MY NAME IS MARK WISEMAN AND I AM THE DIRECTOR OF THE CUYAHOGA COUNTY FORECLOSURE PREVENTION PROGRAM. I WOULD LIKE TO THANK THE ASSEMBLED CONGRESSIONAL DELEGATION FOR CONVENING A FIELD HEARING ON THIS IMPORTANT ISSUE.

IN MY MIND THERE ARE FEW OTHER ISSUES THAT THREATEN THE VERY FABRIC OF THIS COUNTY AS MUCH AS OUT OUT-OF-CONTROL RATE OF FORECLOSURE FILINGS. IF WE AREN'T HONEST ABOUT THE SCOPE OF THIS PROBLEM, BRAVE ABOUT IDENTIFYING ITS CAUSES AND CREATIVE ABOUT ITS SOLUTIONS, THERE WILL BE NO WAY FOR THE CITY OF CLEVELAND AND CUYAHOGA COUNTY TO RECOVER FROM THE DAMAGE THAT HAS BEEN CAUSED.

TO BE SURE, THE DAMAGE INCLUDES: THE RISING NUMBER OF VACANT HOMES IN THE CITY AND THE SURROUNDING MUNICIPALITIES; THE REDUCTION IN TAX REVENUE FOR THE COUNTY; THE NUMBER OF SENIORS WHO WERE SELF-SUFFICIENT, BUT HAVE NOW LOST THEIR HOMES; THE NUMBER OF FAMILIES WHO HAVE MET PERMANENT FINANCIAL RUIN AND ARE NOW GOING TO NEED PUBLIC ASSISTANCE; AND THE 2006 STUDY BY

THE WOODSTOCK INSTITUTE, THAT SHOWS A DIRECT CORRELATION BETWEEN HIGH FORECLOSURE RATES AND A RISE IN VIOLENT CRIME.

THE CUYAHOGA COUNTY FORECLOSURE PREVENTION PROGRAM WAS CREATED IN RESPONSE TO A SET OF PUBLIC HEARINGS (THE FIRST WAS IN MAY OF 2005) THAT SUGGESTED THAT THE CAUSE OF THE NUMBER OF VACANT HOMES IN THE COUNTY WAS THE AMOUNT OF TIME BETWEEN THE FILING OF A FORECLOSURE COMPLAINT AND THE SHERIFF'S AUCTION. (AT THAT TIME, THE AVERAGE TIME BETWEEN THE FILING OF A FORECLOSURE COMPLAINT AND THE SHERIFF'S SALE WAS THREE YEARS)

AS A RESULT, THE COUNTY HAS HIRED ADDITIONAL MAGISTRATES AND OTHER STAFF AND UPGRADED EQUIPMENT. THIS EXPANSION IS BEING PAID FOR BY $ 2 MILLION THAT WILL BE RAISED BY AN INCREASE IN THE INITIAL FILING FEE FOR FORECLOSURES. (ACCORDING TO STATE LAW, THE FORECLOSURE PREVENTION PROGRAM CANNOT ACCESS THESE FUNDS)

FROM THE BEGINNING, THE TREASURER AND THE COUNTY COMMISSIONERS UNDERSTOOD THAT THERE NEEDED TO BE A PROGRAM TO FIGHT THE ROOT CAUSES OF FORECLOSURES. THE COUNTY CAN SPEED UP THE PROCESS. BUT, UNLESS WE ARE SUCCESSFUL AT CUTTING OFF THE NEW SUPPLY OF FORECLOSURE CASES (CURRENTLY, ABOUT 1,000 PER MONTH) THE ILL-EFFECTS OF THESE FORECLOSURES WILL NOT BE DETERRED. CUYAHOGA COUNTY CURRENTLY HAS ONE OF THE HIGHEST FORECLOSURE RATES IN THE ENTIRE COUNTRY.

WHAT IS OUR PROGRAM?

THE FORECLOSURE PREVENTION PROGRAM IS ATTACKING THE ROOT CAUSES OF THE FORECLOSURE EPIDEMIC, BY PROVIDING EDUCATION AND ASSISTANCE TO BORROWERS AT ALL PHASES OF THE HOME LOAN PROCESS. WE HAVE PROVIDED INCREASED FUNDING TO 9 LOCAL NON-PROFIT AGENCIES WHO CAN PROVIDE COUNSELING OR LEGAL ASSISTANCE. THE UNITED WAY'S 2-1-1 FIRST CALL FOR HELP LINE SERVES AS OUR INTAKE

POINT. BORROWERS WHO CALL 2-1-1, WILL BE FORWARDED TO THE APPROPRIATE AGENCY.

OUR COUNSELING AGENCIES CAN PROVIDE PRE-BORROWING COUNSELING; ADVISE BORROWERS, WHILE THEY ARE TRYING TO UNDERSTAND DOCUMENTS THAT THEY HAVE BEEN GIVEN TO SIGN; HELP THEM AFTER THEY HAVE DEFAULTED; OR, HELP THE BORROWER CONTACT THE LENDER AFTER THE DEFAULT OR AFTER THE FORECLOSURE CASE HAS BEEN FILED.

PROVIDING A WAY FOR BORROWERS TO CONTACT THEIR LENDER IN AN ENVIRONMENT THAT IS FREE FROM THREATS, INTIMIDATION AND PERCEIVED FUTILITY IS SOMETHING THAT IS EXTREMELY VALUABLE. I REALIZE THAT IT SEEMS COUNTERINTUITIVE THAT THERE WOULD NEED TO BE A GOVERNMENT PROGRAM THAT IS DESIGNED TO HELP BORROWERS CALL THEIR LENDER ON THE PHONE. BUT, LET ME SHED SOME LIGHT ON WHAT IT IS LIKE FOR A BORROWER IN DEFAULT TO TRY TO CONTACT THEIR LENDER.

BEFORE I GO ANY FURTHER, LET ME MAKE SOMETHING CLEAR. OF ALL OF THE CAUSES OF FORECLOSURES IN CUYAHOGA COUNTY (AND THEY RANGE FROM UNEMPLOYMENT OR A MEDICAL EMERGENCY IN A HOUSE WHERE THERE ARE LITTLE OR NO SAVINGS; DEATH; DIVORCE; NECESSARY REPAIRS TO THE HOUSE ITSELF; OR NECESSARY REPAIRS TO, OR REPLACEMENT OF, A CAR) - OF ALL THESE OTHER CAUSES, THE BIGGEST CONTRIBUTOR TO THE POOL OF FORECLOSED HOMES IN OUR COUNTY IS THE ABUSIVELY WRITTEN - NEVER GONNA BE REPAID SUBPRIME HOME REFINANCE LOAN.

INDEED NATIONALLY, WHILE PRIME RATE LOANS ENJOY A DEFAULT RATE LESS THAN FIVE PERCENT, 20% OF ALL SUBPRIME LOANS GO INTO DEFAULT. THIS MEANS THAT SUBPRIME BORROWERS CANNOT AFFORD ONE OUT EVERY FIVE LOANS THAT ARE APPROVED.

THERE ARE MANY FACTORS, WHICH CONSPIRE TO MAKE OBTAINING THIS TYPE OF REFINANCED HOME LOAN A FORECLOSURE WAITING TO HAPPEN. THESE FACTORS ARE: THE PERFECTLY LEGAL KICKBACKS THAT ARE GIVEN TO THE LOAN

OFFICER WHO CAN DRIVE UP THE INTEREST RATE ON A REFINANCED LOAN; THE ABILITY TO OBTAIN A FRAUDULENT APPRAISAL; THE FACT THAT THE LOAN IS CERTAIN TO BE SOLD; AND, THE EXISTENCE OF NATIONAL SERVICERS WHO HAVE NO CONNECTION TO THE ORIGINAL LOAN.

NOW, BACK TO THE DISCUSSION OF THE VARIOUS STUMBLING BLOCKS THAT THE BORROWER FACES, IN HIS EFFORTS TO SAVE A LOAN FROM FORECLOSURE.

FIRST - NEARLY EVERY SUBPRIME LOAN IS SOLD TO ANOTHER LENDER. SOMETIMES AN EVEN DIFFERENT PARTY SERVICES THE LOAN, SOMETIMES IT IS THE NEW LENDER. THE CONSTANTLY CHANGING CAST OF RELEVANT CHARACTERS MERELY ADDS CONFUSION TO AN ALREADY MUDDLED SITUATION.

SECOND - WHEN A BORROWER ATTEMPTS TO CONTACT HIS LENDER OR SERVICER, HE IS MET BY NON-COMPLIANT VOICE MAIL, FLAT OUT REFUSALS TO REVEAL DIRECT DIAL NUMBERS, OR MAILING ADDRESSES AND (BECAUSE NOBODY IS ASSIGNED TO

THE LOAN) THE NEED TO REHASH THE ENTIRE STORY EVERY TIME HE CALLS BACK.

THIRD (AND THIS IS ONE OF THE MOST IMPORTANT ASPECTS OF THE SITUATION) BY THE TIME A LOAN GETS REFERRED FOR A FORECLOSURE LAWSUIT, THE BORROWER HAS BEEN BERATED, THREATENED WITH EVICTION AND HOMELESSNESS, AND SCREAMED AT AND INSULTED FOR NOT PAYING THE ENTIRE BALANCE DUE. IS IT ANY WONDER THAT BORROWERS MISTRUST WHOEVER TRIES TO CONTACT THEM?

FREDDIE MAC PERFORMED A STUDY IN 2005 THAT SHOWS THAT THE OVERWHELMING MAJORITY OF BORROWERS FAIL TO RESPOND TO LOSS-MITIGATION EFFORTS BY THEIR LENDER.

THE RESULTS OF THAT SURVEY ARE STRIKING. MORE THAN 60% OF BORROWERS WERE UNAWARE THAT THERE WERE VIABLE WORKOUT OPTIONS OPEN TO THEM. ALMOST ALL OF THAT 60% WOULD HAVE RESPONDED, HAD THEY KNOWN THAT OPTIONS EXISTED. ALMOST 20% DID NOT CALL BECAUSE THEY WERE AFRAID, EMBARRASSED OR DIDN'T KNOW WHO TO CALL.

FURTHERMORE, ALMOST 30% EXPRESSED THE ERRONEOUS BELIEF THAT THEIR SERVICER COULD PROVIDE NO HELP AT ALL.

EVERY BORROWER WANTS TO STAY IN HIS HOME AND EVERY BORROWER KNOWS THAT THE LENDER WHO IS TRYING TO CONTACT THEM IS THE ONLY PARTY WHO CAN HELP. UNFORTUNATELY, WHAT CAUSES THE DEFAULTING BORROWER TO IGNORE THEIR LENDER IS HOW BORROWERS ARE TREATED ONCE THEY ARE IN DEFAULT.

HERE IS JUST ONE EXAMPLE OF THE TROUBLE THAT AWAITS A BORROWER WHO ATTEMPTED TO WORK OUT THE DEFAULT ON HIS HOME LOAN.

THE FORECLOSURE PREVENTION PROGRAM HELPED A MAN NAMED JOHN, WHO WAS IN DEFAULT ON HIS PAYMENTS. JOHN WAS BEHIND THREE MONTHS ON HIS MORTGAGE BECAUSE OF A SERIOUS ILLNESS TO HIS WIFE. AFTER THE LENDER HAD GIVEN HIM AN AMOUNT TO PAY TO SAVE HIS HOME FROM "BEING SENT TO FORECLOSURE, " HE ATTEMPTED TO SUBMIT THE PAYMENT AMOUNT. UNFORTUNATELY, HIS LENDER THEN DELAYED FINALIZING THE DEAL FOR A WEEK AND REFERRED HIS FILE TO

FORECLOSURE. (KEEP IN MIND THAT ONCE A FORECLOSURE LAWSUIT HAS STARTED, THE LENDER CAN INSIST ON COLLECTING LEGAL FEES, AND AT THE SAME TIME, GAIN AN UPPER HAND IN THEIR NEGOTIATIONS WITH THE BORROWER.)

UNFORTUNATELY, JOHN HAD NO CHOICE BUT TO AGREE TO PAY WHATEVER THE LENDER WANTED, EVEN THOUGH HE HAD THE MONEY TO PAY A WEEK BEFORE THE FORECLOSURE LAWSUIT WAS FILED. HIS MONTHLY PAYMENT NOW INCLUDES THE LEGAL FEES FOR THAT FORECLOSURE BECAUSE THE LENDER WAS SUCCESSFULLY ABLE TO PUT HIM OFF LONG ENOUGH TO GET THEIR LAW FIRM TO FILE THE LAWSUIT. JOHN COULD FIGHT THIS IF HE COULD AFFORD AN ATTORNEY, BUT LIKE 99% OF THE BORROWERS IN FORECLOSURE, HE HAS NO CASH LEFT. (NOT TO MENTION THERE ARE PRECIOUS FEW ATTORNEYS WHO CAN ACTUALLY TAKE THIS TYPE OF CASE)

IN ADDITION TO THE ABOVE EXAMPLE, THIS PANEL SHOULD BE AWARE OF THE VARIOUS FORECLOSURE RESCUE SCAMS THAT ARE PROLIFERATING IN CUYAHOGA COUNTY. FROM THE TIME A FORECLOSURE CASE IS FILED, BORROWERS RECEIVE A BARRAGE

OF LETTERS, PHONE CALLS AND SEE ENDLESS ADS THAT PROMISE TO SAVE THEIR HOUSE AND ERASE ALL OF THEIR PROBLEMS.

THESE PEOPLE (WHO ARE EXPERIENCING LIFE-SHATTERING EVENTS) ARE OFTEN POWERLESS TO PROTECT THEMSELVES FROM A POPULATION OF INDIVIDUALS WHO HAVE NO COMPUNCTION ABOUT USING SOMEONE WHO IS DESPARATE TO MAKE MONEY. TOO OFTEN THESE SCAMS HASTEN THE BORROWER'S STATUS AS NEWLY HOMELESS, OR WORSE, CAUSE THEM TO LOSE THEIR HOUSE, EVEN THOUGH THEY WOULD HAVE BEEN ABLE TO SATISFY THEIR LENDER, HAD THEY HAD THE OPPORTUNITY TO WORK OUT A PAYMENT PLAN.

WHAT CAN CONGRESS DO?

EVEN THOUGH FEDERAL LEGISLATION COULD TAKE YEARS TO TAKE SHAPE, THERE IS STILL MUCH THAT CAN BE DONE.

FOR STARTERS, IT WOULD HELP IN IMMEASURABLE WAYS FOR OUR REPRESENTATIVES IN WASHINGTON TO START DISCUSSING THIS EPIDEMIC IN MORE URGENT TERMS.

THE TIME HAS COME TO STOP ARGUING ABOUT WHETHER THERE IS ACTUALLY A PROBLEM, AND TALK ABOUT WHAT THE POSSIBLE SOLUTIONS ARE. OHIO RECENTLY TOOK THIS IMPORTANT STEP WITH THE PASSAGE OF SENATE BILL 185, WHICH WILL BRING MORTGAGE TRANSACTIONS UNDER THE PROTECTIVE REACH OF THE CONSUMER SALES PRACTICES ACT. (A RECENT STUDY FROM THE CENTER FOR RESPONSIBLE LENDING SHOWS THAT NOT ONLY IS THERE A PROBLEM, BUT IT'S MOST COMMON VICTIMS ARE PEOPLE OF COLOR. THAT STUDY REVEALED THAT MINORITIES ARE 30% MORE LIKELY THAN WHITES TO RECEIVE A HIGHER-RATE SUBPRIME LOAN)

SECONDLY: THE LAWS THAT DIRECT THE BEHAVIOR OF THE NATIONAL SERVICING COMMUNITY ARE IN NEED OF A SERIOUS CHECK-UP. IT IS HARD FOR BORROWERS TO AVOID FORECLOSURE, WHEN THE REGULATIONS THAT GOVERN HOW THEIR SERVICERS CONDUCT BUSINESS ARE SO UNCLEAR, AND PROVIDE LITTLE OR NO PROTECTION FROM ABUSE.

THIRD: THERE ARE SEVERAL LOAN PRODUCTS THAT CONGRESS CAN REGULATE MORE STRONGLY, OR ENCOURAGE THE LENDING COMMUNITY TO ABOLISH.

THEY ARE ADJUSTABLE RATE MORTGAGES (ARMS) AND NO DOCUMENTATION LOANS.

ARMS (AND REMEMBER WE ARE TALKING ABOUT THE SUBPRIME MARKET HERE) HAVE A PAYMENT THAT WILL ALWAYS INCREASE AND WILL DOUBLE WITHIN FIVE YEARS. THAT IS BECAUSE, DESPITE THE FACT THAT BORROWERS ARE LED TO BELIEVE THAT ARMS ARE TIED TO THE U.S. PRIME LENDING RATE, THEY ARE TIED TO THE LIBOR INDEX OR SOME OTHER FINANCIAL MARKET THAT DICTATES A MUCH HIGHER INTEREST RATE.

THESE LOANS ARE PREDATORY, BECAUSE WHEN THEY CLOSE, THE LOAN OFFICER KNOWS FULL WELL THAT THE BORROWER CANNOT AFFORD ALL OF THE MONTHLY PAYMENTS.

THE NO DOC LOAN IS ALSO NOTHING BUT TROUBLE. THESE LOANS ARE SO QUESTIONABLE THAT LOAN OFFICERS ALL ACROSS THE COUNTRY REFER TO THEM AS "LIAR'S LOANS." A NO-DOC LOAN IS JUST THAT – IT IS A LOAN PRODUCT WHERE THE LENDER

DOES NOT REQUIRE ANY PROOF WHATSOEVER OF THE BORROWER'S FINANCIAL SITUATION. THE POTENTIAL FOR FRAUD IN A SITUATION WHERE THE LENDING INSTITUTION IS WILLINGLY REFUSING TO CONTEMPLATE THE BORROWER'S FINANCIAL INFORMATION IS MIND-BOGGLING. YET, THESE LOANS ARE STILL LEGAL AND WIDELY POPULAR.

I'VE HEARD THE EXPLANATION THAT NO-DOC LOANS ARE NECESSARY FOR SOMEONE WHO IS SELF-EMPLOYED. BUT WHO IS KIDDING WHO? EVERYBODY HAS SOME INFORMATION - TAX RETURNS, JOB RECEIPTS, CONTRACTS FOR WORK - ABOUT THEIR MONTHLY INCOME. SIMPLY PUT, IF THE BORROWER CANNOT PRODUCE INFORMATION ABOUT HOW MUCH THEY MAKE, WHY ARE THEY BEING LENT MONEY IN THE FIRST PLACE?

FOURTH: CONGRESS CAN RESEARCH THE GOVERNMENTAL ENTITIES WHO INSURE HOME LOANS AND DETERMINE WHY THEY ARE NOT ABLE TO BE MORE CREATIVE WITH PAST DUE BALANCES, AND WHY THEY ARE RELUCTANT TO ACCEPT DEEDS-IN-LIEU OR SHORT SALES IN MANY SITUATIONS. (ESPECIALLY WHERE THE

PROPERTY IS VACANT, OR WORTH MUCH LESS THAN THE AMOUNT OF THE ORIGINAL LOAN)

FIFTH: THE NEED FOR FINANCIAL LITERACY EDUCATION FOR OUR CHILDREN HAS NEVER BEEN MORE APPARENT. 16 YEAR-OLDS NOW RECEIVE SOLICITATIONS FOR CREDIT CARDS. FOR MOST OF AMERICA, THIS IS THEIR ENTRY INTO A SOCIETY THAT MAKES CREDIT TOO AVAILABLE, TOO FRIVOLOUS AND TOO DANGEROUS. KIDS MUST NOW MAKE FINANCIAL DECISIONS THAT WILL AFFECT THEIR ABILITY TO GAIN WEALTH FOR THE REST OF THEIR LIVES, WITHOUT THE BENEFIT OF GUIDANCE FROM THEIR SCHOOLS. THIS NEED IS MORE PRONOUNCED AMONG MINORITY POPULATIONS, WHICH ARE MUCH MORE AT-RISK OF BEING STEERED INTO A BAD LOAN.

LASTLY: CONGRESS CAN EMPOWER AND ENCOURAGE STATES TO CONTINUE TO ADOPT LAWS TO STOP LENDING ABUSES. THE CENTER FOR RESPONSIBLE LENDING CONDUCTED A RECENT STUDY WHERE THEY RESEARCHED MILLIONS OF LOANS OVER A 6 YEAR PERIOD IN 28 STATES THAT HAVE STRONG ANTI PREDATORY LENDING LAWS. BORROWERS IN THESE STATES ARE

SIGNIFICANTLY LESS LIKELY TO DEFAULT ON THEIR LOANS AND GOOD SUBPRIME PRODUCTS ARE ABLE TO FLOURISH AS A RESULT. THIS STUDY SHOULD PUT TO BED THE OUTCRY FROM LENDERS THAT STRONG STATE LAWS WILL SPELL DOOM FOR THEIR INDUSTRY.

THE FORECLOSURE PREVENTION PROGRAM IS OUR RESPONSE TO THE FORECLOSURE EPIDEMIC. BUT, THIS PROBLEM WILL NOT BE ERASED BY THE EFFORTS OF ONE PROGRAM OR GROUP OF INDIVIDUALS. EVERYONE IS GOING TO HAVE TO CHANGE THEIR PERSPECTIVE, THEIR EXPECTATIONS AND THEIR EFFORTS TO MAKE IT WORK.

Foreclosure Prevention Program

A Joint Effort of
The Cuyahoga County Treasurer and the Board of County Commissioners

The Foreclosure Prevention Program started in fall 2005 as part of a Cuyahoga County effort to combat rising numbers of home foreclosures. It includes collaboration with local non-profits, a marketing campaign, and financial counseling outreach programs.

Foreclosure: A Community Problem

The number of foreclosures in Cuyahoga County and around Ohio has exploded in recent years. Ohio has the largest foreclosure rate of any state in the nation. In the Cuyahoga County Court of Common Pleas alone, more than 11,000 foreclosure cases were filed in 2005. That's more than five times the number of cases filed just 10 years ago. Sheriff's sales in Cuyahoga County list an average of 140 properties for sale each week.

Reasons for the rise in foreclosures include:

- Loss of stable, living-wage jobs that allow people to pay their mortgages

- Predatory lending

Lenders manipulate borrowers into getting loans with high interest rates and hidden terms

- Sub-prime lending market

Lenders market high-interest loans to borrowers with bad credit and then package the loans to be traded on Wall Street. The national default rate for sub-prime loans is 5 percent, but in Cuyahoga County, the default rate is 16.5 percent.

Houses that are in foreclosure can remain vacant for months, even years. Vacant houses attract crime and decrease property values in neighborhoods. When houses are abandoned, cities and schools get no taxes from those properties. The city of Cleveland contains more than 5,000 vacant homes, and there are many more vacant properties countywide.

Cuyahoga County Battles Foreclosure

In response to rising foreclosure rates and a letter from suburban mayors expressing concerns about the county's foreclosure process, county officials held public meetings on the issue in the summer of 2005. The meetings included municipal officials, non-profit housing advocates, foreclosure attorneys, and homeowners.

Since these meetings, the county has worked on several initiatives to improve the way it handles foreclosures. These initiatives include the following:

- Cuyahoga County Common Pleas Court dockets will include parcel numbers and addresses of properties involved in foreclosure proceedings. This information will make it easier to compile data on foreclosures

- The county will spend roughly $2 million annually to hire four to six new magistrates to handle foreclosure cases.

- County officials are lobbying for new state laws, such as House Bill 294, which would make it easier for vacant and abandoned properties to be turned over to municipal land banks for redevelopment.

- Properties identified by city officials as vacant or abandoned will become a priority for county magistrates

- Creation of the Foreclosure Prevention Program in the Office of County Treasurer, Jim Rokakis.

Foreclosure Prevention Program Model

The Foreclosure Prevention Program has three full-time staff members, including its director, Mark Wiseman. The program is funded by the county, which has pledged more than $400,000 annually. It has received funding from Ohio Savings Bank, National City Bank, Key Bank and The Sam & Maria Miller Foundation, and commitments from Freddie Mac, CHASE Bank, US Bank and others.

The program has three main components:

1. Referral system partnership with nine local non-profits

The Foreclosure Prevention Program is working with United Way's First Call for Help hotline. People who call 2-1-1 seeking advice with their credit, mortgage, possible refinancing, a payment default situation or foreclosure will be referred to one of nine non-profit partner agencies.

Consumer Credit Counseling Service Cleveland Housing Network, Inc. Neighborhood Housing Services Spanish-American Committee	provide	• budgeting advice • pre-borrowing counseling • refinance counseling
Community Housing Solutions Consumer Protection Association East Side Organizing Project (ESOP) Cleveland Housing Network, Inc Neighborhood Housing Services Spanish-American Committee	provide	assistance for borrowers negotiating with lenders after missed payments
Housing Advocates, Inc. The Legal Aid Society of Cleveland	provide	legal help for foreclosure defense

To assist these partner agencies with handling new referrals, the program is distributing funding to enhance their staffs. The program will monitor the agencies' services to ensure that people referred by 2-1-1 are getting the help they need.

2. <u>Marketing campaign</u>

To inform the community about 2-1-1 and raise awareness about issues surrounding foreclosure, the Foreclosure Prevention Program is conducting marketing efforts, using materials from Freddie Mac's "Don't Borrow Trouble" campaign, which is in use in over 40 major metropolitan areas, nationwide The campaign will include bus ads, press events, mailings, public service announcements, TV, Radio and other media

The program also will send postcards with information about financial counseling services to homes in neighborhoods with high rates of foreclosures Other methods will be used to target vulnerable populations, such as direct mailings to residents receiving divorce filings, utility bills, tax delinquencies, and code violations

3 <u>Financial education outreach programs</u>

The Foreclosure Prevention Program will conduct outreach programs in the community. Free public seminars will include information about credit management, predatory lending, and smart borrowing The seminars will be offered at area libraries, schools, community centers, and other public spaces. The program also hopes to coordinate with other agencies to offer financial literacy programs at local colleges and high schools.

The goals of the Foreclosure Prevention Program include:

- Raise public awareness about credit management, smart borrowing, predatory lending, and other financial literacy issues

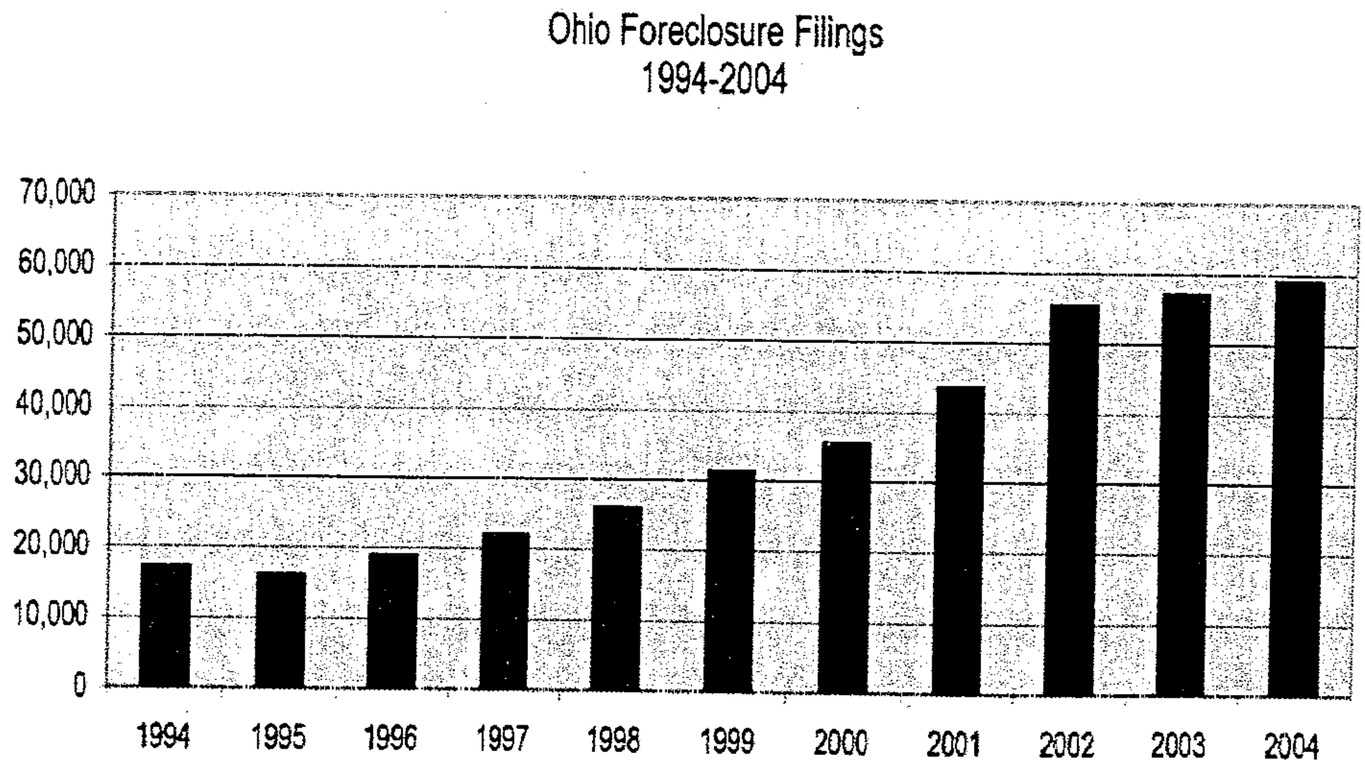
- Refer to counseling agencies that will help homeowners in default to negotiate payment plans with lenders, preventing foreclosures.

- Ensure high-quality financial counseling services for all county residents who need assistance or advice.

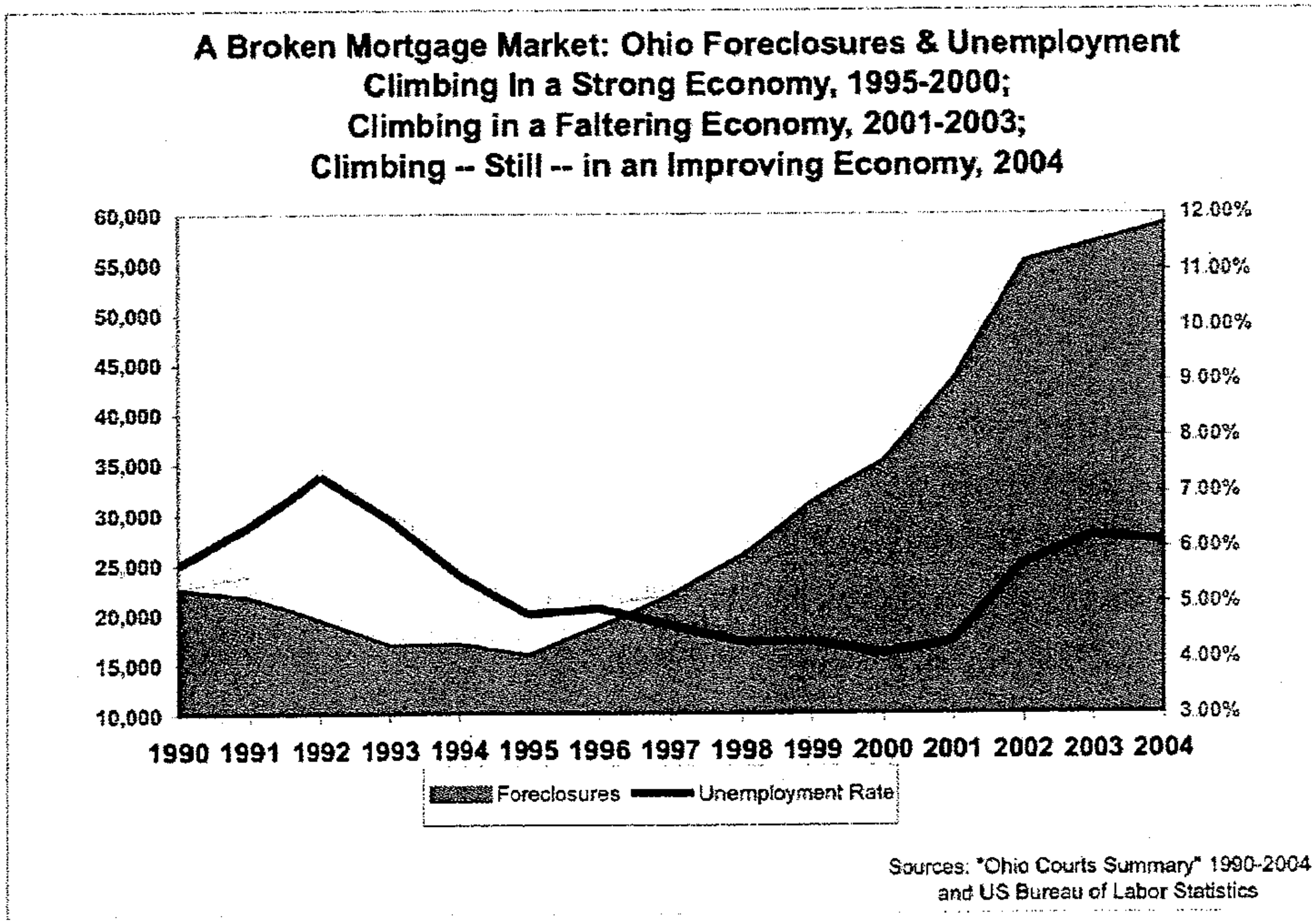
- Reduce the number of foreclosures in the county by creating better-educated consumers

<u>Who is eligible?</u>

Any borrower within the County who is concerned with a loan on her primary residence, has the desire to keep the house and the ways & means to stay current in a payment plan that is offered by the lender.



Source: Supreme Court of Ohio


A Broken Mortgage Market: Ohio Foreclosures & Unemployment
Climbing In a Strong Economy, 1995-2000;
Climbing in a Faltering Economy, 2001-2003;
Climbing -- Still -- in an Improving Economy, 2004
60,000
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11.00%
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4.00%
3.00%
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004
Foreclosures
Unemployment Rate
Sources: "Ohio Courts Summary" 1990-2004
and US Bureau of Labor Statistics

A REPORT FROM:

POLICY MATTERS OHIO

FORECLOSURE GROWTH IN OHIO 2006

ZACH SCHILLER

JULY 2006

Executive Summary

The number of Ohioans who lost their homes to foreclosure and sheriff sales continued to grow in 2005. Last year, there was one foreclosure filing for every 71 Ohio households.

Filings have quadrupled from a decade ago. Overall, according to data reported to the Ohio Supreme Court by common pleas court judges across the state, there were 63,996 new foreclosure filings in 2005, an increase of 8.45 percent from 2004. The increase, amounting to almost 5,000 more filings than the year before, follows smaller growth of 3 percent in both 2003 and 2004. Since foreclosures climbed rapidly in the 1990s, the number in 2005 represents at least a recent record.

Results from a Policy Matters Ohio survey of Ohio's county sheriff departments indicate that the number of foreclosed properties put up for sheriff sale also has continued to increase. Altogether, 71 counties representing 86.3 percent of the state's population reported 43,123 properties put up for sale. That represents a 4.6 percent increase in those counties from 2004 and a 21.3 percent increase from 2003, according to department responses. Sheriff sales grew in 56 out of the 71 counties between 2003 and 2005. The overall increases are not as great as those reported in the Policy Matters survey that covered 2001 through 2003. However, together with the increased pace of foreclosure filings, the survey reflects that stresses on homeownership in Ohio continue to grow.

The growth in foreclosure filings is widespread around the state. Filings grew last year in 60 of Ohio's 88 counties, and quadrupled in 61 counties between 1995 and 2005. Cuyahoga County ranked first in foreclosure filings per person last year. But while the problem is more concentrated in urban counties, it is common statewide. Counties with the greatest growth in 2005 were scattered across Ohio, and none of the 10 counties that saw the greatest relative foreclosure filing growth were on the list of those that grew the most in 2004.

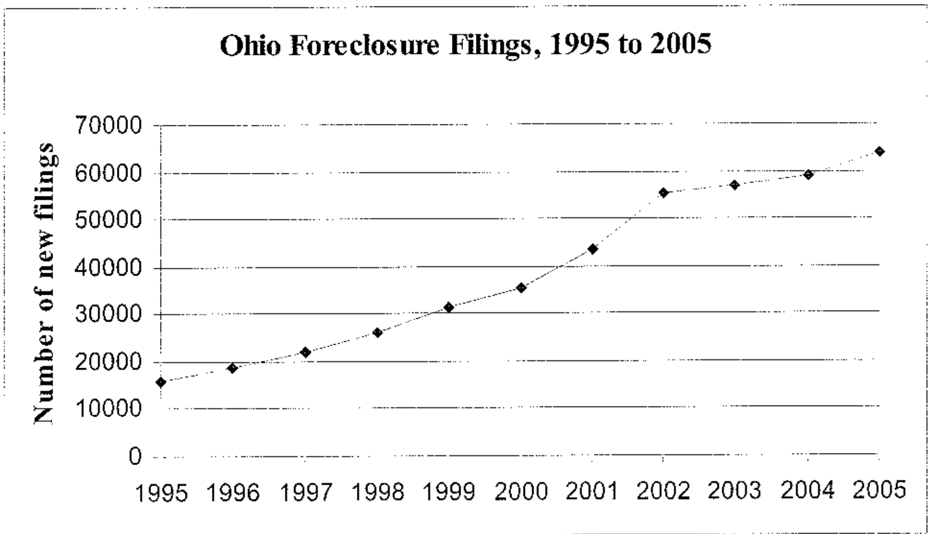
Among 50 sheriff departments that responded to the Policy Matters survey with numerical rankings on factors contributing to foreclosures, 31 ranked predatory lending first. Another 11 cited job loss/weak economy, while divorce or family break-up ranked third.

Last spring, the Ohio General Assembly passed legislation aimed at curbing predatory lending practices that have contributed to Ohio's foreclosures. The number of foreclosure filings and properties put up for sheriff sale will be among the benchmarks for assessing the law after it takes effect in January.

Foreclosure Growth in Ohio 2006

The number of Ohioans who lost their homes to foreclosure and sheriff sales continued to grow in 2005 Last year, there was one foreclosure filing for every 71 Ohio households.[1] Filings have quadrupled from a decade ago. Overall, according to data reported to the Ohio Supreme Court by common pleas court judges across the state, there were 63,996 new foreclosure filings in 2005, an increase of 8 45 percent from 2004.[2] The increase, amounting to almost 5,000 more filings than the year before, follows smaller growth of 3 percent in both 2003 and 2004. Since foreclosures climbed rapidly in the 1990s, the number in 2005 represents at least a recent record

Losing one's home to foreclosure is one of the most financially devastating events that can befall a family. When families do lose a home, it is often neglected in the aftermath, hurting communities and raising costs for local government. Finding ways to reverse Ohio's rising proportion of homes in foreclosure, pegged in some reports as the highest in the country,[3] is essential to protect consumers and communities. Figure 1 shows how foreclosure filings have increased in the state since 1995:



Source: Ohio Supreme Court

[1] This calculation is based on a U S Census Bureau estimate of the number of households in Ohio in 2004. See http://factfinder census.gov

[2] Data for 2005 was supplied to Policy Matters Ohio by the Ohio Supreme Court Data from previous years originally obtained from the Supreme Court are republished from previous Policy Matters Ohio reports. See http://www.policymattersohio.org/Foreclosure_Growth_2005.htm The Ohio Supreme Court's reporting of foreclosure filings includes an unspecified number of non-mortgage foreclosure cases, including delinquent tax foreclosures and others It also includes double filings that occur if bankruptcy interrupts the process, or if a lender uses the threat of foreclosure as a collection mechanism several times against one borrower Non-mortgage filings and double-filings have not been eliminated from the data. All foreclosure data in this report are for filings Not all filings lead to actual foreclosures, in which borrowers lose title to their property On the other hand, filing statistics do not cover all cases in which homeowners lose their property, such as cases in which they give the title back to the lender and walk away from the home

[3] "Home Delinquency Rate Shows Increase," Noelle Knox and Barbara Hansen, *USA Today*, March 16, 2006, and "Ohio's Disgrace: No 1 in Home Foreclosures," Geoff Dutton, *The Columbus Dispatch*, Sept 18, 2005

Results from a Policy Matters Ohio survey of Ohio's county sheriff departments indicate that the number of foreclosed properties put up for sheriff sale also has continued to increase. In all, 76 of the state's 88 sheriff departments responded to the biennial Policy Matters survey.[4] Seventy-four counties that provided figures reported a total of 43,841 properties put up for sale in 2005.[5] Sixty-six counties have provided data for each of the last three years, and another five that provided data for 2004 and 2005 also responded to the survey two years ago. Thus, it is possible to compare sheriff sales in 2003, 2004 and 2005 in 71 counties accounting for 86.3 percent of Ohio's population.[6] Altogether, those counties reported 43,123 properties put up for sale. That represents a 4.6 percent increase in those counties from 2004 and a 21.3 percent increase from 2003, according to department responses. Sheriff sales grew in 56 out of the 71 counties between 2003 and 2005. The overall increases are not as great as those reported in the Policy Matters survey that covered 2001 through 2003. However, together with the increased pace of foreclosure filings, the survey reflects that stresses on homeownership in Ohio continue to grow.

Foreclosures are rising in all parts of Ohio. Last year, the number of new filings grew in 60 of the state's 88 counties. In 2005, Cuyahoga County became the leading county in the state in foreclosure filings per person. It switched places with Montgomery County, which had been No. 1 the year before and found itself in the No. 2 position in 2005.

Table 1 (see next page) shows the top 10 counties in Ohio ranked by foreclosure filings per person. Big urban counties dominate the list; five of the state's six biggest counties are included, and Franklin County just missed the list, ranking 11th. However, high foreclosure rates are not limited to the most populous counties. They are a stubborn problem also in Brown and Highland in Southwest Ohio, as well as Marion and Clark counties. In fact, eight of the top 10 were on last year's list of the same kind. One foreclosure was filed for every 122.1 people in Cuyahoga County, as well as one for every 135.2 people in Montgomery County and one for every 146 people in Summit County:

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[4] A preliminary version of this report and an update to that were issued previously. For more details on the methodology used for this study, see Methodology, p. 6.

[5] Throughout this report, "sheriff sale" refers to a property being put up for sale. It may or may not result in the actual sale of the property. The 74 counties are listed in Table 7.

[6] The three counties that provided 2005 data but are not included among the 71 are Fayette, Gallia and Richland. See Footnote 11. Data for previous years provided by individual counties is not always consistent with their reports in earlier surveys, Policy Matters has found. Overall, sheriff departments in the 62 counties that supplied 2003 data in each of the two surveys reported putting more properties up for sale in the current survey than they had cited when surveyed about the same year two years ago. See Methodology, p. 6.

Freddie Mac, Roper Poll Survey Asks Why More Delinquent Borrowers Don't Call Lenders for Help

PR Newswire -- December 12, 2005

Nearly Two-Thirds of Delinquent Borrowers Say They Are Unaware of Workout Options

MCLEAN, Va., Dec. 12 /PRNewswire/ -- Freddie Mac and Roper Public Affairs and Media, a division of GFK NOP -- a leading international market research firm, today announced the results of the nation's first ever survey to learn why more late-paying borrowers risk losing their homes rather than reaching out to their mortgage servicers. The borrowers never contact their lender in over half of all foreclosure cases. The survey was undertaken to help find out why.

The Freddie Mac/Roper survey found that 75 percent of the delinquent borrowers surveyed recall being contacted by their servicers. But, a substantial percentage gave a variety of reasons for neglecting to follow-up with their servicers to discuss workout options. Mortgage servicers collect monthly housing payments on behalf of Freddie Mac or other investors.

Specifically, 28 percent said there was no reason to talk to their servicers or that their servicers could not help them, 17 percent said they could take care of their payment problems without any help, and 7 percent said they didn't call because they didn't have enough money to make the payment. Other reasons for not calling included embarrassment (6 percent), fear (5 percent), or not knowing whom to call (5 percent).

The lack of borrower follow-up may help explain why more than six in ten (61 percent) of late-paying borrowers said they were unaware of a variety of workout options that could help them overcome short-term financial difficulties. At the same time, 92 percent said they would have talked to their servicers had they known these options were available to them.

The Freddie Mac/Roper survey found no significant statistical difference in the responses given by white, black, Latino, male or female borrowers indicating an almost universal need for more borrower education about workout options and foreclosure avoidance.

Freddie Mac requires mortgage servicers to explore several workout options with late-paying borrowers. These options include forbearance, which temporarily delays or reduces payments, and loan modifications, which can restructure the payment terms for a fixed period. Many servicers typically describe these options in their collection letters. However, it is up to borrowers to follow-up with their servicers to learn more about these options.

"The results of the Freddie Mac/Roper survey are a wake-up call to delinquent borrowers everywhere," said Ingrid Beckles, Freddie Mac's Vice President of Default Asset Management. "Its message is clear: when you get a phone call or letter from your servicer, don't ignore it, act on it. Pick up the phone, call your servicer and talk to them about the
possibility of forbearance or some other repayment alternative because it just may be your best chance to avoid foreclosure."

"Part of the problem is that the data shows that there's a knowledge gap: People's interest in the options available to them is quite high, but their awareness of these options is quite low," said Elizabeth Armet, Vice President, Senior Account Executive at Roper Public Affairs. While the likelihood of a successful foreclosure avoidance depends upon
each individual borrower's financial situation, a 2004 Freddie Mac study concluded that repayment plans could lower the probability of home loss by 80 percent among all borrowers and by 68 percent among low-to-moderate income borrowers. Working together, Freddie Mac and its servicers have helped more than 100,000 troubled borrowers avoid
foreclosure and stay in their homes over the past two years. (Borrowers can find a comprehensive description of workout options at freddiemac.com)

"These findings are consistent with what Wells Fargo Home Mortgage has done and the great success we have had during the past several years with our early intervention process," said Patrick Carey, senior vice president, WFHM Default and Retention Operations. "We try to educate customers to contact us early in times of financial crisis, and hope that they will learn from studies like these that their lender can be their best resource when financial strain threatens their homes," Carey said.

"The Freddie Mac/Roper survey underscores why we work so hard to encourage borrowers experiencing financial difficulty to proactively contact their lender and explore the options that could help them avoid foreclosure," added Deb Oakley, Senior Vice President at National City Mortgage. "At National City Mortgage, we also work with credit counseling agencies to further help borrowers learn how to take charge of their situation."

Other notable findings from the Freddie Mac/Roper survey:

* Eighty percent of delinquent borrower households included at least one
employed individual and only five percent said someone in their

household was unemployed. Seven percent of the respondents said they were retired.

* Among homeowners in good standing, 62 percent were employed, 32 percent were retired, and only two percent were unemployed.
* Delinquent borrowers earned slightly less than borrowers in good standing. The median annual income among delinquent borrowers was $52,400 compared to $56,700 a year for homeowners in good standing.
* Forty seven percent of the defaulters were first-time homeowners but 62 percent of the homeowners in good standing had owned a home in the past.

Freddie Mac is a stockholder-owned corporation established by Congress in support of homeownership and rental housing. Freddie Mac purchases single-family and multifamily residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage passthrough securities and debt instruments in the capital markets. Over the years, Freddie Mac has made home possible for one in six homebuyers in America and more than two million renters across America. For more information, visit: http://www.freddiemac.com.

Methodology

The findings presented are the results of a telephone study conducted August 5th-18th, 2005 by Roper Public Affairs and Media -- a part of GFK NOP - - among 2031 U.S. homeowners ages 18 and older. Respondents were considered to be in default if they were more than one month late on their mortgage payment. The margin of error for the total sample is +/-
3 percentage points at the 95% confidence level. The margin of error for subgroups is higher.

07/19/2006 JACKSONVILLE – FINANCIAL NEWS AND DAILY RECORD

Study indicates foreclosures linked to violent crime

by Miranda G. McLeod Staff Writer

A house is the biggest investment of most people's lives. Past credit comes into play, life savings are at stake and there is a risk of losing your house if proper payments aren't made. "There's value in preparing for home ownership," said Dawn Lockhart, chief financial officer of Family Counseling Services. "This is the biggest financial decision you will make."

But in Jacksonville, many people aren't prepared for home ownership. According to RealtyTrac, a California-based company that tracks foreclosures nationwide, there is one foreclosure for every 133 households in Jacksonville. That's enough to rank the city seventh in the nation and, according to James J. Saccacio — chief executive officer of RealtyTrac — Jacksonville is in the top 10 despite below-average unemployment and above-average home price appreciation.

Even though the crime rate in Jacksonville has dropped significantly the past 13 years — from 11,880 violent crimes with a population of 681,631 in 1991 to 6,810 violent crimes with a population of 840,474 in 2004 — a recently released study shows there is a direct correlation between foreclosure rates and crime rates. For every 1 percent of foreclosure there is a 2.33 percent increase in the rate of violent crime, according to a study released by Dan Immergluck of Georgia Tech and Geoff Smith of the Woodstock Institute.

They only found one other study that investigates the correlation between foreclosures and crime and it was conducted in Chicago.

The study indicated a couple of things:

• Foreclosures, particularly in lower-income neighborhoods, can lead to vacant, boarded-up or abandoned properties, which in turn, contribute to "physical disorder in a community that can create a haven for criminal activity, discourage social capital formation and lead to further disinvestment."

• Using conservative estimates, Immergluck and Smith also concluded that each conventional foreclosure within an eighth of a mile of a single-family home results in a 0.9 percent decline in property value.

This means that, for the entire city of Chicago, the 3,750 foreclosures in 1997 and 1998 are estimated to reduce nearby property values by more than $598 million. That's an average cumulative property value effect of $159,000 per foreclosure, which doesn't include effects on the values of condominiums, multi-family rental properties and commercial buildings.

Immergluck's and Smith's less conservative finding corresponds to a citywide loss in property value of just over $1.39 billion, which corresponds to an average cumulative property value effect of more than $371,000 per foreclosure.

Direct costs to city government in Chicago involve more than a dozen agencies and two dozen specific municipal activities, generating governmental costs that in some cases exceed $30,000 per property, according to the study.

"The initiating issue is the inappropriate assessment of who's ready for homeownership," according Lockhart. "There is a large network of families whom have been promoted to having the opportunity to own a home. They have access to home loans from predatory lenders who make more money by making a bad loan than they do by making a good one."

Lockhart added there is a large cadre of firms who provide loans to individuals with low credit scores, which only perpetuates the cycle of inability to pay, leading to foreclosure. "Jacksonville was one of the last major metropolitan cities to take an aggressive approach to the issue," said Lockhart.

Family Counseling Services celebrates its 50th year of operation. It's a non-profit organization and a United Way member agency, a member of the Alliance for Children and Families, the National Foundation for Credit Counseling and is accredited by the Council on Accreditation for Children and Family Services. Among other services, the organization teaches individuals to take information and determine what kind of home loan is appropriate for their particular needs.

"If they're armed with the information of what they can or cannot afford, they're more likely to make the better deal," said Martha Cox, vice president of resource development for Family Counseling Services, which has helped more than 303 families in the last three months become more financially independent.

"The demand for a quick fix solution will always be there," said Lockhart. "Our only armor is ourselves. It's a prevention-oriented process. Financial literacy is one area the family doesn't talk about and it can lead to violence in the home and or divorce." Financial mismanagement is not indicative of income, said Lockhart. It's behavioral.

"The pressure is the same. It's just like substance abuse," she said. While violence may be prevalent in certain demographics, foreclosure is not, according to Lockhart. "Low income families are the best at managing cash," she said. "And those with increased incomes have more options, which can generate just as many problems as those with lower incomes."

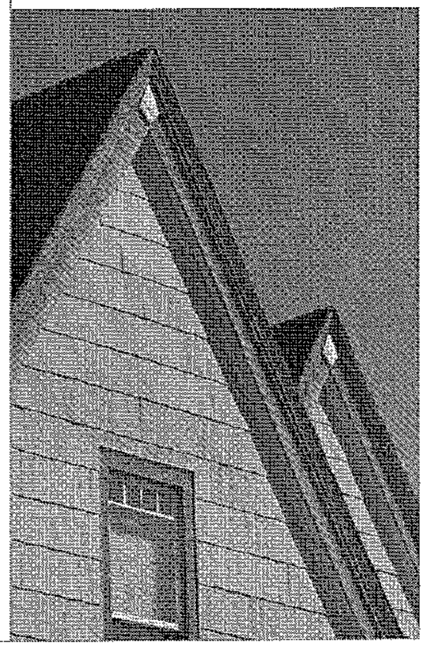
"The issues can be just as intense," said Cox. "If you're not aware of what's happening with your money, you can get into a lot of problems." Both Lockhart and Cox said change happens one family at a time and financial literacy is imperative to families' successful economic futures. "Home ownership is the largest form of savings for retirement. Families must be proactive to find information," said Lockhart. "Families not taking the initiative to pursue information are abdicating their decision to others who don't have their best interests in mind."

Lockhart added that financial stability is about prevention. "We can see how the community is paying for (foreclosure) and the effect on crime rates," she said. "It's a house of cards and rarely is it purchased with cash."

While there are only three studies linking foreclosure and crime nationally, there is one group working to find how foreclosures affect the city. Jacksonville Area Legal Aid is in the process of mapping zip codes of foreclosures and locations of murders.

"We're having some difficulty getting the maps together," said April Charney of JALA, adding that it's hard to get foreclosure data with zip codes.

"We are still just overwhelmed with foreclosures," she said. "We have at least 10 foreclosures that actually come through a week. We try and get them before judgment because we'd much rather see people before they get behind. But usually we don't see them until they are in foreclosure."



Unfair Lending:

The Effect of Race and Ethnicity on the Price of Subprime Mortgages

Debbie Gruenstein Bocian, Keith S. Ernst and Wei Li
Center for Responsible Lending

May 31, 2006

CENTER FOR RESPONSIBLE LENDING

www.responsiblelending.org

I. EXECUTIVE SUMMARY

Last year, for the first time, lenders were required to report details on the costs of subprime home loans—mortgages intended to serve borrowers with blemished credit or other high-risk characteristics Lenders disclosed pricing information related to the most expensive subprime loans (referred to here as "higher-rate" loans), while lower-rate loans in the subprime market and virtually all prime loans were exempt from this reporting requirement. Several analyses of this information, collected under the Home Mortgage Disclosure Act (HMDA), have shown that African-American and Latino borrowers received a disproportionate share of higher-rate home loans, even when controlling for factors such as borrower income and property location

A number of concerned groups have pointed to these disparities as evidence of discrimination that slows economic progress among groups who already lag far behind in homeownership and wealth Others contend, however, that the pricing disparities are not meaningful, since they do not fully account for legitimate differences in credit risks In this report, we attempt to move the debate forward by providing a more detailed examination of pricing patterns in the subprime home loan market Our study analyzed subprime home loan prices charged to different racial and ethnic groups while controlling for the effects of credit scores, loan-to-value ratios, and other underwriting factors To our knowledge, this is the first full research report that examines 2004 HMDA data to assess the effects of race and ethnicity on pricing in the subprime market while controlling for the major risk factors used to determine loan prices.

Our findings show that, for most types of subprime home loans, African-American and Latino borrowers are at greater risk of receiving higher-rate loans than white borrowers, even after controlling for legitimate risk factors. The disparities we find are large and statistically significant: For many types of loans, borrowers of color in our database were more than 30 percent more likely to receive a higher-rate loan than white borrowers, even after accounting for differences in risk

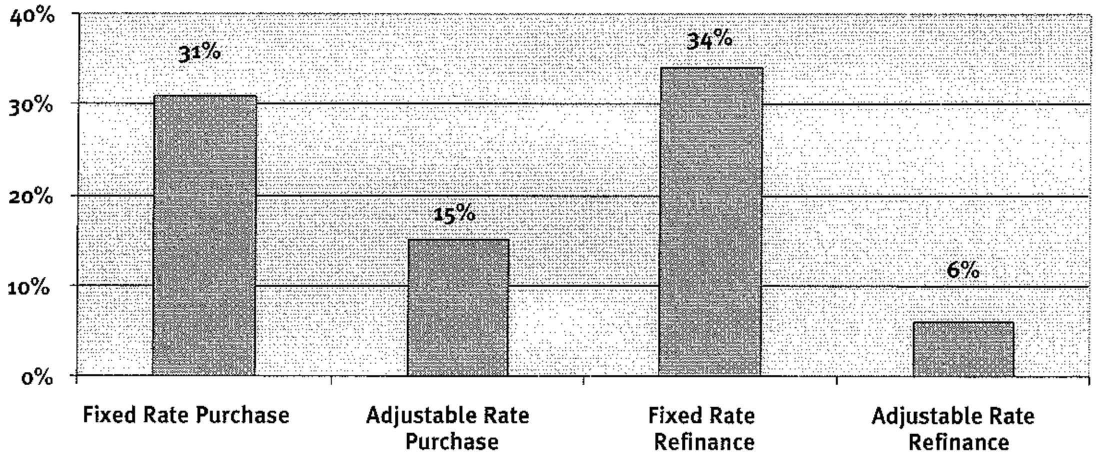
This analysis was possible because we supplemented the 2004 HMDA data with information from another large loan-level dataset, the Loan Performance Subprime Asset-Backed Securities Database (LP). Individually, both the HMDA and LP databases lack certain pieces of data that would be helpful for an in-depth comparison of subprime loan pricing. By combining loan information from both sources, however, we obtain more complete information on a large set of loans Using a combined dataset of over 177,000 subprime loans, we analyzed whether borrowers of color are at greater risk of receiving higher-rate subprime loans than similarly-situated white borrowers

Our basic findings are outlined here:

1) African-Americans were more likely to receive higher-rate home purchase and refinance loans than similarly-situated white borrowers, particularly for loans with prepayment penalties.

- The effect of being an African-American borrower on the cost of credit was greatest for loans containing penalties for early payoff, which comprised over 60 percent of the loans we examined.
- As shown in the chart below, African-American borrowers with prepayment penalties on their subprime home loans were 6 to 34 percent more likely to receive a higher-rate loan than if they had been white borrowers with similar qualifications. Results varied depending on the type of interest rate (i.e., fixed or adjustable) and the purpose (refinance or purchase) of the loan.

Increased Likelihood that African-American Borrowers Received a Higher-Rate Subprime Loan with a Prepayment Penalty* versus Similarly-Situated White Borrowers



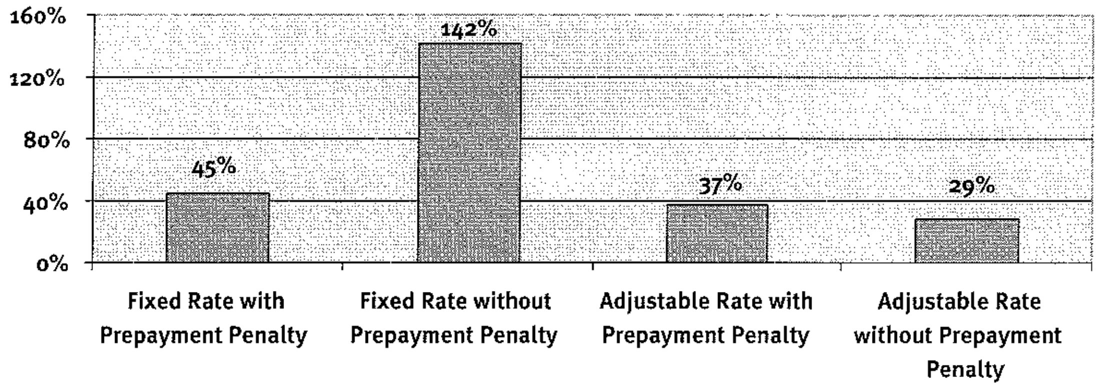
* During 2004, approximately two-thirds of all home loans in the subprime market had prepayment penalties

2) Latino borrowers were more likely to receive higher-rate loans than similarly-situated non-Latino white borrowers for mortgages used to purchase homes. Differences for refinance loans were not significant at a 95 percent confidence level.

- Latino borrowers purchasing homes were 29 to 142 percent more likely to receive a higher-rate loan than if they had been non-Latino and white, depending on the type of interest rate and whether the loan contained a prepayment penalty.

- Pricing disparities between Latinos and non-Latino white borrowers for refinance loans were not significant at the 95 percent confidence level in our dataset

Increased Likelihood that Latino Borrowers Received a Higher-Rate Subprime Purchase Loan versus Similarly-Situated White Borrowers



This analysis does not allow us to estimate precisely how much race and ethnicity increase the prices charged to borrowers. It is also beyond the scope of this paper to determine definitively why these disparities exist. However, we do posit several possible causes, including the considerable leeway mortgage originators have to impose charges beyond those justified by risk-based pricing.

A notable and pervasive example of discretionary pricing occurs through "yield-spread premiums," which are monetary incentives for mortgage brokers to inflate rates on subprime loans. Other causes of pricing disparities may include the inconsistent application of objective pricing criteria, targeting of families of color by higher-rate lenders or brokers, and lack of investment by lower-cost lenders in these communities. It is likely that all of these factors contribute to making subprime home loans more costly than necessary.

While these results are particularly disturbing for borrowers of color, the results have negative implications for all borrowers in the subprime market, since common business practices such as discretionary pricing can affect anyone.

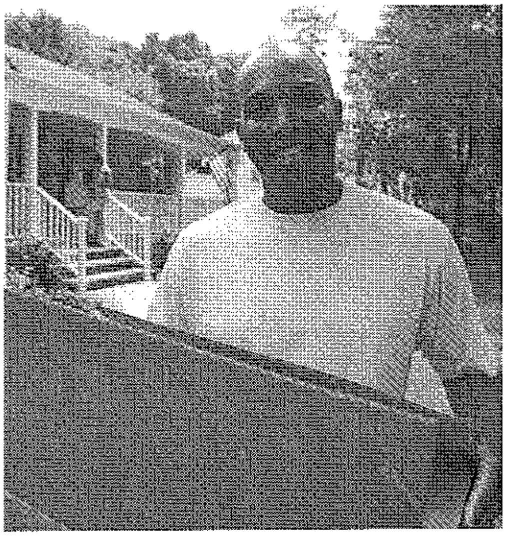
For African-Americans, the most striking disparities that emerged in our research were associated with prepayment penalties; for Latinos, the greatest disparities related to loan type (purchase versus refinance). Examining these differences, we discuss several hypotheses. First, we believe the larger disparities observed for African-Americans in subprime loans with prepayment penalties may be related to yield-spread premiums, since lenders are often more willing to pay these premiums on loans that include prepayment penalties. Mortgage originators routinely make exceptions to guidelines, but it may be that African-Americans receive fewer favorable exceptions than white borrowers. Second, we believe that the disparities evidenced for Latinos on purchase mortgages might arise from a greater concentration of recent immigrants among this borrower pool. If so, the higher disparities in the purchase market may be a result of higher-cost lenders targeting recent immigrants.

While these results are particularly disturbing for borrowers of color, the results have negative implications for all borrowers in the subprime market, since common business practices such as discretionary pricing can affect anyone. The cost of mortgages matters more than the cost of typical consumer goods. Whether or not families receive fairly priced home loans is a major factor in their fundamental financial security. Higher loan costs will both dissuade some potential borrowers from investing in homeownership and increase the risk of foreclosure for those who do.

Lenders and policymakers can take a number of constructive actions to help ensure more equitable pricing for all borrowers. These include:

- Curtailing steering by requiring objective pricing standards;
- Holding lenders and brokers responsible for providing loans that are suitable for their customers;
- Amending HMDA to expand the disclosure requirements for risk and pricing information;
- Ensuring that adequate resources are dedicated to fully enforcing fair lending laws; and
- Creating incentives and supporting a policy framework that lead the market to better serve African-American and Latino communities.

The Best Value in the Subprime Market



State Predatory Lending Reforms

A report by
the Center for Responsible Lending

Wei Li and Keith S. Ernst

February 23, 2006

CENTER FOR RESPONSIBLE LENDING

www responsiblelending org

Executive Summary

Since 1999, states have wrestled with the best regulatory approach to prevent predatory mortgage lending in the subprime market—a problem that increases the risk of foreclosure for credit-strapped families and costs Americans an estimated $9 1 billion each year [1] Twenty-eight states have taken action either by passing comprehensive reforms or by relying on regulations aimed at specific predatory practices Meanwhile, lawmakers in Washington also have proposed bills to update federal laws, including some that would override existing state laws [2]

As lawmakers consider ways to address predatory mortgage lending, several questions are critical to the debate: How well are state laws working against predatory mortgage lending? Which laws would serve as the best models for effective policies? Are there negative unintended consequences of enacting state legislation? And what are the potential consequences of overriding state laws?

To answer these questions, we conducted the most comprehensive investigation ever undertaken on state anti-predatory lending laws. Our research examined 28 state reforms by analyzing six million subprime mortgage loans made over a seven-year period (1998 – 2004) Specifically, we compared borrowers' experiences under reforms in each of these states to those of borrowers in states with minimal protections or no laws. We were further able to isolate and measure the effects of the reforms by controlling for differences in key economic, geographic, temporal, and loan and borrower characteristics.

We find that state laws are working well to prevent predatory mortgage lending, but that's not all. Strong laws also allow subprime credit not targeted by the laws to flourish without increasing interest rates for borrowers. More specifically, in states with anti-predatory lending laws that go beyond current federal protections, we find:

- **Borrowers get fewer loans with abusive terms.**
  States that have implemented significant reforms generally reduced the incidence of loans with predatory terms, and states with the strongest laws realized the biggest gains in fighting predatory loans For example, without New Mexico's law, an additional four out of ten borrowers (38 5%) in the subprime market would have received home loans with abusive features—including prepayment penalties, balloon payments or being unfairly steered into a higher-cost loan.

- **Borrowers have ready access to subprime credit.**
  State laws have produced no significant effect on subprime mortgage volume in the vast majority of states with anti-predatory lending laws. The results indicate that lenders have responded to state laws by fueling the expanding subprime market with mortgages that do not include loan terms targeted by state laws.[3]

- **Borrowers pay about the same or lower interest rates for subprime mortgages.** A central goal of predatory lending reform has been to shift lender compensation away from fees—both front-end charges and back-end prepayment penalties—into more transparent interest rates, since a borrower can refinance out of a high rate loan but cannot escape from high fees. With this in mind, we expected to find a combination of fee reductions accompanied by offsetting marginal interest rate increases. We did find that fees in the form of prepayment penalties were reduced, but, to our surprise, we also found that many families paid lower interest rates. Among states with reforms, interest rates on fixed-rate mortgages showed no statistically significant difference in eight states and actually were lower in 19.

  While the interest rate differences are small, they add up: A family with a $200,000 loan would typically save $1,000 or more over the first three years of the mortgage in a state with significant protections. One possible explanation for this finding is that in states with reforms, lenders are unwilling to pay mortgage brokers large bonuses (yield-spread premiums) for mortgages with higher-than-market rates—resulting in lower interest rates to borrowers.

In addition, there are strong indications that state reforms are having a positive effect on the national subprime market. For example, over the course of our study, the overall incidence of prepayment penalties peaked at 67.7% and then dropped to 51% by December 2004. For balloon payments, the corresponding figures went from 13.6% to zero.

Overall, these findings have two significant implications for state and federal policymakers, who are grappling with the best way to prevent predatory lending. First, the findings suggest that strong state laws like those in place in New Mexico, Massachusetts and North Carolina can serve as successful models. Second, the findings call into question the advisability of federal proposals that would nullify state efforts and substitute a weak national standard. In fact, this study shows that overriding state laws would be harmful—and costly—to consumers, since states are successfully cutting back on predatory loans without cutting off access to credit. From a homeowner's perspective, it appears that mortgages protected by strong state laws may be the best deal in the real estate market.