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"Subprime." A Real Concern
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By: Charles O'Brien
President and CEO of South Adams Savings Bank

For almost two decades, the American Dialect Society has been conducting a vote in order to find the "word of the year." A January 2008 press release issued by the organization of literary professionals and students, announced the winning word for 2007: *"Subprime."*

This winning word of the year points to the public's deep concern in the issue of subprime lending and borrowing that began in the mid-1990's. Subprime is not merely a hot topic for the media and finance industry. Subprime mortgages and lending has evolved into a social issue, deeply threaded within our culture and everyday lives, affecting us all.

The specific definition of subprime refers to the borrower, not the product. The Fair Isaac Corporation (FICO) credit score system is the standard scale of measure to determine if a borrower falls into three categories: subprime, near prime or prime. According to a report published by the Fannie Mae Foundation, titled "Subprime Lending: An Investigation of Economic Efficiency," research confirms that subprime borrowers have lower FICO credit scores, typically below 620 (350 being the lowest possible and 850 being the highest possible). Subprime borrowers also tend to have higher debt to income ratios and a very small or even zero funds for a down payment. Finally, subprime borrowers typically have more than 75% of their overall income going towards payments for housing and other debt, leaving only 25% for other living expenses.

Meaning Behind the Word

A large segment of the population faces realities stemming from the subprime mortgage crisis. Especially, for 2008, there are lingering issues related to mortgage loan delinquencies, the number of homes still entering foreclosure, and perhaps most importantly, those borrowers who are still struggling not to fall into this economic quicksand. These realities are most evident, according to an annual speech given last year by Federal Reserve System Chairman, Ben S. Bernanke, "For borrowers, the consequences of defaulting can be severe--possibly including foreclosure, the loss of accumulated home equity, and reduced access to credit. Their neighbors may suffer as well, as geographically concentrated foreclosures tend to reduce property values in the surrounding area."

Bernanke goes on to recognize sources of the subprime crisis, "The practices of some mortgage originators have also contributed to the problems in the subprime sector... Some lenders loosened underwriting standards... In addition, incentive structures that tied originator revenue to the number of loans closed made increasing loan volumes, rather than ensuring quality, the objective of some lenders... Some borrowers may have been misled about the feasibility of paying back their mortgages, and others may simply have not understood the sometimes complex terms of the contracts they signed."

According to Bernanke, "The Board and other federal supervisory agencies have taken actions to encourage the banks and thrift institutions we supervise to work with borrowers who may be having trouble meeting their mortgage obligations.... With effective loan restructuring, borrowers may be able to work through their problems..."

Local Banks May Be Able to Help

Keeping Bernanke's statements in mind, many local banks have done business in their respective communities for decades and have relationships based upon trust and service. According to a recent statement issued by a group of several local bank presidents in New England, "We didn't create this problem. As local community banks, we want to be a part of the solution. One way we can help is by counseling borrowers who are having difficulty with subprime loans. Another is through our own mortgage programs, which offer refinance options with a variety of different terms and rates." Furthermore, the interest rates on home mortgages and home equity accounts are approaching an all time low as the Federal Reserve System continues to reduce rates in order to stabilize the economy.

There are many who are still bound to loans with mortgage lenders that may have engaged in subprime lending. Someone who is in a situation where they cannot meet their mortgage payment each month can work with a local community bank to evaluate their situation and, possibly, find a solution.

This does not have to be another year of fear and struggle for many homeowners with subprime mortgages, if they realize that they are not alone. Especially since there are local banks reaching out to help.