Building the Next Housing Bubble

June 22, 2016 â€“ The saying, â€œAs housing goes, so goes the economy,â€• was once again proven correct in late 2007. That's when the market for mortgage lending began to fall apart. A year later, two of the countryâ€™s largest auto makers were near bankruptcy, housing prices were dropping like a rock and all of the countryâ€™s large banks were near collapse. All of this pain was actually caused by mortgage lenders who allowed homebuyers without adequate income and assets to borrow huge sums of money that they would never have the income to repay. A majority of these home loans required little or no money down and virtually everyone agreed that this type of borrowing had been a mistake. Apparently, that lesson has now been lost to history.

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In late 2008 and going into 2009, congress began to put in place a series of banking regulations that were specifically put an end to the lending practices that led to the collapse in housing prices. Among those changes were regulations that were supposed to insure that borrowers had some skin in the game when taking out a home loan. Put another way, borrowers supposed to have some of their own money at risk when taking a loan. That money is usually in the form of a down payment.

Over the past five years or so, weâ€™ve seen a variety of low down payment loan products come on the market; most of these being pushed by the federal government. They include FHA, VA and Fannie Mae offered loans that required as little as 3% down; something that weâ€™ve published several articles on over the years and which we believe to be a big mistake. And in some cases, such as with Fannie Mae Homepath approved properties which required only a 3.5% down payment, Fannie Mae would give the buyer a 3.5% credit at closing. In other words it was a zero down loan disguised to make the market think it was something other than it was.

The structure of some of these loans was nonsense. Apparently, lenders and the government now agree. So to avoid the hassles of having to lie about toughening loan standards, zero down payment loans are back. If you Google â€œzero down mortgageâ€• youâ€™ll get more information than you know what to do with. Much of it is advice on how to go about finding a zero down mortgage. But a substantial number of the results will point you to legitimate lenders that have mortgage products to offer you.

And if you donâ€™t want to take the time to find a loan on your own, just ask a realtor. Over the past month, Iâ€™ve gotten approached by several lenders â€“ I am a realtor myself â€“ offering these lending products.

If you are shopping for a home and donâ€™t have a lot of money, its great news for you. But for everyone else, not so much.

These loan products bring a lot of risk into the housing market. Within the past 9 years, they nearly collapsed the largest economy on the planet once. If weâ€™re not careful, they can do it again.
byJim Malmberg
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