

Subprime Mortgages and the American Dream

By Jim Silkensen

For a hundred years or more, it's been the American Dream for people to own their own home. In certain areas of the country, and to a far lesser extent in New Jersey, the turmoil in the subprime mortgage market has turned that dream into a nightmare for some homeowners. While subprime loans do offer a means for certain people whose credit history does not qualify them for traditional mortgages to buy their first home, some mortgage brokers and other mortgage lenders utilized lax mortgage underwriting standards, inflated home appraisals and false assurances to provide subprime mortgages to people who could not afford the payments. Additionally, many borrowers forgot common sense as they reached for what they were not financially ready to have. As a result, mortgage brokers and lenders using unscrupulous practices took their commissions or fees, sold off the loans and investors and homeowners were left holding the bag.

Community banks for the most part have not offered subprime mortgages and those that do have utilized proper loan underwriting to qualify borrowers. Thus, community banks were not a cause of the current problems. The fallout from poorly underwritten loans in the subprime market has been devastating as mortgage delinquencies have risen, foreclosures have increased and property values have declined. Over 90 mortgage companies have gone bankrupt and the value of subprime mortgages held in the portfolios of some hedge funds collapsed.

WHAT TO DO

Almost daily we witness reports of consumer distress and calls for government intervention to allow those caught up in this problem to keep their most prized possession, their home. While such relief is welcome, the political process needed to create programs is generally slow. It is important for people to know that there are sources currently available to help consumers.

The Federal Housing Administration (FHA) has prepared an eleven-page discussion, "You can avoid foreclosure and keep your home," which includes advice on facing money problems, steps to take when you can't pay your mortgage, and common questions to save your home. This link to the Federal mortgage assistance program gives contact information for consumer advocacy groups, volunteer organizations and Federal agencies that may be able to help. It is available online at www.fha.gov/foreclosure/index.cfm.

For those now considering a mortgage as a solution to mounting debts, the Federal Reserve Board offers "Putting your home on the loan line is risky business," available online at www.federalreserve.gov/pubs/riskyhomeloans/default.htm. It includes discussions of options and procedures, and a listing of other agencies that may be able to help or can provide more information.

Homeowners who are in danger of falling behind on their payments should contact their lender to try to arrange a more affordable payment structure before they fall behind in payments. As a homeowner falls behind in making their payments their options become much more limited.

In some cases, consumers who were directed into subprime loans or mortgages with extremely low initial interest rates for only the first year or two of the loan by unscrupulous lenders would have qualified for a traditional prime mortgage loan, and in those cases, community banks may be able to help in providing sound advice and a traditional prime mortgage loan. Contrary to news reports of the mortgage money well going dry, community banks, using sound underwriting practices, are anxious to fund mortgage loans to those who qualify. Community banks offer a variety of mortgage products and many offer first-time homebuyer programs to those who qualify. First-time homebuyer programs usually feature reduced interest rates or fees. Funds for qualified homebuyers seeking “jumbo” home loans are also plentiful from your local community bank. Our message is clear; if you are looking for a mortgage loan, look to your community bank.

FOR THE FUTURE

While community banks were not part of the problem, they are a part of the solution. Like banks everywhere, the community bank members of the New Jersey League of Community Bankers stand ready to help; that help will be grounded in sound banking practice. Requiring proper underwriting for loans will enable people to avoid the subprime mess that has dulled the luster of the American Dream of home ownership.

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The New Jersey League of Community Bankers represents seventy-two financial institutions with 547 offices throughout the state. These community banks operate under both state and federal charters with assets totaling \$66 billion; mortgage investments totaling \$52 billion and deposits totaling \$44 billion. A list of member banks may be found at www.njleague.com.

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