



Who's To Blame for the Mortgage Mess?

The mortgage market is roiling right now with failed subprime or poor credit home loans, a loss of secondary market investors, the creation of a "credit crunch," and a tightening of mortgage standards. What caused all this? Who is to blame? What can you as a potential homebuyer do to avoid it all?

A recent online survey conducted by the Triangle Business Journal found that most people put the largest share of the blame for the current turmoil on the shoulders of shady lenders or careless mortgage borrowers. Of the 565 poll participants, 38 percent pointed their fingers as the lenders, or "people who offered subprime home loans, for originating loans they knew were bad and taking advantage of people who wanted to own a home." One anonymous voter wrote, "Making a bad loan to someone you know can't afford it, and planning to transfer that risk to someone else once the transaction is complete, is about as unethical as it gets."

The next largest vote (26 percent) went to borrowers or "people who took subprime home loans, for failing to exercise personal responsibility and taking loans they couldn't afford." Comments from voters included these: "There is no replacement for personal responsibility. No government or commercial entity should be scapegoated for anyone unwilling to consider their personal circumstances prior to entering into a legal transaction. Just because you CAN do it does not mean you SHOULD," and "I know this is America - a country where people don't take responsibility for their own actions. However, ultimately, the borrowers are the ones to blame."

Lenders may have been greedy and borrowers may have been uninformed, but what should you do in the future to prevent getting into a bad home loan? For starters, you can reduce your chances of dealing with an unscrupulous lender by shopping around. Talk with many different lenders and get a feel for their business style. You should check out their profiles with the Better Business Bureau to learn about the lenders' history of business practices and if any complaints have been filed against them. Better yet, ask around among trusted friends and family for referrals of good mortgage lenders or brokers. This is probably the best testimonial you will find for a lender.

Even after you find a good mortgage lender, do not assume the lender will take care of everything. Do your homework. Become the most informed borrower you can be by researching the types of loans and interest rates available. Find out what your credit score is and what type of terms others with your score are generally offered. Once you have chosen the loan that you want, make sure you only borrow as much as you need and not more. If you go with an adjustable rate mortgage (ARM) loan, find out what the maximum interest rate cap is on your loan and make sure you would comfortably be able to afford monthly payments at that rate. And whether you get an ARM or a fixed-rate loan, find out if there is a prepayment penalty attached and how long it will be before you can refinance or sell your home without getting dinged with that fee.

Getting a good mortgage means doing your fair share of work, but it will pay off in the end and help you avoid the troubles many of today's homeowners are experiencing!