

The Sub-Prime Meltdown.

WHAT EXACTLY IS GOING ON, AND WHAT DOES IT MEAN TO YOU?

The recent collapse in the subprime mortgage industry has convinced many lenders to pull back on subprime lending practices and tighten lending requirements. In recent history, almost anyone could get a mortgage loan, even those with critically low credit scores below 500 or 600. Lenders assumed homeowners would accrue equity and therefore refinance their mortgages in the future.

A "Sub-Prime" home loan is a loan where the client has some significant credit issues, or was otherwise unable to qualify for a standard, conventional loan. Due to the fact that these loans tend to be quite risky for the lender...they also bear higher interest rates to match, as well as often being adjustable rates that likely have recently hiked sky high, not to mention the steep prepayment penalties they generally carry.

These loans have been around for years—so why all the drama now?

Many Sub-Prime and other adjustable home loan rates have moved dramatically higher, due in part to the Federal Reserve Board's recent rate hike cycle. So as these rates are adjusting higher – and the payment right along with it – the homeowners are finding that they are unable to keep up with the dramatic increase in payment.

In the past, homeowners in this situation would simply throw the house on the market, realize enough of a profit to cover any prepayment penalties, and literally move on. But the soft real estate market isn't making this quite so easy any more – houses are not selling as quickly, and the home appreciation rates enjoyed in the past have moderated.

So the Sub-Prime homeowner is stuck – and many of these homes are falling into foreclosure, causing even more problems. As more and more loans are defaulting, mortgage lenders are forced to tighten up their lending standards across the board in response...making it tougher for a troubled homeowner to even refinance to get out of trouble.

Homeowners with Subprime Mortgages Must Be Proactive To Avoid Foreclosure

"Homeowners with subprime mortgages, especially adjustable rate mortgages expiring within the next 12 months must refinance immediately," said Tory Tarsitano, President of Capital Financial Bancorp, Inc. "Foreclosure can be avoided, if homeowners are proactive in seeking other desirable loan products such as 30 year fixed rate mortgages."

Capital Financial Bancorp offers the following tips for homeowners, who need to refinance their existing mortgage loans:

1. Understand your existing mortgage contract. What type of loan do you have? When does the loan expire or adjust? Can you refinance without a prepayment penalty?
2. Don't wait until the last minute. Putting off the inevitable means doubling or tripling your mortgage loan. Some homeowners see their mortgages go from \$1,000 to \$2,000 in one day. No one can sustain such a drastic increase in their payments.
3. Recognize that interest rates are still low and subprime borrowers can still find decent refinance rates.
4. Don't panic. Take one step at a time. First shop for loan quotes. Ensure that you clearly understand the terms of your loan: type of loan, points, lender fees, prepayment penalties, etc.

Foreclosure or bankruptcy must be avoided because they have a lasting effect on one's credit history. Another option for homeowners, who feel they can no longer carry a mortgage is to simply sell their homes. As with all financial decisions, homeowners must make an informed decision based on their personal situation.

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