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The World Today - Mortgage industry blamed for Wall Street slide

[This is the print version of story http://www.abc.net.au/worldtoday/content/2007/s1871538.htm]

The World Today - Wednesday, 14 March , 2007 12:55:00

Reporter: Peter Ryan

ELEANOR HALL: In the United States, the mortgage industry is being blamed for the hammering overnight of the US sharemarket.

Shares on Wall Street slid almost 2 per cent after a report revealed that defaults in the subprime mortgage market were at their highest in four years.

The news sparked concerns that a shake-up in the high-risk mortgage industry could eventually hit the general economy. The share prices of high-risk mortgage providers were hardest hit.

But banking analysts warn that mainstream lenders could be dragged into the crisis as the US housing bubble starts to deflate.

More from our Business Editor, Peter Ryan.

PETER RYAN: In the United States, it's becoming known as the mortgage meltdown.

(Sound of excerpt from CNN)

ANCHOR: Fears of a crisis in the mortgage market drag Wall Street sharply lower.

(end excerpt)

PETER RYAN: Two weeks after the global sharemarket correction, the problem on Wall Street is no longer speculators in China but evidence that the housing bubble in the US is about to burst.

And borrowers of risky subprime mortgages, typically low-income earners with a bad credit history, are already defaulting on their loans as historically low interest rates edge higher.

Ellen Schloemer of the Center for Responsible Lending says many borrowers could be on the streets as mortgage providers move in.

ELLEN SCHLOEMER: We estimate that for borrowers who got their subprime loans in 2005 or 2006 that over two million of those families are going to be facing foreclosure or ultimately lose their home over the next couple of years.

PETER RYAN: The prospect of two million foreclosures rattled Wall Street today and added to evidence from the mortgage industry itself that late payments were at a four-year high, with one in every 200 borrowers about to become delinquent.

With America's second largest subprime lender, Century Financial, already delisted and under investigation, investors saw Accredited Home Lending join the meltdown.

Its shares fell 62 per cent today as the company said it was seeking additional funding.

And Chuck Carlson of Horizon Investments is expecting more trouble in the days to come.

CHUCK CARLSON: This is something that's been building for a while, but it's finally hit a kind of a point where you've got some key companies, you know, facing some troubles to survive.

PETER RYAN: Chuck Carlson says the damage on Wall Street won't be limited to the subprime sector.

CHUCK CARLSON: It seemed as if the continued problems in the subprime market started to spread and they started to spread into sectors outside of the traditional mortgage market.

PETER RYAN: Economists like Michael Mandel of *BusinessWeek* magazine admit the subprime crisis is more than just a one-off. But he's confident it won't be the undoing of the US economy.

MICHAEL MANDEL: Well, right now there's fear about how big it's going to be, whether it's going to spread from the subprime mortgage market to the prime mortgage, to maybe other types of lending as well.

So, when you ... right now you have the beginnings of fear on Wall Street. I think it's going to turn out to be overblown.

PETER RYAN: But others aren't so convinced.

The automotive giant General Motors today injected a billion dollars into its former finance arm, GMAC in the face of escalating mortgage defaults. GMAC says it's now tightening its lending standards.

DOUG KASS: No bank-lending officer in his right mind would do refinancing cash-outs at the current time.

PETER RYAN: Doug Kass of Seabreeze Partners says standards are already tightening, borrowers used to treating their homes like giant ATMs face a painful reality check that could slow the rest of the US economy.

DOUG KASS: Suspending on everything from appliance to furniture, flooring, roofing, paints, television, telephones, tools are going to suffer from a lower housing turn.

PETER RYAN: All eyes are now on some major US banks who report their earnings over the next week, to determine the extent of the mortgage meltdown while regulators try to quarantine the overall sharemarket.