Subprime Mortgages Alive and Well?

When U.S. housing prices peaked in 2006-07, the subsequent period of unprecedented value depreciation was attributed mainly to housing speculation – fueled by subprime lending. Today, billions of dollars of debt is still being extended annually to consumers who are unable to qualify for conventional or FHA financing. Some say “Subprime” mortgages have merely been disguised by re-naming them “Non-QM”. Non-Qualified Mortgages are residential loans that do not comply with post-housing crisis standards, as set by the Consumer Finance Protection Bureau (to ensure borrowers have the “ability to repay” their loans).Lenders following CFPB guidelines are able to sell their “conforming” mortgages to Fannie Mae and Freddie Mac (government-sponsored agencies). However, mortgages that do not satisfy agency requirements are deemed Non-QM, and are either held by the originating lenders or sold to yield-driven investors.Although opinions vary, loan underwriting is very different today than during the housing bubble. Subprime loans were generally earmarked for borrowers with poor credit, and consisted of excessive interest rates, prepayment penalties and negative amortization (where loan principal increases over the life of the loan, rather than decreases). Mainstream national Non-QM lenders mitigate risk today through a combination of protective policy guidelines, as well as prudent credit score, reserve and debt-to-income/loan-to-value ratio requirements – all of which have helped to keep defaults and foreclosures to a minimum. Borrower liquidity and repayment ability are being more closely scrutinized by Non-QM lenders than before, and adverse loan terms are rarely seen in forward residential mortgages today – at least for now…

Here’s the Point: ***If you are unable to qualify for***

conventional or FHA financing, there are still plenty of programs available to help you with your purchase or refinance – but the terms have tightened considerably since the subprime era.