

Get **FREE**
Daily News
Updates

Email Alerts

E-mail address

Sign Up



- Advertising/Media/PR
- Banking/Finance
- Economy
- Energy/Utilities
- Entertainment
- Government/Politics
- Healthcare
- Hospitality/Tourism
- International
- Trade/Transportation
- Labor
- Law/Courts
- Manufacturing
- Real Estate
- Small Business
- Technology/Telecom

SFVBJ Poll

Should government, be it local, state or federal, bail out homeowners threatened with foreclosure because they can't afford high mortgage payments?

- Yes
- No
- Yes but only in limited circumstances

Vote

[View Results](#)

CITY NATIONAL BANK
The way up.[®]

BREAKING FINANCIAL NEWS!

>CLICK HERE TO LEARN MORE

Posted date: 10/1/2007

It's Prime Time for Prime Loans

Opportunities in Housing Downturn For Well-Qualified, Realistic Buyers

By Mark Barna

SAN FERNANDO VALLEY BUSINESS JOURNAL STAFF

As mortgage lenders go bankrupt and real estate agents complain that they can't sell a house, Vadim Gorobets is having a blast.

Recently Gorobets brokered a \$3.6 million sale to a developer of a multi-residential project in Toluca Lake. He also brokered a two-bedroom townhouse in Valley Village for \$365,000, a bargain for his client, the buyer, considering that the unit next door sold for \$425,000 a few weeks later.

"There are still great deals out there," said Gorobets, owner of Regent California Realty in Valley Village, "and that's why they come to me. It's become a buyers' market, which is still enough business for real estate agents."

There's another reason why Gorobets remains successful in these troubled times in housing. He looks out for his clients, he said.

Gorobets strives to place his clients in prime mortgage loans. If they don't qualify, he and a loan officer will figure out how borrowers can clean up credit to qualify, rather than steering them to the risky world of subprime.

"That's not a good way to get business referrals," Gorobets said. "The job of the real estate broker is to do what's best for the client."

Many are to blame for the subprime fallout. Among them are the lenders who qualified borrowers for risky loans without considering if they could afford them.

Subprime loans became particularly troublesome when housing values plummeted in recent months.

Some common subprime loans are piggyback loans, which consist of two mortgages with little or no money down; interest-only loans, in which a hefty principal comes due at a later date; and loans with a prepayment penalty of 2 to 3 percent for refinancing within two years of securing the loan.

There are also hybrid ARM loans that appear in both the prime and subprime arena. With these, the borrower begins with a low interest rate that rises substantially over the next several years.

Used properly, all is well. ARM loans, for example, are great for house flippers, who buy at a low interest rate and sell before the interest rate balloons. And as long as housing prices continued to escalate, loans with penalties for early refinancing weren't a problem.

But housing prices sank. Borrowers defaulted on payments. And Wall Street, where U.S. banks sold billions of dollars of mortgages as bonds to various funds and other banks, failed to consider what would happen if the bubble of subprime mortgages burst.

In the aftermath of the burst, banks have tightened their qualifications for both subprime and prime loans.

"Before, you could get a 100 percent loan up to a million dollars with stated income," said Tarzana mortgage broker Jim Liles, owner of Real-Fast-Loans.com. "Now in most cases you can only get a stated loan to 80 percent of the appraised value to \$417,000."



Vadim Gorobets: "The job of the real estate broker is to do what's best for the client."

CURRENT EDITION

OCTOBER 1-14, 2007



Small Business Feels Fallout of Credit Crunch

The credit crunch is hitting local small businesses.

It's Prime Time for Prime Loans

An area realtor and lender both say the time is ripe for prime-loan-worthy borrowers to buy.

Sylmar's QPC Laser Focus: Medical Tech

QPC Lasers in Sylmar is taking technology developed for military and industrial applications and commercializing it for medical use.

Read this issue's important business news stories

CURRENT EDITION

This Issue's Audiocast

BREAKING
FINANCIAL
NEWS!

>CLICK HERE TO
LEARN MORE

CITY NATIONAL
BANK
The way up.[®]

"Your credit score has to be much better to get a higher loan-to-value" he said. "You would need a much higher credit score than a few months ago."

"The rules from lenders are changing day by day," Liles said.

Despite the Federal Reserve's half-point cut of a key interest rate in September, subprime lenders aren't off the hook yet. Ben S. Bernanke, the Fed chairman, said in testimony to the House Financial Services Committee in September that consumer protection regulations were being devised regarding subprime mortgage practices.

Meanwhile, a study by Moody's Investors Service found that embattled subprime borrowers received almost no help from lenders. To avoid foreclosures by borrowers, banks relaxed adjustable-rate mortgage terms only 1 percent of the time so far this year. The study, released in September, covered 80 percent of the subprime servicing market.

Leon Gershkovich, senior loan officer at Prime Bank Mortgage Services in Los Angeles, said lenders need to be sure borrowers know what type of loan they are getting into. A few months ago, for example, he advised a Reseda couple against a piggyback loan, explaining that it would cost them a lot of money in the near future.

"People want to get into loans that are more than they can afford," said Gershkovich, who added that 95 percent of his business is in prime loans.

"People think they'll start making more money in the future, so they can afford the mortgage," Gershkovich said. "But that's seldom the case. They love the house. They get caught up in it. It's like a snowball."

Making sure the buyer is duly informed is the key, the lender said. "I like to educate them on what they have to do to get a prime loan rather than pushing them into a subprime," even though subprimes come with a higher commission, he said. "I try to put them into a loan they can afford."

For real estate agent Gorobets, keeping his clients level-headed about what they can and can't afford is part of being a good real estate agent.

"Sometimes you have to bring them back to earth," he said.

Tips to Survive the Housing Market Downturn:

- Homeowners are at risk of dramatic payment increases if they have an adjustable-rate mortgage or an option-ARM with fixed-period payments. Even if there is a prepayment penalty, it is wise to refinance now while appraised values are still stable.

**you're not
an apple.**

- Homeowners can protect their properties and investments by taking advantage of still-low interest rates on fixed programs. Some of these have five-, seven-, 10- or 30-year loans fixed with interest only or fully amortized payments.

Source: Prime Bank Mortgage Services in Los Angeles

