

Wednesday, April 18, 2007

How Subprime Lender Failures Could Impact You

Subprime loans are high-interest rate loans that are offered to people who do not qualify for market rate mortgages. Often, traditional lenders have turned these borrowers away because of low credit ratings or other factors that suggest to traditional lenders that borrowers could default on their loans. Since the start of 2007, foreclosures of subprime mortgages has risen rapidly leading to more than 36 subprime mortgage companies failing.

The subprime lending market's woes will impact all home buyers, not just those with "subprime" credit scores. Underwriting guidelines are tightening and we are seeing decent rates for the 100% stated-income loan disappear. With foreclosures and shortsales increasing it is easy to "Monday morning quarterback" and say this should have been seen coming from a mile away.

However, stated income loans impact how various market segments obtain loans. For instance, this has a huge impact on tipped income jobs. The restaurant industry alone is a huge employer and it would be safe to assume that a good portion of these jobs are tipped income jobs. Also, small business owners and commissioned contractors will be hit hard by these changes as well.

As Realtors, it is more important than ever to ensure that we understand these mortgage loan market changes and that we team up with a lender who has a good knowledge of how these changes will impact loan applicants. We will see more of the "teaser rates" advertised only to have the rug ripped from under the applicant and the rates raised when the loan goes to underwriting.

Also, this will not only impact buyers. A good Realtor will need to go the extra mile to make sure buyers for our listings are qualified, asking the difficult credit questions, and that the buyer's agent realize the impact of the tightening credit changes. Every listing offer with loan contingency should be scrutinized before consideration by the sellers!

Christina Whipple
www.ChristinaWhipple.com

Posted by Christina Whipple in San Antonio Real Estate at 10:32