

## Mortgage Broker Bond - The Downside To Mortgage Bonds

Financial institutions and creditors have been heavily promoting the purchase of various mortgage bonds to the American public. Although there are some advantages to acquiring mortgage bonds as a form of investment, there are a number of different disadvantages to this as well. Here are just some of the many disadvantages of investing and acquiring mortgage bonds.

**Value Dependent on Economic Market** One of the disadvantages of purchasing mortgage bonds as a form of investment is that the value of the mortgage bonds are greatly affected by the performance of the economic market in the United States. This is because mortgage bonds are among the largest kinds of bonds that are traded every day. Any slight dip on the overall value of a financial institution would have a tremendous effect on the value of the mortgage bonds that you may have invested in.

**High Risk Level** Dealing with mortgage funds involves a high level of risk. This is directly associated with the ability of borrowers to pay back the mortgages taken out with a financial institution or creditor. In order to ensure its investors that mortgagees would pay back the principal amount that has been borrowed with a corresponding interest rate, a form of collateral is required from the borrower in order for the mortgage to be granted. Unfortunately, certain factors may cause not only the borrower to fail to remit the full payment of the mortgage on time. Even when the collateral is seized and liquidated to cover the outstanding mortgage, the amount is not sufficient. As such, the investor who had purchased the mortgage bonds would be unable to receive any payments from the financial institutions. So instead of incurring a profit from the investment that has been made through the purchase of mortgage bonds, investors would need to face the reality that there is a greater chance that they would actually be incurring losses.

**Loss of Credit Ranking** It is not only the investors who have taken out mortgage bonds that face disadvantages. Financial institutions also face a number of disadvantages from the mortgage bonds that they offer in the market. The common belief of the general public is that since there is a collateral that is required prior to a mortgage to be taken out, the financial institutions would be able to merely seize this collateral in the event that the borrower is unable to remit the scheduled payments, liquidate it, and apply it to the outstanding loan or mortgage. Ideally, the value of the collateral provided by the borrower to the financial institution is either the same amount as the mortgage that was taken out by the borrower or higher. However, certain fluctuations in the economic market may affect the overall value of the collateral. In many cases, even after the collateral has been seized and liquidated by the financial institution by selling the property in an auction, the amount that the financial institution is able to collect from the auction of the property is still insufficient to cover the outstanding debt owed by the borrower. As a result, instead of being able to break even, the financial institution actually begins to incur losses which would then affect the financial institutions overall credit ranking.

**Increased Frequencies of Delinquencies** The current economic situation in the United States has caused a number of Americans to be unable to make payment remittances by the agreed date and amount. Because of the current financial crisis experienced in the country, prices of the basic commodities and needs have been increasing while the salaries earned by the general public have remained the same. As a result, the purchasing power of the average American began to decline. Homeowners and other individuals who have taken out a mortgage or a loan have become unable to meet their financial obligations as they try to stretch out their family budget. This situation currently faced by the general American public has caused an increase on the number of delinquent payments observed by financial institutions and creditors. Even though a foreclosure is processed, the value of the property placed as a form of collateral is insufficient. Not only are the financial institutions unable to remit to their shareholders the dividends that they are expecting as a result of the increasing inability of the financial institutions and creditors to collect the outstanding payments. It has also caused many investors to actually sell off their mortgage bonds in order to cover whatever losses they have incurred as a part of the purchase, causing the financial institutions to lose source of funds to keep them afloat.

### About the Author

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