Open House: Subprime fiasco has lenders scrambling

by Jim_Woodard

A proposal to place a six-month moratorium on home foreclosures resulting from subprime home mortgage loans has been made by several consumer and housing related groups.

"Nobody wins when a home goes into foreclosure," said John Robbins, chairman of the Mortgage Bankers Association. "Consumers lose their homes and suffer a ding on their credit rating, and lenders and investors lose significant amounts of money.

"The industry wants to take every possible step to avoid foreclosure. That's why we at MBA have developed a number of tools to help those who are at risk of losing their homes. Lenders are already using a number of those tools to help financially stretched borrowers stay in their home, including forbearance, payment plans and other options."

The current troubles in the subprime market have already begun to create a "credit crunch" affecting many consumers who are experiencing financial difficulties. These homeowners are facing increasing problems in refinancing into a better loan. They are trapped and need help, an MBA report stated.

"That's why we at MBA applaud Freddie Mac and others who have opened the door to creating special 'rescue products' to help those borrowers," Robbins said. "Forbearance is certainly an effective tool in some cases, but it is not a sustainable long-term solution. Each loan is an individual transaction and situation, one that needs to be addressed between the lender and borrower."

The National Association of Realtors takes a somewhat different view regarding the problem created by subprime mortgages. "Current market problems in the underwriting and pricing of subprime loans, including the tightening of underwriting standards by regulators, will have a short-term impact on housing markets," it was noted in an NAR report.

"The problem will be lessened if Congress enacts legislation to expand the roles of Fannie Mae, Freddie Mac and the Federal Housing Administration to provide more housing opportunities to low-income homeowners and those living in high cost metro areas."

Tighter underwriting practices may cause total home sales to fall by about 100,000 to 250,000 nationally, or no more than three percent a year over the next two years, it was predicted by David Lereah, NAR's chief economist. Many of these households will probably, over time, purchase a home when they have attained the financial capacity to do so by saving for a down payment or growing their income, he said.

"Tougher lending standards imposed by the marketplace and the regulators are necessary, but we need to be mindful of overcorrection. Responsible lending practices are what the doctor ordered, not practices that cause a credit crunch," Lereah said.

Individual lending professionals are also expressing their views on problems in the subprime market. Matt Crane, president of Stockbridge Financial offered this perspective:

"There are always examples of predatory lenders that should be prosecuted. But this is less about predatory lenders and more about predatory lawyers. They are faulting all lenders, most of whom took on huge amounts of risk to give people a shot at the American dream, looking to line their own pockets.

"At the end of the day, the only results from all this will be wealthy lawyers and a huge segment of the population that will be effectively redlined, creating a huge class of renters that are unable to become owner-occupants."

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Q: Are people still applying for adjustable-rate mortgages?

A: Their numbers are decreasing. Considering all the problems related to existing subprime adjustable-rate mortgages - e.g., home foreclosures, lender bankruptcies - it's no wonder that the proportion of applications for new ARM loans is dropping. It's now down to 20.2 percent of all mortgage applications, according to a report from John Burns Real Estate Consulting.

Burns noted that in March the yield curve reversed its inverted status for the first time since July 2006. Interest rates responded by decreasing across the board. Subprime worries and a lackluster start to the spring home selling season are reflected in a drop in home-building activity.

However, many analysts are predicting a substantial rise in home sales in coming months, due in large part to continuing low mortgage interest rates, improving weather, and the seasonal build-up in consumer demand.

"The housing market was largely responsible for pulling the economy through the recession in 2001 and back to a vigorous pace of growth," it was stated in Freddie Mac's April Economic Outlook report. "It remains to be seen whether the economy will return the favor, with overall GDP growth helping housing out of its downturn. The next month or so will be a critical period, as home sales provide a key test of housing demand."

Spring and early summer is a popular time to shop for home, the report noted. Better weather makes house hunting more pleasant, and a purchase at that point allows families to settle in before school starts in the fall.

"With mortgage rates on 30-year fixed-rate loans steady at just above 6 percent and job growth more solidly on track, conditions are ripe for a firming in housing demand. Of course, this is only part of the equation, and housing supply presents several challenges to the recovery," the report said.

It's too early to declare housing to be out of the woods, it noted. The turmoil in the subprime mortgage market may curtail housing demand as some potential buyers find they no longer qualify for financing.

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