More trouble hits subprime business

by Mike Freeman

Turmoil boiled through the subprime mortgage business again Monday after New Century Financial said its financial backers had cut off funding, pushing the Irvine-based company one step closer to bankruptcy.

Problems at New Century, the nation's second-largest subprime lender, spilled over into the stocks of other subprime mortgage companies, including San Diego's Accredited Home Lenders.

Accredited shares tumbled $4.38, or 28 percent, to close at $11.40 on the Nasdaq exchange. So far this month, Accredited's shares are down 50 percent.

Trading of New Century's shares was halted Monday on the New York Stock Exchange after the company said in a filing with the U.S. Securities and Exchange Commission that banks had sent letters saying they will cut off or planned to cut off its short-term credit lines, which it uses to fund mortgage loans.

The letters came from several institutions, including Bank of America, Goldman Sachs, Morgan Stanley and Citigroup. Last week New Century stopped accepting new loan applications.

New Century and other subprime lenders, which specialize in making mortgage loans to borrowers with blemished credit, are being derailed by a surge in deadbeat loans. More than two dozen subprime lenders have closed, put themselves up for sale or filed for bankruptcy.

During the housing boom, plenty of easy money was available for borrowers with poor credit - some of whom got loans without documenting their income. Lenders had little fear that they would lose on their investment, since home prices were rising. If borrowers got into trouble, they could sell the home quickly, often at a gain.

Today, with home sales declining and prices flat or falling, troubled borrowers have few good options. Many are walking away.

Subprime borrowers with past-due payments rose to 12.6 percent in the third quarter, according to the Mortgage Bankers Association. A study by the Center for Responsible Lending estimated that one in five subprime loans made in the past two years will end in foreclosure - a prediction hotly disputed in the mortgage industry.

"There is absolutely no question that there were lenders with this product that got aggressive," said John Robbins, chairman of the Mortgage Bankers Association.

Robbins, a longtime San Diego mortgage company owner and executive, testified Monday before the U.S. House Financial Services Panel.

Subprime lenders usually borrow short-term lines of credit from big Wall Street investment banks to make home loans. Then they bundle a bunch of loans together and sell them in the secondary market.

With defaults on the rise, secondary market buyers of subprime loans are running for the exits. If they will buy, it's at a such a low price that originators such as Accredited and New Century can't make a profit.

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