What Consumers Need To Know About Subprime Loans

(NAPSA)—You may have heard horror stories about abusive lenders who take advantage of subprime borrowers by charging outrageous interest rates and fees. While there are some predatory lenders are out there, the vast majority do not use such tactics.

The reality is there are a number of laws and regulations that protect subprime borrowers from predatory lenders. However, consumers still need to arm themselves with the right information to find a reputable lender and get the best deal.

Roughly 25-35 percent of Americans are classified as subprime and 10 percent of all mortgages are taken out by such borrowers, according to the Mortgage Bankers Association. Subprime borrowers are not only people who have low-income. Layoffs, unexpected medical bills and divorce all may result in less-than-perfect credit.

Many consumers with imperfect credit assume they can't buy a home or refinance their existing mortgage. The good news is consumers with bad credit are usually able to obtain a mortgage, although they will have to pay slightly higher interest rates and fees. On average, consumers with less-than-perfect credit receive interest rates about 50-200 basis points higher than "prime" borrowers. The exact interest rate depends on how many problems exist in the individuals' credit histories as well as how their current gross incomes compare to their existing debts and the level of equity in their current homes.

Dave Herpers, director of consumer affairs with Amerisave Mortgage, suggests that consumers do some homework before seeking a subprime loan. Specifically, check your credit history to determine if you really fall in the subprime category.

Ask yourself these questions:

• Have I filed for bankruptcy protection in the last seven years?

• Have I had a lender foreclose on my property?

• Have I had significant tax liens assessed against me?

• Have I had a significant number of 60 or 90 day late payments on existing or prior loans, credit cards or utility payments?

• Have I been declined for a mortgage more than once in the past six months?

• Do I have a credit score below 620?

If you answer yes to one or more of these questions, you will likely be considered subprime. When lenders look at your credit history they will examine patterns. For example, a lot of recent inquiries from potential creditors and numerous outstanding loans could signal a problem. A "willingness to pay" is also important, so late payments in a specific time period—indicating an isolated problem—are better than random late payments.

If you do have a credit issue, lenders will focus even more on other aspects of a loan application such as equity in the home, job stability, income and documentation of assets and income.

Because it's sometimes difficult to determine if you are a subprime borrower, choosing a lender that offers both prime and subprime loans is smart. You may think you are subprime but actually qualify for a less expensive prime loan. You're more likely to get the appropriate loan if you go to a company that offers both types. Only seven of the top 100 mortgage lenders (and three of the top 20) specialize in both prime and subprime loans.

"Credit reports don't always fall into a neat category of 'good' or 'bad'," said Herpers. "There are often borderline borrowers whose credit might be just a shade below prime. This is why Amerisave has a policy to attempt to approve all applicants for a prime loan first before looking at sub-prime alternatives."

Amerisave is one of the nation's leading and fastest-growing online mortgage companies, serving customers in 45 states via its Web site, www.amerisave.com. Amerisave offers both prime and subprime loans, including home equity and commercial loans. Amerisave's mission is to provide the best rates from top banks for a variety of home financing needs. The company provides customers the ability to obtain the most competitive rates instantly via the Web. Amerisave offers a $300 guarantee that consumers will not find a mortgage loan at lower cost in rates and fees.