



## Foreclosures and Lost Wealth from Subprime Lending in North Carolina

**The Subprime Crisis:** The subprime foreclosure crisis has caused enormous economic upheaval all over the nation, and North Carolina is no exception. Foreclosure starts in North Carolina have increased three fold in recent years, going from less than 17,000 in 1998 to almost 50,000 in 2007, and possibly going as high as 60,000 in 2008.

Subprime mortgages are high-cost home loans intended for people with weak or blemished credit histories. The subprime market has been rife with problems that are rare in the mainstream prime market: excessive fees, high penalties for refinancing, refinances that provide no real benefit to homeowners and steering families into more expensive loans when they qualify for a better rate.

In recent years, subprime lenders and brokers flooded the market with dangerous mortgages that came with “exploding” adjustable interest rates and other high-risk features. When borrowers expressed concern, lenders told them not to worry: “You can refinance later.”

Today very few homeowners struggling with abusive subprime loans will be able to sell or refinance, and the entire economy has been damaged by reckless lending. Unless Congress takes action quickly, everyone will be harmed: not only the families who lose their homes, but also surrounding neighborhoods that lose property value and continuing damage to our national economy. Though the situation in North Carolina is not as bad as in some parts of the country, the damage to families, neighborhoods and the state’s economy will be widespread, particularly in communities of color.

For the latest news on current legislative proposals on the state and federal level, please visit [www.responsiblelending.org](http://www.responsiblelending.org).

### The Facts

<b>Foreclosure starts in NC are increasing dramatically<sup>1</sup></b>	
Typically about ½ of foreclosure starts result in an actual foreclosure, however this ratio may be closer to 2/3.	
Increase in foreclosure starts 1998-2007:	199% 16,661 to 49,754
Increase in foreclosure starts 2006-2007:	9.4% 45,474 to 49,754

<b>Projected foreclosure impact in NC - February 2008<sup>2</sup></b>	
Foreclosures expected to occur (primarily 2008-2009)	53,254 homes lost
<b>Spillover impact:</b>	
Surrounding homes suffering price declines caused by nearby foreclosures	332,375 homes
Decrease in home value/tax base	\$861 million
Average decrease in home value per unit affected	\$2,592
<b>North Carolina Subprime Racial Disparities<sup>3</sup></b>	
Proportion of 2006 home loans to African American families that were subprime:	43%
Proportion of 2006 home loans to Hispanic and Latino families that were subprime:	30%
Proportion of 2006 home loans to white non-Hispanic families that were subprime:	17%
<b>Pending Federal Legislation H3609, S2636</b>	
<b>Expected benefit of court-supervised modifications for NC families</b>	
Reduced foreclosures (primarily 2008 & 2009)	13,314 <b>fewer</b> homes lost
Savings in home values/tax base	\$215 million <b>saved</b>

<sup>1</sup> NC Administrative Office of the Courts 1/15/08

<sup>2</sup> Original CRL 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. CRL reports on subprime foreclosures and spillover impact available at

<http://www.responsiblelending.org/issues/mortgage/research/page.jsp?itemID=31217189> and <http://www.responsiblelending.org/issues/mortgage/research/subprime-spillover.html>

<sup>3</sup> CRL analysis of the 2006 Home Mortgage Disclosure Act (HMDA) data reported by the Federal Financial Institutions Examination Council, at <http://www.ffiec.gov/hmda/default.htm>.

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