

'Subprime' Debacle Needn't Hit You

We hear it in the news all too frequently: Homeowners are in peril, mortgage loans have "gone bad," and something called subprime mortgages are involved. What does it all mean, and will your bank be hurt?

As someone who has worked in business law for more than two decades and who serves as a bank director, my quick answer is that different lenders and borrowers will fare differently, depending on their circumstances and the risks they took. Above all, you should know that mortgage loans will continue to be made and that the majority of consumers will continue to buy and sell homes as they always have.

"Subprime" refers not to the prime interest rate, a common misconception, but to loans that do not qualify for government-assisted Fannie Mae or Freddie Mac standards. Simply put, subprime loans were designed to allow borrowers who might not qualify for a more traditional mortgage to secure a home loan, usually at a higher rate of interest.

Subprime lending is riskier for both the lender and the consumer in many cases because the transaction is often predicated on the below-standard credit history of the borrower. Couple that with an otherwise flagging economy and you see how consumers who stretched to get a home loan and who are paying a higher interest rate may get in a bind. Homes are being foreclosed upon at a higher rate in recent years, and banks and other institutions are left with bad loans.

Predatory lending in a minority of cases has occurred. This is where disreputable institutions collect high interest rates and fees, perhaps to have certain borrowers fail. Setting those cases aside, let us focus on what I refer to as honest subprime transactions.

Lenders that make large volumes of loans and, certainly, those that focus on the subprime market are hit hard by blows to the subprime market. If nothing else, the perception of a mortgage collapse has created challenges for banks and other lenders.

Still, many banks are not part of this mortgage mess. For one, banks that focus on local community lending generally did not take the level of

subprime lending risk you are seeing in the larger picture.

You see, a community bank does everything other banks do, but with a focus on personal service and community reinvestment. Community banks are owned by and serve the needs of local communities, regardless of whether the transaction involves metro Atlanta, as in the case of a local builder or developer, or the transaction has national or international aspects, such as wiring funds across the country or the world.

A strong community bank offers the same technological innovations other banks do or more, and they do so with extraordinary personalized service. Inherent in the community focus is more personalized risk assessment; simply put, they are not going to put their clients, local investors or community reputations on the line.

This also means a community banker or other professional who knows you, your circumstances and your needs can advise you if you or someone you care about is struggling with a potential mortgage, an existing mortgage or a mortgage going bad. Their first job is to ensure you do not get in a bind; short of that, they will try to ensure a mortgage squeeze does not become a catastrophe.

It is more than just good public relations; it is good business. Local decision-makers are invested, physically and financially, in making sound financial decisions that support the community. For those who live and work in our community, that means building a relationship with bankers and a bank rooted in the community.

Community banks are interested in partnering with customers — individuals and businesses taking measured, reasonable risks to better their own financial situation, grow their businesses and build a stronger community.

At the end of the day, as in so many other aspects of business and community, it is about relationships. □



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The information provided here is not meant to be a substitute for individual professional lending, accounting or legal advice. Joel S. Arogeti, the president of Kitchens Kelley Gaynes, has more than 25 years of experience in business law. He is a founding director of Private Bank of Buckhead (PrivateBankofBuckhead.com).