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FAIR GAME

## Blame the Borrowers? Not So Fast

By [GRETCHEN MORGENSON](#)

IT has become fashionable of late to say that America's subprime borrowers themselves deserve a good part of the blame for the current mortgage mess. They were either greedy (looking for easy money in a bubbly real estate market) or irresponsible (assuming a debt whose terms they did not understand).

They should be punished for their behavior, the argument goes — not rewarded with loan workouts.

According to this analysis, while subprime lenders may not be blameless, they actually should be lauded for introducing the joys of homeownership to those who had not yet achieved that part of the American dream. Never mind that many lenders peddled the most abusive and costly loans to unsophisticated, first-time home buyers. Known as "affordability products," the mortgages generated big commissions up front and were designed to require refinancing later on — which included yet another round of luscious fees for lenders.

With refinancing no longer an option, it is becoming obvious that these loans were designed to fail. True to their design, they are. And those who thought they might get a chance at owning a home are headed back to the rent rolls.

Figures from the Federal Reserve Board show that the share of subprime mortgages in default is more than 14 percent. And researchers at the Center for Responsible Lending say that 64 percent of foreclosures filed during the 12 months ended June 30 involved subprime loans. A September report from Banc of America Securities said that 93 percent of completed foreclosures this year involved adjustable-rate loans that were made in 2006, pooled and sold to investors.

Regulators have recently stepped up their calls for lenders to be more aggressive in working out these loans. But lenders are pushing back, and borrower advocates — those nearest to the problem — say that not much is getting done.

AS this workout war simmers, it seems worthwhile to consider both sides of this mess.

Should greedy subprime borrowers take responsibility or should greedy subprime lenders get tagged? Nothing is ever black and white, of course. Undoubtedly, there are plenty of cases in which both borrower and lender are at fault, and others in which just one of the parties may bear greater blame.

Still, it's also important to examine some of our long-held assumptions about the sophistication and responsibility of low-income borrowers when trying to make sense of this debate. After all, nonprime borrowers in low-cost, fixed-rate mortgages — appropriate loans for low-income, first-time homeowners — can succeed. And there are figures to prove it.

They come from NeighborWorks America, a nonprofit organization created in 1978 by Congress to deliver financial aid and training to troubled urban communities. Its affiliate, the Neighborhood Housing Services of America, makes loans to home buyers of low and moderate incomes, a group that resembles the typical subprime borrower. And it's revealing to compare the delinquency and foreclosure rates for subprime loans made by traditional lenders with mortgages made by the Neighborhood Housing Services fund.

The fund contains almost 3,000 loans totaling \$205 million as of June 30. Its borrowers do not meet conventional credit standards, and their incomes average less than two-thirds the national median income. Some 93 percent of those receiving loans from the fund are first-time home buyers, and almost 90 percent are low- or moderate-income borrowers. Approximately 54 percent are minority households.

And yet, the NeighborWorks borrowers aren't experiencing the same mortgage woes as subprime borrowers elsewhere around the country. Why?

As of June 30, the most recent figures available, 3.34 percent of NeighborWorks' borrowers were at least 30 days' delinquent on their loans, only slightly higher than the 2.63 percent delinquency rate on prime loans recorded in that period by the Mortgage Bankers Association.

Compared with subprime loans over all, the NeighborWorks loans really outperform. Its 3.34 percent delinquency rate is well below the 14.54 percent on subprime loans nationwide.

Foreclosure figures show a similar pattern. The NeighborWorks loans that went into foreclosure during the second quarter of 2007 totaled 0.56 percent, while subprime loan foreclosures came in at 2.45 percent during that period. The foreclosure rate for NeighborWorks loans was a little over double the 0.25 percent rate for prime loans in the period.

“Our loans performed many times better than subprime,” said Kenneth D. Wade, chief executive of NeighborWorks. “It shows that you can serve this customer base and they can succeed.”

Some of the success of these loans may be a result of an extensive mortgage education program conducted by the 130 loan counselors of NeighborWorks before and after a loan is made.

But surely the biggest reason that the NeighborWorks loans outperform is that they were not the so-called affordability mortgages, with adjustable interest rates that skyrocket after several years or those that allow borrowers to pay none of their principal for an extended period. Those are the loans that are failing all around us.

For example, according to data presented to an Office of Thrift Supervision forum last December, around 90 percent of subprime loans originated between 2004 and 2006 carried exploding adjustable rates. Some 70 percent of subprime loans have prepayment penalties, versus 2 percent of prime loans. The Center for Responsible Lending estimates that 52 percent of home purchase loans made to African-American families were subprime, and that 41 percent of loans to Latino borrowers were subprime.

And what of the real estate speculators whom many lenders like to blame for the subprime problem? Banc of America Securities estimated in a report in late September that just 7 percent of foreclosures involving adjustable-rate loans were made to such borrowers. The report also noted that the difference in delinquency rates between speculators and resident borrowers was 0.1 percentage point.

The NeighborWorks counselors are now advising borrowers trapped in problem loans made by other institutions. Mr. Wade said that in the third quarter of this year, his organization logged 57,000 calls, up 90 percent from the second quarter. One in five callers, he said, had income of \$42,000 to \$60,000 a year while 13 percent made more than \$60,000 a year.

Robert L. Gnaizda, policy director and general counsel of the Greenlining Institute, an advocacy organization in Berkeley, Calif., says he believes that lenders, not borrowers, should shoulder the blame for this debacle.

“Lenders were like the worst stockbrokers peddling stocks in 1999 saying there is a new dynamic now,” he said. “We believe financial institutions have a fiduciary responsibility. They shouldn’t be promoting instruments that are high-risk and they know it.”

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