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Predatory borrowers vs. predatory lenders: Both heavily contributed to today's mortgage crisis

November 19, 2007 - Spotlights

There is little doubt that the unraveling of the housing market will cause significant hardship to many well intentioned homeowners who believed that the American dream would never turn on either them or their biggest financial investment. Similarly, the pain inflicted upon unsuspecting and often minority borrowers by predatory lenders will also be devastating as housing prices deflate to more realistic levels.

Putting true victims of the housing crisis aside, there is a category of debtor that could be called "predatory borrowers." These are individuals who have treated their homes like bottomless ATM machines and have knowingly played the housing game like the Wheel of Fortune. These borrowers purchased homes with little money down, with perhaps no income verification and at debt levels that they knew that they could not sustain if their homes did not continue to appreciate.

Like the inebriated bar patron who blames the bartender for them being over-served, a segment of today's borrowers willfully chose to borrow beyond their means and are now blaming the lender as the enablers who contributed to their economic demise. A number of these borrowers, now charitably known as "victims," also chose to borrow on one house to buy another and collateralized their future in search of speculative riches.

There is little question that truly predatory lenders, whose sole strategy was to dupe unsuspecting and often unsophisticated individuals into borrowing should be punished for their unthinkably cruel business tactics. But for those borrowers who simply mortgaged a lifestyle they knew they could not sustain, it is important that the system does not come to their rescue.

It is remarkable how quickly the sentiment surrounding the housing market has turned from embracing accommodating lenders who facilitated people's ability to benefit from the unending price spiral of real estate to now vilifying the same lenders for making borrowing too easy. In an upcoming election year, politicians simply lack the courage to make individuals accountable for their actions. Rather, it is more expedient to blame faceless corporations for any negative outcome to the consumer simply because more votes come from homeowners than from corporate boardrooms.

The fact that the Federal government is now considering ideas on how to help all those who are now facing difficulties in paying their mortgages, deserving or not, seems absurdly contradictory and politically. It sounds like some new type of hybrid economics that provides the benefits of capitalism on the way up and the safety of socialism on the way down. What kind of message does it send to the fiscally responsible homeowner when their high flying neighbor can be bailed out for living beyond their means?

As children, we were taught that consuming too much cake and ice cream would have the consequences of a stomach ache. But for many adults, who have gorged themselves on too much debt, their financial indulgence is now somehow someone else's fault and they should not have to

pay the price of their actions.

If the government does come up with some plan to bail out irresponsible homeowners, does this mean that Uncle Sam will get a piece of the upside if the market snaps back? While we are at it, should the government also provide a safety net to those in Las Vegas whose luck has gone sour at the poker table or unfortunate stock market investors whose risky stock purchases did not pan out?

It is time to separate the true victims of the housing meltdown from those who created their own house of cards. If homeowners own multiple properties, they should be excluded from government help and the same should apply to those who have refinanced their mortgages to pull the maximum dollars out of their homes.

Sadly, there will be much more pain felt by homeowners as prices continue to ratchet down but the only way for the market to achieve equilibrium is to let it correct itself. Those who played by the rules or who were taken advantage of may deserve some type of accommodation if it is thoughtfully provided by the government but for those who have overindulged themselves in debt and abused the system, their most valuable compensation should come in the form of an important lesson that they can pass along to their children.

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