Zero-Down Mortgages Return - Of All the Dumb Ideas!

May 31, 2024 - Back in 2008, when the housing market crashed, one of the leading factors contributing to the crisis was zero the availability of-down mortgages. At the time, these were also known as â€œliar loansâ€• because in many cases no income documentation was required to qualify. This led an abundance of people lying about their income and taking out loans that they would never be able to repay. And because they had no money of their own at risk, when the market crashed, many of these buyers were perfectly willing to just walk away from their homes and leave lenders (and in many cases, taxpayers) on the hook for the amount borrowed. After that experience you might think that nobody would want to repeat it, but youâ€™d be dead wrong.

One of the largest mortgage lenders in the country, United Wholesale Mortgage (UWM), has announced that they are going to start offering zero-down mortgages to first time buyers. Unlike in 2008, these are not liar-loans. Income documentation is required. But that documentation isnâ€™t being used to prove that borrowers have the ability to repay their loans. Just the opposite, in fact. Itâ€™s being used to show that borrowers earn no more than 80% of the median income of the area in which they are buying. Put another way, these loans are for those people who are the least qualified to borrow.

The way that the loans are setup, UWM will offer borrowers a first mortgage that covers up to 99% of the purchase price of their home. And then they will also offer them a second mortgage of up to $15,000 to cover the balance of the purchase. The second mortgage will not be charged interest and no payments on it will be due until the buyer refinances, sells the home, or pays off the home. When any of those things occur, the entire balance of the second mortgage will be due in a balloon payment.

UWM seems to think that these new loans will be a blessing to borrowers. But we think theyâ€™ll be just the opposite. The overall economy has been slowing and inflation is quite high. Reports over the past month include downward government revisions of previously reported rosy economic numbers, a slump in new and existing home sales, and reductions in personal discretionary spending. None of that is promising for the economy as a whole.

Given that, rolling out a loan program for the least qualified borrowers, that doesnâ€™t require them to have some skin in the game when times get a little tough would appear to be a recipe for failure. No, itâ€™s not exactly what we saw in 2008, but the results are likely to be just as bad... or maybe even worse.
by Jim Malmberg
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