

Lambda Alpha

May 21, 2007

Luncheon Speaker: Attorney Tim Ryan

Topic: The Sub-Prime Market: What, Who, How, Why and What is to come”

Tim has been involved in representing clients in the sub-prime market for several years, which brings an in depth knowledge about the problem and players. Sub-prime lending has represented 20% of all homeowner loans last year of which there was a 21% default ratio on ARM loans. He defined sub-prime as requiring little documentation, credit problems or no social security number from the borrower.

The poorer areas such as Santa Ana (55%) and Rialto (57%) had more sub-prime loans. The home prices in these areas were artificially higher and will drop as the pipeline for sub-prime loans has been closed by Wall St. The fall out will continue for a couple of more years as the treasury rates on the ARM loans become due. The reason Wall St. made their loans was due to the returns generating 107% of the loan value due to prepayment penalties, loan fees and high interest rates. This works in a market of rising home prices but not in a declining market. Wall St. could force the lenders and brokers to buy back mortgages that went in default in the first 120 days, however 4 months of payments were accrued at time of loan origination to circumvent this provision.

What did re-financing borrowers do with the big paydays from these sub-prime home loans? Many borrowers used the money to buy big new cars, pickups and big screen TV's and other luxury items. The cut off of sub-prime lending has affected the auto and many other industries. The new borrower loans were purchase money loans with no recourse and they could just walk away if home prices dropped below the loan value. If home values were above the loan value the mortgage, they could sell the home and make a profit even if they couldn't make the payments.

Next meeting is Monday, June 18

Guest Speaker: Don Schmitz

Topic: “California Coastal Commission & Challenges”

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