

HOW TO AVOID THE **SUBPRIME** FALLOUT BUSINESS & MONEY

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Lottery, Page B2
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BITTER HOMES, GARDENS
Today: Blustery, cold. Some sun.
High 36-41. Low 23-27.
Tomorrow: Sunshine, some clouds.
High 40-45. Low 30-35.
High Tide: 11:16 a.m. 11:43 p.m.
Sunrise: 6:52 a.m. Sunset: 6:54 p.m.
FULL REPORT: PAGE B8

Business & Money

(c 397,288)

WILL I GET CRUSHED BY THE SUBPRIME FALLOUT?

BY LYNN ASINOF | GLOBE CORRESPONDENT



With headlines proclaiming a crisis in the subprime mortgage market, lots of homeowners are trying to figure out if they should worry. Many experts view the meltdown as a return to sanity in real estate lending. Still, there are lots of ways people could get hurt by the fallout. So here's a look at current mortgage-market woes, including what's happening, why people should care, and what they can do about it.

WHAT WENT WRONG?

Subprime lenders — those who make loans to people with poor credit ratings — made too many loans to people who could not make their monthly payments. Once home prices started to fall, people having a hard time making payments sometimes found it was cheaper to simply walk away. That's because many of these loans required no down payment — or even a verification of annual income.

Last year's subprime loans started defaulting at a higher-than-expected rate, with many borrowers becoming delinquent in the first three months of the loan, says Bob Visini, vice president of marketing at First American LoanPerformance, a mortgage-data company.

Then, as more homeowners defaulted, the subprime lenders — which typically promise investors they will buy back troubled loans for a set period of time — couldn't honor those obligations and started closing their doors.

WHY ARE THESE MORTGAGES CALLED 'SUBPRIME'?

"Prime" borrowers are folks whose credit ratings are generally above 620 on the FICO scale, which ranges from 300 to 850. Those who don't make the cut are considered "subprime." Their

mortgage rates are anywhere from 2 to 5 percentage points higher than those paying "prime" rates.

HOW DO THESE SUBPRIME PROBLEMS AFFECT ME AND MY MORTGAGE?

Concerned about the possible fallout in the market, fee-only financial adviser Thomas McFarland of Darrow Co. said his Concord firm just completed a survey of the lenders it uses to get mortgages for its clients. "It's pretty much business as usual," he says.

However, homeowners with interest-only mortgages, option ARMs (adjustable rate mortgages that offer a choice of payment options ranging from minimum payment or interest-only to fixed-rate levels), or other exotic home loans may soon see their payments jump.

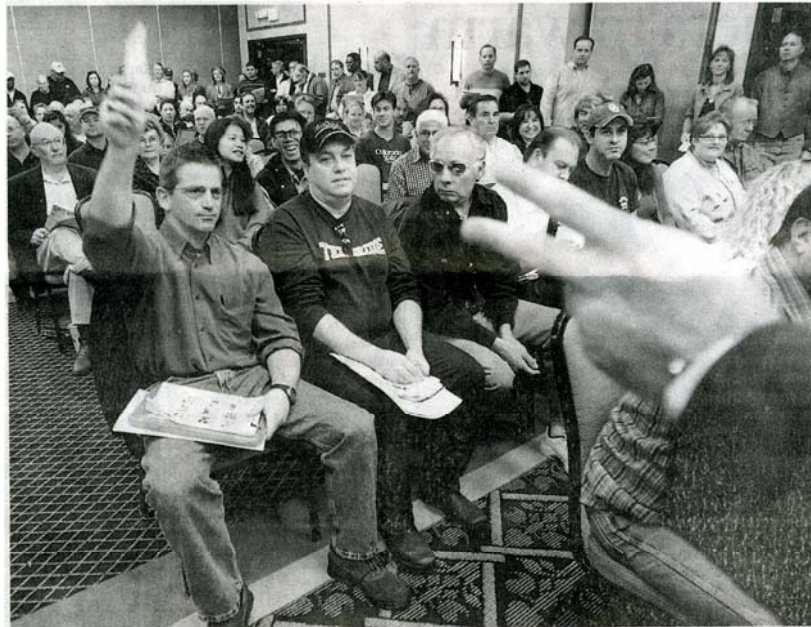
That's because many of these mortgages — which became popular a few years ago — are fast approaching the date when they reset to a higher rate, begin principal repayments, or even

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GOT QUESTIONS?

Ask Rick Fedele, chief executive of Summit Mortgage, at 11 a.m. tomorrow at boston.com/business.

What you need to know about the mortgage industry's woes



PHOTOS BY RICK WILKING/REUTERS

Brian Walton (left) signals his winning bid at a foreclosure auction in Denver. Growing numbers of defaults on subprime mortgages nationwide have sent the home-finance market into turmoil.

Will you be hurt by the subprime mortgage fallout?

► MORTGAGES

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come due in their entirety. Those resets can boost payments as much as 30 percent, Visini says.

Mortgage specialists say the flood of resets will produce a minirefinancing boom. Some homeowners looking to refinance, however, may find they can't borrow as much as they want, either because lenders have tightened their lending criteria or because their property values have dropped. Some people with subprime mortgages won't be able to refinance at all because they no longer meet minimum criteria. Ditto for those now shopping for loans in the subprime market.

And if subprime borrowers are closed out of the market, fewer home buyers might put downward pressure on real estate values. That could be a problem for those who need to sell or borrow against their equity.

WHO'S GETTING HURT?

High on the list are people who have applications pending with subprime lenders that have closed their doors. Left without a lender, these home buyers face the risk of being unable to close on the homes that they've already contracted to purchase.

Massachusetts is now working to find replacement lenders for customers of subprime lender New Century Mortgage and its associates, which were issued cease and desist orders on Tuesday.

"We are doing everything we can to make sure these loans are taken and funded as quickly as possible," says David Cotney, chief operating officer of the Massachusetts Division of Banks. Consumers with questions can call a state mortgage hot line at 1-800-495-2265, extension 1501.

Also being hurt are the people who took out loans they couldn't afford



Sam Marshall of Hudson and Marshall Auctions signals an accepted bid on a house for sale at a foreclosure auction.

back when lenders were lending to virtually anyone who applied. Consider Diane Jones, who took out two interest-only mortgages to buy her Danvers apartment when the building went condo. "I felt pressured" to take out the loans, Jones says

One mortgage is already charging 11 percent interest; the other at 6.8 percent will reset in June. Though now current on her mortgage, she is fearful of foreclosure and is working with both her lender and a nonprofit debt management company. "Until you've lived this, you can't believe it," she says.

WHAT SHOULD HOME BUYERS AND HOMEOWNERS DO NOW?

The mortgage market could be in for a rocky few years, says financial adviser McFarland, noting that people with upcoming borrowing needs shouldn't dawdle. Those with mortgages that are about to reset may want to refinance now, and those who are planning to finance the kids' college education with their home equity may want to start arranging their loan or line of credit. "You want to get to the next cycle," he says. "You don't want to get caught in the downdraft."

What products are attractive in the current market? "The fixed rate looks awfully good." He says he'd check out both the 30-year fixed-rate mortgage and the five-year ARM.

CAN I STILL GET A SUBPRIME MORTGAGE?

Subprime loans made up 25 percent of the national mortgage market in the last three years, so they're unlikely to disappear.

But lending criteria have definitely changed. "You can still get a subprime loan," says Rick Fedele, chief executive of Summit Mortgage in Boston. "But they'll want a down payment."

Chances are also good that lenders won't be offering low-cost teaser rates in this market.

HOW BIG IS THE PROBLEM IN THE BOSTON AREA?

"New England is more conservative than the rest of the country," says Fedele.

People here tend to have fixed-rate loans rather than exotic mortgages like option ARMs. Boston's subprime market is also smaller — accounting for only 7.4 percent of all active mortgages in the area as of Dec. 31. That compares to 14.7 percent for the country as a whole, according to LoanPerformance.

Moreover, New England doesn't have the glut of speculative homes that are now forcing prices lower in other parts of the country. "The market seems firm right now," Fedele says, noting that real estate woes elsewhere may well push interest rates lower. "And that will be absolutely fantastic for New England."

& UNDERSTANDING MORTGAGES

Get more advice and learn more about mortgages at boston.com/business.