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## Troubles For 'Prime' Borrowers Intensify

By [ROBIN SIDEL](#)

The long recession and rising joblessness are taking an increasing toll on the nation's most credit-worthy borrowers, who are now falling behind on their mortgage and credit-card payments at a faster pace than people with poor financial histories.

The mortgage-delinquency rate among so-called subprime borrowers reached 25% in the first quarter but appears to be leveling off, rising only slightly in the second quarter. The pace of delinquencies for prime borrowers is accelerating. Since prime loans account for 80% of U.S. bank exposure to mortgages and credit cards, these losses could ultimately exceed those from weaker borrowers.

"The subprime pain is in the rearview mirror," says Sanjiv Das, head of [Citigroup](#) Inc.'s mortgage business, which is seeing delinquencies rise among prime borrowers, who make up three-quarters of its mortgage portfolio.

In many cases, these "prime" customers, whose high credit scores afforded them the best interest rates on mortgages and credit cards, lost their jobs over the past few months and only now are running out of temporary fixes that have been keeping them afloat.

The trend signals more bad news for U.S. banks. Rising delinquencies on prime mortgages helped drive the total mortgage-delinquency rate to a record 9.24% in the second quarter, according to the Mortgage Bankers Association. The data reflect loans at least one payment past-due.

Such delinquencies on mortgages made to prime customers rose 5.8% in the second quarter, compared with a rise of 1.8% among subprime customers. Still, the delinquency rate for prime loans was 6.4%, far below the 25.4% rate for subprime loans, according to the Washington-based trade group.

"We view this as a change in the nature of the problem. These borrowers were underwritten conservatively, and they were able to manage their payments for some period of time," says Michael Fratantoni, vice president of single-family home research for the mortgage bankers' group.

[HSBC Holdings](#) PLC, which was one of the first banks hit by a wave of subprime defaults in the U.S., says its portfolio of prime credit-card loans is performing worse than its subprime group. One reason for the switch, the bank has said, is that many of its subprime borrowers are renters, who have demonstrated a better payment history on their credit cards than prime borrowers, who are homeowners now getting hit by falling house prices.

The focus on prime borrowers comes more than two years after the housing meltdown took its first aim at subprime borrowers, who found themselves locked into unaffordable mortgages and weighed down by credit-card debt.

These subprime borrowers tend to have fewer financial levers to pull to stay current on their debt payments, so they default relatively quickly. Many of those bad subprime mortgages have worked their way through the financial system, causing billions of dollars in losses to the nation's banks. Credit-card issuers, meanwhile, have been quick to cut off these subprime borrowers, who were in the first wave of delinquencies and defaults.

For prime borrowers, this recession has been especially tough because declining home prices have taken away one of the typical crutches for them



since it is harder to tap the equity in their homes to pay their bills if they lose their jobs, according to a report issued this week by Standard & Poor's.

In addition to cutting back on spending, strapped prime borrowers often can keep up with their bills longer than subprime borrowers by draining savings accounts, reducing contributions to retirement plans and turning to family members for money. They also are typically slower than subprime customers to seek help for financial problems because they are concerned about the stigma associated with such assistance, credit counselors say.

About 40% of the strapped consumers seeking help from the OnTrack Financial Education & Counseling center in Asheville, N.C., are prime borrowers, up from 15% last year, says Tom Luzon, director of counseling services at the United Way agency. Many of these clients already scaled back their lifestyles after losing their jobs or seeing their salaries slashed. Some are small-business owners whose companies foundered as a result of the recession.

"They have made adjustments and made adjustments, but then you get to a point where you can't adjust anymore," says Mr. Luzon, who is a former banker.

"People who are middle-class wage earners initially may have severance pay and think they have plenty of time to find a job, but then they start using credit cards to support living expenses," he says.

—David Enrich contributed to this article.

**Write to** Robin Sidel at [robin.sidel@wsj.com](mailto:robin.sidel@wsj.com)

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