NEW YORK STATE SENATOR

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Rate, That's Not All!

JEFFREY D. KLEIN September 17, 2007

BRONX, NY-In response to today's announcement by the U.S. Central Bank that interest rates would be cut to help ease the burden on banks caused by the current crisis in the sub-prime lending market, Senator Jeff Klein (D-Bronx/Westchester), who issued a report as recently as August on sub-prime mortgages in New York State, said the following:

"This is a bailout for the banks rather than a resolution for the borrower: it addresses only one aspect of the problem. We need to work with brokers to craft a strategy by which average Americans can keep their homes out of the grips of certain greedy lenders. It will be better for the homeowner, better for the banks, the market, and ultimately better for society at large. I have already taken steps to work with Countrywide and other lenders to offer alternatives to homeowners and lenders alike."

Klein, who is leading a series of state-wide public hearings on the issue with his colleagues in the senate democratic conference, made the following policy recommendations:

- The Fed should not simply manipulate the market but must work to maintain current ownership levels. Maintaining homeownership will stabilize the housing market, appraised values, assessed values, social service expenditures, and property taxes.

- Banks should seek to renegotiate the terms of the loan rather than foreclose on the home. A vacant property is of lesser long term value to a bank, as well as a blight on the community.

As recently as 2001, New York had a relatively low sub-prime foreclosure rate, but rising interest rates, slowing home sales and rapid growth in sub-prime lending volume have pushed New York up to a tie for the fifth-highest projected foreclosure rate in the nation. Of the sub-prime mortgages originated in 2005, more than 20% are expected to eventually end in foreclosure.

Klein's report found foreclosures rising at an alarming rate throughout the metro area. In the last 13 months (from July 2006-July 2007), there have been 14,559 foreclosure filing in New York City alone, as well as an additional 5168 in suburban Westchester and Nassau Counties, for a metro total of 19,729. According to industry experts, New York State as a whole is on pace in 2007 to exceed the number of mortgage foreclosure filings in 2006 by a staggering 60%.

Klein's report also takes a closer look at the top ten lenders in foreclosure filings. For the metro area, the top 3 foreclosing banks Deutsche Bank (2,299), Wells Fargo (1,791) and U.S. Bank, N.A. (1711) combined for 5,801 foreclosure filings in the past 13 months, or 29.4% of the total. The top 10 foreclosing banks accounted for 54.9% of the metro area foreclosures with 10,832 foreclosure filings in the study period. Foreclosure data only records the owner of the loan at the time of its default, so these lenders may not be the originators of the loans, but rather may have purchased them from other lenders.

In April, Senator Klein introduced S5310 directing the State Mortgage Authority (SONYMA) to offer a program to help low and middle-income families prevent foreclosure by refinancing existing sub-prime loans with a fairer, non-predatory home mortgages. While that measure has not yet passed, SONYMA announced a new $100 million initiative in July to offer refinancing for at-risk homeowners currently stuck in sub-prime mortgages. Senator Klein has also introduced S6394, the "New York Sub-Prime Predatory Lending Prevention Act." The measure would include additional consumer protections on sub-prime home mortgage loans, including a prohibition on loan flipping when there is no tangible benefit to the buyer and a requirement that the lender verify the borrower's ability to repay the loan.