56,000 foreclosures and may not be able to foreclose on anyone for the next year. The same announcement is now expected from virtually all banks. And if banks can't foreclose, that means their money will be tied up and they won't be able to lend. It is only a matter of time before they turn to Uncle Sam for another hand-out of taxpayer money.

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What is happening to Chase right now also happened to GMAC a couple of weeks ago. These banks are growing as law suit targets because it turns out they have not been reviewing their files before signing off on foreclosures. But their employees were signing affidavits stating that the files had been reviewed. In one case at GMAC, one employee stated that he may have signed as many as 10,000 such affidavits.

If the allegations prove to be true, these companies may not just have violated the rights of homeowners; they may very well have broken both state and federal laws. And because the practices from one large loan servicer to another are similar, this issue is expected to spread to other banks very rapidly.

GMAC has been forced to halt foreclosures in a number of states and has had to withdraw documents already furnished to courts because they may be false. Chase is expected to review its current foreclosures over the next two weeks and is likely to face the same issues.

In some cases, the banks may not be able to prove that they own the loans for the properties that are foreclosing on. Or, they may not be able to show that they followed applicable state and federal laws. Regardless of the outcome, the accusations could bring foreclosures nationwide to a complete halt. By some analyst's assessments, that could go on for a year or more. And very simply put, none of the major banks can afford this.

For instance, Chase manages around $1.5 Trillion in loans and roughly 7.5% of these loans are in default. That works out to be around $113 Billion in bad debt. And it is $113 Billion that the bank can't use to lend to anyone until it forecloses on the homes involved and sells them.

This is bad news for anyone shopping for a home and for tax payers. The issue that started the recession was the lack of available money for home loans. That issue appears to be coming back very quickly. The government's response to the issue was a massive taxpayer bailout. The only thing it appears to have accomplished is saving the banks that made bad loans. Now jump forward to today.

Credit for home loans is likely to dry up again if this problem is as wide spread as it appears to be. That will cause financial trouble for banks, which are likely to turn to the government again. Only now, the government actually owns

stock in a lot of the banks being impacted. That means that even if the government doesn't bail them out, taxpayers are going to be stuck with a very big bill if any of the banks fail. That would not be the case if there had never been a bail out in the first place!

Making matters even worse is that consumers who have purchases homes from banks may also be in real trouble. There is a significant risk that some foreclosures really were handled in such a way that the original homeowner may be entitled to get their home back. Just the threat of this is likely to make getting a clear title on these houses impossible for years to come. In turn, that may make it impossible for homeowners to get any type of new loan on their home. It will also make these homes nearly impossible to sell.

The entire issue is a real mess but both the banks and the courts should have seen it coming. Even before the collapse in housing prices, there were a number of foreclosure court cases in which banks couldn't prove that they owned the loan or that they had the right to foreclose on the property. You would think that by now, both the banks and the courts would have cleaned up their acts. That obviously hasn't happened.

Anyone considering purchasing a bank owned property at this time should probably think long and hard before signing their final paperwork. There is a real potential here that such a purchase could lead to both legal and financial difficulty in the near term. And anyone who has purchased a bank owned property within the past two years and who is thinking about refinancing should probably do it now. It could very well be impossible within a couple of months and may remain so until all of the legal issues are sorted out in court.

byJim Malmberg
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