

## **A Subprime Mortgage Primer For Bank Customers**

### **What is a subprime mortgage?**

A subprime mortgage is a mortgage product developed to assist borrowers with a less than perfect credit history. "Subprime" does not refer to the interest rate, but rather to the quality of the borrower's credit. Subprime loans, in fact, carry 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 and is often done by mortgage brokers and mortgage companies that may not be subject to the same scrutiny as federally-insured banks and savings institutions.

### **Why are subprime mortgages in the news?**

There are many factors. First, the once "hot" housing market has taken a dramatic turn. Second, several national subprime lending companies have failed this year due to a dramatic increase in late payments and foreclosures among their borrowers. This in turn has led to fears of major losses for investors and concerns that a "credit crunch" will make it harder for consumers and businesses to borrow for mortgages as well as other purchases.

To some extent, the nation's federally insured banks and savings institutions have been the victims of mistaken identity in the subprime mortgage debacle. Much of the media coverage refers to subprime lenders in a general sense. But federally-insured commercial and savings banks in fact have made very few subprime loans and most local community banks have made none at all.

### **Could my bank be affected by the current subprime loan problems?**

Non-bank mortgage competitors that have played fast and loose with the rules have given the entire financial industry a black eye. But by and large, the loan portfolios at federally-insured banks and savings institutions are mostly unaffected by the current subprime mortgage mess.

Federally insured banks and savings institutions are very sound today and will be able to weather this downturn, although many will have customers who are overextended due to a subprime loan obligation made by another lender. While we will do our best to help these customers, there will be many cases where these problems -- created outside the banking system by unregulated participants in the mortgage market -- will simply be impossible to fix.

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### **What if I'm looking for a mortgage soon? Will money be available?**

Banks are chartered to serve their entire community and are eager to help borrowers find solutions to their needs. The best place to start your search for a mortgage loan is your local bank. Bankers can advise you on the best options for your situation because they are interested in customer relationships 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 banks, 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.

Federally insured banks and savings institutions maintained their prudent lending practices throughout the real estate boom of the past few years, and that means banks 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 successfully to 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 and aren't always a good choice. Banks may be able to suggest steps you can take to improve your credit rating, but rebuilding credit requires patience and commitment.

While there is certainly a need to rein in the practices of unregulated mortgage lenders, it isn't necessary or desirable to ban subprime loans altogether. The economy thrives when a wide range of options is available, and banks will continue to seek as much flexibility as possible in meeting the credit needs of their customers.