2016 ABA Issue Summary

Subprime Lending

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A subprime mortgage is a mortgage product developed to assist borrowers who have less than perfect credit.

- "Subprime" does not refer to the interest rate. It refers to the quality of the borrower's credit history. Subprime loans, though, often carry rates that are higher than typical market rates, a reflection of greater repayment risk.

- The price a borrower pays for a loan is directly related to their financial situation, including their past payment history. Pricing loans according to a borrower's creditworthiness – or risk-based pricing – is comparable to pricing car insurance premiums. A driver who has been involved in accidents or has received speeding tickets will pay more than one with a spotless driving record.

The housing market has taken a dramatic turn.

- Most subprime foreclosures are the result of loans made by loosely regulated and largely unexamined mortgage originators that operate outside the regulatory structure for federally insured banks.

- The Dodd-Frank Act created a framework for applying mortgage regulations universally, creating a more level playing field for consumers and banks.

- Bankers are happy to talk with consumers who may be confused or concerned about mortgages they may have with other lenders. They will review the terms of the loan and explore ways to make the monthly payments more manageable or affordable.

- Sometimes contractual obligations, especially between lenders and investors who have purchased loans, limit what can be done to modify an existing loan.

The vast majority of subprime borrowers are successful in buying a home and rebuilding their credit.

- Subprime mortgage loans were developed for borrowers with credit histories that disqualify them for standard mortgage loans. Subprime loans are not inherently bad – they are just less than Grade-A – but allow loans to be made to riskier borrowers.

- The market works best when a wide range of options is available. Subprime loans used carefully and in the right situations are a viable option for some homebuyers.

- It's possible to rein in the irresponsible behavior of unregulated mortgage lenders without cutting off flexibility for borrowers with special circumstances.