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When your lender goes bankrupt

You have enough trouble making your mortgage payments without worrying where to send the check.

By Carolyn Bigda, Money Magazine writer-reporter

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Money

NEW YORK (Money) -- With one of the largest subprime lenders, New Century Financial Corp., filing for bankruptcy Monday, borrowers may be wondering what will happen to their loans now.

"The general answer is they can expect nothing," says Jack Guttentag, professor of finance emeritus at the Wharton School and founder of mtgprofessor.com.

New Century and its subsidiary Home123 say borrowers will not see an immediate impact on how their loan is serviced, and should continue to make monthly payments as scheduled.

Like many lenders, New Century originates loans, many of which are later serviced by other banks. It's estimated that New Century is servicing \$30 billion of some \$130 billion loans it originated in the past two-and-a-half years, according to Bose George, an equity analyst at Keefe, Bruyette & Woods. As a result, only about a quarter of New Century borrowers may see any difference.

If any change is made, it likely will be limited to where you mail in your payment - not the terms of the loan itself. And [New Century \(Charts\)](#) says it will give borrowers ample notice.

In the meantime, if you have questions, contact your loan officer or broker for more information, or to go to [New Century's restructuring information Web site](#) to get the latest news on the company's restructuring.

Though operations "will continue as usual," says Laura Oberhelman, a company spokesperson, New Century and Home123 has stopped making new loans, meaning refinancing for now is not an option.

It also means that if you have a loan application still pending you'll need to find another lender (though any advance fees you've paid will be refunded).

New Century, based in Irvine, Calif., is one of several mortgage lenders in the so-called subprime market - for borrowers who are considered at greater risk of default - now grappling with a rise in delinquencies, or late or missed mortgage payments.

According to the latest data from the Mortgage Bankers Association, the delinquency rate was on the rise at the end of 2006, most notably in the sub-prime market with 13.33 percent of subprime loans delinquent compared to 2.57 percent for prime loans.

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As a result, financing provided to these lenders has started to dry up.

In 2006, the subprime sector originated \$655 billion in loans, or 20 percent of the total mortgage market, according to National Mortgage News, which tracks the industry.

Still, over the past year, an estimated 15 percent of loan origination volume has been wiped out, and another 20 percent is at risk.

Dozens of lenders have filed for bankruptcy or sold a portion or all of their subprime division, including Fremont General and Ownit Mortgage Solutions.

"But the big story for borrowers now is whether the government or private sector is going to step in to bail them out," says Richard Bove, a financial strategist at Punk, Ziegel & Company, a specialty investment bank. Bove argues that any relief would help keep housing prices above where they ought to be. As a result, "those homes will be closed off to other buyers," he says.

[New Century files Chapter 11](#)

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