NABE: Bad Credit Biggest Risk to Economy

Monday, Aug. 27, 2007 9:32 a.m. EDT

NEW YORK -- Bad credit has supplanted terrorism as the gravest immediate risk threatening the economy, a key national research group reported Monday.

Borrowers' withering ability to pay their bills and the subsequent fallout in the credit markets this summer topped the list of short-term risks on peoples' minds, according to a survey of 258 members conducted by the National Association of Business Economics.

NABE, a Washington-based association, said 32 percent of its surveyed members cited loan defaults and excessive debt as their biggest near-term concern.

Only 20 percent of members cited defense and terrorism as their biggest immediate worry, down from 35 percent when the survey was last conducted in March. Credit risk also topped gas prices, inflation and government spending.

TOP NEWS
- Four Major Banks Borrow From Fed
- Banks' Problem Mortgages Up 36 Percent
- Mortgage Crisis Widens at Lenders, Banks
- FDIC Keeping Close Eyes on Markets, Banks

Related Stories
- Unsold Home Inventories Soar to 15-Year High
- Ex-Treasury Secy. Summers Warns of Recession Risks
- Market Lower on Housing Data, Economic Worry
- Existing Home Sales Fall to 5-Year Low

TOOLS
Print Friendly Version
Forward this Page
E-mail NewsMax
RSS Feed

Story Continues Below

"Financial market turmoil has shifted the focus away from terrorism and toward subprime and other credit problems as the most important near-term threats to the U.S. economy," said Carl Tannenbaum, president of NABE and the chief economist at LaSalle Bank/ABN Amro.

The market turmoil began earlier this year, when mortgage lenders like New Century Financial Corp. and H&R Block Inc.'s Option One Mortgage Corp. unit reported their clients were missing payments on their home loans more frequently.

This led the Wall Street banks that finance the mortgage market to ultimately pull much of their money out. With cash draining rapidly from the industry, more than 50 lenders have gone bankrupt and a number of investment funds have gone under.

Victims of this flare-up include two of the 10 biggest mortgage lenders in the country and two hedge funds managed by Bear Stearns Cos.

Loan brokers say it has become more difficult for some people to line up mortgages. Subprime loans, or loans to people with spotty credit histories, have all but disappeared as lenders scale back or shut down completely.

The shakeout in the subprime mortgage market forced investors around the world to reassess how much risk they were willing to stomach. This led to an exodus of cash from investments like securities backed by home loans, short-term corporate bonds and stocks whose values were inflated because they were perceived as takeover targets.

In the past five weeks, the stock market has lost 5 percent. The dollar fell to an all-time low versus the euro. A number of companies have had to cancel bond sales because of an absence of buyers.

And, the Federal Reserve has lent billions of dollars to banks from its "discount window," normally associated with bailouts for struggling financial institutions. The Fed this month issued a statement that the risks to the economy have risen considerably and traders ramped up their expectations the Fed would cut targets for interest rates this year.

The tumult in the financial markets has led businesses to revisit their interpretation of the housing boom earlier this decade and the easy credit that fueled it, NABE said. The proportion of surveyed members who call it a "serious national bubble" more than doubled from two years ago to 29 percent, the group said.

NABE said the market turmoil is considered a short-term risk because the five-year outlook for housing is still strong. More surveyed members expect home values to appreciate in the next five years than fall. Very few expect a serious drop in home prices in the next five years.

The greatest long-term risk facing the economy is still health care costs and the medical needs of an aging population, NABE said.

Street Talk Stories

- Summers Warns of Recession Risks
- Fed's Inflation Switch May Dilute Bond Rally
- Trichet Not Pre-Commited on Rates
- NABE: Bad Credit Biggest Risk to Economy
- Flips, Scams Blamed in California Housing Drop
- Credit Crunch Could Hit Canadian Economy
- Hedge Fund Manager JW Henry Bids $16 Million for Estate