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Mortgage Meltdown FAQs

What is the Mortgage Market Meltdown?

This refers to a culmination of factors that has led to massive tightening in credit standards among lenders. This tightening is due to an excessive number of mortgages that are both delinquent and in default. As a result of tighter credit standards and the devaluation of mortgage-backed securities, global investors are shying away from purchasing additional pools of loans, causing over 100 lenders to close and leaving many homebuyers and homeowners unable to locate financing alternatives.

Why should a real estate SELLER be concerned?

The pool of potential buyers will shrink as many individuals find it difficult, if not impossible, to obtain mortgage financing. Experts have speculated that the number of potential buyers will contract anywhere from 15%-30%. Sellers should also be aware that increased foreclosures can depress community values and result in a glut of local inventories, which could further drive down home prices.

So how many foreclosures are there?

According to www.foreclosures.com, there are currently 1,447,451 homes in pre-foreclosure; 832,281 homes are currently set to go to auction; and 1,217,885 homes have already been taken back by the lender. The number of homes in the foreclosure process as of July 2007 is double what it was as of July 2006.

What types of loans have been most impacted by credit tightening?

Subprime and Alt-A have suffered the greatest setback because these borrowers are at greater risk for defaulting. Subprime loans are those loans which have typically been taken by borrowers with poor credit. Alt-A type loans are for borrowers that typically have good or excellent credit but are unable or unwilling to provide documentation for income and/or assets.

What is the impact on the real estate market?

The National Association of Realtors estimates that home sales nationally will decline by nearly 13% in 2007. Median home prices nationally are projected to fall by 1.2% in 2007. According to the PMI Group, Inc., however, many local markets are experiencing price declines well in excess of that, up to a high of 11.44% in Miami. States that have experienced and will continue to face the greatest declines are California, Florida, Arizona and Nevada.

What should sellers and buyers do now?

Sellers should be realistic about home prices – the high prices of 2004 and 2005 are a distant memory. Home prices have taken a fall, and for those with houses currently available for sale, reductions may be in order to generate activity and offers. Sellers should demand that any offer from a buyer be accompanied by a pre-approval from a local mortgage professional.

Buyers need to be pre-approved – and frequently – as mortgage availability can change drastically, in some cases even daily. This is particularly true for those borrowers who have poor credit or are unable to provide income and/or asset documentation. Buyers should meet with a mortgage professional today to seek a pre-approval. They should be prepared to provide income and asset information including: two years of tax returns, including all schedules, W-2s, 1099s, up to three month's worth of liquid asset statements, and their most recent pay stubs.

What types of loans are NOT being impacted by this crisis?

Loans that are offered and treated as conforming type loans, traditionally under \$417,000 in most states, although that number may be higher in some states. In addition, government loans including those offered by FHA and VA have not been impacted to date. For these loans, it is typically a requirement that a borrower provide full income and asset documentation.

