Reading Comprehension Practice Passages Competitive Exams: Neither a Borrower Nor a Lender Be

Both borrowers and lenders in the sub-prime mortgage market are wishing they had listened to the old saying: Neither a borrower nor a lender be.

Last year people with poor credit ratings borrowed $605 billion in mortgages, a figure that is about 20% of the home-loan market. It includes people who cannot afford to meet the mortgage payments on expensive homes they have bought, and low-income buyers. In some cases, the latter could not even meet the first payment. Lenders include banks like HSBC, which may have lost almost $7 billion.

Both sides can be blamed. Lenders, after the 2 – 3 percentage point premium they could charge, offered loans, known as 'liar loans' with no down payments and without any income verification to people with bad credit histories. They believed that rising house prices would cover them in the event of default. Borrowers ignored the fact that interest rates would rise after an initial period.

One result is that default rates on these sub-prime mortgages reached 14% last year-a record. The problems in this market also threaten to spread to the rest of the mortgage market, which would reduce the flow of credit available to the shrinking numbers of consumers still interested in buying property.

So, the housing market will remain weak; borrowers with weak credit histories will find the credit window closed; people with adjustable-rate mortgages will have to spend less so they can meet their increased payments; tighter lending standards and falling home prices will reduce consumers'ability to tap the equity in their homes.

But as long as the labour market remains strong, which it has done despite job losses in housing-related industries, and as long as real incomes continue to go up, consumers might complain, but they are unlikely to go on a buyers'strike on a scale that will make this slowdown become a recession. Therefore, we should not be too worried, but, at the same time, we should be a bit cautious and watch closely how things develop.

1. Sub-prime mortgage loans were offered

    a. only to low income families.

    b. to people who wanted to by very expensive houses.

    c. to people with poor credit histories.

2. Who believed that rising house prices would cover them in the event of a default?

    a. Borrowers

    b. Lenders

    c. Both

3. Borrowers have been caught out

    a. because they lied when applying for the loan.

    b. because house prices have risen.

    c. because interest rates rise after a while.

4. According to the text, people with adjustable-rate mortgages

    a. will not be able to get credit.

    b. will have to economise.

    c. have weak credit histories.

5. The housing market problems

    a. could easily tip the counrty in recession.

    b. are unlikely to tip the country into recession.

    c. will cause a buyers'strike.

6. The writer is

    a. a bit concerned about the housing market.

    b. very worried about the housing market.

    c. not worried about the housing market.