

The Facts About Mortgage Lending

- FACT:** The homeownership rate remains near record levels, at 68.9 percent.
- FACT:** 35 percent of homeowners own their home outright; 49 percent are in fixed rate loans. That leaves 16 percent of homeowners with adjustable rate products. Only 5 percent of homeowners are nonprime borrowers with adjustable rate loans.
- FACT:** ARM products have a long and successful history and nontraditional products have allowed many first-time homebuyers to own their homes.
- FACT:** About 1 percent of all loans are in the foreclosure process, well within historical norms, despite the record number of homes sold in the last 3–5 years. This is down from the post-recession peak of 1.5 percent.
- FACT:** Three out of every four loans that enter the foreclosure process do not wind up as a foreclosure sale, either through the homeowner curing the delinquency, a workout between the lender and borrower, a refinance or a voluntary sale of the home.
- FACT:** The number one cause of delinquencies and foreclosures is job related, as we can see in the Midwest, which has seen a significant number of manufacturing jobs lost.
- FACT:** There is no evidence that the increased delinquency and foreclosure rates are the result of hybrid ARMs or nontraditional products, such as interest-only and payment-option mortgages.
- FACT:** Historically, delinquency rates tend to peak in the first 3–5 years after origination. With more than half of all outstanding loans less than three years old, it stands to reason delinquency and foreclosure rates may rise as they age.
- FACT:** Nonprime borrowers have always had a higher delinquency and foreclosure rate. Nonprime borrowers are also a higher share of ARM borrowers, thus it stands to reason that nonprime ARMs have a higher delinquency rate.
- FACT:** Lenders want to lend money to borrowers who are willing and able to pay the loan back on time. Each time a foreclosure sale occurs, it typically costs a lender 30 to 50 percent of the outstanding loan balance, so everybody loses when a home goes into foreclosure — the borrower gets a black mark on his or her credit, the lender and investor lose and the community loses.
- FACT:** Between \$1.1 trillion and \$1.5 trillion of ARMs could potentially reset in 2007. Of those, \$600 billion–\$700 billion will refinance prior to or at reset, thus the borrower will not face a payment increase. The remaining \$500 billion–\$800 billion will actually reset. It is important to note, however, with short term rates rising, more borrowers are moving to fixed rate loans.
- FACT:** There is continuing competition among companies given the current environment, and that is good for consumers, especially those who “shop for their loans.” *Homeloanlearningcenter.com* is a valuable resource for consumers who want to learn more about the homebuying process.
- FACT:** The marketplace is working. The volumes on many nontraditional products have not been this high before. As a result, investors, rating agencies and lenders have tightened underwriting standards.

* Data as of April 2007