Why is the Stock Market So Worried About Some Bad Mortgages

The following paragraphs summarize the work of Stock Market experts who are completely familiar with all the aspects of Stock Market. Heed their advice to avoid any Stock Market surprises.

Beginning in the Spring of 2007 the stock market reporters discussed some problems in sub-prime loans and predatory lending practices by some mortgage companies. At first the stories were merely in passing, but as the months rolled by the story became front page news. The President of the United States, China's financial network and the Chairman of the Federal Reserve have weighed in on what is supposed to be a small percentage of no credit borrowers reneging on their mortgage. So why is everyone so worried about some lousy mortgages?

The simple answer is that the old fashion mortgage with your friendly Mr. Cribbs at the bank downtown is on the endangered species list. The mortgage market today spans the globe. Within days, weeks and months of a mortgage closing it is sold all over the world in bundles of commercial paper.

This complex network of holders of the note are bought and sold by financial brokers, and a others who make these commercial papers part of their portfolio. The problem occurs when trying to determine who bought the risky, defaulting loans. Some of the loans are in the process of foreclosure, some are at risk for foreclosure and still others are foreclosed. The real problem here is assessing risk to unknown factors. Banks, lending institutions and mortgage companies do not like speculation on risk.

The most significant effect all of these risks have effected the Stock Market is the tightening of the credit market. Some banks and mortgage companies have simply stopped making loans. Others, have made refinancing and new loans with increased restrictions. The credit market is squeezed and that effects big stock market players like banks and financial institutions like Bear Sterns. It also effects consumers who are seeking refinancing and new mortgages.

Within the period of several weeks in late August, 2007 the Federal Reserve dumped billions of dollars into the prime lending market making it easier for banks and lending institutions to make loans and to back their existing position. In addition, the Federal Reserve dropped the interest rate for prime loans to major financial institutions. The next meeting of the Federal Reserve could see even further drops in prime rate interest rates.

Now that we've covered those aspects of Stock Market, let's turn to some of the other factors that need to be considered.

With equal vigor to jump on the band wagon, the President of the United States provided the possibility of legislative help for those unsuspecting mortgage holders who were snickered into making bad loans with adjustable rate loans that were predatory in nature. The problem is how can United States legislate bad loans and notes that may no longer be in the United States. Remember, Mr. Cribbs is nearly extinct.

At the present time it appears that there are some bad mortgages out there. Some are held by people with limited income and little credit. Some are held by speculators and house flippers that got caught in the head lights of a slowing real estate market. For the latter mortgage holder it does not appear there is too much sympathy for their financial crisis. The common thread is that no one seems to know how many bad mortgages are on the loose. The stock market hates uncertainty, so that is the reason for all the worry.

The stock market is like my dear old Aunt Nell. She never married and never had a light bulb in her apartment house that was in excess of 40 watts. Her tenants virtually lived in the dark. If the price of milk went up two cents she switched to powdered milk. If her taxes went up a dollar she felt she was on the verge of being destitute.

Summer visits with Aunt Nell were a real hoot. In a nutshell that is what is going on with all the "sky is falling" on Wall Street. Uncertainty moves the market and what is causing on all flutter in the financial stocks.

To assuage all the "Chicken Littles" an the possibility of some real problems both the President of the United States and Chairman Bernanke sang a tune of, "You can't always get what you, but if you wait sometimes, you get what you need." No big rescues for speculators, but the promise for a few bones if the economy goes sour.

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