

Questions
&
Answers
About

**SUBPRIME
MORTGAGES**

Subprime Mortgages: The FACTS

The cooling off of the housing market in many areas of the United States, combined with economic turbulence, has put subprime mortgage loans in the spotlight. Several high-profile, high-flying subprime lending companies have failed this year as a result of late payments and foreclosures among their borrowers.

Here are some questions and answers to help you better understand the situation, and how the banking industry is moving forward to meet the credit needs of communities across the country.

? What are subprime mortgages?

Subprime mortgages were developed to assist borrowers with a less-than-perfect credit history. The word “subprime” refers to a borrower’s credit quality. These loans feature interest rates that are higher than overall market rates.

While many different types of lenders make mortgage loans, most subprime lending is done outside of the banking industry—often by mortgage brokers and mortgage companies that may not be subject to the same scrutiny as federally insured banks and savings institutions.

Regulated banks and savings institutions have made very few subprime loans and most local community banks have made none at all.

? What created the subprime loan problem?

Unregulated, non-bank mortgage lenders have played fast and loose with their underwriting standards—their guidelines for making loans—and have given the entire financial industry a black eye.

Rep. Barney Frank (D-Mass.)—the nation’s top banking lawmaker in the House of Representatives—recently wrote: *“Reasonable regulation of mortgages by the bank and credit union regulators allowed the market to function in an efficient and constructive way, while mortgages made and sold in the unregulated sector led to the [subprime] crisis.”*

? What if I’m shopping for a mortgage?

The best place to start your search for a mortgage loan is your local bank. We are chartered to serve the community and are eager to help borrowers find solutions to their needs. We can advise you on the best options for your situation and we are interested in developing a customer relationship with you that will last. This isn’t necessarily true of non-bank mortgage lenders and brokers, who may be here today and gone tomorrow.

You don’t need perfect credit to borrow from a bank, but a loan that’s beyond your ability to repay or that subjects the customer or the bank to undue risk isn’t in anyone’s best interest. Banks and savings institutions have maintained their prudent lending practices throughout the real estate boom of the past few years, and that means we will be able to keep mortgage dollars flowing to communities large and small.

? Will subprime mortgages become a thing of the past?

The majority of borrowers with weak credit histories have used subprime loans to successfully buy a home and rebuild their credit. Those who don’t qualify for a loan through their bank can ask for a referral to a reputable lender that may offer more options. However, subprime loans carry higher interest rates and other costs. As a result,

they aren't always a good choice. We may be able to suggest steps you can take to improve your credit rating, but rebuilding credit requires patience and commitment.

? Should subprime loans be banned?

No. There are less than Grade-A borrowers who can still qualify for a loan they can afford. These individuals should not be deprived of the chance to buy a home. The better solution is to rein in the practices of unregulated mortgage lenders—something policymakers are considering.

Our economy thrives when a wide range of options are available. We want to be as flexible as possible in meeting the credit needs of our customers.

Do you have more questions?

Call us or stop by one of our offices today and we'll be happy to help with questions you may have, or with options that you may want to explore. We're here to help you.



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