

Subprime loans and mortgages have been in the headlines recently on the news and in the newspapers. What the media has not broadcast very often is that less than 10% of all loans and mortgages are subprime loans! That means 90% of all real estate loans and mortgages are NOT subprime loans. Prospective homeowners that do not have enough money for a 20% down payment or have below average credit scores (known as a mid-FICO score) often pursue subprime loans as a viable way to pursue and enjoy the benefits of home ownership.

Attached for your review is a fairly lengthy article from the National Association of Realtors (NAR) concerning subprime loans. We have also included “Our Take” on this issue. Please print the attached article and take some quiet time to become better informed on this important issue.

Jeri Bailey, Realtor 714-865-3720

Mark Johnson, Realtor 714-325-1031

Bill Taraschi, Realtor 714-222-3111

Michelle Mitchison, Coordinator 714-726-8955

[www.dreamteamera.com](http://www.dreamteamera.com)



## National Association of REALTORS® -- April 2, 2007

Every day brings another headline about defaults by homeowners who can't make their payments on subprime loans. It's an issue with serious implications for the housing markets, homeowners and Realtors working with buyers who may not qualify for a 30-year fixed loan requiring 20 percent down. With hearings underway in Congress, regulations and legislation on the drafting table and the media watching default rates like a hawk, count on more headlines to come. Here are some thoughts and information that may help you talk about the issue.

### Impact on the Market

NAR issued a news release Friday that includes Chief Economist David Lereah's prediction that tighter underwriting practices may cause total home sales to fall by about 100,000 to 250,000 nationally or no more than 3 percent a year over the next two years. Many of these households will probably, over time, purchase another home when they have attained the financial capacity to do so by saving for a down payment or growing their income.

Foreclosures are increasing inventories in some local markets. The projected flood of foreclosures are problematic and will add to the already loose housing supply in some local markets, but some of these local markets are exhibiting healthy economic activity, enabling them to absorb increases in foreclosures.

### Key Points of Discussion

#### 1. Realtors are part of the solution

We are the first point of contact for homebuyers in the real estate transaction. Consumers turn to Realtors for expert advice on financing. We encourage home buyers to shop for the mortgage that is best for them and we warn them against predatory loans that can poison the home buying process and trap unsuspecting borrowers into years of financial hardship. Consumer education by Realtors is a critical part of the solution to the problem of subprime defaults. Realtors not only want to sell homes to families, we want to make sure they can keep their homes.

#### 2. Market impact is overstated in many media stories

Whatever impact tighter underwriting standards will have will be temporary. Mortgage rates are very low and the economy is growing and healthy. Jobs and liquidity are plentiful in the marketplace. The subprime problems may be a manageable problem within our \$10 trillion-plus economy.

#### 3. Congress can act now to help lower income borrowers

Many borrowers have turned to subprime loans in the past to buy their homes because Federal programs designed to serve their market failed to do so. NAR is urging Congress

to enacts legislation to expand the roles of Fannie Mae, Freddie Mac, the Federal Housing Administration and the Veterans Administration to provide more housing opportunities to lower-income homeowners and those living in high cost metropolitan areas. A few simple changes can make a big difference. NAR supports increasing FHA loan limits, allowing risk-based pricing of mortgage insurance premiums and reducing down payment requirements to reflect today's mortgage market.

#### 4. **Overreacting could make the situation worse**

Regulation or legislation that goes too far can make it impossible for deserving and responsible families to obtain financing that will help them buy a home. We vigorously oppose fraud, predatory lending and abusive practices and where they exist we believe that they should be prosecuted to the fullest.

### **Facts about Subprime Loans**

- Subprime loans comprise about 10% of the overall mortgage market
- Recent rise in delinquency rates are mostly associated with the subprimes. Defaults on prime loans have been steady with very little movement.
- Of the subprimes, the delinquency rate has climbed to 15%
- At most, problematic subprime loans make up 1.5% of all loans outstanding
- Majority of delinquencies never lead to a foreclosure as many catch up and make mortgage payments
- Many of the delinquencies could be refinanced into FHAs or conventional loans. Mortgage rates are still near 45-year lows. But there will be more scrutiny on refinancing now due to "stringent" standards and lower home price appreciation in many markets

### **Our Take on These Issues**

#### **By The Dream Team@ ERA North Orange County**

Now that the real estate markets have returned to a normal market, the media has found another darling story to "shock the public." Negative news headlines sell media and this is another example of the media trying to influence the public. According to the National Association of Realtors (NAR), only 1.5% of ALL loans are subprime loans that are in default. That means that 98.5% of all real estate loans and mortgages are NOT in default. Have you seen that headline in the newspaper or on the television? Most likely, the answer to that question is a resounding NO!

If you have a credit score below 680 (often referred to as your mid-FICO score), then please get in touch with us so we can put you in touch with knowledgeable experts to help you improve your credit situation. Higher credit scores benefit consumers and borrowers with lower interest rates on all types of loans. The most recent reported national average credit scores is 675.

The real estate sky is not falling and the markets are healthy and continue to offer consumers good opportunities and value. If you have any questions, need help with improving your credit scores or are interested in buying or selling real estate, please give us a call at 714-996-3000 and ask for, ***The Dream Team!***