

Mortgage Insecurities

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If the bankers, investors and regulators who populate the global financial markets are not already anxious, they should be. The easy money that has buoyed the global economy for much of this decade is getting harder to come by.

At a similar point a decade ago, Russia defaulted on its foreign debt and Asia came unglued, weakening global growth. This time, the trigger could be the rapid erosion in the quality of American home mortgages — reflected in surging delinquencies and rising defaults.

Two economists, Mark Zandi and Juan Manuel Licari of Moody's [Economy.com](#), detailed the dangers recently. In 2005 and 2006, lenders wrote an estimated \$3.2 trillion in new home mortgages, which was a record — and lowered their credit standards considerably to do it. In 2005 alone, 20 percent of the mortgages taken out were “subprime” — made to borrowers with poor credit — and many more had worrisome features like interest-only payments.

Not surprisingly, as interest rates rose last year, mortgage delinquencies soared. Delinquency rates are expected to peak in 2008 at over 3 percent, well above the level of the last recession. Many of these risky mortgages were sold to investment banks, who carved them up into complex i.o.u.'s that they sold to investors worldwide. More than 20 percent of global private debt securities is now tied to housing in the United States. That works out to \$7.5 trillion — far larger than the market for United States Treasuries. So if America's mortgage market heads south, the losses could be widespread.

The odds of a global financial crisis are still low, according to Mr. Zandi and Mr. Licari, but they are rising. There is not a lot now that can be done about the risks in the mortgage market. But the growing possibility of hard times ahead is another argument for rolling back many of the recent excessive tax cuts, so the government will have more resources available to respond if a crisis comes.

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