

# REAL ESTATE



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## Saga of the US Mortgage Industry

Once upon a time, during the good old days when life wasn't so complicated, banks lent money to borrowers and never sold these

mortgages to, multi-billion dollar institutions with call centers in distant lands. Anyone could walk into his or her local bank and get a local home loan without signing truckloads of paperwork.. There was no fraud or borrower manipulation. There were no reckless bank failures or irresponsible lending practices. In those days, bankers were compassionate, foreclosures were minimal and consumers were respected. Right? RIGHT???

Wrong!  
 Selective memory is a wonderful thing...mortgage lending in America used to be a simple affair. However, this simple system of banking did have some HUGE drawbacks. Remember the old Jimmy Stewart film, *It's a Wonderful Life*? In that film, Jimmy Stewart plays a small town Savings and Loan banker named George Bailey. George was the good guy. His nemesis was Mr. Potter, the big bad monopolistic banker who would have controlled the town, renamed it Pottersville and kept the commoners dirt poor.

George, the good guy almost lost the family bank during the many "bank runs" that occurred. A bank run is when most, if not all, of the people who have deposited money in a bank decide to withdraw their money all at the same time.

You see, the way banks make money is by paying depositors a small interest rate on their deposits and then lending that same money to borrowers at a higher interest rate. In essence, the bank is borrowing money from you, the depositor, and lending those borrowed funds to your neighbor, the borrower who applies for a mortgage. Then, the bank borrows money from your neighbor when they deposit their money, and the bank loans those borrowed funds to you when you apply for a mortgage. That is how banks operated under the old banking system.

This old system, had many flaws: Numerous banks failed frequently throughout the 1800s as well as the 1900s. It was very easy for depositors to get anxious and withdraw all their money from the bank whenever a piece of bad news circulated. Banks only issued mortgages that were "callable." In other words, the banks had the right to call up any and every one of their borrowers and "call the loan due" immediately and for any reason. If you didn't have the money to pay back the bank, you lost your home, mind you, not because you couldn't make the monthly payments, but because the bank couldn't meet the panic-driven withdrawal demands of their depositors, and that is exactly what happened in the Great Depression.

As time went on financial mar-  
*Cont'd. on next pg.*



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