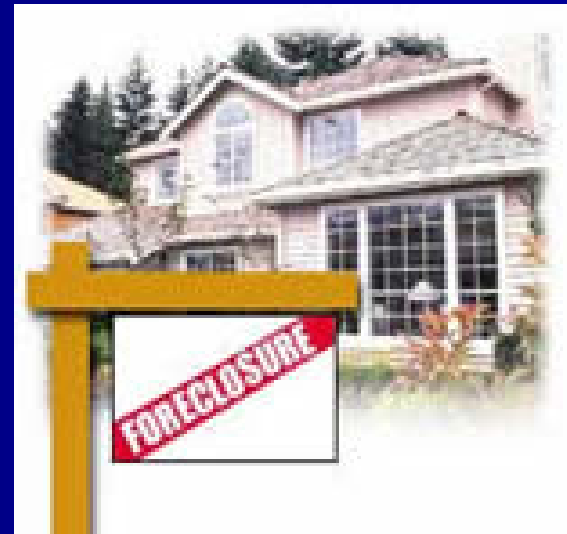


Legislative Response to Mortgage Crisis

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- Twenty years ago, the subprime mortgage market barely existed. There were a few lenders and brokers who offered these loans, but for the most part, borrowers with credit problems simply could not get a mortgage.
- Financial institutions that made mortgage loans kept those loans on their books.
- If borrower had questions or issues they would typically contact the bank or credit union branch from where they got the loan.
- This era of mortgage lending was also marked by a lack of credit in low income communities and the practice of "redlining."

With the advent of securitization more risky products entered the market place:

- **Interest only** loans that let borrowers only pay interest on their loans for a predetermined time period.
- **Deferred interest or negative amortization** loans which allow borrower to pay less than what is necessary to cover interest and principle.
- **Option ARMS** that give borrowers the option of choosing from different types of payments each month, with some choices not covering principle and interest. These types of loans lead to negative amortization
- **Stated income loans**, based upon a borrowers representation of their income without any supporting documentation

What spurred this crisis

┌ **Deterioration of loan underwriting standards**

- Lenders did not adequately calculate the risk associated with certain products.
- They were not designed for long term stability, but to get a "foot in the door."
- Risky products that offered brokers and originators higher fees also increased the incentives to engage in predatory practices.
- Home values and appraisals were inflated.

■ **Variable rate resets**

- 2/28 and 3/27 loans reset to higher rates after the initial "teaser" rate.

■ **Softening employment**

- Local economies an important factor in subprime default.

■ **Slowdown in home price appreciation**

- Previously erased effects from other factors

The results

- In late 2006 these risky loans begin to under-perform leading to defaults.
- It became apparent that this first wave of defaults were indicative of a much larger problem and borrowers were stuck with volatile loans and declining property values.
- For example, the typical increase in monthly payment on ARMS in the 3rd year was 30%-50%

California State Assembly Response

- **AB 2594 (Mullin Núñez)**
 - Allows a redevelopment agency to use money tax increment funds to purchase, assume or re-finance sub-prime mortgages on homes owned by persons of low or moderate income, or make loans to eligible homeowners of low or moderate income anywhere within the community. And allows an agency to manage, maintain or rent vacant and foreclosed homes purchased with tax increment prior to resale.

■ **AB 69 (Lieu) Mandatory Reporting and Data Collection:**

- The Bush plan does not require lenders or loan servicers to report what they are doing. This bill requires lenders to submit data on a monthly basis outlining their contacts with distressed borrowers and their on-going loan modification efforts.

■ **AB 180 (Bass) Foreclosure Consultant Reform:**

- Revises the law related to foreclosure consultants to ensure that those facing foreclosure do not become further victimized by scams or outrageous fees. Provide for a registration process for persons acting as foreclosure consultants.

■ **AB 529 (Torrico) Notification of Rate Reset:**

- Require lenders to notify borrowers at least 3 months prior to the date that their adjustable rate loan resets.

AB 2161 (Swanson) Mortgage lender complaint

processing: Require lenders who engage in subprime lending to have a dedicated complaint processing system to handle borrower complaints and assist borrowers with workout opportunities. Also requires lenders to document complaints and submit complaint logs to their regulator.

AB 2509 (Galgiani Carter): Require BT&H to establish and administer the Homeownership Preservation Mortgage Guarantee Program.

AJR 45 Coto:

Urges the President and Congress to permanently increase the federal conforming mortgage loan limit to 125% of the area median price in high-cost areas, but in no case to exceed \$729,750.

Federal Legislation

- **HR 3221 American Housing Rescue and Foreclosure Prevention Act of 2008:** The legislation combines a number of bipartisan bills including measures to modernize the FHA and reform the GSEs, which will provide crucial liquidity to our mortgage markets now, and also strengthen regulation and oversight for the future. In addition, the housing package will help families facing foreclosure keep their homes, help other families avoid foreclosures in the future, and help the recovery of communities harmed by empty homes caught in the foreclosure process.

Special acknowledgment and thanks to
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Assembly Website Relating to Foreclosure Crisis

<http://adc.asm.ca.gov/issues/MortgageCrisis/>