



Defaulting on the Dream:
States Respond to America's Foreclosure Crisis

United States



PROJECTIONS SHOW THAT ONE IN 33 CURRENT U.S. HOMEOWNERS could face foreclosure by the end of 2010 because of subprime loans. Almost a year after states and consumer advocates called for federal action, Congress responded to the country's growing foreclosure epidemic with the Housing and Economic Recovery Act of 2008, signed into law July 30. On July 14, 2008, the Federal Reserve Board strengthened the Truth in Lending Act to include common sense underwriting standards, including verifying the borrower's ability to repay the loan, verifying the borrower's income, banning pre-payment penalties on loans that can change in the first four years, and requiring creditors to establish escrow accounts to account for insurance and property taxes on all first-lien mortgages.

ASSESSMENT: Homeownership is not only the primary vehicle through which American families build financial security—it's also an essential building block of our national economy. Federal and state lawmakers play an important role in addressing this crisis. States were the first to act, but in July 2008, federal legislators put in place a bill that created loan regulations and limits, allocated \$4 billion for states to redevelop abandoned and foreclosed properties and affected neighborhoods, and designated \$300 billion for homeowners in danger of foreclosure to refinance into affordable FHA loans. The bill also expanded foreclosure mitigation counseling efforts. This legislation also encouraged states to participate in a national licensing process for the mortgage industry.

**As of December 2008*

THE FACTS: The ripple effects of the foreclosure crisis

- **1 in 33** homeowners is projected to experience foreclosure on their home as a result of their high-cost loan
- **26 percent** of all loans made in 2005-2006 were subprime
- **43.5 percent** of all homeowners will likely feel the ripple effects of foreclosures from subprime loans
- Affected homeowners are expected lose **\$8,771** on average from property values
- The U.S. is projected to lose **\$356 billion** from its state and local tax base

THE RESPONSE: Preserving a piece of the dream

GOALS	ACTIONS	STATUS*
Avoiding foreclosure	State-funded refinance program	■
	Loan modification	■
	Preventing rescue scams/ Mortgage fraud	□
	Counseling available	■
Using all your tools	Task force	□
Pre-empting high-cost lending	High-cost lending laws	■
	Aligns mortgage broker to consumer interests	■

■ = action taken □ = no action taken

**As of October 1, 2008*

THE FORECLOSURE NUMBERS:

The projections above are from the Center for Responsible Lending's subprime spillover research, updated in February 2008. These estimates focus on foreclosures resulting from subprime loans made to owner-occupants in 2005 and 2006. For a full description of the methodology, please see *Defaulting on the Dream: States Respond to America's Foreclosure Crisis*, released in April 2008 and available at www.pewcenteronthestates.org.



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