SUBPRIME LENDING

ITEM	DETAILS
SUBPRIME LENDERS	Make loans with higher degrees of risk, apply more flexible underwriting standards and charge higher interest rates and fees.
RISK BASED PRICING	Charging mortgage borrowers different interest rates and loan fees depending on whether they are good credit risks or poor credit risks.
SUBPRIME LENDING	Generally refers to making loans to borrowers who pose greater risks than those who meet standard underwriting guidelines
SUBPRIME BORROWERS	May have blemished credit histories and mediocre credit scores. Depending on how poor credit history is, these loans may be categorized as B, C, or D loans - - Prime or standard financing is often referred to as A credit. Buyers who have good credit, but present some other risk factor – excessive debt, can't meet income and asset documentation requirements, etc. - may fall into the A-minus category.
SUBPRIME RATES AND FEES	In exchange for taking on these riskier loans, subprime lenders will generally charge much higher rates and fees. This is due to them taking on the higher servicing costs and greater default rate. Subprime loans may also have additional features such as: prepayment penalties, balloon payments, and negative amortization.
SUBPRIME LENDING AND THE SECONDARY MARKET	Traditionally, Fannie Mae and Freddie Mac participated very little in the subprime market. However, HUD encouraged them to enter the subprime market to help meet their affordable housing goals and in the last few years both GSEs have been buying more subprime loans.