

**Pushed Back: The Devastating Effects of the Subprime Foreclosure Crisis in the Southeast and the Impact on African Americans**



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The Mississippi Economic Policy Center (MEPC) engages in rigorous, accessible and timely analysis to inform the policy debate on issues that affect the economic and social well-being of working families and low-wealth Mississippians. An independent, nonpartisan initiative, MEPC is managed by the Enterprise Corporation of the Delta (ECD), a regional financial institution and community development intermediary dedicated to strengthening communities, building assets and improving lives in economically distressed areas in the Mid South.

## **About the Center for Responsible Lending**

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

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# **Pushed Back: The Devastating Effects of the Subprime Foreclosure Crisis in the Southeast and the Impact on African Americans**

## **Overview**

As news about the economy continues to take a downturn, the nation's foreclosure crisis has taken center stage. In neighborhoods across the country, Americans are losing their homes to foreclosure. Reckless lenders using lax underwriting standards have pushed America to the brink of recession, triggering the greatest loss of homeownership since the Great Depression. Millions of Americans will lose their homes or face a drop in their home value. One of the primary reasons for the surge in foreclosures is the proliferation of subprime loans.

Even before the current crisis, subprime loans were nearly 10 times more likely to result in foreclosures than prime loans.<sup>i</sup> The Congressional Joint Economic Committee estimates that, from 2007 through 2009, two million homeowners will lose their homes, resulting in a loss of home equity totaling \$71 billion. In fact, the Center for Responsible Lending estimated that one in five subprime loans originated between 1998 and 2006 will end in foreclosure, and that 2.2 million borrowers who got subprime loans between during this period have lost or will their homes to foreclosure.<sup>ii</sup> The lost in home equity as a result of these foreclosures will cost consumers as much as \$164 billion.<sup>iii</sup>

One key characteristic of the subprime market is that the majority of these loans have been for refinancing mortgages—not loans used for purchasing homes. Subprime mortgages made between 1998 and 2006 did not produce any net increase in the rate of homeownership, but rather a net loss of nearly one million homes.<sup>iv</sup> Moreover, African-Americans were disproportionately targeted for these abusive loans, and today are at risk of losing homes at greater rates. Failed loans in the subprime market are now poised to bring about the greatest drain of wealth the African-American community has ever experienced. In January, United for a Fair Economy projected that the subprime mortgage crisis will drain \$213 billion in wealth from communities of color.<sup>v</sup>

Given the link between subprime lending, foreclosures and lost wealth, the southeast is especially vulnerable. Nearly 1/3 of the nation's African-American population lives in the seven southeastern states profiled in this report.<sup>vi</sup> A significant body of research shows that subprime loans and their risky features were disproportionately made to African-American borrowers and in communities with higher concentrations of African-American residents.<sup>vii</sup> Previous gains in homeownership made in African-American communities are now at risk.<sup>viii</sup> In 2004, African-American homeownership peaked nationally at 49.1 percent, but by the end of 2006 it dropped 1.2 percentage points to 47.9%.<sup>ix</sup> While two out of ten white home mortgage borrowers living in the southeast received a subprime mortgage, African-American mortgage borrowers living in the southeast received a subprime mortgage 59% of the time.<sup>x</sup>

Because homeownership is so important to the fundamental economic security of all Americans, the damage stemming from subprime foreclosures has serious implications. This paper specifically explores the effect of subprime lending and foreclosures on the southeastern states

with a particular emphasis on the impact of foreclosures on people and communities of color. It concludes with a series of policy recommendations to strengthen the country's systems to get and keep people in their homes for years to come.

## **Background**

### **A. Characteristics of Predatory Loans**

Subprime lending is a type of mortgage lending intended to serve borrowers who do not qualify for prime loans because of credit problems or a limited credit history. Subprime loans commonly result in foreclosures with frequencies almost 10 times higher than prime loans.<sup>xi</sup> While not all subprime lending is predatory, predatory lending is concentrated in the subprime market. Predatory lending is a set of abusive practices that strip wealth or income from borrowers. Predatory loans typically are much more expensive than justified by the risk associated with the loan. Characteristics of predatory loans may include, but are not limited to, excessive or hidden fees, charges for unnecessary products, high interest rates, terms designed to trap borrowers in debt, and refinances that do not provide any net benefit to the borrower.

Some of the most common predatory lending practices include:

- Steering-the practice of encouraging borrowers to accept higher-cost subprime loans even when they qualify for a more affordable prime loan. Vulnerable borrowers may be subjected to aggressive sales tactics and sometimes outright fraud.
- Prepayment Penalties- a fee charged by a lender when a borrower pays off a mortgage before all payments are due, often to refinance the loan at a more affordable rate. Prepayment penalties vary in size and how long they remain in effect. Some of the most pernicious are effective for three to five years and charge six months interest. While prepayment penalties are rare in the prime market, up to 80% of subprime mortgages include the penalties. These penalties trap borrowers in the higher priced loans, and act as an "exit tax" on borrowers who try to get out of them.
- Yield Spread Premiums- a payment a mortgage broker receives from a lender for delivering a loan with an interest rate higher than the minimum rate the lender would accept for that particular loan. Yield spread premiums provide incentives for mortgage brokers to steer borrowers into higher-cost loans.
- Dangerous Loan Products-at the same time the industry lowered its standards for qualifying borrowers, it also aggressively marketed riskier types of adjustable-rate mortgages (ARMs). The most well known of these products is the hybrid ARM, often known as a "2/28" or "2/27." Another risky product is the payment option adjustable-rate mortgage (POARM), which allows people to make monthly payments that do not cover principal and interest. With a POARM, the homeowner can actually end up owing *more* on the home over time instead of less.

Predatory lending in communities of color emerged after the enactment of the Community Reinvestment Act of 1977. The Community Reinvestment Act ("CRA") was enacted to abolish redlining, which is the arbitrary denial of real estate loan applications in certain geographical

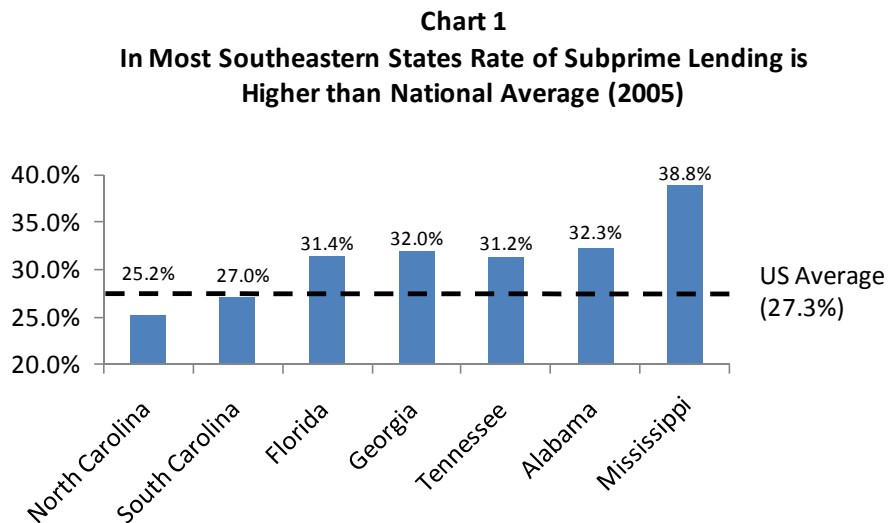
areas, without considering individual applicants qualifications.<sup>xii</sup> Yet many mainstream banks subject to the CRA continued to avoid African-American neighborhoods, leaving a void into which high-cost, predatory lenders stepped. Thus, African-Americans went from being locked out of access to mortgage credit to being bombarded with abusive mortgage credit terms.

According to the Center for Responsible Lending, African-Americans are more likely to receive higher-rate home purchase and refinance loans than similarly-situated white borrowers, particularly for loans with prepayment penalties.<sup>xiii</sup> These disparities exist even after controlling for borrowers traits, credit scores, home equity, and other risk factors.<sup>xiv</sup> Furthermore, the identity of the lender has more to do with loan pricing disparities than does the traits of the borrower.<sup>xv</sup> According to a recent article in *The Wall Street Journal*, between 55 to 61 percent of all subprime borrowers since 2000 could have qualified for prime loans.<sup>xvi</sup>

While in recent years there has been an increase in access to higher-cost mortgages for borrowers of color, the terms of credit have been detrimental to the borrowers. The problem shifted from “redlining” to “reverse redlining;” from denial of credit, to targeting for higher-priced, risky credit. As the result of the harmful terms, predatory lending has grown rampant in the subprime market to the point where it is almost synonymous with subprime lending.

### B. Subprime Lending in the Southeast – a Snapshot

Across the country, the prevalence of subprime lending grew substantially over the last several years. In 1997, just 1.9 % of mortgage loans used for home purchase were originated by subprime lenders compared to 14.2% in 2004.<sup>xvii</sup> The spread of subprime lending was especially noteworthy in the Southeast given that most of the states in the region experienced subprime lending rates above the national average (Chart 1).



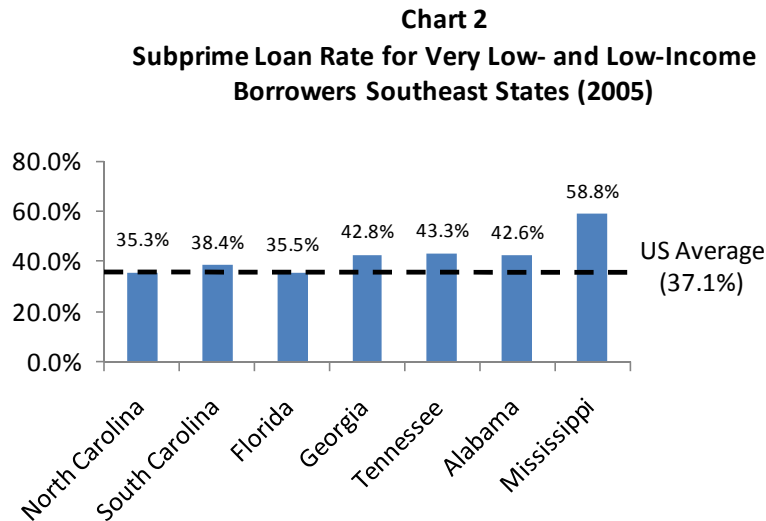
Source: Dataplace, generated with 2005 Home Mortgage Disclosure Act data, [www.dataplace.org](http://www.dataplace.org)

In all states except for North Carolina and South Carolina the rate of subprime lending was higher than the national average. North Carolina likely experienced a lower rate of subprime lending due to strong mortgage lending protection laws for consumers. In Mississippi, a state

with weak consumer protections for mortgage borrowers, the rate was 11.5 percentage points higher than the national average.

### Lending by Income

Subprime lending across the region also occurred more frequently with very low- and low-income borrowers than in other parts of the country.<sup>xviii</sup> Whereas the U.S. average rate of subprime lending to very low- and low-income borrowers was 37.1%, five of the seven southeastern states had rates that exceeded the U.S. rate (Chart 2).



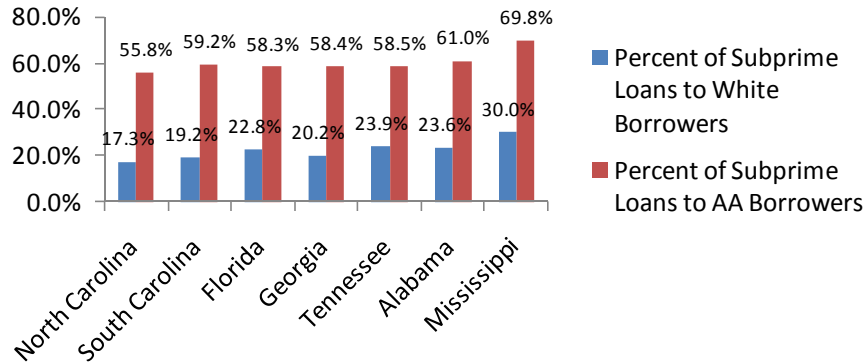
Source: Dataplace, generated with 2005 Home Mortgage Disclosure Act data, [www.dataplace.org](http://www.dataplace.org)

In the southeast, low-income borrowers were also more likely to receive subprime loans than upper income borrowers. The rate of subprime lending to very low- and low-income borrowers was 39.7% compared to a subprime lending rate of 23.9% for the region's upper income earners. For a full list of subprime lending rates across income categories and southeastern states see Appendix A.

### Lending by Race

In every state in the Southeast region, subprime loans occurred at significantly higher rates to African-American borrowers than to white borrowers. While 21.6% of mortgage originations to white borrowers were subprime, 58.7% of African American borrowers received a subprime mortgage in 2005. All of the states in the Southeast experienced a gap in subprime mortgage originations between white and African-American borrowers of at least .35 percentage points (Chart 3).

**Chart 3**  
**Rate of Subprime Lending for African American Borrowers is Significantly Higher than Rate for Whites (2005)**



Source: Dataplace, generated with 2005 Home Mortgage Disclosure Act data, www.dataplace.org

The largest gap occurred in South Carolina where African-American borrowers received subprime loans at a rate that was 40 percentage points higher than the rate for white borrowers. A full listing of subprime lending rates by race and state can be found in Appendix B.

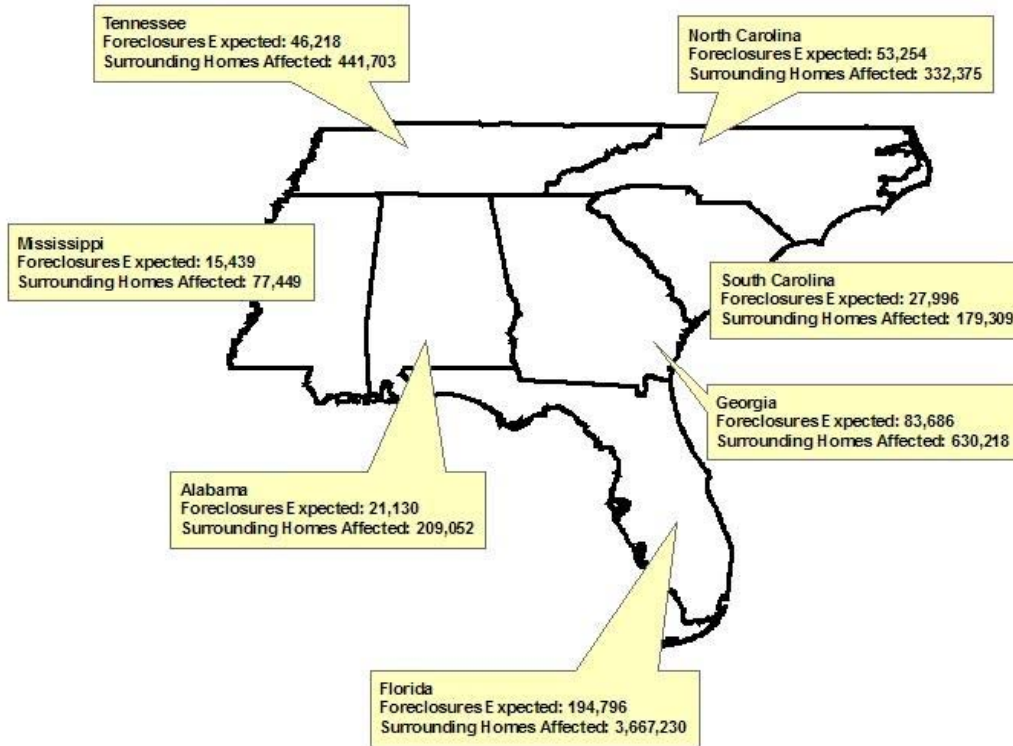
### **C. Spillover Effect of Subprime Foreclosure Crisis**

The Center for Responsible Lending projects that the negative spillover effect of the subprime foreclosure crisis will extend beyond individual families losing their homes to surrounding neighbors and the wider community. It estimates the following:

- **40.6 million neighboring homes will experience devaluation because of subprime foreclosures that take place nearby.**
- **The total decline in house values and tax base from nearby foreclosures will be \$202 billion.**
- **Homeowners living near foreclosed properties will see their property values decrease \$5,000 on average.**

In the southeast, the Center for Responsible Lending projects nearly six million homes will be lost or will lose value due to foreclosures.<sup>xix</sup> Map 1 illustrates the regional impact of foreclosures by state.

**Map 1**  
**Projected Foreclosure Impacts by State – Southeast Region**



Source: Center for Responsible Lending

With nearly six million homes affected directly or indirectly by foreclosures, the states and homeowners in the southeast region also stand to lose billions of dollars. Table 1 shows the economic losses projected in each state.

	Decrease in Home Value	Average Decrease in Home Value Related to Foreclosure
Alabama	\$ 406,000,000	\$ 1,940
Florida	\$ 35,900,000,000	\$ 9,777
Georgia	\$ 1,800,000,000	\$ 2,884
Mississippi	\$ 144,000,000	\$ 1,860
North Carolina	\$ 861,000,000	\$ 2,592
South Carolina	\$ 477,000,000	\$ 2,660
Tennessee	\$ 967,000,000	\$ 2,190

Source: Center for Responsible Lending

In Florida, the state with the highest rates of home value appreciation in recent years, homeowners and communities stand to lose over \$35 billion. Homeowners in other states will lose, on average, between two and three thousand dollars apiece.<sup>xx</sup>

### **Federal Policy Solutions to Subprime Foreclosure Crisis**

Current federal law provides insufficient protection against abusive practices that led to the subprime mortgage foreclosure crisis.<sup>xxi</sup> Efforts to address the crisis must include solutions that both reduce foreclosures on existing loans and address the deficiencies of the subprime lending market in the future. By seeking meaningful solutions to the subprime crisis, lawmakers will help the national economy recover and create safeguards against this kind of catastrophe in the future. The following recommendations are critical to moving forward.

#### **A. Permit Judges to Fix Distressed Home Loans.**

A strong solution to the current mortgage crisis is a small change to the bankruptcy code that would allow courts to make limited modifications to a mortgage loan when the borrower is facing foreclosure, ensuring that struggling borrowers stay in their home and the lender continues to receive a payment stream. This proposal, the “Emergency Home Ownership and Mortgage Equity Protection Act” H.R. 3609, has passed the House Judiciary Committee in a bipartisan compromise struck by Chairman Conyers and Representative Chabot.

The following facts make the proposal sound policy:

1) It is cost effective. Because the compromise legislation is limited to loans already in existence, it will have no detrimental impact on the cost or availability of credit going forward. Moreover, implementing this law would not require any funding from tax dollars.

2) It leaves the 2005 Bankruptcy Code intact. The proposal to allow court-supervised modifications for borrowers facing foreclosure does not implicate the 2005 Bankruptcy Code changes, but rather relates to an older provision of the law.

3) The proposal addresses existing inequities. Right now, investors and speculators may receive loan modifications in bankruptcy proceedings for the debt they owe on their yachts, vacation homes and investor properties. Yet current law bars middle-class homeowners from receiving a loan modification on mortgage loans.

4) It would prevent more foreclosures. Permitting bankruptcy judges to modify loans on primary residences could prevent as many as 600,000 foreclosures.<sup>xxii</sup> In reality, this remedy will accomplish its objective even without requiring most of these families to actually file for bankruptcy. Changing the Code will provide a template for modification and will give servicers the precedent and protection they need from lawsuits by tranches of investors who might otherwise object.

Making this small fix to the bankruptcy code will be a win-win for homeowners, lenders, neighbors, taxpayers and the economy as a whole. Homeowners can stay in their homes. Lenders will be guaranteed the fair market value of their house, which is more than they would receive at foreclosure sale, and without the lengthy delays and added expenses associated with foreclosure. Finally, loans can be modified quickly and effectively.

Parallel efforts are pending in the Senate as of this writing to allow court-supervised loan modifications. The “Save our Homes Act” S. 2136 and Title IV of the “Foreclosure Prevention Act” S. 2636 would go farther than the “Emergency Home Ownership and Mortgage Equity Protection Act”. Without costing taxpayers, the bills would save American families not facing foreclosure \$72.5 billion in wealth by avoiding 600,000 foreclosures.<sup>xxiii</sup> Additionally, a recent assessment of the likely impact of the proposals, if enacted, concludes that allowing modification would have “no or little effect overall on mortgage interest rates.”<sup>xxiv</sup>

### **B. Establish Standards for Sustainable Mortgage Origination**

Any solution to the foreclosure crisis also requires that we prevent such abuses from happening again, especially since so many people will need to refinance their current mortgages. In the fall, the House passed the “Mortgage Reform and Anti-Predatory Lending Act of 2007” H.R. 3915 which includes some needed protections. But, while that legislation is a good start, it needs to be strengthened. A bill has been introduced in the Senate, the “Home Ownership Preservation and Protection Act of 2007” S. 2452, which would also address some of the key abuses going forward.

To be effective at preventing a recurrence of today’s crisis, federal legislation should include the following:

- Require sensible underwriting to ensure that the borrower has the ability to repay a loan according to its terms, and take into account the “payment shock” associated with adjustable rate or non-fully amortizing loans.
- Eliminate prepayment penalties for subprime loans.
- Remove incentives for brokers and lenders to overcharge borrowers, and steer them into riskier, and more costly loans.
- Assure adequate accountability for all those who participate in these loans, and assure that the homeowners’ rights are enforceable, and available as defenses to foreclosure.
- Protect the right of states to enact strong laws for their own citizens, such as the one currently in effect in North Carolina. The federal law should be “a floor, not a ceiling,” and should not preempt stronger state laws.

As the Chart 2 above illustrates, North Carolina homeowners are facing a smaller foreclosure crisis than other southeastern states. One contributing factor is the strong state laws that protect consumers from abusive lending. By strengthening underwriting systems, the country will not only protect its homeowners, it will also restore the world’s confidence in our markets.

### **C. Require loan servicers to engage in an automatic and systematic loan modification strategy.**

With so many loans already in foreclosure or at risk of going into foreclosure, a systemic loan modification strategy is needed to support the greatest number of at-risk homeowners in the shortest amount of time. This would include two approaches. First, automatic loan

modifications should occur for borrowers facing rate resets on adjustable rate mortgages. The modifications would include changing adjustable rate products to fixed rate products and / or principal reductions to the present market value. Following the automatic loan modifications, case by case assistance would be available to anyone not affected by the automatic loan modification to conduct an options analysis on a borrower's long term ability to repay the mortgage. For those in need of assistance, provisions could be made through repayment plans, modifications or other strategies to bring the loan current.<sup>xxv</sup>

### **Conclusion**

The southeast region has been significantly affected by the foreclosure crisis – especially in African American communities. Repairs to the home mortgage market should take into account the gains that African-Americans have made in getting access to credit, but now it is time to ensure that such access is based on sustainable loans that actually help families build wealth, rather than those that are designed to fail. Homeownership has long been the primary asset owned by African-American families. By enacting strong foreclosure prevention policies and protections from predatory lending, the effects of the foreclosure wave can be muted and a foundation laid for building wealth in the southeast – especially in communities of color.

## Appendix A

### Conventional Purchase Loans with High Interest Rates by Income by State and Region

	North Carolina	South Carolina	Florida	Georgia	Tennessee	Alabama	Mississippi	Region Total	USA
Conv. purch. loans to very low-inc. borr. with high int. rates	4,558	2,902	3,602	7,918	4,857	2,893	1,292	28,022	119,231
Conv. purch. loans to very low-inc. borr. with rate information	12,430	6,929	12,265	17,985	9,913	5,933	2,016	67,471	317,774
Pct. Of Conv. purch. loans to very low-inc. borr. with high int. rates	36.7%	41.9%	29.4%	44.0%	49.0%	48.8%	64.1%	41.5%	37.5%
Conv. purch. loans to low-income borr. with high interest rates	13,272	6,801	23,196	24,141	11,385	6,189	3,379	88,363	401,739
Conv. purch. loans to low-income borr. with interest rate info.	38,030	18,322	63,254	56,920	27,599	15,378	5,924	225,427	1,088,034
Pct. Of Conv. purch. loans to middle-inc. borr. with high int. rates	34.9%	37.1%	36.7%	42.4%	41.3%	40.2%	57.0%	39.2%	36.9%
Conv. purch. loans to middle-inc. borr. with high interest rates	12,734	6,646	56,724	21,994	9,866	5,912	3,697	117,573	546,148
Conv. purch. loans to middle-inc. borr. with interest rate info.	45,325	22,329	140,987	62,217	31,596	18,034	8,069	328,557	1,623,995
Pct. Of Conv. purch. loans to middle-inc. borr. with high int. rates	28.1%	29.8%	40.2%	35.4%	31.2%	32.8%	45.8%	35.8%	33.6%
Conv. purch. loans to high-income borr. with high interest rates	13,662	7,622	123,024	20,288	9,936	6,914	5,183	186,629	884,694
Conv. purch. loans to high-income borr. with interest rate info.	90,220	51,830	443,628	91,316	53,139	34,174	17,796	782,103	3,509,007
Pct. Of Conv. purch. loans to high-inc. borr. with high int. rates	15.1%	14.7%	27.7%	22.2%	18.7%	20.2%	29.1%	23.9%	25.2%

Source: Dataplace, generated with 2005 Home Mortgage Disclosure Act data, [www.dataplace.org](http://www.dataplace.org)

## Appendix B

### Conventional Purchase Loans with High Interest Rates by Race by State

	North Carolina	South Carolina	Florida	Georgia	Tennessee	Alabama	Mississippi	Region Total	USA
Conventional purchase loans to Asians with high interest rates	720	318	5,922	1,594	401	196	114	9,265	88,293
Pct. of conv. purchase loans to Asians with high interest rates	15.5%	18.3%	25.2%	17.0%	19.6%	18.6%	22.3%	21.6%	23.1%
Conventional purchase loans to Asians	4,645	1,738	23,500	9,376	2,046	1,054	511	42,870	382,221
Conventional purchase loans to Whites with high interest rates	24,057	15,335	93,558	26,092	21,993	13,493	7,170	201,698	943,687
Pct. of conv. purchase loans to Whites with high interest rates	17.3%	19.2%	22.8%	20.2%	23.9%	23.6%	30.0%	21.7%	22.0%
Conventional purchase loans to Whites	139,058	79,870	410,342	129,168	92,021	57,174	23,900	931,533	4,289,486
Conventional purchase loans to Blacks with high interest rates	12,901	6,122	29,241	35,763	9,182	6,643	5,023	104,875	309,684
Pct. of conv. purchase loans to Blacks with high interest rates	55.8%	59.2%	58.3%	58.4%	58.5%	61.0%	69.8%	58.7%	59.7%
Conventional purchase loans to Blacks	23,120	10,341	50,156	61,238	15,696	10,890	7,196	178,638	518,734
Conventional purchase loans to Hispanics with high interest rates	3,143	926	77,302	5,219	1,206	586	230	88,612	456,142
Pct. of conv. purch. loans to Hispanics with high interest rates	41.4%	38.7%	49.5%	40.7%	40.1%	45.0%	46.6%	48.2%	53.0%
Conventional purchase loans to Hispanics	7,592	2,393	156,166	12,823	3,007	1,302	494	183,777	860,645

Source: Dataplace, generated with 2005 Home Mortgage Disclosure Act data, [www.dataplace.org](http://www.dataplace.org)

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- <sup>i</sup> Apgar, William C. and Mark Duda, *Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom*, Homeownership Preservation Foundation, May 11, 2005, p 8.
- <sup>ii</sup> Ellen Schloemer, Wei Li, et. al., *Losing Ground: Foreclosures in the Supprime Market and Their Cost to Homeowners*, p.11 (December 2006), available at <http://www.responsiblelending.org/pdfs/CRL-foreclosure-rprt-1-8.pdf>.
- <sup>iii</sup> See Schloemer, p.11.
- <sup>iv</sup> *Subprime Lending: A Net Drain on Homeownership*, CRL Issue Paper No. 14 (March 27, 2007), available at <http://www.responsiblelending.org/pdfs/Net-Drain-in-Home-Ownership.pdf>.
- <sup>v</sup> Amaad Rivera, et., al., *Foreclosed: State of Dream 2008*, United for a fair Economy (January 15, 2008), available at [http://www.faireconomy.org/files/pdf/StateOfDream\\_01\\_16\\_08\\_Web.pdf](http://www.faireconomy.org/files/pdf/StateOfDream_01_16_08_Web.pdf).
- <sup>vi</sup> U.S. Census Bureau 2006 American Community Survey. Mississippi Economic Policy Center calculations.
- <sup>vii</sup> See for example: Bunce, Harold, Debbie Gruenstein, Christopher E. Herbert and Randall M. Scheessele "Subprime Foreclosures: The Smoking Gun of Predatory Lending?" <http://www.huduser.org/publications/pdf/brd/12Bunce.pdf> and Schloemer, Ellen, Wei Li, Keith Ernst, and Kathleen Keest "Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners" Center for Responsible Lending, December 2006.
- <sup>viii</sup> Fishbein, Allen and Harold Bruce "Subprime Market Growth and Predatory Lending" <http://www.huduser.org/Publications/pdf/brd/13Fishbein.pdf>
- <sup>ix</sup> *Homeownership Rates By Race and Ethnicity of Householder: 1994 to 2006*, U.S. Census Bureau, <http://www.census.gov/hhes/www/housing/hvs/annual06/ann06t20.html>.
- <sup>x</sup> Dataplace. generated with 2005 Home Mortgage Disclosure Act data, [www.dataplace.org](http://www.dataplace.org). Mississippi Economic Policy Center Calculations.
- <sup>xi</sup> Apgar, William C. and Mark Duda, *Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom*, Homeownership Preservation Foundation, May 11, 2005, p 8. OR could say, "See note 1."
- <sup>xii</sup> 12 U.S.C. 2901 (1977).
- <sup>xiii</sup> Debbie Gruenstein Bocian, Keith S. Ernst, and Wei Li, *Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages*, Center for Responsible Lending, May 31, 2006, at 3, available at [http://www.responsiblelending.org/pdfs/rr011-Unfair\\_Lending-0506.pdf](http://www.responsiblelending.org/pdfs/rr011-Unfair_Lending-0506.pdf).
- <sup>xiv</sup> *Id.*
- <sup>xv</sup> *Id.*
- <sup>xvi</sup> Rick Brooks and Ruth Simon, "Subprime Debacle Traps Even Credit-Worthy: As Housing Boomed Industry Pushed Loans to a Broader Market", Wall Street Journal, Dec. 3, 2007, at A1.
- <sup>xvii</sup> Remarks by Governor Edward M. Gramlich At the Financial Services Roundtable Annual Housing Policy Meeting, Chicago, Illinois May 21, 2004.
- <sup>xviii</sup> Very low-income is defined as below 50% of the Area Median Income. Low-income is defined as 50%-80% of Area Median Income. Middle-income is defined as 80% - 120% of AMI and Upper-income is defined as greater than 120% of Area Median Income.
- <sup>xix</sup> The figures cited in Map 1 and Exhibit 1 were calculated by CRL using original projections of subprime foreclosures and spillover impact updated to reflect newer estimates of subprime defaults as reported by Merrill Lynch (The Market Economist, December 14, 2007) and Moody's Economy.com (<http://judiciary.house.gov/media/pdfs/Zandi080129.pdf>). Additionally, foreclosure estimates calculated using outstanding subprime loans reported by the MBA in its 3Q 2007 National Delinquency Survey; latter is also the source for the subprime foreclosure starts. Spillover results do not include areas outside of metropolitan statistical areas.
- <sup>xx</sup> Loss estimates were not calculated for communities that are not part of Metropolitan Statistical Areas (MSAs), and therefore are underestimated for states with large rural populations.
- <sup>xxi</sup> Legislative and regulatory responses to changes in the nature of the problems in the subprime market at the federal level have been slow to non-existent, while states have shown more nimbleness. Several states have enacted so-called "mini-HOEPAs" since 1999 to close the loopholes in the 1994 federal law (the "Homeownership and Equity Protection Act"). As the industry's underwriting got more reckless, and the products sold shifted to the riskier adjustable-rate mortgages, states again moved more rapidly to address the new model of abusive lending and reckless lending as Ohio, Minnesota, North Carolina, Maine, Illinois, and Colorado have enacted laws taking aim at these practices since May, 2006.

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<sup>xxii</sup> *HR 3609 Compromise Bill Permits Court-Supervised Modification, Would Save 600,000 Homes*, CRL Issue Paper (January 18, 2008), available at <http://www.responsiblelending.org/pdfs/hr-3609-support-brief.pdf>.

<sup>xxiii</sup> *Foreclosure Prevention Act of 2008 (S 2636) Compromise Bill Permits Court-Supervised Modifications, Would Save 600,000 Homes*, CRL Issue Brief (February 27, 2008).

<sup>xxiv</sup> Adam J. Levitin and Joshua Goodman, *The Effect of Bankruptcy Strip-Down on Mortgage Interest Rates*, p. 41 (Georgetown Univ. L. Cntr, Business, Economics and Regulatory Policy Working Paper Series Working Paper No. 1087816, February 6, 2008).

<sup>xxv</sup> "Foreclosure Prevention and Intervention: The Importance of Loss Mitigation Strategies in Keeping Families in Their Homes" written Testimony of Tara Twomey of Counsel National Consumer Law Center Before the United States House of Representatives subcommittee on Housing and Community Opportunity. November 30, 2007.