ECONOMIC DEVELOPMENT: MORTGAGES

# Borrowers, lenders must avoid the mortgage foreclosure abyss


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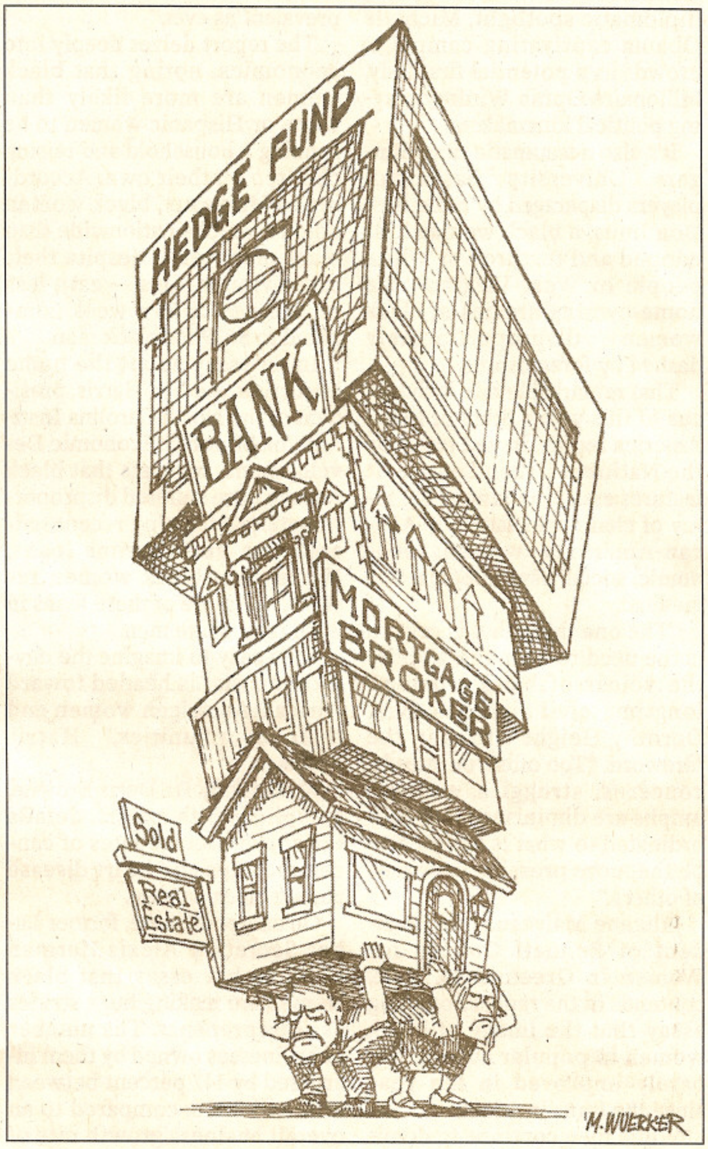
GUEST ESSAYIST


The signs of the subprime mortgage crisis are everywhere, from recent reports that mortgage defaults nationwide are up more than 50 percent over last year's figures, to predictions that New York's default rate is likely to rise soon.

In upstate New York, the news hasn't been as bad, at least not yet. A steady, conservatively priced housing market here has tempered the wild swings in home prices elsewhere as speculators got into trouble when the value of their homes in "hot" markets decreased while their mortgage payments increased. The result: default and foreclosure.

In other scenarios, families sincerely in search of the American Dream — a home of their own they can live in for many years — were given loans they could not afford. Quick promises were made and due diligence was lacking. In addition, some borrowers looked at their own finances and credit through rose-colored glasses, failing to see the shadows that would darken their situation when the monthly payments increased.

Other factors — job loss, diminished incomes, credit card debt — also contribute to default and the inevitable foreclosure. The Housing Council of Rochester estimates that while 1 percent of area homes are in some stage of default and/or foreclosure, 2 percent of city homes are affected (one in seven properties) and for a variety of reasons. Not as bad as in other parts of the nation, but bad enough for our friends and neighbors who face this issue.

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While I can't influence all the factors that contribute to default, my goal, and that of every legitimate mortgage professional, is to eliminate the risky and unrealistic mortgage loan as a cause. Rochester's housing market is unlikely to become overheated anytime soon. But the temptation remains for people to pursue a risky loan.

Historically, borrowers who put down 20 percent of the purchase price in cash are much less likely to default on a loan. This statistic has led to the recent demise of the popular 80/20 loan (a primary lender finances 80 percent of the price of a home, a second lender finances the other 20 percent, enabling borrowers with little or no cash to buy a home). Hence, home buyers now need to save more before buying.

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Another example: Lenders are initiating risk-based policies that reward borrowers who have higher credit scores and increase the loan rates for those with lower credit ratings. Hence, home buyers had better raise their credit scores.

Among mortgage brokers, who have a wide variety of mortgage products and programs available for clients and who originate close to 65 percent of all mortgages, a stricter program of licensing and registration by New York state has been initiated to weed out unscrupulous and dishonest brokers.

Perhaps the most important practice among local mortgage brokers is to verify a home buyer's income, assets and credit score. Lenders are redoubling their efforts to perform their own verification independent of the brokers.

And the bottom line for borrowers: Take a hard, realistic look at your finances.

As the subprime mortgage and housing crisis continues to spread, we read about bailouts and other interventions. While I can't predict which solution is best, I encourage every would-be homeowner to avoid at all costs the misery and disappointment of default and foreclosure.

As public policy, home ownership is the key to maintaining the viability of every community.

Foreclosure is a blight we can do without, now and in the future. ❑

*Frate is CEO, Rochester Area Mortgage Services Inc., a mortgage brokerage firm in Brighton.*