JOINT ECONOMIC COMMITTEE
SENATOR CHARLES E. SCHUMER
CHAIRMAN

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NEW JOINT ECONOMIC COMMITTEE REPORT REVEALS SERIOUS LOCAL ECONOMIC IMPACT OF SUBPRIME MORTGAGE FALLOUT ACROSS COUNTRY

Report Exposes Numerous Localities in Danger of Increasing Subprime Foreclosures; Each New Foreclosure Could Impose $80,000 in Costs to Families, Communities, and Businesses

JEC Chairman Schumer: 'As Lenders Try to Protect Their Bottom Lines, We Need to Protect American Families and Communities Too'

Washington, D.C. – **U.S. Senator Charles E. Schumer**, Chairman of the Joint Economic Committee, joined by Senators Sherrod Brown (D-OH), Bob Menendez (D-NJ), released a report today analyzing the subprime mortgage foreclosure problem and its economic impact on the most vulnerable communities nationwide. The report, entitled *"Sheltering Neighborhoods from the Subprime Foreclosure Storm,"* argues that foreclosure prevention is cost-effective and presents policy suggestions for curbing future subprime foreclosures. Schumer was joined by other members of the Joint Economic Committee and Senate Banking Committee as they pointed to the report's finding scores of seriously affected communities from the Rust Belt, to the Sun Belt, to the Northeast.

The full report can be found at www.jec.senate.gov.

Sen. Schumer said, "As subprime mortgage lenders scramble to protect their bottom lines, we need to redouble efforts to protect American families and communities who are at the losing end of this mess. The subprime mortgage meltdown has economic consequences that will ripple through our communities unless we act," Schumer said. "It makes good economic sense to make sure our families and neighborhoods are protected from rogue lenders and lax government oversight."

Increases in payment delinquencies and foreclosures in the subprime mortgage market have raised widespread concerns about the possibility of increasing, concentrated foreclosures throughout the country. While lenders and banks figure out how to insure themselves from the consequences of increased subprime mortgage defaults, local communities are also struggling to stem the tide of foreclosures that impose significant costs on families, neighborhoods and cities.

***Some of the key findings of the JEC report, which* can be found at www.jec.senate.gov are:**

- Subprime foreclosures are expected to increase in 2007 and 2008 as 1.8 million hybrid ARMS—many of which were sold to borrowers who can not afford them—reset in a weakening housing market environment.
- Varying local economies, housing markets and state regulatory regimes mean that some local areas are getting hit by the subprime foreclosure crisis much harder than others and deserve immediate attention.
- It pays to prevent foreclosures in these high-risk cities – every new home foreclosure can cost stakeholders up to $80,000, when adding up the costs to homeowners , lenders, neighbors, and local governments.
- Policy responses to the subprime crisis should be designed to address the local foreclosure phenomenon and include both foreclosure prevention strategies and improved mortgage lending regulations.

"No region of the country has been harder hit than the Midwest. And no state has a higher rate of foreclosed properties than Ohio. Almost one in four subprime loans is delinquent in the Cleveland area, and statewide it is one in five. Over the past decade, foreclosures have increased almost fourfold in Ohio. We are facing a full-blown housing crisis," said Sen. Brown.

Sen. Menendez said, "What we are facing is a tsunami of foreclosures. Just a few short years after home ownership levels soared to record highs, the harsh reality brought on by unreasonable mortgages has come crashing down on millions of homeowners. This report digs past the overall story to detail the devastation in America's communities. It is clear that a number of New Jersey communities have been hit hard, as have many others from coast to coast, and I am working in the Banking Committee to solidify the mortgage system. I applaud Chairman Schumer for shedding additional light on this widespread problem."

The JEC report includes state and local rankings by foreclosures and delinquencies using RealtyTrac's and First American Loan Peformance's data. The report shows that the Midwest "Rust Belt" (Ohio, Michigan, Illinois, and Indiana), the South and West "Sun Belt" (Florida, Georgia, Texas, California, Arizona and Nevada), and Colorado experienced the highest rates of foreclosures in 2006. The hardest hit metropolitan areas also include cities in the Northeastern corridor in New York, New Jersey and Pennsylvania.

The report also analyzes metropolitan areas that are most at risk of rising foreclosures, using February 2007 delinquency data, employment statistics, and housing market indicators.

“All predictions are that we are facing a tsunami of default and foreclosures in the subprime market as homeowners face steep increases in their monthly payments and housing values remain flat, making refinancing virtually impossible,” said Rep. Carolyn Maloney (D-NY), Vice Chair of the Joint Economic Committee and Chair of the House Financial Services Subcommittee on Financial Institutions. “The specific local crises documented by this study require swift action at both the state and national level. We will be looking closely at the report’s recommendations in the Financial Services Committee.”

The report argues that preventing foreclosures is cost-effective and recommends the following foreclosure prevention strategies for policymakers:

- **Increase Federal Support for Local Foreclosure Prevention Programs.** In the short-term, local community-based non-profits may be best positioned to implement foreclosure prevention programs. The federal government can assist established community-based organizations aid families facing foreclosure. Estimates suggest that foreclosure prevention costs approximately $3,300 per household, substantially less than the $80,000 in estimated costs of foreclosure.
- **Strengthen and Reform FHA.** The Federal Housing Authority (FHA) currently issues more than $100 billion in mortgage insurance annually for loans made by private lenders to low-income, minority and first-time buyers, but FHA has not provided insurance for borrowers in the subprime market.

The following policy proposals are being considered to prevent a reoccurrence of a large number of unsuitable loans originated by inappropriate lending practices:

- **Strengthen Regulation of Mortgage Origination at Federal Level.** Although bank lenders are subject to bank regulatory standards, mortgage brokers and loan officers in non-bank companies are not subject to federal enforcement of lending laws, only to state regulation. While some states have taken measures to improve the licensing and education requirements for non-bank brokers and lenders, many states could further enhance these requirements. Federal standards could include licensing for individual brokers and lenders (not just companies) and minimum education and experience standards.
- **Create a Federal Anti-Predatory Lending Law that Bans Unfair and Deceptive Practices.** Currently, no anti-predatory lending law exists at the federal level, but such a law is being considered in Congress. In the process, lawmakers should investigate whether they should prohibit certain types of harmful loan provisions and practices, like pre-payment penalties, stated income or low documentation loans. In addition, lawmakers should also consider requiring all subprime loan borrowers to escrow property taxes and hazard insurance.
- **Establish Borrowers’ Ability to Pay Standard**. In the financial services sector, investors are required to meet a “suitability standard” prior to being allowed to invest in certain products, based on their ability to afford the risk. A similar test should be considered for mortgage borrowers and lenders. Many exploding ARMs were approved based on the borrower’s ability to pay the mortgage payment during the initial “teaser” rate period, not over the life of the loan. A stricter standard to determine borrowers’ ability to make mortgage payments will protect homeowners and prevent foreclosures.
- **Enhance Disclosure Practices for Mortgage Products:** The details of teaser rates, interest-only payments and “pick a payment” products should be clearly and effectively communicated to potential borrowers. These disclosures must be

written in plain language and be prominently displayed in a manner that is clear and understandable to the borrower. Enhanced disclosure practices should include a table that clearly displays a full payment schedule over the life of the loan, all fees associated with the loan, an explanation of the "alternative" features of the loan (i.e. negative amortization), and a full explanation of the risks associated with taking advantage of these features, including the timeframe in which borrowers are likely to feel the negative effects of such risks.

The Joint Economic Committee, established under the Employment Act of 1946, was created by Congress to review economic conditions and to analyze the effectiveness of economic policy.

www.jec.senate.gov

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