

## Sky not falling in state, mortgage insiders say

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In Mississippi the mortgage sky is not falling, say industry leaders, even though the situation is garnering bleak publicity across the country. Much of the negative news is blamed on sub prime lenders who offer loan products to homebuyers who might not qualify for traditional loans. Now some of these lenders are going into bankruptcy.

"The mortgage industry is having some problems nationwide caused by a combination of several things," said John Allison, commissioner of the Mississippi Department of Banking and Consumer Finance. "The sub prime market has gone into some downspin because of products such as interest only, teaser interest rates and no down payments. In 2007, two trillion (dollars) of these loans are coming due and a lot of folks are not being able to adjust to their new rates."

The state does have a bankrupt sub prime lender, New Century, with close to \$2 million in commitments

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it can not fund. However, Allison says other lenders picked up the loans and things worked out for the homeowners.

### Overreaction to a correction?

Quentin Whitwell, executive director of the Mortgage Bankers Association of Mississippi, says there is a correction going on and people don't need to over react.

"The sub prime lenders have grown over the last five years and some of the checks and balances were overlooked," he said. "The industry needs to be fair to people who are unbanked and under-banked and not cut them off."

He adds that at the national level a number of lenders are willingly re-structuring loans.

"Mississippi is not in as dire a situation as some other states because traditional groups are still doing most loans and they act responsibly, interest rates remain low, the economy is good and people have jobs," Whitwell said. "Now is as good a time as ever to get a mortgage."

Freddie Rowell with Regions Bank agrees. "The 30-year mortgage rates are still low, areas around Jackson are still seeing development and agents are staying busy," he said. "You can't compare Brandon, Miss., to California."

He observes a high amount of large homes on the market and says building has slowed down in some areas. Also, it's difficult to find homes in the \$100,000 price range.

"Still, banks are turning around a lot of mortgages and there's a lot of re-financing going on," he said. "I don't think we'll see a long-term slump here."

### Emerging from seasonal slowdown

Although members of the Mississippi Association of Realtors (MAR) reported a year-end seasonal slowdown, executive director Angela Cain says business has picked up in the

past couple of months.

"Of course, each market across the state is different," she said. "The good news is that Mississippi, unlike other parts of the country, did not have double-digit price appreciation and subsequent market corrections that were experienced in places like Florida, D.C. and California. Our real estate market has been very stable."

Rowell, mortgage production manager for Regions Bank in Central Mississippi, says he is seeing some foreclosures on 100% financing that is over appraised values.

"In many cases, sub prime lenders are getting people in homes they can't afford. It's definitely more risky and that's why we're seeing a lot of these guys go out of business."

He says he's seen sub prime lenders give 100% financing to consumers with credit scores as low as 520. Now the score is inching up to 586. Most banks look for a score of 640 and above.

Members of MAR urge homebuyers to deal with reputable lenders and seek professional help from agencies like the Better Business Bureau to identify lenders of good standing. Other sources of information are local community housing groups and realtors.

"The biggest obstacle to homeownership for many buyers has been coming up with money for the down payment and closing costs," Cain said. "While no-down-payment loans make it easier to buy a home, not all are created equal. If it sounds too good to be true, it probably is."

Whitwell says there is a strong niche for sub prime lenders and his organization doesn't want to prohibit borrowers from having access to capital. "We're trying to make sure our members know they must be responsible. There are no signs of bad apples in Mississippi," he said. "Yes, we are seeing more foreclosures right now, but lenders are addressing these problems."

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# Mortgage lenders, homebuyers taking protective measures

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With some unrest and correction going on in the mortgage industry nationwide, there are ways homebuyers and lenders can protect themselves, and there are groups who can help.

As regulators, the Mississippi Department of Banking and Consumer Finance is putting out guidelines to lenders, encouraging better disclosures in plain English.

"The exotic products of sub prime lenders have come about by trying to get people who don't qualify for traditional loans into homes," Commissioner John Allison said. "Many times, these people do not understand these products. We're not saying don't lend the money, but do it responsibly."

To lenders: do a suitability of the borrower. "Will they have the cash flow when these things change?" he asks. "Explain the products better."

To borrowers: don't be enamored with these products. Study them. "We certainly support financial literacy," Allison said. "We have an ease of credit these days, and we also have a generation that wants everything now. They don't want starter homes."

## Mortgage Lending At-A-Glance

- The homeownership rate remains at 68.9%.
- Only 5% of homeowners are non-prime borrowers with adjustable rate loans.
- 35% of homeowners own their homes outright; 49% are in fixed rate loans; 16% have adjustable rate products.
- Approximately 1% of all loans are in the foreclosure process, well within historical norms, despite the record number of homes sold in the last three to five years.
- Three out of every four loans that enter the foreclosure process do not wind up as a foreclosure sale.
- Non-prime borrowers have always had a higher delinquency and foreclosure rate.
- The number one cause of delinquencies and foreclosures is job related.
- There is no evidence that the increased delinquency and foreclosure rates are the result of hybrid ARMs or non-traditional products.

—Mortgage Bankers Association, [www.mortgagebankers.org](http://www.mortgagebankers.org)

Freddie Rowell, mortgage production manager for Regions Bank's Central Mississippi district, advises: deal with reputable lenders; follow good, sound financial advice; and, use common sense.

### Navigating the maze

The Mississippi Association of Realtors encourages members to take an active role in helping homeowners navigate the complex mortgage application process.

"The trouble is, many of the borrowers getting locked into bad loans are doing so when they attempt to refinance. At that point, the Realtor typically isn't in a position to intervene," said executive director

Angela Cain.

As the first point of contact in a real estate transaction, Realtors are in a position to inform and guide consumers through the maze of financing alternatives to make sure a homebuyer's mortgage meets his or her financial needs. A series of consumer education brochures on mortgage products and services are available through the National Association of Realtors at [www.realtor.org](http://www.realtor.org).

"Realtors will generally offer borrowers information about conventional products like fixed rate and traditional adjustable rate mortgages (ARMs) that may not be good choices for first-time homebuyers," she added.

### Crisis or crunch?

The Mortgage Bankers Association of Mississippi (MBA) has increased its research, advocacy and communications efforts to help give consumers and the media better information, according to executive director Quentin Whitwell.

"MBA accelerated efforts to reach out to the media to present the facts, help quell the frenzy and shift away from the 'foreclosure crisis' to the potential for a 'credit crunch' that could result from over legislation and over regulation," he said. "MBA has brought sound and rational research and ideas to the ongoing discussion through its highly credible analysis and forecasting, resulting in a more reasoned and fact-based debate on the causes and effects of the current conditions."

Allison also cautions against over regulation. "Let's take a breath and look at the situation," he says. "It's getting a lot of play in Washington and we don't want a knee-jerk reaction that will turn out to be detrimental. We don't want legislation that will hurt the housing industry because it's a big part of the economy."

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