What mortgage company changes mean for your home loan

By BARBARA MARQUAND
NerdWallet

It's been a bumpy ride for mortgage companies lately. Some lenders have gone out of business, merged with other companies or narrowed their focus. And more changes are likely in 2023.

What does all this mean for borrowers?

Here are answers to common questions, whether you're shopping for a mortgage or paying off a home loan.

What's behind the shakeout?

A key factor: higher mortgage rates. Demand for home loans plummeted last year as the Federal Reserve raised a key interest rate to control inflation and mortgage rates spiked in turn. The average for a 30-year fixed-rate mortgage doubled from near-historic lows in early January 2022 to almost 6.4% at year's end, according to Freddie Mac, an enterprise created by Congress in 1970 to support the U.S. housing finance system.

Higher mortgage rates shrink buying power, so elevated rates shut out some prospective homebuyers, already squeezed by eye-popping home prices.

And for homeowners who had locked in historically low rates in prior years, the spike removed money-saving incentives to refinance their mortgages. Unless your primary aim is to cash out some home equity, it doesn't make sense to refinance to a higher rate.

As a result, fewer people applied for mortgages. Mortgage applications to buy homes dropped almost 40% year over year in the last few months of 2022, and refinance applications were down almost 90%, according to a December Mortgage Bankers Association forecast report.

Higher rates also increased risk for banks and mortgage companies that buy mortgage loans from lenders.

What if my lender goes bust?

Here's what would happen:

- If the lender that issued your loan goes out of business or goes bankrupt after the mortgage has closed, you'll be unaffected. The loan terms will stay the same. If the mortgage company that services your loan changes, you'll be informed of where to send your monthly payments.
- If your lender runs into trouble and can't fund the loan when you're a week or two away from closing, the company will likely work with you to find another lender, says Mark Indelicato, a bankruptcy attorney and partner with Thompson Coburn Hahn & Hessen in New York. "What I've seen so far in the industry is the players work together to make sure that the borrowers themselves are not hurt," he adds.

Some mortgage companies have filed for bankruptcy or gone out of business in the past year. First Guaranty Mortgage Corp. announced June 30 that it filed for Chapter 11 bankruptcy, for example. And some smaller lenders have simply gone out of business recently. Reali, a real estate company with an online lending arm, said in August that it was shutting down, and LenderFi said in an email in the fall that it was leaving the mortgage business.

Indelicato, whose firm is the lead counsel for unsecured creditors in the First Guaranty Mortgage Corp. case, does not expect to see a big wave of mortgage company bankruptcies. "It's not so bad that you're going to see the wholesale bankruptcies like you saw of mortgage originators in 2007 and 2008," he says.

What if my lender merges with another company?

A merge will have little direct impact on you. Your loan terms will stay the same if your lender merges with or is acquired by another company.

Meanwhile, don't be surprised to hear more about mortgage company mergers. Stratmor Group, a

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