



What the Subprime Lending Crisis Means to You

Based upon media reports, the United States is facing the most serious economic crisis since the savings and loan debacle of the

1980s and perhaps the worst housing crisis since the Great Depression.

A U.S. Conference of Mayors' report estimates 1.4 million homeowners will face foreclosures in 2008 and will walk away from houses worth \$316 billion. Some of the nation's largest mortgage lenders find themselves in financial turmoil as well.

For the past several years, we've enjoyed low interest rates, rapidly escalating values in some regions of the country, and some lenders and homebuyers gambled on home values continuing to soar. In the current crisis, with more stringent loan standards, fewer people are able to purchase homes at current market values.

Many of the 5,000 independent community bankers across the nation in more than 18,000 locations will review home mortgage documents of current homeowners, provide information for those in the market for their first house and help those looking to purchase new homes or refinance existing mortgages.

There are several steps you can take to protect your home. Educate yourself on your credit score. In a report from John Ulzheimer, head of Credit.com Education Services based in Atlanta, individuals with credit scores between 700 and 850 are considered the best credit risks and will receive the lowest interest rates. Consumers who have scores between 620 and 699 will usually get a loan, but not the best interest rate. Those with credit scores below 500 usually fall into the subprime category and often fall victim to "predatory" home loans. These loans could involve misleading sales tactics from lenders with little regard whether the borrower can actually repay the loan.

Be sure you understand the difference between an adjustable rate mortgage (ARM) and a fixed interest rate. With an ARM, your interest rate will fall or climb based on current interest rates. While you may have a very low interest rate for a certain period of time, when interest rates soar, so will your mortgage payment. A fixed interest rate,

on the other hand, will last over the life of your loan without any unexpected payment increase down the road.

According to James P. Gaines, a research economist with the Real Estate Center at Texas A&M University, 65 percent of occupied homes in the United States have a mortgage. Of those mortgages, 75 percent have fixed interest rates and 86 percent of those mortgages are considered "prime", the interest rate available to homebuyers with the best credit. However, of the estimated 14 percent of mortgages that are considered subprime, more than half of those are ARMs.

Have a full understanding of your mortgage payment before you sign the papers. In order to qualify you for a loan, some lenders might exclude the taxes and insurance premiums to give you a lower monthly payment. While that may appear less expensive, keep in mind that it is a lot more palatable to stretch your insurance and tax payments over a 12-month period and roll them into your monthly mortgage than it is to try to find the money to pay in full when the tax man cometh and your homeowners insurance policy is due.

We would all be well-served to remember that the primary purpose of a home is for shelter — not for investment. However, history has shown that over the long-term, home ownership is a cornerstone of sound financial planning.

If you have any questions concerning your home mortgage, visit your local community banker and talk to a common sense lender who will help find a mortgage that is right for you.

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