

At-a-Glance:
Top Policies for Addressing the Foreclosure Crisis
August 2009

1. Establish an independent agency dedicated to protecting consumers against bad lending practices.

In brief: Today's foreclosure crisis shows the need for an accountable authority dedicated to preventing this kind of catastrophe. Responsibility for consumer financial protections is now scattered across several federal agencies, many of whom are funded by the very companies they are supposed to police. A House bill (H.R. 3126) proposes to create an independent watchdog, the Consumer Financial Protection Agency, with the single mission of protecting families and the economy from financial abuses in mortgages, credit cards, bank overdraft fees, and other financial products. The proposed agency would write and enforce rules while letting state regulators step in quickly when a local problem arises. Such an entity would bring much-needed focus to consumer protections without increasing the regulatory burden on the financial industry.

2. Make voluntary foreclosure prevention programs more effective and reach all those who qualify.

In brief: Two primary federal programs are in place to prevent continuing foreclosures: the Treasury's Home Affordable program, and HUD's Hope for Homeowners (H4H). However, industry participation in these programs is voluntary, and the results so far have been disappointing. H4H has not even begun to fulfill its promise. The Home Affordable program has resulted in more loan modifications, but the number continues to be dwarfed by ongoing surges in foreclosure starts and serious delinquencies. An August 2009 Treasury report showed that only 9% of homeowners who might be eligible to participate in the loan modification program have received help. It is becoming increasingly clear that voluntary measures may not be enough. These programs need to be strengthened substantially and supplemented with Congressional mandates that will address continuing foreclosures on a larger scale.

3. Allow qualified homeowners to restructure mortgages under court supervision.

In brief: At least 800,000 homes could be saved if Congress reformed the bankruptcy law to allowing qualified families to seek court-supervised loan changes on their primary mortgage. By empowering distressed homeowners to seek such relief, courts would have the option to reduce a loan's balance to bring it in line with the property's current value after homeowners have exhausted all other options. The House approved this proposal earlier this year, but the Senate failed to pass the measure. Now, with massive foreclosures continuing and

spreading negative effects throughout the economy, Congress may reconsider bankruptcy reform. This option—which is already available to people who want to modify loans for vacation properties and other luxury assets—would not require any government or taxpayer funds.

4. Prevent predatory and reckless lending in the future.

In brief: A federal law with sensible lending rules would guarantee minimum protections nationwide and would help stop reckless lending practices that have cost our nation trillions of dollars in direct costs and spillover effects. The House has passed a bill (H.R. 1728) that would help require sensible and sound standards for loan underwriting, servicing and property appraisals, but there is no bill yet pending in the Senate. In July, the Federal Reserve Board took a very positive step by releasing a proposal to ban “yield-spread premiums,” routine kickbacks received by brokers for overcharging home buyers, and this proposal needs to be finalized as soon as possible.

In addition, CRL supports these policies to help distressed homeowners and help strengthen the economy:

- Reduce tax burdens related to loan modifications. Foreclosure prevention is seriously undermined when struggling homeowners are faced with cumbersome reporting requirements and even more debt through cancellation of debt taxes.

- Strengthen oversight of the FHA and provide more resources. As subprime and Alt-A markets have dried up, the FHA has become a primary source of loans for people who can’t get a conventional mortgages. Potential for abuses are high, and the agency needs adequate funding to meet today’s challenges.

- Improve private efforts to prevent foreclosures. Congress should amend the Real Estate Settlement Procedures Act of 1974 to require loan servicers to engage in reasonable loss mitigation activities before foreclosing.

Links to Additional CRL Resources

“Financial Reform that Protects Consumers”

<http://www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/reform-banks-now.html>

Six Principles for Real Reform

<http://www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/six-principles-for-real-reform-balancing-bank-safety-and-sensible-lending.html>

“Mortgage Repairs Lag Far Behind Foreclosures”

<http://www.responsiblelending.org/mortgage-lending/research-analysis/mortgage-repairs-lag-far-behind-foreclosures.html>

“Current Trends in Foreclosure and What Can Be Done to Prevent Them,”

testimony before the Joint Economic Committee
<http://www.responsiblelending.org/mortgage-lending/research-analysis/mortgage-repairs-lag-far-behind-foreclosures.html>

"A Tax-Free Foreclosure Solution: Loan Mods Through the Courts"

<http://www.responsiblelending.org/mortgage-lending/policy-legislation/congress/a-tax-free-foreclosure-solution-loan-mods-through-the-courts.html>

"Proposed Fed Rules on Mortgages Hold Great Promise" (press statement)

<http://www.responsiblelending.org/media-center/press-releases/archives/proposed-fed-rules-on-mortgage-lending-hold-great-promise.html>

Mortgage Reform Bill Passes House (press statement)

<http://www.responsiblelending.org/media-center/press-releases/archives/mortgage-reform-bill-passed-by-the-house.html>

Soaring Spillover Cost of Foreclosures

<http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-accelerating-foreclosures-to-cost-neighbors-436-billion-in-2009-alone-73-4-million-homes-lose-5-900-on-average.html>