

Subprime Information

Most of the foreclosures we're seeing today are the result of particularly risky loans made by loosely regulated players in the mortgage market or because of worsening economic conditions in some regions.

- In the subprime market -- which constitutes 14 percent of the total housing market -- roughly 85 percent of subprime loans are being paid on time. That shows that most subprime borrowers have good loans they are capable of repaying.
- The 15 percent of subprime loans that are experiencing troubles are likely to be loans with particularly risky features -- such as no-documentation loans or those with extremely high loan-to-value ratios. Most federally insured banks and savings institutions do not make these kinds of loans. Rather, they have been made by mortgage brokers and mortgage companies that are not subject to the same scrutiny as federally-insured banks and savings institutions.

The loan portfolios at federally insured banks and savings institutions are mostly untouched by the current subprime mortgage debacle.

- Federally insured banks and savings institutions are very sound today and will be able to weather this economic downturn.
- 94 percent of mortgage borrowers are paying their loans on time.
- Every bank will do its best to help customers who are overextended due to a subprime loan obligation from another lender. Unfortunately, many of these problems -- created outside the banking system by loosely regulated participants in the mortgage market -- will simply be impossible to fix.

Because federally insured banks and savings institutions maintained prudent lending practices throughout the real estate boom of the past few years, they will be able to keep mortgage dollars flowing to communities large and small.

- Banks are interested in long-term customer relationships, which isn't necessarily true of non-bank mortgage lenders and brokers, some of whom might be here today, gone tomorrow.
- While federally insured banks and savings institutions don't require perfect credit for a mortgage, they aren't going to make a loan that subjects the borrower or the bank to excessive risk.

In spite of recent bad news about subprime lending, the majority of borrowers with subprime loans are successful in buying a home and rebuilding their credit.

- Subprime mortgage loans were developed for borrowers with credit histories that disqualify them for standard mortgage loans. Subprime loans are not inherently "bad" or "predatory" -- they are just less than Grade-A.
- The market works best when a wide range of options is available. Subprime loans used carefully and in the right situations are a viable option for some homebuyers.
- It's possible to rein in the irresponsible behavior of unregulated mortgage lenders without cutting off flexibility for borrowers with special circumstances.

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*Source: American Bankers Association
www.ABA.com*