Subprime Lending

Contact: Blair Bernstein, ABA Public Relations (202) 663-5468 or bbernste@aba.com

A subprime mortgage is a mortgage product developed to assist borrowers who have less than perfect credit.

- "Subprime" does not refer to the interest rate. The term generally refers to the quality of the borrower's credit history. Subprime loans are loans that contain special provisions that enhance credit protections for borrowers in order to allow marginal consumers to qualify for financing. As such, they may carry additional insurance or rates that are higher than typical market rates, a reflection of greater repayment risk.

- The price a borrower pays for a loan is directly related to their financial situation, including their past payment history.

- Pricing loans according to a borrower's creditworthiness – or risk-based pricing – is comparable to pricing car insurance premiums. A driver who has been involved in accidents or has received speeding tickets will pay more than one with a spotless driving record.

The vast majority of subprime borrowers are successful in buying a home and rebuilding their credit.

- Subprime mortgage loans were developed for borrowers with credit histories that disqualify them for standard mortgage loans. Subprime loans are not inherently bad – they are loans structured to accommodate consumers with less than Grade-A credit, allowing riskier borrowers to qualify for affordable financing. In all instances, consumers have the right to receive loans they can fully afford.

- The market works best when a wide range of options is available. Subprime loans used carefully and in the right situations are a viable option for some homebuyers.

- ABA supports all efforts to rein in the irresponsible behavior of unregulated mortgage lenders without cutting off flexibility for borrowers with special circumstances.