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Borrower Experiences with Subprime Mortgage Loans in Gwinnett County, Georgia

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This is to certify that the doctoral study by

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Abstract

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Doctoral Study Submitted in Partial Fulfillment

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Abstract

When purchasing a home, buyer considerations include price of the home, credit rating, mortgage type, and lending agency. The purpose of this phenomenological study was to explore the loan options successful business leaders consider when shifting loan lending from prime mortgage loans to subprime mortgage loans. Systems theory formed the conceptual framework for the study. A purposive sample of 20 participants from Gwinnett County, Georgia completed semistructured interviews and described their personal experiences. Data analysis incorporated van Kaam's technique to code and cluster information into topics. The following themes emerged from the analysis indicating what these business leaders considered when they established subprime mortgage loans: (a) creditable subprime mortgage lending, (b) preferred subprime mortgage type, (c) length of the approval process, (d) pressures and limited options, and (e) the benefits of a subprime mortgage. The findings indicated these creditworthy subprime borrowers received better loans options. Findings also showed that subprime mortgage borrowers preferred fixed rate mortgages, creditworthiness determined the extent of their subprime process, the number of first time homebuyers increased, and mortgage borrowers with credit problems preferred subprime mortgage loans. The information from this study could assist mortgage borrowers looking for loan options and mortgage lenders looking to build stronger relationships with the borrowers and communities they serve. Implications for positive social change include the possibility to lower foreclosures in Gwinnett County, Georgia and increase the mortgage knowledge of future borrowers.

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Dedication

I dedicate my study to God, my wife Rachel, my son Christian, and my beautiful daughters Fantasia and Terri Leah. I also would like to give a special dedication to my mom Cecelia, who through some of the toughest times, made sure that I had what I needed to move forward in my quest to be the best I can be.

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I would like to thank all my family and good friends who were supportive through my doctoral program. I would also like to give thanks to Dr. Freda Turner and Dr. Steven Munkeby at Walden University for mentoring me and offering their guidance when I needed it the most.

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Section 1: Foundation for the Study

The purpose of this qualitative phenomenological examination was to explore the lived reality of a purposive sample of 20 Gwinnett County, Georgia, residents who obtained a subprime mortgage loan. Beginning in 2007, consistent losses in the U.S. subprime market directly contributed to troubles in worldwide financial markets (Naoui, Liouane, & Brahim, 2010; Pluciennik, 2012).

Predatory lending includes mortgage loans to borrowers who have difficulties paying their mortgages on time. Different from predatory loans, subprime mortgage loans are loans that some lenders made to borrowers with poor or subpar credit (Masood, Aktan & Pariente, 2010; Agarwal, Ambrose, Chomsisengphet, & Sanders, 2012). The Fair Isaac Corporation (FICO) determines a person's credit rating. An individual's credit information creates a FICO credit score based on levels of risk (Arya, Eckel, & Wichman, 2011).

Americans with established credit receive a FICO score. The FICO score ranges between 300 and 800. An acceptable credit score is 620 or higher; borrowers with lower credit scores pay higher interest rates (Nelson, 2010). Subprime mortgage loans served Mortgage borrowers with low FICO scores, credit issues, and financial difficulties obtain subprime mortgage loans (Brookins & Brookins, 2011). Subprime mortgage loans increase the number of home purchases (Masood et al., 2010).

Most traditional mortgage loans, known as prime loans, involve lenders approving loans based on an individual's credit score (Arya et al., 2011). Subprime mortgage guidelines were useful to consumers who did not meet prime mortgage guidelines, giving some consumers the chance to purchase or refinance a home (Agarwal et al., 2012; Piskorski & Tchistyi, 2011). Increases in home mortgage sales to borrowers with poor credit through subprime lending created some challenges (Cocco, 2013).

By 2007, subprime mortgage loans created a significant increase in mortgage defaults in the United States (Masood et al., 2010; Schindler & Laux, 2012). Between 1998 and 2007, a higher rate of foreclosures occurred than in previous years because of subprime loans (Makarov & Plantin, 2013). Increases in subprime mortgage loan defaults in the 2000s were disastrous and higher than prime loan defaults (Stanton & Wallace, 2011). Subprime mortgage loans made in 2006 and 2007 had more delinquencies than the same mortgage types issued several years earlier (Demyanyk & Hemert, 2011).

Most subprime mortgage foreclosures in the late 2000s were the result of mortgages originated between 2005 and 2006 (Demyanyk & Hemert, 2011). Lenders could legally foreclose on a borrower after one late payment. Due to the cost mortgage lenders incur when foreclosing, many lenders wait until the borrower is 3 months behind on payments (Pennington-Cross, 2010).

Subprime mortgage loans carry a higher risk of default and foreclosure (Pennington-Cross & Ho, 2010). Between 2005 and 2007, subprime mortgage defaults rose by over 50%, which resulted in many financial institutions with subprime mortgage loans to go out of business (Keys, 2010). Based on these statistics, in early 2010, default rates for subprime fixed mortgages were almost 20% higher than default rates for prime fixed mortgages. The focus of this study was to examine the viewpoints and lived reality of a purposive sample of 20 participants from Gwinnett County, Georgia, who obtained a subprime mortgage loan in the 2000s.

Background of the Problem

Mortgages have been in existence since the 12th century. The U.S. Department of Housing and Urban Development (HUD) mortgages are holds on properties that ensure the pledge to pay back the loan (U.S. Department of Housing and Urban Development [HUD] 2012). The subprime mortgage lending industry emerged in the early 1980s and by early 2000s; subprime mortgages became almost 20% of all mortgages in the United States (Corell & Herzog, 2014; Moulton & Bozeman, 2011). The Tax Reform Act (1986), the Alternative Mortgage Transaction Parity Act (1982), and the Depository Institutions Deregulation Monetary Control Act of 1980, led to an increase of subprime mortgage lending (HUD, 2012). By the end of 2008, mortgage values in the United States dropped so low that well over 5 trillion dollars of consumer wealth disappeared (Figart, 2010). In 2008, the Federal Housing Authority introduced the Hope for Homeowners option to assist subprime borrowers with a way to refinance to a more affordable mortgage (Karikari, Voicu, & Fang, 2011).

Subprime mortgage lending was not highly recognized or widely used by banks until the early 1990s. In the early 1990s, subprime mortgages accounted for less than 1% of mortgage originations, but by the mid-2000s subprime mortgage originations increased to over $600 billion, essentially a 600% increase over that period (Gramlich, 2007). Based on this growing awareness, subprime mortgage lending affected homeownership and possibly disrupted the financial wellbeing of the nation. By 2006, subprime loans were a crucial component of the mortgage business (Figart, 2010). The U.S. economic crisis, beginning in 2008, originated in the subprime mortgage lending industry (Corell & Herzog, 2014). Lenders formerly used subprime mortgage loans to assist lower income borrowers, minorities, and individuals who had issues obtaining prime mortgage loans (Manturuk, Riley, & Ratcliffe, 2012; Peng & Yen, 2012; Reuben, 2010).

A characteristic difference between prime mortgage loans and subprime mortgage loans is a subprime loan is a loan that a borrower accepts when he or she does not qualify as creditworthy for a prime mortgage loan (Stadler, 2011). Subprime lending included fixed rate loans, but included an intense focus on creative subprime loans, which often came with higher interest rates or rates that could increase over time (Gramlich, 2007). Such loans included interest only, balloon, negative amortization, and adjustable rate loans like the 2/28. If a customer receives a subprime 2/28 (30 years) Adjustable Rate Mortgage (ARM) loan for $150,000 at 4% to purchase or refinance a home, the 2 in 2/28 indicates a fixed loan for 2 years. For 2 years, the customer will make mortgage payments based on the initial 4% rate, but after the 2 year period, the remaining 28 years of the mortgage will be adjustable, which means payments can increase or decrease during that time.

For the purpose of this study, interest only loans are loans that had the lowest possible payments by making monthly payments based only on the monthly interest amount. Balloon loans are loans that include low rates for a short time span, normally between 5 and 10 years, and after a temporary period ends, the balance of the loan becomes due in full. Negative-amortization loans are loans in which payments made by borrowers lack the amount needed to cloak both the monthly interest and principal. Adjustable rate loans are loans that lack a constant locked rate, and during the duration of the mortgage term, the rate of interest is subject to adjustments up or down in accordance with the contract-specified index rate (Agarwal et al., 2012). Consumers with credit ratings of 620 and above might find it more plausible to qualify for prime loans than someone with a credit score below 620 would. Mortgage brokers and lenders recognized the profitability of issuing subprime mortgage loans to borrowers with prime credit than borrowers with poor credit (Makarov & Plantin, 2013).

Problem Statement

Subprime mortgages represented 20% of all mortgages in the United States at a peak in 2005, and just 2 years later in 2007, subprime mortgages became only 8% of all mortgages, but represented 54% of all mortgage foreclosures (Ding, Quercia, & Ratcliffe, 2010). From 2007 to 2009, foreclosures in Gwinnett County, Georgia a suburb of Atlanta, increased steadily from 8,191 to 17,132; a 110% increase over this same period (Kanell, 2009). The general business problem is that subprime mortgage defaults affected mortgage lenders negatively, which can result in discouraged mortgage borrowers. The specific business problem is that successful mortgage providers approving mortgage loans in Gwinnett County, Georgia lack the understanding of how shifting loan lending from prime mortgage loans to subprime mortgage loans impact the local communities.

Purpose Statement

The purpose of this qualitative phenomenological study was to explore whether successful mortgage providers approving mortgage loans in Gwinnett County, Georgia lack the understanding of how shifting loan lending from prime mortgage loans to subprime mortgage loans impact the local communities. A purposive sample of 20 homeowners in Gwinnett County, Georgia completed semistructured interviews. The number of subprime mortgage borrowers 60 days or more late on their mortgages increased by 71% between 2006 and 2007 (Crawford & Young, 2008). Subprime mortgages were offered to some borrowers as an alternative to prime mortgages. Many of the alternative subprime mortgages in the 2000s were not regulated, obtained by borrowers with bad credit with minimum down payments, and resulted in foreclosures (Cocco, 2013).

The social impact of the results from this study includes insights and information about mortgage lending practices and specifically the subprime lending process, which might assist individuals in making informed mortgage loan decisions. The business impact of the data from this study includes supplying mortgage lenders with the consumer feedback necessary to improve the procedures and processes used to approve borrowers for subprime mortgage loans in Gwinnett County, Georgia.

Nature of the Study

The focus of this qualitative phenomenological study was to explore the factors successful business leaders consider when shifting loan lending from prime mortgage loans to subprime mortgage loans in Gwinnett County Georgia. A purposive sample of

20 homeowners in Gwinnett County, Georgia completed semistructured interviews. The study explored the lived experiences of the 20 homeowners in Gwinnett County Georgia using the Moustakas's modified van Kaam method with taped and transcribed semistructured interviews (see Appendix A). Data analysis included using qualitative data analysis software to identify relevant themes. Resulting data might provide subprime mortgage lenders with business and social change information and mortgage borrowers with helpful mortgage loan data.

A qualitative research approach with a phenomenological research design was the best choice to investigate the phenomenon studied. The collected data received from the 20 participants from Gwinnett County Georgia went through the analysis process. The requirement that participants must share their lived mortgage loan experiences indicated that a phenomenological design was an appropriate method to use for this study. The personalized structure of data collection in qualitative research can offer valuable information based on the real world experiences of participants (Thomson, Petty, Ramage, & Moore, 2011).

Using a quantitative or mixed method to conduct research involves closed-ended questioning and statistical data, whereas the qualitative approach is comprehensive and unstructured. Qualitative design allows researchers to examine social experiences in natural environments through the eyes of the participants (Thomson et al., 2011). Researchers using qualitative research design have a generous amount of flexibility in regards to how they conduct interviews, and analyze their data (Bansal & Corley, 2012).

Research Question

Through semistructured interview questions, I asked participants about their lived experiences and perceptions relating to obstacles and opportunities they perceive as helpful or hurtful when selecting the subprime mortgage loan. The research question for the study was as follows: What are the factors successful business leaders consider when shifting loan lending from prime mortgage loans to subprime mortgage loans in Gwinnett County, Georgia?

Interview Questions

1. What should you consider when obtaining a subprime mortgage loan?
2. Describe your experience with the type of subprime mortgage loan you received.
3. Describe your experience with the credit-qualification process for your subprime mortgage loan.
4. Explain how or why the subprime mortgage loan you received was the right or wrong loan for you.
5. Explain why you would or would not recommend a subprime mortgage loan to friends and family.
6. Describe what you have learned from this loan experience.

Conceptual Framework

The conceptual framework is a wide range of ideas, theories, and principles found through research that might assist researchers in creating meaningful studies. The conceptual framework can be the foundation and paradigm that serves to establish the goals and aspiration of the research (Pike & Chui, 2012). The conceptual framework in qualitative research can help in pinpointing areas of importance. The conceptual framework might also help establish the *why* and *how*, but not the *what*. The focus of this qualitative research study was to explore subprime mortgage lending techniques using systems theory.

Systems theory is the ideal theoretical framework for understanding and analyzing complex systems (Montgomery & Oladapo, 2014). An extension of the general systems thinking is the flexibility, which allows researchers to solve issues within any system (Rice, 2011). Systems theory works well with qualitative research because it provides the ability to address the complex system or situation that might not be working correctly. The general systems theory framework helps to keep the focus on the study's objectives and research components (Montgomery & Oladapo, 2014). Using the systems theory may allow researchers to pursue new ideas that might be useful for future research and over time, gain a better understanding of the studied behavior (Stephens, Atwater, & Kannan, 2013). In the case of this qualitative study, the system was subprime mortgage lending. Subprime lending is a complex phenomenon in need of change; systems theory worked well to explore the phenomenon.

Definitions of Terms

The following terms are used in this study.

2/28 loans: A 2/28 loan is a type of ARM with a temporary 2-year anchored-interest-rate cycle after which the given rate on the mortgage will be modified based on an index and margin (HUD, 2012).

Adjustable rates: Adjustable rates are the rates of mortgage loans that are not permanent. Within the loan term, the interest rate is subject to modifications based on the index rate. Adjustable rate loans are variable-rate mortgages or adjustable mortgage loans (HUD, 2012).

Alternative A-paper loans: Alternative A-paper loans were popular for borrowers who fell between subprime and prime requirements. These borrowers had the same credit and assets as prime borrowers, but were not required to provide the same level of documentation as prime borrowers (Danis & Pennington-Cross, 2008).

Balloon loans: A balloon loan is a mortgage that begins with low-interest rates for a specified span of time (usually between 5 and 10 years). After the initial duration of time lapses, the total mortgage balance becomes outstanding, or the borrower can refinance for new loan terms (HUD, 2012).

Interest only: The rates of interest only mortgage products offer the lowest possible mortgage payment. Interest only mortgage products allow borrowers to purchase and maintain larger homes with minimal monthly payments and are flexible (HUD, 2012).

Loan to value: Loan to value is a ratio computed by separating the estimated value of the home against the amount borrowed; the smaller the loan to value, the more funds a borrower must pay as a down payment (HUD, 2012).

Mortgage fraud: Mortgage fraud is an intentional act committed for outlawed or unfair gain (FannieMae, 2007).

Negative amortization: Negative amortization arises when scheduled mortgage payments received are not ample enough to umbrella both the principal and interest on the mortgage (HUD, 2012).

Predatory lending: Predatory lending customs include distributing mortgage loans to borrowers who are incapable of paying the loan back. Predatory lending also applies to habitual refinancing of a loan with new fees and elevated interest rates (HUD, 2012).

Recession: A recession is a cycle of normal economic decline, commonly characterized as two or more continuous decaying quarters in gross domestic product. Recessions normally come with increases in unemployment, declines in the housing market and deterioration in the stock market (HUD, 2012).

Subprime lending: Subprime lending includes B paper loans with FICO scores from 620 to 659 or C paper loans with FICO scores commonly from 580 to 619. The term is a business term used to describe loans with decreased lending requirements and underwriting conditions and terms. Subprime lenders charge larger commissions and interest rates for subprime loans (HUD, 2012).

Teaser rate: A teaser rate is a low, but temporary introductory rate found on ARMs or credit cards (HUD, 2012).

Variable-rate loans: A variable rate loan is a loan on which interest rates or dividends change on a periodic basis. Convertible mortgages, conventional mortgages, and certain other kinds of loans often have variable rates. Changes in interest rates are commonly bound to the roaming of an outside barometer. Lenders give a predetermined low and high-interest rate at the beginning of the loan term (HUD, 2012).

Assumptions, Limitations, and Delimitations

Assumptions

The assumption in conducting this qualitative phenomenological study was that the 20 participants interviewed would be forthcoming and honest when answering the exploratory questions. Another assumption was that the results of this study might provide opportunities for other researchers to understand the research topic. In addition, the assumption was that all subprime loan borrowers had bad credit; no options when needing a mortgage and that subprime mortgage lenders were unethical when dealing with subprime mortgage borrowers.

Limitations

One limitation in this study was that some participants might have had difficulties communicating with the researcher due to possible language, emotional, or cultural barriers. Data in this study came from completed face to face interviews and were limited to Gwinnett County, Georgia, residents who had a subprime mortgage loan experience they wanted to share. The limitation might have resulted in the underreporting of a participant's credit rating and creditworthiness at the time of their subprime mortgage loan experience.

Delimitations

Delimitations serve to constrict the field of reference on what a researcher might not include in the study. Only Gwinnett County, Georgia, participations participated in interviews during the course of this study. The participants resided in the geographic location of Gwinnett County, Georgia. Participants shared their views, thoughts, and experiences that occurred when purchasing or refinancing a home using a subprime mortgage loan.

Significance of the Study

Contribution to Business Practice

The focus of this study was to explore the factors successful business leaders consider when shifting loan lending from prime mortgage loans to subprime mortgage loans in Gwinnett County, Georgia. Twenty interviews of participants in the Gwinnett County, Georgia area indicated their successful experiences with a subprime mortgage loan. This study topic was significant because of the 159 counties in the State of Georgia, Gwinnett County; a northeast middle-class suburb had the highest increase in mortgage foreclosure filings between 2000 and 2006 in the nation. Between 2000 and 2006, the amount of foreclosures in Gwinnett County, Georgia increased by almost three times the amount of previous years (Kanell, 2009). To avoid another mortgage crisis, some positive changes, and exchanges of knowledge might need to occur. Catastrophes in the mortgage market indicate the need for change in evaluating borrowers applying for mortgages based on whether they can afford the loans (Jewkes & Delgadillo, 2010). A need for positive adjustments in the way lenders approved borrowers for subprime mortgages is possibly needed (Jewkes & Delgadillo, 2010).

Implications for Social Change

This study is significant because it provides relevant information to mortgage lenders and individuals seeking a mortgage. For instance, useful subprime mortgage information can be essential for those purchasing a home in the United States. The three types of mortgage loans are prime mortgage loans for borrowers with excellent credit, *almost* prime mortgage loans for those with good credit, and subprime mortgage loans for borrowers with bad or fair credit (Silvia, 2008). The impact of home mortgage lending, specifically subprime mortgage loans can be financially significant to borrowers.

Subprime mortgages have become the subject of discussion since the start of the recession in the United States. The mortgage crisis caused a major disruption in the U.S. financial industry (Guangdi & Fulwood, 2013; Naoui et al., 2010). When borrowers are considering a mortgage loan, helpful information such as credit and financial requirements necessary for approval of a subprime loan can assist the borrowers in making informed decisions. For instance, many lenders might base a borrower's credit score on the middle score of the three credit scores collected from the three major credit-reporting agencies. Ideally, each of the most recognized credit reporting organizations, Trans-Union, Experian, and Equifax, would have a score for each person with established credit. One person's credit score might be 640 with Equifax, 690 with Experian, and 720 with Trans-Union, which would make the middle score for this person 690. Finance and retail establishments first used credit scores in the 1950s and 1960s, and in the 21st century, using credit scores has become standard for most companies who consider the issuance of credit (Spader, 2010). Knowing the information in the examples above would help potential homeowners better prepare themselves before applying for a mortgage loan. Potential borrowers could begin by determining their individual credit scores with the three credit agencies and their middle score. Positive social change occurs when informed consumers and borrowers avoid defaulting on their home loans.

A Review of the Professional and Academic Literature

The focus of this qualitative phenomenological research study was to explore the factors successful business leaders need to consider when shifting loan lending from prime mortgage loans to subprime mortgage loans in Gwinnett County, Georgia. The study explored the lived reality of borrowers in Gwinnett County, Georgia, who successfully obtained a subprime mortgage loan. The exploration into the background of this study topic included 100-journal articles, five dissertations, three books, and 15-website articles.

The subprime mortgage industry had been consistently growing in recent years, and subprime mortgage loans found in suburban markets such as Gwinnett County, Georgia has increased significantly (Immergluck, 2008). Along with the growth of subprime loans, subprime loan defaults have also increased. During the financial crisis, the failures of the biggest financial institutions were due to bad strategic investment decisions in regard to subprime mortgages (Kyle, 2012). The U.S. financial crisis was in large part caused by subprime mortgage foreclosures that occurred when borrowers in large central areas were unprepared to pay for the homes they purchased (Agarwal et al., 2012; Immergluck, 2010).

Home ownership is the *American dream* and common goal of many citizens in the United States. With no confirmed reason, the American dream has been associated with owning a home, an idea that seems to be more popular than the right to vote (Rose, 2011; Stanger, 2012). Americans hold their homeownership to a higher standard than other American-given privileges (Rose, 2011).

History

The beginnings of subprime mortgage lending began in the 1970s. In 1977, government involvement and new legislation such as the Community Reinvestment Act (CRA) changed the way federally chartered banks loaned money in inner-city communities to primarily low income and minority consumers (Casey, Glasberg, & Beeman, 2011; Dahl, 2010). Regardless of whether the intent of the CRA was to assist minorities, bank decision makers loaned more money to low income and minority consumers. Subprime mortgages made it possible for many Americans who could not previously qualify for home loans (Schwarcz, 2013).

The U.S government created the CRA to assist minorities and individuals from lower income areas obtain loans from banks due to the neglect and possible discrimination shown to certain groups (Casey et al., 2011). The increased pressure on mortgage lenders to be socially responsible and lend to all groups created an opportunity for lenders to lend more and charge higher fees to selected borrowers who they felt posed a higher risk of default. Based on this sections research data, lending to riskier borrowers became more common. Loose lending led to expanding homeownership in the United States, but lending to riskier borrowers led to increased foreclosures (Allen, 2011).

The deregulations of the 1980s intended to increase homeownership through loan options that would qualify more consumers to purchase and or refinance their homes. Government laws created in the early 1980s assisted in the ability of lenders to increase mortgage approvals (Gramlich, 2007). After the deregulations of the 1980s, different versions of mortgage loans, such as subprime and Alternative A-paper loans, became available for those borrowers who, before the deregulations, had difficulties finding mortgage lenders who would lend to them. Subprime mortgages were appropriate for borrowers with bad credit, and Alternate A paper loans were appropriate for borrowers who had good credit and assets, but limited documentation (Danis & Pennington-Cross, 2008).

Types of Subprime Loans

Popular subprime loans include ARM loans, interest only loans, balloon loans, and variable-rate loans. These types of loans typically start with low interest rates, also known as teaser rates. When adjustable rate mortgages change, homeowners with those mortgage payments could see increases in their payments. For instance, if a consumer receives a subprime 2/28 (30 years) ARM loan for $150,000 at 4% to purchase or refinance a home, the 2 in 2/28 indicates the loan rate does not change for 2 years. For 2 years, the consumer will make mortgage payments based on the initial 4% rate, but after the 2 year period, the remaining 28 years of the mortgage are adjustable years, which means payments can increase or decrease during that time. A common benefit for consumers who choose ARM loans is the low interest rates ARM loans start at, but subprime ARM loans also gave the lender's benefits. The primary benefit to subprime lenders who offered ARM loans was that ARM loans allowed lenders to increase borrowers' interest rates based on inflation, unlike fixed rate loans in which lenders could not increase borrower interest rates (Nejadmalayeri, 2011). Borrowers could be attracted to ARM loans for the initial low payments offered, but ARM loans do adjust, and when they do, borrowers' monthly payments can increase and cause financial difficulties (Nejadmalayeri, 2011).

At the beginning of the ARM when the monthly payments are low, borrowers might easily qualify for an ARM loan. Possible issues can arise if the lender underwriting the loan does not qualify borrowers based on possible increases that might arise during their loan term. Qualifying borrowers based on possible increases serves to ensure borrowers are financially able to withstand higher ARM payments. If lenders qualify borrowers based solely on current financial status and do not consider future financial abilities, ARM increases could lead to late payments and possible foreclosures. The weakened underwriting standards of subprime mortgage lenders were a reason many borrowers found it burdensome to make their ARM payments (Allen, 2011). Increased mortgage underwriting and credit standards among nonbanks might have reduced the number of subprime ARM loan defaults.

The rise and fall in interest rates and the index disclosed in the mortgage documents determine the changes in adjustable rate loans. Once the fixed period of a borrower's loan ends, an ARM is subject to change. With ARM loans, the interest rate can adjust as often as every 90 days, 6 months or annually until the loan term ends, which is typically 30 years. The ARMs were the mortgage choice for borrowers who believed it was beneficial to have an ARM loan that started with a scaled down interest rate instead of the higher fixed rate (Cocco, 2013). If adjustable rates increase, consumers are then obligated to pay higher monthly mortgage payments. Rate adjustments could continue to increase or decrease until it reaches either a set ceiling or floor. The ceiling is the highest interest rate can reach, and the floor is the lowest rate to which it can descend. When an ARM loan begins the original interest rate could be 4%, but the interest rate can reach 8% or higher during the adjustment periods.

When increases in interest rates on ARM home loans occur, they can result in unaffordable mortgage payments for some borrowers. At the beginning of the 21st century, the American dream of owning a home came true for many Americans, but in places like Gwinnett County, Georgia, difficulties arose for some borrowers who chose subprime mortgages. These choices came in the form of inadequate subprime loans. The price Americans needed to pay to reach their dream of owning a home had become too expensive (Best, 2012). Knowing the views of 20 Gwinnett County, Georgia, participants with subprime mortgage loan experiences might help some consumers make better mortgage loan decisions.

The Subprime Lending Process

Subprime mortgages were first introduced in the early 1980s after the debut of the Depository Institutions Deregulation and Monetary Control Act became an option for borrowers with substandard credit. A subprime mortgage was a method for credit-challenged borrowers who had risky credit histories to purchase homes with little or no down payment. Subprime mortgages carried interest rates that were about 2% higher than prime mortgage loans (Johnson, Roberts, & Trybus, 2010). It was normal for subprime borrowers to pay higher fees and interest rates than prime borrowers, but it was possible that some subprime borrowers qualified for better terms with prime mortgage lenders but were unaware of it. Up to 40% of the subprime borrowers met the criteria for lower interest rate prime mortgage loans (Immergluck, 2008). Many subprime borrowers might not have been aware of all their mortgage loan options.

As described in the introduction, the option of a subprime mortgage loan allowed lenders to qualify consumers with credit issues and limited income. A borrower's credit score was the primary designation of whether a prime, FHA, or subprime mortgage would be best for that borrower (Karikari et al., 2011). Prior to subprime mortgages, individuals with credit issues might not have qualified for home loans. In the subprime mortgage industry, the credit qualifying methods mortgage lenders used to approve borrowers with questionable credit for home loans were out of control and ultimately negatively affected subprime mortgage borrowers (Davis, 2010). A prime mortgage loan at $150,000 for a borrower with a 620 or higher credit score might carry an interest rate of 5% whereas a subprime mortgage loan at $150,000 for a borrower with a score lower than 620 might carry an interest rate of 7%. Subprime loans tend to have higher interest rates and determine the type of mortgage loans issued to borrowers of the lowest income level (Stanger, 2012). As the information above illustrated, in exchange for getting consumers approved for subprime mortgage loans, lenders would charge higher fees with higher interest rates.

By the middle of the first decade of the 21st century, subprime loans grew in popularity and some lenders were willing to take on the increased risk of mortgage defaults due to the profits subprime loans could generate. In late 2009, over 90% of the subprime loan defaults were from subprime mortgage loans made in the mid- the 2000s (Stanger, 2012). The subprime mortgage crisis was the worst financial situation for

United States since the Great Depression (Pluciennik, 2012; Vukovic, 2011; Yeager, 2011). Some subprime mortgage lenders could have targeted minorities when selling subprime mortgage loans and possibly damaging the affluence of minority groups for some time. The wealth of minorities in the United States were setback by the disaster of the mortgage industry (Barwick, 2010; Phillips, 2010). Based on this research data, minorities became frequent victims of unscrupulous mortgage lenders.

Due to the questionable practices of some lenders in the subprime mortgage market, increased mortgage related lawsuits also occurred. Investment banks that pursued mortgage originators were a source of increased litigation in the mortgage industry (Friedland, 2009). Any mortgage originators who would purposely present and close inadequate mortgage loans are predatory lenders. The term *predatory lending* refers to lenders who offer consumer loans with creative terms, higher fees, and higher interest rates when those consumers could qualify for prime loans with better terms. Almost half of the refinanced subprime mortgages qualified for a prime mortgage option, which would have reduced the cost to the borrowers (Lander, Barker, Zabelina, & Williams, 2009). Fannie Mae is one of the larger providers of prime mortgage loans in the United States and was confident that many subprime borrowers could have received prime loans and might have been victims of predatory lending. Subprime lending and predatory lending are different. Subprime lending, whether with credit cards or mortgages, is frequently associated with a borrower's financial standing. Predatory lending is a conscious effort to mislead and obtain financial gain from the act (Stadler, 2011). Predatory lending, although considered unethical, is not punishable by law.

Predatory Lending

Predatory lending is an abusive lending practice that includes selling mortgage loans to someone who cannot afford to repay the loans. Predatory lending practices involved targeting individuals who were not financially prepared to assume a mortgage loan and lenders who desired high profits (Lehe, 2010; Smith & Hevener, 2014).

The now familiar term of predatory lending is a phrase used in the mortgage industry. Predatory lending has existed since the 1980s and first became widespread in the 1990s when two states labeled a financial institution they were suing as predatory. In the two known examples, the *Atlanta Journal-Constitution* and the *Boston Globe* started using the phrase predatory lending in the early 1990s to describe a mortgage lender named *Fleet*. The State of Georgia filed numerous lawsuits against *Fleet* for possibly targeting and selling subprime loans to Georgia residents based on their race or low income, which Georgia recognized as predatory (Longobardi, 2009). Evidence from research showed increased subprime lending clusters in certain neighborhoods (Ding et al., 2010; Huszar, Lentz, & Yu, 2012).

Some professionals in the mortgage industry believe that various subprime mortgage lenders targeted borrowers based on their race, hoping that these borrowers could be convinced to take subprime mortgage loans even when they qualified for beneficial loans such as prime loans. Studies indicated some minorities that applied for mortgages faced discrimination based strictly on race and were denied mortgage loans at a rate three times higher than the rate of non-minorities (Price, 2010). More recently, the number of minority homeowners has increased significantly, but the type of loans they receive might continue to be an issue. Other published data have included similar statements about subprime mortgage lending in minority neighborhoods. A Boston-based advocacy group found targeting individuals based on race was a factor in subprime mortgage lending (Pinkow, 2008).

Since the 1990s, predatory lending has been a phrase used to describe lenders accused of being unfair and unethical when selling subprime mortgage loans. Unethical and fraudulent mortgage practices played a part in the mortgage debacle (Lander et al., 2009). The cause of the recent mortgage catastrophe experience in the United States entailed more than one factor, but predatory lending practices is one of the principal reasons. The lack of understanding by borrowers in urban areas, fraudulent activity, and illegal acts by some mortgage lenders played a part in predatory behavior and subprime foreclosures (Deloughy, 2012). Predatory lending is a process used by some lenders willing to give borrowers loans they did not understand or could not afford. Published data indicated predatory lending existed in the subprime mortgage market and was more concerning in urban neighborhoods (Deloughy, 2012; Phillips, 2012; Rugh & Massey, 2010). In the 1990s, with the help of the subprime mortgage market, homeownership in the United States increased significantly, but with the growth of homeownership came possible growth in predatory lending and mortgage fraud.

Mortgage Fraud

Predatory lending and mortgage fraud might seem similar but are technically two terms with different meanings. Predatory lending consists of deceitful lending procedures that include awarding mortgage loans to borrowers who are incapable of repaying loans. It also applies to refinancing the same home numerous times and charging higher interest rates and fees each time. Mortgage fraud is a deliberate deception perpetrated for unlawful or unfair gain. There was a time when mortgage brokers allowed mortgage fraud as an acceptable way of conducting business, and as a result, they frequently adjusted document information to ensure approval of the mortgage loans (Ballard, 2012). Because mortgage fraud is a crime, increases likely cause concern among government agencies and dilute the trust and faith borrowers have in mortgage lenders (Ross & Squires, 2011). The most common types of mortgage fraud occurred when borrowers adjusted information or falsified documents to increase the chances of loan approval (Button, 2011). Mortgage fraud can be a serious problem, and, because there are numerous types of mortgage fraud, it might be wise to understand what they are.

With many changes occurring in the mortgage industry between 2000 and 2006, the awareness of mortgage fraud increased. Both mortgage borrowers and mortgage lenders can commit mortgage fraud. Mortgage fraud involves many schemes with terms such as churning, equity theft, straw buying, affinity fraud, chunking, stated income abuse, mortgage flipping, and foreclosure rescue scams (FannieMae, 2007).

Mortgage fraud can be very lucrative for the offenders, but also damaging to their reputations. Mortgage fraud is an illegal act that is profitable to the mortgage brokers and lenders who committed the offense (Ballard, 2012). Unlike predatory lending, which is not punishable by law, if caught and convicted of committing mortgage fraud, offenders can potentially pay hefty fines and receive jail time.

Mortgage lenders are not the only offenders of mortgage fraud laws. Some mortgage borrowers also commit mortgage fraud. Commonly, borrowers who commit mortgage fraud do so by becoming party to a fraudulent mortgage loan through misrepresentation. Some borrowers might become so eager to purchase or refinance their homes that they will agree to provide any information to receive approval, even if it involves misrepresentation. For instance, borrowers might receive approval through stated loans. Stated loans is a subprime mortgage loan type in which no documentation is necessary, and lenders would trust the borrower for income verification purposes in place of actual paystubs or bank statements (Demyanyk & Van Hemert, 2011). Using the stated words of borrowers instead of verified proof of income when approving loans could lead to misrepresentation by borrowers (LaCour-Little & Yang, 2013).

Loans approved based on misrepresented income can cause borrowers difficulties when making mortgage payments. Some subprime lenders lacked morals and experience in approving the high number of loans (Larsen, 2012). Wrongdoings that took place in the mortgage lending industry could have resulted in a catastrophe equal to the mortgage crisis (Palmer & Maher, 2010). The government has taken some steps to eliminate improper mortgage lending, but two of the largest mortgage lending organizations in the United States are government-sponsored agencies.

Fannie Mae

The Federal National Mortgage Association, or Fannie Mae is a government sponsored enterprise (GSE) created in 1938 as a federal agency. Franklin D. Roosevelt funded Fannie Mae in the 1930s to make available a government controlled mortgage market for the insured Federal Housing Authority (FHA, 2014). Almost 40 years later, in 1968, Congress chartered Fannie Mae. Fannie Mae then became an independent shareholder owned company with the goal to assist in making available stable and affordable housing for the mortgage markets in the United States.

Fannie Mae did make lending more accessible to many borrowers. These borrowers had questionable credit and difficulties qualifying for a mortgage loan through local banks and smaller mortgage lenders, but with increased access to mortgage funds for borrowers, Fannie Mae itself might have contributed to the mortgage crisis. The assistance provided by Fannie Mae to reduce mortgage lending requirements with a 30-year mortgage might have contributed to borrowers purchasing homes they could not afford (Papagianis & Gupta, 2012). Along with Fannie Mae, another GSE offered similar lending opportunities: Freddie Mac.

Freddie Mac

The Federal Home Loan Mortgage Corporation, Freddie Mac, is also a GSE. The U.S. Congress chartered Freddie Mac in 1970. The goal for Freddie Mac was to assist in stabilizing U.S. home mortgage loans and to offer choices for homeownership. As of 2008, Freddie Mac's functions were under a conservatorship. Under the Emergency Home Finance Act of 1970, the U.S. government created Freddie Mac to provide another choice for savings and loan mortgages, which is now a publicly traded organization (FHA, 2014). As the information in this section indicates, Fannie Mae and Freddie Mac are GSEs, but each created for different reasons.

The government created Fannie Mae and Freddie Mac to create additional opportunities for borrowers and lenders. Similar to these two GSEs, another agency the government has in place to create options for the mortgage lending industry, and borrowers who needed assistance in purchasing a home was the FHA in 1934. The difference between the previously mentioned government created agencies and the FHA was that FHA was primarily in place to assist low income families and minorities who had difficulties finding home loan financing. The FHA gave lenders an incentive to lend to riskier borrowers. Under FHA guidelines, lenders receive protection against default under FHA guidelines, which would remove the risk the lenders take on.

Federal Housing Authority

For more than seven decades, the FHA has supplied options for low income and minority individuals to find the financing needed to purchase and refinance their homes. In 1934, the U.S. government established the FHA with the intent that it would assist in buying the housing industry (HUD, 2012). Before FHA mortgage loans were available, the down payment to buy a home was much higher. For the majority of the 20th century, the average down payment on a mortgage was 20%, but as far back as the 1940s, the FHA had offered 5%, and by the 1950s, offered 3% (Immergluck, 2008). In its nontraditional methods, as with subprime mortgage loans, FHA assisted borrowers' who had difficulty finding financing for a home; not to hurt borrowers over time.

Lenders of FHA loans are not traditional mortgage lenders, but in several ways, they act more like an insurance company for private mortgage lenders. The FHA program insures the risk associated with lending to higher risk applicants by charging a mortgage insurance premium (MIP) on all FHA loans. If a consumer used an FHA-sponsored loan to purchase a home, the consumer might have to pay upfront MIP. The MIP could be 0.55% of the loan amount—for example, $250,000 (loan amount) x 0.0055 = $1,375 (MIP charge)—which would be included and financed into the total cost of the loan. The upfront mortgage insurance and much smaller monthly mortgage insurance amount collected from borrowers by FHA to cover the risk of defaults by FHA borrowers allows the FHA to maintain its programs and funding through its means.

Due to the limited risk private lenders would have to take on with risky borrowers, the FHA program allows hesitant mortgage lenders to lend more to riskier borrowers and in turn increase overall homeownership. From the 1940s through 2003, FHA mortgage loans were the primary choice for borrowers with risky credit, but between 2003 and 2007, subprime mortgages comprised the majority of the issued loans (Karikari et al., 2011). Both FHA and subprime mortgage loans helped borrowers with risky credit purchase homes through special financing. Having more people buy homes can be positive for any local economy, and increases in homeownership over the years most likely seemed positive. In 2001, subprime mortgages accounted for almost 9% of the new mortgages and rose to over 20% by 2005 (Masood et al., 2010). It is possible that FHA was a significant influence in helping an increase subprime homeownership.

The underwriting process for FHA-mortgage loans provided more understanding to borrowers than conventional loans underwritten by Fannie Mae or Freddie Mac. In some cases, the less strict FHA underwriting procedures allowed borrowers to use secondary income from others living in the home, even though those individuals might not have been on the loan documents as a borrower. Such tactics assisted some borrowers in reaching the income requirements needed to obtain approval for a loan, but might have been part of the underlying issue of whether many borrowers could afford the homes they financed. Flexible underwriting of the FHA makes it possible for most first-time homebuyers to receive approval for home purchases (Lander et al., 2009).

Another agency used to assist credit challenged borrowers in obtaining home financing is HUD. In the 1960s, the government created the U.S. Department of Housing and Urban Development to assist credit challenged mortgage borrowers. The U.S. Department of Housing and Urban Development also has the authority to make changes that can directly affect the way FHA-approved lenders can approve borrowers for FHA loans. In 2008, HUD made updates in FHA loans; the changes meant FHA-approved lenders needed to follow HUD requirements or risk losing their FHA privileges (HUD, 2012). The U.S. Department of Housing and Urban Development plays a vital role in approving the lenders to offer FHA loans to the public.

Housing and Urban Development

President Johnson chartered HUD in 1965. The main purpose of HUD was to increase homeownership, assist underdeveloped communities, and fight discrimination in fees. The primary mission of HUD was to assist families in experiencing the American dream of homeownership. The U.S. Department of Housing and Urban Development assist in new homeownership, but also focuses on building specific communities as a way to redevelop areas with struggling housing issues, such as abandoned and vacant homes (HUD, 2012).

Trends

The focus of this qualitative phenomenological study was to explore subprime mortgage lending. In the early 2000s, the mortgage industry was growing quickly, and new home loan initiatives started. Generous underwriting guidelines caused the growth of subprime mortgages, and by 2004, subprime mortgage loans comprised 10% of all mortgage loans sold (Immergluck, 2008). Data on creative loans found in the subprime mortgage market, such as ARM, Alternative A-paper, and interest only loans, showed consumers were not just purchasing primary homes for themselves, but they were also purchasing additional homes. Basic economics became evident when the combined need for more homes increased and the prices for these homes increased, so did the number of creative loans such as adjustable rate and Alternative A paper mortgages (Palmer & Maher, 2010). Alternative-A loans were popular for borrowers who fell between subprime and prime. These borrowers had good credit and assets as prime borrowers, but were not required to provide the same level of documentation as prime borrowers (Danis & Pennington-Cross, 2008).

Some borrowers purchased second homes as vacation getaways or as investment properties. Borrowers with second homes such as rental properties might have found it difficult to keep them occupied, and when property values did drop, so did their investments. The subprime mortgage crisis negatively affected real estate investors who owned rental properties (Lander et al., 2009). With the loosened lending practices that existed in the subprime mortgage market, even consumers with limited incomes were able to purchase a home, which might have contributed to the increase in rental occupancy.

Later in the first decade of the 21st century, the subprime mortgage crisis emerged along with questionable practices by some subprime mortgage lenders and borrowers. During this same period of the 21st century came increased mortgage delinquencies, home foreclosures, and loan to value declines involving subprime mortgages. The number of U.S. borrowers who defaulted on their mortgages or lost their home to banks reached historical levels between 2008 and 2010 (Allen, 2011). At this time, mortgages went from one financial institution to another as securities, specifically mortgage backed securities tied to Wall Street. By 2007, Ownit Mortgage Solutions, the first U.S. financial institution to write subprime mortgage loans failed and dissolved (Pluciennik, 2012). It seems during this time the U.S. mortgage market was under attack. The U.S. financial crisis in the late 2000s was a direct result of subprime mortgage loan foreclosures (Mishkin, 2011). During these crises, there was much uncertainty, and the government made some moves to assist homeowners and lenders.

One of the first attempts the government made to assist homeowners or borrowers in need was with the introduction of the CRA. The CRA was created to address social issues related to the banking industry and lending (Dahl, 2010). The CRA gave mortgage borrowers opportunities to qualify for loans with some of the same lenders who previously denied them. Amid growing social concerns for different classes of people in specific communities who could not obtain home loans, the CRA was helpful (Spader & Quercia, 2012; Wallison, 2012). Without CRA, predatory activities among independent mortgage lenders would have risen. If independent mortgage lenders had to answer to the regulations of the CRA during the mortgage crisis, most of what became millions of foreclosures due to unscrupulous mortgage lenders would not have happened (Dahl, Evanoff, & Spivey, 2010). The CRA initiative was not the only attempt by the U.S. government to address homeownership and the issues surrounding mortgage lending practices.

Possibilities for Some Homeowners

The U.S. government attempted to reduce the number of homeowners who were losing their homes to foreclosure due to their unaffordable mortgages. In July 2008, the U.S. government passed Title IV of the Housing and Economic Recovery Act to assist homeowners who had creative loans like Alternative A paper and subprime loans to avoid foreclosure (HUD, 2012). Whether or not the financial difficulties of consumers affected those who purchased homes they could not afford, some programs made available were to assist those who would qualify for more stable mortgages. One of the options for homeowners who could no longer afford their homes was mortgage loan modifications. Mortgage loan modifications occur when a lender, who holds the loan on a home, might negotiate a new interest rate with the borrower, new terms, and a new monthly mortgage payment. The modification helped some homeowners to keep their homes and avoid a costly foreclosure. Loan modifications gained support due to their ability to assist some homeowners in reducing their mortgage payments, but the modifications might have been most beneficial to loan servicers rather than investors or borrowers (Thompson, 2011). As with the loan modification program, other programs existed to assist homeowners in danger of losing their homes.

Starting in September 2010, the FHA, which reports to HUD, began offering consumers with non-FHA home mortgage balances that were higher than the homes' appraised value (called being upside down) an opportunity to complete a short refinance to an FHA mortgage loan. Government created acts such as Regulation Z and Regulation X to help protect mortgage borrowers from loans they could not afford and regulate certain procedures made by mortgage lenders (FDIC, 2014; Rose, 2013). Homeowners who owed more than their homes were worth could refinance with an FHA mortgage to lower their existing interest rates to make their mortgage more affordable. Other regulations such as Regulation Z also served to reduce the effect of the mortgage crisis.

Regulation Z

The U.S. government has regulations in place to govern the mortgage industry; one of the regulations is Regulation Z, also known as Truth in Lending. The purpose of the Regulation Z Act was to prevent lenders from approving mortgage loans to consumers who could not afford them (FDIC, 2014). With the crucial situation the mortgage industry was experiencing, legislators discussed amendments to current policies in an attempt to limit the damage to financial institutions. Between 2008 and 2010, over 300 small financial institutions went out business, costing the American public over 80 billion dollars in tax revenue (Kyle, 2012). As there were changes made to policies such as Regulation Z, there were also new policies passed, such as the Secure and Fair

Enforcement for Mortgage Licensing Act of 2008, in an attempt to limit damages from the mortgage crisis.

Economic Recovery Act

The Economic Recovery Act of 2008 helps first time home buyers to own a home. The Economic Recovery Act of 2008 made credit available for any first time homeowners (HUD, 2012). This act intended to help motivate those in the United States who were considering purchasing their first home. The act allowed first time homeowners to receive a credit up to 10% of their loan amount, not to exceed the maximum credit amount of $7,500.

Literature Related to Methodology and Design

Conducting qualitative research on the topic of subprime mortgage lending in Georgia offered the opportunity to examine the processes involved in subprime mortgage lending and how those processes might have affected the participants and their lives. Qualitative research is an analytical process that offers researchers a larger understanding of an individual's reality and thus a more established version of views (Kingsley, Phillips, Townsend, & Henderson, 2010).

The foundation of the literature on qualitative research as the chosen design for this phenomenological study has many readings to support it, including Rice (2011) and Moustakas (1994). These provide justification for selecting this method and design. When deciding on which research design would best represent the study, it was important to have a choice that allowed for various views on the topic. Qualitative procedures offer a variety of perspectives into real life experiences (Kingsley et al., 2010). It seems a qualitative research approach does allow for different points of view in the study. Qualitative research also gives the researcher the option to verify any data collected by confirming the validity of information given by participants.

To validate collected data methods such as re-interviewing participants, verifying sources, and investigating any unrealistic statements is useful. Qualitative research includes an option for researchers to verify and confirm claims, questionable statements, and possible anticipation of conclusions (Bansal & Corley, 2012). Unlike the quantitative design, the qualitative research design was the best fit for this study. Specifically, this study did not have an established hypothesis and, based on the research objectives, the focus of this study was exploring and focusing on the experiences of participants rather than on theories. The quantitative research design, with a focus on testing theories with an inductive style, was not appropriate for this type of a research study and for the same reasons the mixed method research design is not appropriate for this study.

It is important to state the purpose for choosing a phenomenological research method instead of a case study, grounded theory, ethnography, or narrative method. Researchers in a case study examine one or more individuals, a program, or event in detail. In case studies, researchers collect data using multiple collection methods over a lengthy period, based on the process for this study the case study method was not a good fit (Agarwal, De Meyer, & Van Wassenhove, 2014). The grounded theory method involves a researcher presenting theories of operation, activity, or synergy found in the opinions of chosen participants. This method was not ideal for this study due to potential data collection limitations in grounded-theory research (Urquhart, Lehmann & Myers, 2010). Researchers use the ethnographic method when studying a complete civilized group in an undisturbed environment over a span of time.

Ethnography is a legitimate choice for qualitative research studies. Researchers using the ethnography method tend to spend significant time with those groups collecting data about their personal experiences (Mutchler, McKay, & McDavitt, 2013). Due to the potential time required for the ethnography method, it is not appropriate for this study. The narrative method of research involves collecting data from participants who choose to share stories of their lives. The narrative method was a serious option considered for this study but rejected because research results commonly involve both the participants' and the researcher's personal views and biases (Suarez, 2013). The phenomenological research method best fit this study due to the researcher's ability to collect data based solely on the lived experiences of participants (Moustakas, 1994).

This qualitative phenomenological study included the Moustakas-modified van Kaam method and its seven steps in the data collection process and analysis. Others who have conducted qualitative phenomenological research also used the modified van Kaam method for analysis.

Summary

Explored in this qualitative phenomenological study are the factors successful business leaders consider when shifting loan lending from prime mortgage loans to subprime mortgage loans in Gwinnett County, Georgia. One reason for the interest in the topic of subprime mortgage loans is that in just over a decade, the mortgage industry in the United States went from extreme profitability to severe losses.

From 1994 through 2002, the subprime mortgage lending industry in the United States experienced one of the greatest increases in home purchasing on record during any 8-year period in history. Between 1994 and 2002, subprime mortgage lending in the United States grew from 1.4% to 18.7% (Danis & Pennington-Cross, 2008). The focal point of Section 1 was to establish the method, design (qualitative phenomenological study), and purposive sample used and to provide information on how systems theory is applicable to exploring the phenomenon of subprime mortgage loans. Section 2 includes a close exploration of the purpose of the study, the research method, the design used in the study, and the role of the researcher. Section 3 of this study includes a description of the application to professional practice and implications for positive change.

Section 2: The Project

Section 2 provides the purpose statement, research design, research method, study instruments, and the technique used to analyze the research data. The selection also provides the selection method for choosing participants, interview questions, and measures taken to provide reliability and validity. In addition, this section explains in detail the steps taken to protect participants and ensuring that this study was ethical.

Purpose Statement

Subprime mortgage loans assist borrowers with less than perfect credit status to be able to purchase and refinance their homes (Danis & Pennington-Cross, 2008). Nationally in the United States between 2005 and 2008, mortgage lenders saw a significant increase in home loan defaults (Singh & Bruning, 2011; Vukovic, 2011). A review of subprime mortgage data between 2001 and 2005 revealed approximately 10% of the subprime loans were delinquent; by 2007, over 14% of the subprime mortgage borrowers were 2 months behind on their mortgages (Crawford & Young, 2008). These figures showed that defaults of subprime loans have been consistently increasing over time. The purpose of this qualitative phenomenological research study was to explore whether successful mortgage providers approving mortgage loans in Gwinnett County, Georgia lack the understanding of how shifting loan lending from prime mortgage loans to subprime mortgage loans impact the local communities. Data from this qualitative phenomenological study went through the chosen analysis process in order to identify any trends and patterns in the subprime mortgage loans received by the chosen participants.

This study involved exploring whether successful mortgage providers approving mortgage loans in Gwinnett County, Georgia lack the understanding of how shifting loan lending from prime mortgage loans to subprime mortgage loans impact the local communities. Interview data from the purposive sample went through the chosen analysis process in order to explore how consumers view their experiences with their subprime mortgage lenders. Consumer spending is important to the nation's economic wellbeing because such spending equals approximately 67% of the overall spending and; thus, has a social impact effect on the economy (Crawford & Young, 2008).

Role of the Researcher

The role of the researcher in the qualitative phenomenological study included objectively conducting interviews with participants and properly documenting collected data. Qualitative study researchers should always add a humanistic view to the general experiences of participant data, making the reading of the data enjoyable to readers (Holloway & Biley, 2011). The role and responsibility of the researcher in this study included setting aside personal biases, ensuring the data from participants in a professional manner, and taking into account privacy and confidentiality procedures. With qualitative studies, researchers should acknowledge their biases, background, and be flexible while collecting data (Sallee & Flood, 2012). Researchers must have a clear understanding of what their duties are and keep their judgments and beliefs under control.

The procedure during the data collection phase of this study included several steps. I attended the meeting of a nonprofit home mortgage assistance program, and with the permission of the organizational leaders; I conversed with potential participants and conducted interviews. In the initial conversations, I informed potential participants of the intentions for the study. Individuals who agreed to become participants received informed consent forms, which they signed and dated before the interviews took place (see Appendix B).

The researcher informed participants that interviews would be audio recorded to ensure the accuracy. All participants also received a copy of their signed consent form by e-mail or the U.S. Postal Service. The documentation of every step of the data collection process occurred. All retained study related documentation will stay in a locked safe for 5 years, during which time only I will have access to the safe. After 5 years, the destruction of all documentation from interviews, takes place. Participants received a $10 gift card as a thank you for participating, and participants will receive a final copy of the study once available.

Participants

A purposive sample is a sample deliberately selected, so it only includes participants of interest. Purposive sampling needs access to the right participants from the public to provide quality data to study (Harsh, 2011; Suri, 2011). The purposive sample size of 20 provided a reflection of experiences from participants. For that reason, purposive sampling was ideal for this study.

This study involved exploring the perceptions of a purposive sample of 20 homeowners in Gwinnett County, Georgia, who have had a subprime mortgage loan experience. Qualitative researchers are as scientists and are responsible for decisions such as participants, data collected, and the analysis of that data (Holloway & Biley, 2011). The 20 participants in this study had agreed to participate based on their willingness to share their experiences with a subprime mortgage loan. The 20 Gwinnett County, Georgia, participants had agreed to participate while attending a nonprofit National Consumer Advocate meeting that takes place periodically in Gwinnett County, Georgia. Staff of this nonprofit organization assists consumers with mortgage payments they cannot afford by helping borrowers negotiate with lenders for affordable mortgage loan terms. The interviews took place at the same location as the meeting.

After participants had agreed to become part of the study participants signed, and dated the consent form (see Appendix B) prior to any interviews. Each participant received a copy of the signed consent form using either e-mail or ground mail. The identity of study participants will remain confidential. Interviews were audio recorded using a portable recording device, and I took detailed interview notes. All data connected with the study remained in a locked safe and will remain there for 5 years; only I will have access to the location and the safe itself.

Research Method and Design

The three research methods contemplated for this study were qualitative, quantitative, and mixed methods. A qualitative method involves collecting verbal data; quantitative research involves collecting numerical data, and a mixed-method study is a combination of the other two methods. A qualitative method was appropriate for this study due to the semistructured interviews using open-ended questioning in search of personal experiences. When working with the sample of participants during qualitative research interviews, researchers gain various points of view from participant experiences

(Palmer & Maher, 2010). Qualitative researchers collect rich data from participants by recognizing nonverbal communication such as facial expressions (Onwuegbuzie, Leech, & Collins, 2010).

Unlike a qualitative research method, quantitative research method takes a different approach to collecting and using data. Quantitative researchers frequently use a statistical process and data from surveys (Cameron & Molina, 2011). The mixed-method strategy involves a blending of qualitative and quantitative research. A mixed method approach combines both the qualitative and quantitative approaches without overwhelmingly choosing one or other (Cameron & Molina, 2010). Having the use of both qualitative and quantitative methods could potentially make a mixed-method study the strongest method of the three. In this study, a qualitative method alone was the most appropriate method.

Method

This study involved using a qualitative method. A qualitative method was best for this study because its focus was on the behaviors and decision making of individuals. Many students perceive quantitative research as the norm, but qualitative research allows researchers to develop the ability to recognize the rigor and credibility needed (Machtmes et al., 2009). With qualitative research, the researcher can focus on a single concept, bring personal value to the study, and create an agenda for positive change (Barnham, 2012). Qualitative research involves observing and investigating how study participants view the world and make sense of their personal experiences (Sinkovics & Alfoldi, 2012; Thomson et al., 2011). The qualitative research involved describing participants' experiences with their subprime mortgage loan, what they did for a living, or what they felt was necessary to make change happen.

With the qualitative research method, researchers can collect data in numerous ways: one-on-one interviews with open-ended questions, researcher observations, existing document data, and audiovisual data. Qualitative research can provide a detailed understanding of a phenomenon by using human interactions and close observation techniques (Garcia & Gluesing, 2013). I engaged with and benefited from the qualitative approach because of the close and personal data collection process used to describe the subprime mortgage loan experiences of participants.

Qualitative methods also allow researchers to collect participants' true meanings by collaborating with them in pursuit of validity and bringing the total study to the reader. In the search of better understanding, qualitative researchers seek out the social phenomenon of interest while also seeking validity in their research (Garcia & Gluesing, 2013). The goal of this study was to maintain reliability and validity because qualitative research conducted properly can work as well as other research methods. Qualitative research is reliable, and researchers can master any methodological conflicts (Onwuegbuzie et al., 2010).

According to the above statements, qualitative research had valid credentials to ensure the credibility in this study. Each step of the data collection process included documenting and cross checking collected data for errors carefully. In regards to credible qualitative research, some primary research tools are essential to good qualitative research and that non-qualitative researchers can have difficulties believing in it

(Marshall, Cardon, Poddar, & Fontenot, 2013). The tools include a researcher having rigorous techniques and credibility. A qualitative method was ideal for exploring the experiences of individuals who have had a subprime mortgage loan. Through interviews and open-ended questions, this study included valuable data that can directly contribute to positive change.

Research Design

Qualitative research as an in depth method of exploring phenomena's has finally gained the professional respect it has longed deserved in academia (Bailey, 2014). Tools used with qualitative methods such as collecting, analyzing, and comprehending qualitative research has vastly improved in recent years (Garcia & Gluesing, 2013). The five designs considered for this study were narrative, phenomenology, ethnography, case study, and grounded theories. A qualitative phenomenological research approach provides an effective philosophical take on the public at large (Hays & Wood, 2011; Wilson, 2012). A phenomenological design is an attractive approach when discussing phenomena in conjunction with the subject at hand (Rice, 2011). Thus, a phenomenological strategy can be useful for finding answers to questions researchers might have overlooked or not considered in other designs.

This study involved using a qualitative method and a phenomenological design, which allowed for in depth and meaningful research. Researchers utilizing the phenomenological research method need to stay engaged, not only in data collection, but also in presenting the experiences of participants (Bevan, 2014). Based on the potential for rich data from participants, the phenomenological strategy was ideal in attempting to understand the true essence of the participants' lived experiences. Phenomenological research provides researchers the opportunity to dissect data from participants' specific experiences (Moustakas, 1994). This statement reiterates the point that a phenomenological approach to research is a good choice when researchers are collecting data from the experiences of participants.

When examining the data collected from participants, a researcher needs to describe the experiences shared by those interviewed. Phenomenological researchers need inquisitiveness, dedication, and the desire to address the complex process of learning the lived experiences of participants (Tomkins & Eatough, 2013). To ensure the proper presentation of experiences from participants and to ensure the readers of the study have a good understanding of the results, the phenomenological strategy requires an unbiased interpretation of data and good record keeping. In qualitative research, it is crucial to present the experiences of participants and the targeted audience (Bansal & Corley, 2012). The participants in this study responded to open-ended interview questions about their experiences with their subprime mortgage loan. Based on an in-depth focus in exploring, learning, and understanding the phenomenon, phenomenology is ideal (Hays & Wood, 2011). The participants were a purposive sample of individuals, based on geographic location, with existing subprime mortgage loan experiences and a willingness to share their thoughts.

Population and Sampling

A pilot study with a sample size of five participants took place after receiving Institutional Review Board approval to ensure validity of the questions. The purpose of the pilot study was to validate the accuracy and clarity of the interview questions. Volunteer participants for the pilot study came from individuals attending a meeting of a nonprofit mortgage assistance organization. The pilot study participants needed to meet the same criteria as the actual study participants, such as the experience of having a subprime mortgage loan in Gwinnett County, Georgia, and their willingness to share their thoughts.

After receiving Institutional Review Board (IRB) approval number 12-12-11-0163568, a purposive sample of 20 participants in Gwinnett County, Georgia, who completed a consent form (see Appendix B) understood their rights as participants, and obtained a subprime mortgage loan, participated in the interviews. When conducting qualitative research the sample size of participants used should be large enough to collect sufficient data for analysis, but small enough to avoid draining valuable time (Marshall et al., 2013). To attain the desired goal of 20 participants, I attended a meeting of a nonprofit mortgage assistance organization in Gwinnett County, Georgia, to seek names of individuals who were inclined to participate in the interviews. The individuals attending the meeting who experienced receiving a subprime mortgage loan in Gwinnett County, Georgia, received an invitation to participate.

Ethical Research

All participants received a consent form (see Appendix B) to complete and return. The confidentiality form defined my ethical responsibilities to participants. The ethical responsibilities posted in the confidentiality statement clearly explained the purpose of the research, benefits received by participating, and that participants could speak honestly or remove themselves from the study at any point without fear of negative consequences. Participant's hand delivered, e-mailed, faxed, or mailed consent-to participate forms to me. After participants signed and dated the forms and returned them to the researcher, the interviews began, and recorded for validity, reliability, and data collection purposes. I will maintain all consent forms in a locked fireproof safe for 5 years. All participants had the right to deny or end their participation in the study at any point, without negative consequences. The participants received a $10.00 gift card and will receive a copy of the final study once available. The identity of all participants and any organizations involved will remain confidential. During the 5-year period, only I will have access to the safe.

Data Collection

The data collection process of this study involved several rules to maintain the validity of the research. The procedures included being a listener during interviews, recording data accurately, implementing primary data in the study, seeking feedback, and writing accurately. Qualitative research is the experiences of individuals or groups, and researchers collect valuable data on a grass-roots level (Sallee & Flood, 2012). I did not use any data from participants that did not appear to be credible.

Instruments

The primary instruments of a qualitative research study are the human beings involved. For instance, for this study I was the main instrument. When the researcher is an instrument in research, the researcher takes his or her personal beliefs and competencies into account to relate qualitative research results (Sergi & Hallin, 2011). I was the human research instrument used to amass and analyze data for this examination.

To be a good qualitative researcher, it is essential for researchers to responsibly set data collection goals and always stay principled in their work (Kingsley et al., 2010). When researching qualitative data, assumptions can be set aside for the greater good of the study. For a researcher to do well with a qualitative phenomenological research study, he or she must be a good listener, unbiased observer, responsible, and accurate record keeper (Carcary, 2011). The research instrument used to interview participants can be found in Appendix A.

Data Collection Technique

This qualitative phenomenological research study included interviews with open-ended questions conducted with a purposive sample of 20 participants from Gwinnett County, Georgia. Prior to conducting interviews with the purposive sample of 20 participants, a pilot study using a sample of five participants assisted with validating the interview questions used. The pilot study involved examining the structure and appropriateness of the open-ended questions. The participants requested participation to become part of the study took place at a nonprofit consumer advocacy meeting. The criteria included being a resident of Gwinnett County, Georgia, and having a subprime mortgage experience he or she would like to share. All participants completed a consent form before participating in an interview (see Appendix B). The consent form included the reasons for the study, reasoning for needing participants, and the rights for any participant to withdraw at any time, along with the explanation of any projected risks and compensation. For validity purposes, every step of the interviews was audio recorded and detailed notes taken. After the collection of all data was completed, the data analysis will follow.

The data collection phase of this qualitative phenomenological study involved Moustakas's (1994) modified van Kaam processes to structure the data. Moustakas's modified van Kaam method is useful and recommended (Machtmes et al., 2009). I used Moustakas's seven-step process to gather and analyze data for the pilot study and the actual research data. Moustakas's seven steps are arranging and categorizing, compressing and discarding, thematizing and packaging, making a concluding cataloging of themes and invariant constituents, composing unique textural descriptions of knowledge, composing special structural descriptions of knowledge, and composing textural–structural descriptions.

After data collection, researchers should have established how to analyze the data and choose one of the various ways to code their data (Carcary, 2011). Qualitative data analysis software assisted in the coding and sorting of the collected data. Qualitative data analysis software was ideal for analyzing qualitative research data such as the transcribed data collected. Qualitative data analysis software assisted in managing, shaping, and simplifying semistructured information.

Data Organization Technique

All steps of the research were documented, including times, date, and places of the interviews, either in person or via telephone. I maintained a research and interview log for easy referencing. I created computer generated and paper files to keep all collected data safe and properly organized. The Microsoft software Nvivo used to analyze the possessed data added to the credibility of the study by providing a proven method to interpret qualitative data. For 5 years, all study data collected will remain locked in a safe located in my home that only I access.

Data Analysis Technique

In this qualitative phenomenological study, it was important to understand the data analysis technique. Qualitative research involves verbal and text data, which works well when explaining a phenomenon (Sallee & Flood, 2012). The qualitative data in this study used an analyzing process in search of trends, patterns, generalizations, and theories.

Through the interview questions chosen for this study, participants were able to express their experiences with their mortgage lenders and subprime mortgage loans. Based on the scope of this research, this study used six open-ended interview questions. The number of interviews questions used in qualitative research varies, which reflects the flexibility that qualitative researchers have and will ultimately depend on the scope of the research topic (Marshall et al., 2013). The topic addressed in the first-interview question was about what the participants believed resulted in successfully obtaining a subprime mortgage loan. Through the next interview question, the participants were able to explain the type of subprime mortgage they received, including interest only, adjustable, and fixed rate mortgages. The participants elaborated on the type of subprime mortgage they received, which led to some interesting data. Through the third-interview question, the participants indicated how they felt about the credit-qualification part of the subprime mortgage loan process. Through this question, participants shared whether they felt they had credit issues at the time and received a fair mortgage loan or whether they felt their credit was good, and they should have received better terms. The third-interview question opened up the opportunity for participants to share more about their overall experience without any influence from the researcher.

Through the fourth-interview question, participants explained whether the subprime mortgage loan they received was the right or wrong loan for them. An exploration of participants' feelings, views, and opinions after completing the subprime mortgage loan process was the objective for the fourth-interview question. Through the fifth-interview question, participants indicated whether they would recommend a subprime mortgage to family and friends. This question led to an exploration of how the participants felt about the subprime mortgage loan process. A person is not likely to recommend a process to loved ones unless he or she is satisfied. Lastly, through the sixth-interview question, participants shared what they had learned from their overall-subprime mortgage loan experience. The interview questions were as follows:

1. What should you consider when obtaining a subprime mortgage loan?
2. Describe your experience with the type of subprime mortgage loan you received.
3. Describe your experience with the credit-qualification process for your subprime mortgage loan.
4. Explain how or why the subprime mortgage loan you received was the right or wrong loan for you.

5. Explain why you would or would not recommend a subprime mortgage loan to friends and family.
6. Describe what you have learned from this loan experience.

This study included qualitative data analysis software tool Microsoft Excel to access, manage, share, and analyze detailed data. Excel is a spreadsheet created and offered by Microsoft for use on Microsoft Windows application and Mac OS X. The spreadsheet application is ideal for calculations, pivot tables, and programming language. For this study, Microsoft Excel assisted with the construction and kept track of participant responses chosen after coding. Word is word-processing software created and offered by Microsoft. Word was ideal for this qualitative phenomenological study because the raw data collected were in the form of audio recordings from interviews that easily transferred into a Word format. The audio-recorded face-to-face interviews had gone through manual transcription before the researcher transferred them to the Microsoft Excel and Word format. The word processing system's primary duties were to store, save, edit, and deliver text-based data through e-mail. A Sony digital recording system collected the data, transcribed into a text format, and transferred it onto a computer as Word documents used for coding. I classified and organized the data based on their relation to one another, which was part of the coding process. When coding any of the data, I searched for broad topics, concepts, or particular themes in the data to code and analyze.

After the organizing of data through coding, the deletion of the subtle connections takes place. Rigorously justified findings, and qualitative data analysis software assisted in connecting the findings by allowing data to be set in the same formatting while being coded, which helped with validation. All data collected, including all consent forms, will remain in a locked fireproof safe for 5 years, and the identity of all participants and any organizations involved will remain confidential. During the 5 year period, only I the researcher will have access and entry to the safe.

Reliability and Validity

Reliability

The key to building reliability in qualitative research is to collect credible and trustful data (Yu, Jannasch, & DiGangi, 2011). This study included certain steps to ensure quality results. For this study, the researcher documented every step of the data collection process and its results by writing and recording ongoing details related to the study. As a result, this study can stand on its merit.

I was the primary instrument and storyteller in this study, which is common in qualitative research study. The role of the researcher is to create an interesting story using only the actual data collected to become the best-factual storyteller (Holloway & Biley, 2011). In Appendix A, is a list of participant interview questions. The interview questions were open-ended questions asked to every participant without any influence from the researcher. All interviews are audio recorded, and the questions were few but enough to establish what subprime mortgage experiences the participants were eager to share.

Validity

Following up with participants of the study and keeping accurate records, including notes and records from the beginning of the study, can be assets to establishing the validity of the study. Close interaction with participants in qualitative research is one the most-beneficial methods in establishing validity (Holloway & Biley, 2011). Many reliable sources gave support to the promoting and validity of the data presented and offered different perspectives to readers. The supportive data included in this study derived from various published writings.

Qualitative research includes two different types of validity: internal and external. Internal validity in qualitative research refers to honesty in the research data collected and, based on research interview questions, the researcher can influence internal validity. Internal research through semistructured interviews might also raise some concerns. The internal validity of data collected through semistructured qualitative research might not be reliable when making sense of data due to the quality, quantity, and period in which the data collection takes place (Diefenbach, 2009). When considering the impact of internal validity, researchers should be aware of the interpretation and presentation of data, along with selecting and grouping the participants chosen for the study. External validity addresses the commonalities in the collected data. External validity is the formulation of the study's theory (Diefenbach, 2009). Data from interviews conducted by a researcher are the findings in which the external validity explores generalizations and possible scientific or social impact across populations and settings.

Transition and Summary

This qualitative phenomenological study with a modified van Kaam method explored the lived experiences of the purposive sample of 20 participants from Gwinnett County, Georgia, and their subprime mortgage loans. All data recorded, analyzed, and all steps of the research went through a complete documentation process. Section 3 of this study includes a description of the application to professional practice and implications for positive change.

Section 3: Application to Professional Practice and Implications for Change

The objective of this qualitative phenomenological research study was to explore whether successful mortgage providers approving mortgage loans in Gwinnett County, Georgia lack the understanding of how shifting loan lending from prime mortgage loans to subprime mortgage loans impact the local communities. Section 1 contained a discussion on the investigation into the problem. Section 2 contained the described plans for this study. Section 3 will involve exploring the potential research problem that led to the study findings, implications for social change, recommendations for action, recommendations for further study, reflections, application to professional practice, and study conclusions. I interviewed 20 homeowners from Gwinnett County, Georgia, who had subprime mortgage loan experiences to share.

The focus of this study was exploring subprime mortgage loans obtained in Gwinnett County, Georgia. Gwinnett County is a suburb located in northeast Georgia, a county that had a steady number of foreclosures between 2000 and 2010. The specific problem was loan foreclosures might have negatively affected the economic conditions of local Gwinnett County homeowners due to foreclosures decreasing the market values of surrounding homes in the county. Decreases in the market value of local homes affect the equity value of the surrounding homes. Loss of equity in a home can negatively affect the surrounding homes, the revenue of local government, and the confidence people have in where they choose to live.

Overview of Study

The purpose of this qualitative phenomenological research study was to explore whether successful mortgage providers approving mortgage loans in Gwinnett County, Georgia lack the understanding of how shifting loan lending from prime mortgage loans to subprime mortgage loans impact the local communities. Microsoft Excel and Word software assisted to complete the coding and analysis process in search of trends and patterns in participant data. Subprime mortgages are mortgage loans intended for borrowers with less-than-perfect credit. A borrower with fair or poor credit would be a borrower with an FICO score that is normally below 620. Lower FICO scores create larger risk for lenders, and subprime mortgages tend to carry higher interest rates. The social and business impact from the data in this study included a better understanding of how subprime mortgages operate, and how they affect the borrowers of these types of loans.

Presentation of the Findings

For transcription and coding purposes and without affecting critical parts of the collected data, any interjections made by the researcher or the participants were removed from the final version of the transcribed interviews. To analyze and code the data, the seven steps of the Moustakas modified van Kaam method worked best: (a) arranging and categorizing, (b) compressing and discarding, (c) thematizing and packaging the invariant constituents, (d) making a concluding cataloging of themes and invariant constituents, (e) composing special textural descriptions of knowledge, (f) composing special structural descriptions of knowledge, and (g) composing textural–structural descriptions. The research question and conclusions follow, as well as the results for each interview question.

Research Question and Conclusions

The research question for this study was as follows: What are the factors successful business leaders consider when shifting loan lending from prime mortgage loans to subprime mortgage loans in Gwinnett County, Georgia? Established conclusions in answering the research question are below. This subsection includes the interview questions and the findings drawn from participant responses. This subsection also includes a narrative of the alignment between study findings and the larger body of literature, the conceptual framework, and connections or disputes related to the study findings and existing literature on effective business practices. The following are the results from answering the research question:

1. Creditworthy subprime borrowers receive better loan terms and options.
2. Subprime mortgage borrowers prefer fixed rate mortgages.
3. Creditworthiness determines the length of the subprime mortgage process.
4. The number of first time homebuyers increased.
5. Mortgage borrowers with credit problems prefer subprime mortgage loans.

Findings and Collected Evidence

Participants shared their subprime mortgage experiences by responding to the interview questions. The process of analyzing the raw data from responses, and aggregated to assist in answering the research question is then completed. Following each interview question below are the findings that emerged from the evidence collected.

What should you consider when obtaining a subprime mortgage loan? The following are participant responses to the first interview question. Participants indicated satisfaction when first approved for their subprime mortgages and pointed out several parts of the process. Participant 4 indicated they had poor credit and were surprised to know they received approval. Participant 15 revealed that their mortgage lenders assisted them throughout the subprime mortgage process and that representatives working for the lenders were helpful in taking care of the paperwork needed to get them approved. Findings revealed that subprime mortgage lenders do pay close attention to the needs of potential borrowers when attempting to get them approved for subprime mortgages. Findings also indicated that some subprime lenders had the ability to get borrowers with questionable credit histories approved. Subprime lenders accomplish this by updating potential borrowers with any progress on their loan application and by requesting additional information anytime it was necessary.

Some participants; however, experienced joy when receiving their subprime mortgage, but were not happy when their mortgage moved to a different lender. Participant 7 indicated that a subprime lender who approved a borrower for a mortgage might not be the same mortgage company that services the mortgage. Subprime lenders often take approved loans and distribute the loan to another mortgage company at a profit.

Describe your experience with the type of subprime mortgage loan you received. The following are participant responses to the second interview question. Participants 2, 3, 5, 6, 7, 9, and 18 indicated that a fixed rate subprime mortgage was the preferred subprime mortgage type for them. Participant 2 indicated satisfaction with a mortgage rate and term that did not change for the duration of the subprime mortgage loan. Findings indicated no desire existed for a loan type such as an ARM. A fixed rate mortgage was the desired mortgage type. Gathered data showed that participants preferred fixed rate mortgages instead of variable rates and less predictable mortgage types. Additional findings indicated that some borrowers considered ARM loans a predatory loan.

Some participants indicated that subprime fixed rate mortgages had greater interest rates than prime fixed rate mortgages. Though the interest rates were higher, participants 6 and 18 indicated that a fixed rate subprime mortgage was better than the lower rate prime fixed rate mortgages. Gathered data showed that subprime mortgages might have higher fixed interest rates than prime fixed interest rates. Prime mortgage lenders might have higher credit standards that might disqualify potential borrowers who fail to meet the credit requirements. Gathered data showed that higher credit standards could require borrowers to have an above average credit score and specified down payment funds.

Describe your experience with the credit qualification process for your subprime mortgage loan. The following are participant responses to the third interview question. Participants indicated the credit qualification process with their subprime mortgage was acceptable, and the length of the process was no longer than expected. Those who indicated the credit qualification process for their subprime mortgage loan was satisfactory such as participant 3, were the same participants who indicated they had good credit at the time of the loan. The information gathered indicated that the borrower's creditworthiness does have an impact on how long the credit qualification process will take. Subprime borrowers who can apply for prime mortgages and subprime mortgages have the shortest credit qualification process.

Some interviewees found the credit qualification process long due to lenders' ongoing requests for additional information. For example, participant 17 indicated that lenders would request already provided information. According to accumulated data, some subprime lenders were not efficient at their work. Gathered data indicated some lenders would request information because the representatives handling the mortgage file would lose or misplace documents required for approval. For the length of the credit qualification process, creditworthiness was not always the determining factor. Some subprime lenders made the process longer by not providing the proper service when working with borrowers.

Explain how and why the subprime mortgage loan you received was the right or wrong loan for you. The following are participant responses to the fourth interview question. Participants indicated the subprime mortgage loans they received were the right loans for them, but could have done better. Participant 2 indicated they could have received a lower subprime mortgage interest rate if they shopped around more. According to accumulated data, borrowers who received subprime mortgages stated that subprime loans were the right loans for them. Participants 2, 4, 12, and 14 stated if they had to get a mortgage again, they would conduct more research on their own in pursuit of better interest rates and subprime mortgage terms.

Interviewees indicated it would be beneficial for them in the future to increase their knowledge of credit, interest rates, and mortgages. Participant 2 indicated that if they knew more, they could have negotiated better overall loan terms. Data revealed that subprime mortgage borrowers who are knowledgeable about their credit and subprime mortgage types received better loan terms than those who were not. Data also indicated that borrowers who go into a mortgage loan process knowing what they want have an advantage over those who do not know.

Explain why you would or would not recommend a subprime mortgage loan to friends or family. The following are participant responses to the fifth interview question. Participant 4 indicated they would recommend a subprime mortgage loan to family and friends if those individuals had challenging credit or issues qualifying for a prime mortgage loan. Gathered data indicated that even participants who received subprime mortgages that worked for them would still discuss with friends and family their specific situation before recommending a subprime mortgage loan. Data revealed that subprime mortgage loans might not be the right loan for every mortgage borrower, whether they are first time homeowners or had owned a home before.

Some participants pointed out that anyone looking for a mortgage should conduct extensive research on their own before accepting a subprime mortgage loan. Participant 6 felt they were lucky in getting the right loan for them, and others should be cautious when deciding on a subprime mortgage. The information gathered revealed that recommenders of subprime mortgage loans do not take the decision to give a recommendation lightly. Information indicated that recommenders of subprime mortgages suggested that other borrowers looking for a mortgage loan understand all their options before making any decisions. Participant 2 indicated that if borrowers are not knowledgeable about their loan decisions, they could become victims to higher subprime mortgage interest rates or predatory mortgage lending.

Describe what you have learned from your loan experience. The following are participant responses to the sixth interview question. Participants indicated an important lesson from their subprime mortgage experience was to ask lenders many questions. Participant 7 indicated if they had asked more questions, they would have been more satisfied with the outcomes. Findings revealed that when borrowers ask lenders many questions about the mortgage process and what their options are, they tend to make buying decisions they fully understand. Participant 5 indicated that mortgage types such as fixed rate mortgages gave comfort to borrowers because fixed rate mortgages did not change over time.

Gathered data also indicated that borrowers who might not be satisfied with their current mortgage terms have the future option to refinance those terms. Other indications revealed that even borrowers with fixed rate subprime mortgage loans might decide to refinance those mortgages in an attempt to lower their mortgage interest rates and payments.

Relation to Findings

In this section, I relate the study findings to a greater mass of literature. Listed below are the findings from participant experiences that will reinforce, disagree with, or be a variation on this study's literature review. The following includes a description of participant and researcher results.

Respondents indicated the satisfaction of having poor credit but still receiving approval for subprime mortgage loans. Data found in the larger body of literature supported this finding. The finding indicated that subprime mortgage loans have helped mortgage borrowers with poor credit receive approval for mortgages. Participant 6 indicated they had poor credit and was excited when approved for their subprime mortgage. Data in this study's literature review revealed support for the finding. Subprime mortgage loans are loans provided to borrowers who present a greater possibility of default compared to those with prime mortgage loans (Brookins & Brookins, 2011; Johnson et al., 2010). Data gathered indicated that subprime mortgage lenders worked directly with subprime mortgage underwriters to negotiate various ways to gain approval for borrowers. Participant 17 stated that their lender worked well with them and handled everything throughout the process. In the larger body of research data, subprime mortgages made it possible to qualify Americans that previously received denials (Pinkow, 2008).

Data also revealed that financial rewards for subprime mortgage lenders were good and might have motivated lenders to get borrowers approved, despite poor credit. Subprime and Alternate A-paper loans were appropriate for risky borrowers (Danis & Pennington-Cross, 2008).

Respondents indicated a preference for the fixed rate subprime mortgage type versus adjustable rate subprime mortgages. This finding varied from data found in the review of the literature. The finding indicated that among the various subprime mortgage choices, fixed rate subprime mortgages were preferable. Participant 2, 3, 6, 7, 10, 14, and 18 indicated that a subprime fixed rate mortgage is preferred over any adjustable rate mortgage. The data revealed that many borrowers tried to avoid an adjustable rate subprime mortgage. Additional findings indicated there were times when ARMs were appealing to borrowers due to the low initial interest rates. High industry bond rates caused fixed mortgage rates to increase, making ARM loans even more attractive. Consumers prefer ARM loans when they believe fixed mortgage rates are high (Cocco, 2013; Prather, Lin, & Chu, 2013).

Though ARMs start at lower interest rates than fixed rate mortgages, findings showed that interest rates on ARMs could increase and become a hardship to borrowers. Mortgage borrowers found it difficult to make ARM payments because borrowers' monthly payments started low, but when the payments increased, borrowers found themselves with homes they could not afford (Allen, 2011). Participant 2, 3, 6, 7, 10, 14, and 18 revealed that borrowers preferred fixed rate mortgages because the interest rates are not subject to change as are ARMs.

Respondents indicated some frustration that their fixed subprime mortgage loans had higher interest rates than fixed prime mortgage loans. This finding varied from the larger body of literature. Participant 6 indicated that they were happy when approved with their subprime mortgage but felt their interest rate was high. Data gathered revealed that subprime mortgage borrowers do tend to have greater rates of interest than those who acquire prime mortgage loans. Subprime loans tend to have greater rates of interest and lending fees due to the increased risk of default by borrowers with subpar credit (Piskorski & Tchistyi, 2011).

Data indicated the reason for the higher interest rates on subprime mortgage loans comes from the assumption that subprime borrowers pose a higher risk to lenders than prime mortgage borrowers. Almost half of subprime borrowers met the criteria for prime mortgage loans with a lower interest rate (Immergluck, 2008). The larger body of the literature revealed some subprime borrowers could have qualified for lower prime mortgage loans with lower interest rates, but had subprime mortgages with higher interest rates. Subprime mortgages carried interest rates that were approximately 2% higher than prime mortgage loans (Danis & Pennington, 2008). The larger body of literature indicated that a person's ethnicity might play a part in the higher interest rates, but the gathered data indicated that a person's ethnicity did not play a part in determining a borrower's interest rate.

Respondents indicated a need for borrowers to become more knowledgeable about mortgages to avoid becoming victims of predatory lending practices. The larger body of literature reinforced this finding. Gathered data revealed that some borrowers of subprime mortgage loans might have been the target of some unscrupulous subprime lenders. Participant 7 indicated that their lender was not creditable and they believed it caused them to be taken advantage of. The data indicated that minorities and women who qualified for prime rate loans with a lower rate of interest had a subprime mortgage with a higher rate of interest. Subprime lenders were visible and motivated to lend to families in minority neighborhoods (Phillips, 2010; Reuben, 2010).

The data indicated that borrowers who are more knowledgeable about their credit receive better loan options. Participant 2 indicated that if the borrower does not know what they deserved, there was an increased chance of them becoming a victim of possible predatory practices. Targeting mortgage borrowers based on ethnic background was a factor in subprime lending (Barwick, 2010; DeLoughy, 2012; Huszár, Lentz, & Yu, 2012). Findings indicated the possibility that subprime mortgage borrowers may not have been specifically targeted based on race as a primary factor.

Findings and Conceptual Framework

The conceptual framework of the system theory became the best fit for this study. The systems theory framework utilized as goggles through which to view both sides of the research problem worked best. A general systems theory applies charismatic illustrations to the parts of the system in the hopes of locating useful ways to improve that system (Rice, 2011). The findings from this study and the conceptual framework tied together through reinforcements, differences, or variations.

Respondents indicated the satisfaction of having poor credit but still receiving approval for subprime mortgage loans. Subprime mortgage lending was a part of loose mortgage lending policies in which mortgage lenders went to extremes to approve borrowers with limited credit histories and without requiring proof of income or assets (Allen, 2011; Manturuk et al., 2012). The findings from this study indicated that borrowers with bad credit were receiving approval for subprime mortgages. In the conceptual framework of this study, Davis (2010) revealed that with elevated profit margins in subprime mortgage lending, competition increased, and approval standards dropped. The data showed consistent connections between the conceptual framework and the study findings.

Respondents indicated a preference for the fixed rate subprime mortgage type versus adjustable rate subprime mortgages. In an attempt to buy larger unaffordable homes, many subprime mortgage borrowers tended to take on riskier loan types such as ARMs instead of fixed rate mortgages (Allen, 2011). The study findings revealed a difference between the data and the conceptual frameworks. Many subprime mortgage loans were ARMs that often guaranteed, at some point, the borrower's monthly mortgage payments would increase (LaCour-Little & Yang, 2013).

Additional data in the conceptual framework indicated that many subprime mortgage loans were ARM types, not the preferred fixed rate type indicated in the study findings. Subprime borrowers with ARMs enjoyed the low introductory interest rates and many of the borrowers who chose adjustable rates over a fixed rate faced possible foreclosure when their rates reset (Immergluck, 2008).

Respondents indicated some frustration that their fixed subprime mortgage loans had higher interest rates than fixed prime mortgage loans. To cover the potential risk, subprime mortgage borrowers should expect to have higher interest rates than prime mortgage borrowers with the same loan type did (Immergluck, 2008). The study findings indicated that subprime borrowers do expect and understand that their interest rates are higher than borrowers of prime mortgages are, but are unsatisfied with that reality. The data found in the conceptual framework reinforced the findings. Lenders charged subprime borrowers higher interest rates than prime mortgage borrowers because of low creditworthiness, and the neighborhoods they tend to live in are not as desirable (Lander et al., 2009). As stated, study findings indicated the presence of higher interest rates with subprime mortgages compared to prime mortgages, but the findings did not specify why this occurs.

Respondents indicated a need for borrowers to become more knowledgeable about mortgages to avoid becoming victims of predatory lending practices. Subprime borrowers who understand their loan options and choices are subprime borrowers who can avoid predatory lending practices (Lehe, 2010). A finding from the study revealed that many subprime mortgage borrowers indicated that educating themselves about mortgages would protect them from questionable loan practices. The conceptual framework of the study reinforced the finding. Additional insights into the findings indicated that some mortgage researchers saw predatory lending as not just a potential mortgage problem. The mortgage crisis was dangerous to the entire U.S. economy (Singh & Bruning, 2010).

Findings and Effective Business Practices

The findings from this study were applicable to the study data for effective business practices. First, findings revealed that respondents indicated satisfaction with having poor credit but still receiving subprime mortgage loans. Findings indicated that lenders who had the ability to obtain approval for subprime mortgages for borrowers with poor credit were useful in increasing the number of new homeowners. Many subprime mortgage borrowers received approval for their mortgages without having to verify income, leading to subprime mortgage holders without the means to maintain their long-term financial mortgage commitments (Pennington-Cross, 2010; Voicu, Jacob, Rengert, & Fang, 2012). Findings indicated that approving mortgages without fully vetting borrowers was an effective business practice for subprime lenders.

Additional findings indicated on a long term basis that it would be an effective business practice if subprime lenders increased their loan approval requirements just enough to ensure that subprime borrowers could afford their mortgages. Subprime lenders and the businesspeople that controlled the industry standards were blamed for approving subprime loans for borrowers who could not afford them (Lander et al., 2009; Manturuk et al., 2012). Subprime lenders can potentially make changes in the subprime mortgage approval process.

Second, findings revealed respondents indicated a preference for the fixed rate subprime mortgage type rather than adjustable rate subprime mortgages. Data revealed that borrowers prefer fixed rate mortgages now, but did not always do so; there was a time when most subprime loans were adjustable rate loans, which led to increased subprime loan foreclosures (Lander et al., 2009). The findings indicated the effective business practice of recommending fixed rate subprime mortgages rather than ARMs could have had a positive impact in reducing subprime mortgage foreclosures.

Additional insights revealed many borrowers of subprime ARMs did not completely apprehend the conditions of their loans, and subprime business practices did not address this issue (Allen, 2011). Findings revealed that mortgage lenders should understand that borrowers with fixed rate mortgages are a benefit to lenders' long term business plans.

Third, findings revealed respondents indicated some frustration that their fixed subprime mortgage loans had higher interest rates than fixed prime mortgage loans. Study data indicated that an effective business practice for subprime lenders was to charge higher interest rates for subprime fixed mortgages compared to the fixed interest rates of prime mortgages (Pennington-Cross & Ho, 2010).

The study data also indicated interest rates on fixed subprime mortgages are typically higher to compensate for the higher risk lenders assume when they take on subprime borrowers. Findings indicated that subprime borrowers receive higher interest rates; however, as an effective business practice, when public attention brought the issue of predatory lending to surface, unethical lenders became less likely to charge higher interest rates (Moulton & Bozeman, 2011).

Finally, findings revealed respondents indicated a need for borrowers to become more knowledgeable about mortgages to avoid becoming victims of predatory lending practices. The data indicated the more knowledgeable mortgage borrowers become aware of their mortgage terms, the less likely they are to be victims of predatory lending (Rueben, 2010). Findings also indicated that predatory lending is a business practice that is not common among mortgage lenders in 2012, partly due to federal regulations and public outrage. An effective business practice for mortgage lenders is to be completely fair when considering loan applications for borrowers of all races and backgrounds (Gupta, Sharma, & Mitchem, 2010).

Applications to Professional Practice

The objective of this qualitative phenomenological research study was to explore whether successful mortgage providers approving mortgage loans in Gwinnett County, Georgia lack the understanding of how shifting loan lending from prime mortgage loans to subprime mortgage loans impact the local communities. Section 1 contained a discussion on the investigation into the problem. Section 2 contained the described plans for this study. Section 3 will involve exploring the potential research problem that led to the study findings, implications for social change, recommendations for action, recommendations for further study, reflections, application to professional practice, and study conclusions. I interviewed 20 homeowners from Gwinnett County, Georgia, who had subprime mortgage loan experiences to share.

The focus of this study was exploring subprime mortgage loans obtained in Gwinnett County, Georgia. Gwinnett County is a suburb located in northeast Georgia, a county that had a steady number of foreclosures between 2000 and 2010. The specific problem was loan foreclosures might have negatively affected the economic conditions of local Gwinnett County homeowners due to foreclosures decreasing the market values of surrounding homes in the county. Decreases in the market value of local homes affect the equity value of the surrounding homes. Loss of equity in a home can negatively affect the surrounding homes, the revenue of local government, and the confidence people have in where they choose to live.

The discussion in this major subsection indicates why and how established study discoveries are applicable to enhance business practices. Data in Section 1 identified gaps in understanding effective business practices related to the subprime mortgage lending process. These included the following:

1. Insufficient approval methods used by subprime mortgage lenders when approving borrowers with poor credit.
2. Subprime mortgage lenders' reputation for using predatory methods.
3. Subprime mortgage lenders' lack of communication when explaining to borrowers how ARMs work.
4. Subprime mortgage lenders' questionable practice of automatically charging inflated interest rates.
5. The reputation of subprime mortgage lenders being the loan choice for only borrowers with bad credit.

The findings indicated that opportunities exist to correct possible business problems in subprime mortgages. The data revealed how and why the study findings are relevant to improving the business practices of the subprime mortgage loan process in Gwinnett County, Georgia. The findings indicated that subprime mortgage lenders who assisted potential borrowers with poor credit could improve their process by strengthening their financial vetting requirements. The findings revealed that some subprime lenders were approving borrowers with bad credit without properly verifying the borrowers' financial ability to make their ongoing monthly mortgage payments. Including, having borrowers handwrite letters stating what their income was rather than requiring borrowers to provide pay stubs and tax returns.

The results revealed financial documentation such as pay stubs and tax returns would give subprime lenders an improved ability to determine if a subprime mortgage loan the borrower is considering would be an affordable option. The study findings indicated that if subprime mortgage lenders adopted the recommended steps when considering subprime mortgage applicants with questionable credit, improved business practice would result in fewer foreclosures and increased consumer loyalty.

Research findings revealed that some subprime mortgage lenders had the reputation of being predatory lenders. Study findings also indicated that subprime mortgage lenders who are allegedly targeting specific borrowers have a reputation of predatory lending practices. The study findings indicated that targeted borrowers were ethnic minorities and residents of lower income communities. Additional study findings revealed that predatory lenders targeted ethnic minorities and lower income residents because of their assumed lack of education, creditworthiness, and knowledge of mortgages.

Study findings indicated that an improved business practice for any subprime lenders in danger of having predatory lending practices connected to them is increased training of their employees. These lenders should take an active role in ensuring all their representatives receive proper training. The study findings revealed that representatives of mortgage lenders should understand that any attempt to take advantage of borrowers for any reason is unacceptable. Additional findings revealed that borrowers who believe they were misled refinance their loans quickly in an attempt to move to a lender they trust. To improve the effective business practice of subprime lenders in this situation and to increase their overall retention of borrowers, subprime lenders should ensure that providing a fair and impartial process is part of their mission statement.

Study outcomes indicated that subprime mortgage borrowers who choose an ARM rarely understand how ARMs work. Insights into study findings revealed that borrowers were attracted to subprime ARMs because the starting interest rates were low, and borrowers can temporarily enjoy lower monthly payments. Additional insights into the study findings indicated that when the temporary period of lower monthly payments ended, borrowers could then have a mortgage they cannot afford.

Further insights into the study findings revealed that an effective business practice for subprime mortgage lenders could improve their communication with borrowers about how ARMs work by having borrowers watch required informational videos explaining the benefits and disadvantages of ARMs. Additional insights into study findings showed that if subprime mortgage lenders took this study's recommended steps to improve their business practices, they would increase their customer satisfaction. In contrast, study findings indicated that subprime borrowers who realize they have a mortgage they did not fully understand and cannot afford would place the blame on their lenders and not on themselves. Study findings indicated that to improve effective business practices in subprime ARMs; lenders need to educate their applicants to help borrowers to make knowledgeable mortgage decisions.

Research results revealed that subprime mortgage lenders have a reputation of charging their borrowers higher interest rates on their mortgages. The study findings revealed that subprime mortgage lenders tend to assume more risk with their borrowers, and for that reason, they charge greater interest rates to compensate for the increased level of exposure. If subprime lenders charge all their borrowers the same interest rate, those lenders are in danger of alienating borrowers who do not pose a higher risk to them.

Study results indicated that an effective business practice for subprime mortgage lenders to adopt when deciding on what interest rate to charge a borrower is to conduct a credit analysis for each borrower. Analyzing each borrower's individual credit situation rather than automatically grouping borrowers together will produce authentic results in what interest rate to charge borrowers. The study findings affirmed the recommended effective business practice could increase a borrower's faith in how a subprime mortgage loan can benefit him or her.

Research findings indicated that subprime mortgage lending became the only mortgage lending choice for borrowers with poor credit. Subprime mortgage lending has been instrumental in approving mortgage loans for borrowers with poor credit, but subprime loans are not exclusively for borrowers with bad credit. An effective business practice for subprime mortgage lenders to adopt to adjust thoughts that subprime lending caters only to borrowers with poor credit is to provide qualified subprime borrowers with lower interest rates. The study findings indicated that subprime borrowers who are happy with the interest rates they received tend to recommend subprime mortgages to others. The study findings also revealed that if more subprime mortgage borrowers qualify and receive better interest rates, subprime lending is reputation, as a poor credit only mortgage option will diminish.

Implications for Social Change

The research study findings indicated numerous ways to effect social change. Applying the study findings might assist in educating mortgage borrowers about loan choices, improving local communities, and building trust and stronger relationships between homeowners and mortgage lenders. Study findings indicated several alternatives and recommendations that would decrease the number of foreclosures that have occurred with subprime mortgage loans. Using the study findings as a guide, subprime mortgage lenders can take a more personal role in ensuring their subprime mortgage borrowers receive loans they can afford and maintain over time. Subprime mortgage lenders can offer their borrowers free educational seminars.

Seminars, which would simply be a transfer of information from one person to another at a local mortgage office or online through the Internet, could be a viable improvement. The process should be inexpensive to establish, but the benefits to both the borrowers and the local community would be priceless. Study findings clearly indicated that borrowers who make informed mortgage decisions are borrowers who choose mortgages they can afford, stay with their original lenders longer, and are less likely to face foreclosure. Educated mortgage borrowers can increase positive social impact.

Local communities with low foreclosure rates can be more appealing to homebuyers, equaling happier homeowners.

Study findings revealed the trust between potential subprime mortgage borrowers and their mortgage lenders is suffering. The study findings revealed that when subprime borrowers realize they have a subprime mortgage loan they cannot afford, those borrowers tend to place heavy blame on the mortgage lender who gave them a loan. Blaming mortgage lenders might not be correct, but expected due to those mortgage lenders who did not take the necessary steps to ensure borrowers understood their loans.

Using the study findings to their advantage, mortgage lenders can help eliminate the vulnerable position of many subprime mortgage borrowers. In doing so, they can strengthen their relationships with their borrowers and built the trust needed to improve their business. Mortgage lenders who properly prepare their borrowers will not eliminate all foreclosures or financial hardship situations, but will let borrowers know their lender took an active role in improving their chances of success.

Recommendations for Action

The problem statement indicated subprime mortgage borrowers in Gwinnett County, Georgia, have seen an increased rate of foreclosures. This study has established some recommended actions for findings solutions to solve the problem. Below are the following recommended actions.

The first recommended action corresponds with the study's third emerging theme and is critical to solving the research problem. It is imperative that all potential subprime borrowers in Gwinnett County, Georgia, improve their knowledge of their credit worthiness and how subprime mortgages work. This responsibility is a high priority for subprime mortgage borrowers. Whether or not mortgage lenders properly explain the information to subprime mortgage borrowers, subprime mortgage borrowers need to be able to fall back on their credit and mortgage knowledge to assist them in making informed mortgage decisions. Mortgage borrowers can accomplish this by conducting some basic research online and by creating a list of concerns and questions to address to lenders before making their mortgage decisions. Empowered mortgage borrowers with these findings can make better decisions about the type of mortgage suits them. Mortgage borrowers who take this approach can increase their chances of finding a mortgage they can afford over the long term.

The second recommended action specifically involves subprime mortgage lenders and corresponds with the study's first emerging theme. It is essential that subprime mortgage lenders make an effort to explain to borrowers how their available options work. Mortgage lenders should inform all potential borrowers that credit worthiness would be a determining factor resulting in the type of loan and interest rate offered. A common response for subprime mortgage borrowers who find themselves with a mortgage they cannot afford or who are facing foreclosure on their home is that subprime mortgage lenders do not properly explain their mortgage terms. Blaming subprime mortgage lenders in those situations might not be fair, but borrower responses bring attention to the obvious lack of communication between subprime borrowers and subprime lenders. Using the recommendations from this study, subprime lenders can assist their subprime borrowers in gaining a better understanding of the various loans available. In addition, subprime mortgage lenders can develop better relationships in their local communities by improving communications with consumers. Mortgage lenders can also reduce the number of foreclosures their companies will have and build a reputation for being a lender that consumers can trust.

The third recommended action is to end the practice of predatory mortgage lending. This recommended action corresponds with the study's second emerging theme. Ending predatory lending is a recommended action because it does not matter how knowledgeable a borrower is if their mortgage lender is a predatory lender. Predatory mortgage lenders will tell potential subprime mortgage borrowers information about their loans that might not be true so the borrower will agree to sign. For instance, a predatory lender might increase the agreed upon interest rate before a mortgage signing, which pressures the borrowers to accept a mortgage loan or possibly lose the loan. When fully revealed the details of mortgage loans can create problems, many times after the closing of the mortgage, borrowers can end up with a mortgage they did not expect. To deceive subprime borrowers who believe they have a fixed rate mortgage, predatory lenders have used adjustable rate mortgages. When highly profitable mortgage loans are adjustable rates instead of a fixed rate as the borrower expected this can cause financial hardship to that borrower. Predatory mortgage loans can potentially cost mortgage borrowers considerably more than they planned and can have mortgage terms that are not beneficial to them.

To address the research problem, the third recommended action which corresponds with the second emerging theme suggest that each state in which mortgage lenders work have strict policies with stiff penalties to address bait and switch lending practices, also known as predatory lending. With increased penalties and some public service announcements warning potential mortgage borrowers of the dangers of predatory lending, reducing, or eliminating predatory lending is possible. Mortgage lenders can also take a larger role in reducing predatory lending by addressing the issue within their industry. If mortgage lenders came together as an industry and created a serious approach to preventing unethical lending, the lenders who do engage in the predatory practices can be recognized and stopped.

Recommendations for Further Study

This research study included the experiences of subprime mortgage borrowers in Gwinnett County, Georgia, and through the study, findings answered the following research question: What knowledge might be important to individuals seeking a subprime mortgage loan? Study findings included valuable data that can be useful to mortgage borrowers, mortgage lenders, and the surrounding communities.

The study findings also revealed some areas for further study. The first suggested area for further study is to address the possible research problem that some subprime mortgage lenders might have been specifically targeting minority mortgage borrowers. Due to their assumed lack of education, lack of creditworthiness, and lack of mortgage knowledge, study findings revealed that minorities are targets to unethical lenders. Further research maybe warranted when particular groups are the target for reasons related to their possible vulnerabilities.

The next suggested area for further study is the possible research problem that subprime mortgage lenders cater only to borrowers with poor credit. Study findings revealed a belief among many subprime mortgage borrowers that subprime mortgage loans are for mortgage borrowers with bad credit, and that is what attracted them to the subprime mortgage option. Addressing this potential problem could reveal a better understanding of subprime mortgages and the type of mortgage that benefits borrowers.

The next suggested area for further study would address the possible research problem that predatory lending in the subprime mortgage industry is still occurring. Study findings have indicated that becoming a victim of predatory lending was a fear of most subprime borrowers. Participants indicated if subprime borrowers believed their credit would allow them to take on a prime mortgage loan instead of a subprime mortgage, they would have taken a prime mortgage loan. Conducting this research could reveal some truths about whether subprime lending increases a borrower’s exposure to predatory lenders.

Reflections

I worked in the subprime mortgage industry for over 7 years, and during those years I saw the subprime industry go from one of the most vibrant and financially rewarding industries to becoming one of the most disliked. This research study was not only therapeutic for me but also extremely educational. I came into the research study with an open mind, no known biases, and the desire to conduct a straightforward research project that could lead to helping others.

Through the study findings established in this research, I learned that subprime mortgage borrowers were borrowers who wanted to improve their lives through first time homeownership or refinancing in pursuit of savings on their monthly mortgage payments. The findings in the study revealed some gaps that researchers might consider for further research. These gaps included whether minorities are targets for subprime mortgages, whether subprime lending caters only to borrowers with bad credit, and whether predatory mortgage lending currently exists in subprime mortgage lending. Research conducted on the perceived research study gaps might help clarify more about subprime mortgage lending and lead to significant improvement for all involved.

Summary and Study Conclusions

Knowing how the subprime mortgage lending process works is interesting and can be beneficial to all consumers seeking a mortgage loan. The Gwinnett County, Georgia, subprime mortgage holders who participated in this study provided valuable insight into their personal experiences with their subprime mortgages. This study will be useful to subprime mortgage borrowers, as well as prime mortgage borrowers and mortgage lenders. The goal of this study was to establish whether study results could include knowledge that might be important to individuals seeking a subprime mortgage loan. Based on the study results, this study has met that goal.

Study results revealed that mortgage borrowers who are aware of their credit status tend to obtain mortgage loans with the best available terms. Subprime mortgage borrowers should understand that subprime loans start at greater rates of interest than prime loans, and if subprime borrowers do not find that acceptable, they have the option to improve their credit to prime loan status. This study indicated that a person's credit could be the driving force that determines what type of mortgage he or she receives.

Study data have also explained the importance of how comfortable mortgage borrowers feel with their lenders, and the dangers of predatory lending. Borrowers should conduct research on their lender and know their lender's history of providing good service. Borrowers can go to government websites, such as the HUD website, which provides the public free access to resources that will assist potential borrowers in finding mortgage lenders recommended by HUD. Working with a mortgage lender referred by a family member or friend is another way to find a lender one can trust.

The majority of study participants shared a dislike for ARMs. Study results revealed that subprime borrowers who obtained ARMs are more likely to face foreclosure than those borrowers with a fixed rate mortgage are. Study results revealed that 100% of study participants would prefer a fixed rate mortgage to any other mortgage type.

Whether a borrower has a prime mortgage loan or a subprime mortgage loan, an adjustable rate loan type works the same. Adjustable rate mortgages begin with lower interest rates, but are subject to change, which has caused defaults on mortgage loans when the mortgage payments increase to levels that become unaffordable. Study results revealed the danger to borrowers when shopping for a mortgage is the attractiveness of starting their mortgage with a low monthly payment. Study results revealed that mortgage borrowers should focus on their long term mortgage plans, and if they choose an adjustable rate, they should be financially prepared to make the payments even if the mortgage increases.

Mortgage lenders can use the development from this study to reveal the concerns and needs of mortgage borrowers. Mortgage lenders who can consistently assist mortgage borrowers in financially meeting their long term mortgage goals will have an advantage in the industry. Helpful ways to assist mortgage borrowers would include ensuring borrowers have a full understanding of their loan choices and confirming that borrowers can financially support their loans. Making sure borrowers choose the right loans for themselves is the best way for mortgage lenders to gain referrals, avoid accusations of predatory practices, and gain repeat business.

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Appendix A: Semistructured Interview Questions

1. What should you consider when obtaining a subprime mortgage loan?
2. Describe your experience with the type of subprime mortgage loan you received.
3. Describe your experience with the credit qualification process for your subprime mortgage loan.
4. Explain how and why the subprime mortgage loan you received was the right or wrong loan for you.
5. Explain why you would or would not recommend a subprime mortgage loan to friends and family.
6. Describe what you have learned from this loan experience.

Appendix B: Informed Consent for Participants Over 18 Years of Age

You are invited to take part in a research study about your experiences with subprime mortgage lending. You were chosen for this study because of (a) your experiences with receiving a subprime mortgage loan and, (b) being a Gwinnett County, Georgia resident. This form is part of a process called "informed consent" to allow you to understand this study before deciding whether to take part. If you do agree to participate, this form will be used to request your written permission to use the data collected during your interview in the study. In addition, if you agree to participate, please return the completed consent form in the self-addressed stamped envelope provided. (Return by date will be manually entered and incorporated in the printed form).

This study is being conducted by a researcher named Terence L. Palmer, who is a doctoral student at Walden University.

Background Information:
The purpose of this study is to describe the subprime mortgage experiences of participants from Gwinnett County, Georgia.

Procedures:
If you agree to be in this study, you will be asked to:
- Participate in a semistructured, audio taped interview with the researcher regarding your experiences with a subprime mortgage loan. Duration: 30 minutes-1 hour.

Voluntary Nature of the Study:
Your participation in this study is voluntary. If you decide to join the study now, you still have the right to decide later on in the study to not continue. If you do decide to remove yourself from participation in the study any data collected from your previous participation will not be used. You also have the right to stop the interview process at any time. You may skip any questions that you feel are too personal or inappropriate. There is no penalty for withdrawing from this study or not participating in the study.

Risks and Benefits associated with the Study:
A benefit of participating in this study includes the opportunity for you to describe and express your experiences with subprime mortgage lending and how possibly your participation may lead to positive change. There are no known risks to the participant associated with this study. All participants will be given a summarized version of the final study.

Compensation:
You will receive as a thank you gift for participation a $10 gift card and a summarized version of the final study. If potential participants decide to participate and complete an interview with the researcher' they will then receive their $10 gift card.

Confidentiality:
Any information you provide will be kept confidential. The researcher will not use your information for any purposes outside of this research project. Also, the researcher will not include your name or any information that could identify you. All electronic media will be put on a flash drive and documents related to this study will be kept in a locked safe in which only the researcher has access. After 5 years all collected data will be destroyed.

Contacts and Questions:
As a potential participant if you have any general questions in regards to this study you may contact the researcher [redacted] or call [redacted]. If you have questions and or concerns in regards to your rights as a potential participant you may contact [redacted] the Walden University Representative [redacted].

Statement of Consent:
I have read the above information and understand my role and rights as a participant. By signing below, I am agreeing to the terms described above and will receive a copy of the signed consent. (All of the following information is needed for the researcher to schedule your interview).

Printed Name of Participant	____________________
Participants Full Mailing or Email Address	____________________
Participants Phone Number (For scheduling interview)	____________________
Date of consent	____________________
Participant's Written Signature	____________________
Researcher's Written Signature	____________________