

## **Subprime Lending a Dangerous Trap for Would-be Buyers**

*Submitted by the Richmond Association of REALTORS®*

The phrase “subprime lending” has been a constant in the media lately, as financial advisors warn about the increase in predatory lending practices over the past few years and how these loans affect financially strapped borrowers. If you are in the market to buy a home, you can avoid becoming a victim of subprime lending by educating yourself and understanding what your options are as a home buyer.

Subprime lending is the practice of loaning money to those with low incomes or less than perfect credit. Unlike their counterparts who are prime candidates for good rates and a traditional mortgage, many subprime borrowers rely on creative financing to buy a home and opt for an adjustable-rate mortgage. While some adjustable-rate mortgages are a good choice for buyers who are only looking to stay in a home for a short period of time, others may trap buyers by offering a low introductory rate for the first two or three years, after which the loan adjusts based on a financial index. When the loan adjusts, payments often balloon and home buyers who are already financially strapped can no longer afford their homes. For those who do not have the means to sell or refinance before their rate adjusts, the result can mean defaulting on payments or worse, facing foreclosure.

To avoid becoming a victim of subprime lending, be sure to explore all your options when searching for a loan. For most consumers, traditional fixed-rate mortgages which guarantee the same interest rate over the life of the loan are the best option, especially if you plan to stay in the house long-term. Payments are the same each month and there is no risk of the rate fluctuating and possibly leading to payments you cannot afford.

If you are not a candidate for a fixed-rate mortgage and are considering an adjustable-rate mortgage, shop around for the best deal and be sure to get all the facts before signing on the dotted line. Find out how long the initial interest rate lasts, how high the rate can go once it adjusts, and how often the rate can change. The biggest pitfall of any adjustable-rate mortgage is that when the rate changes even a little, the result can mean a very big jump in your monthly payment. Be realistic when calculating how much you can afford to pay and still have money left over for other bills and savings.

Home buyers should consult both their lender and their REALTOR® about different financing options and what will work best for their particular situation. Make sure your REALTOR® is informed about your financial situation to ensure you are buying within your means of affordability. Explore different types of loans as well as different lenders, as terms will vary from lender to lender.

Legislators at both the federal and state level are working to crack down on predatory lending practices and make things safer for buyers. In the meantime, you can protect yourself by knowing your options and making informed decisions. To learn more about mortgages and how to avoid predatory lending, visit the National Association of REALTORS®’ website at <http://www.realtor.org/housopp.nsf/pages/mortgages>.