

Thousands of people around the country have achieved homeownership by means of a residential mortgage loan classified as “**subprime**.” Subprime lending has been an engine of growth in home sales and, for the most part, subprime borrowers have met their mortgage loan payment obligations, and enjoyed their new homes.

Some subprime loans, however, prove impossible for borrowers to honor over time. Some subprime lenders, and some loan officers in the course of marketing subprime loans, exploited borrowers – who may now face delinquencies in payment or foreclosure.

If you feel you have been exploited by a lender, contact the New Jersey Department of Banking and Insurance at **1-800-446-7467**.



“Prime” and “Subprime” Markets

“**Prime**” and “**Subprime**” refers to the interest rate and terms of the loan based on the borrower’s credit history. Borrowers with the highest credit scores and cleanest payment histories present limited risk to the lender and are usually offered lower interest rates and placed in the “**prime**” market.

Borrowers with lower credit scores as a result of events such as late payments, court judgments and bankruptcies present a higher risk to the lender; and, therefore, are offered higher interest rates and are placed in the “**subprime**” market.

How Do I Know if I Have a Loan With “Subprime” Terms?

Borrowers may not be aware that they are placed in the “**subprime**” market. If you have one or more of the credit characteristics listed below, your loan may have “subprime” terms.

- Two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months;
- Judgment, foreclosure, repossession, or charge-off in the prior 24 months;
- Bankruptcy in the last 5 years;
- A Fair Isaac Credit Corporation (FICO) credit score of 620 or below; and/or
- A high percentage of debt compared to income that may limit your ability to cover family living expenses after deducting total monthly debt-service requirements from your monthly income.



For More Information

NJ Department of Banking and Insurance
1-800-446-7467 www.dobi.nj.gov

NJ Housing Resource Center
www.njhousing.gov

NJ Housing and Mortgage Finance Agency
1-800-NJ-HOUSE www.nj.gov/dca/hmfa/

Homeownership Preservation Foundation
1-888-995-HOPE www.995hope.org



A Homeowner’s Guide to SUBPRIME



New Jersey
Department
of Banking and
Insurance

Phil Murphy
Governor

Sheila Oliver
Lt. Governor

Justin Zimmerman
Acting Commissioner

1. When Shopping for a Mortgage Loan – Do Your Homework and Always Read the Fine Print!



To avoid buying a loan product that may result in future payment increases or other unfavorable terms that may make it difficult to meet the payment schedule, you should:

- **Know** your FICO credit score;
- **Ask** how you are evaluated as a repayment risk;
- **Learn** all you can about the loan product you choose, including **interest rates and fees**;
- **Know** if your **monthly payment** will include **taxes and/or insurance**;
- **Check** for **rate reset terms** or **payment increases** during the life of the loan;
- **Check** for **teaser rates** or **payments** that **start low but increase later**;
- Beware of terms permitting **unlimited increases** in payment amounts due;
- **Check** for **prepayment penalties** applicable to an **early payoff**.

It is important to check that your loan officer is licensed by the Department or otherwise qualified. Use the **Department's Licensee Search** online at www.dobi.nj.gov.

2. When Delinquent on Payments or in Foreclosure – Call Your Lender or Loan Servicer!



Borrowers fall behind in payments for many legitimate reasons. But, most homeowners in default or facing foreclosure fail to call for help that could have avoided the problem. Your lender or loan servicer needs to know as soon as possible when a payment will be late. (**Contact information will appear on your bill.**)

Most loan servicers will readily discuss options other than foreclosure. Here are some of the solutions that may be available to homeowners in delinquency or facing foreclosure, when they call their lender or loan servicer:

- **Forbearance** – An agreement to postpone payment until the borrower is able to make other arrangements.
- **Reinstatement** – A lump sum payment plan may bring an account up to date.
- **Repayment** – You may obtain a new payment plan that adds the delinquent funds to future payments in affordable installments.
- **Refinancing** – Another option may be to roll your debt, including the past due amount, into a new loan with an extended term of years.

If you are unable to make new arrangements with your lender or loan servicer, you should seek help from legal counsel or from a certified credit counselor and/or licensed debt adjuster.

For a list of governmental and non-profit entities, including certified credit counselors and/or licensed debt adjusters that may provide financial assistance or counseling, visit the Department's web site at:
www.state.nj.us/dobi/division_consumers/

If you choose an attorney, make sure he or she has foreclosure experience and understands a borrower's rights under the New Jersey Fair Foreclosure Act.

3. Don't Fall Prey to Foreclosure Assistance Scams!



Avoid **"foreclosure specialists"** promising to keep you in your home. They are not licensed by DOBI, charge excessive fees, and provide services that may not actually help you avoid foreclosure.

Avoid **"lease/buy-back"** deals in which you are asked to sell your house to an investor for a dollar amount equal to the balance due on your mortgage. Typically, after you hand over your title, you enter into a lease with the investor providing that you, now as a tenant, will have the option to buy back the house at the end of the lease period. In many cases, however, the rent is exorbitant, the tenant cannot pay and is evicted from the property; in others, the buy-back option price is set so high that the tenant is unable to afford it. The investors may stop making their own mortgage payments on the property, and it could be foreclosed upon. In all of these cases, you as the original homeowner, lose your home and whatever equity you had in it.