

ARTICLE FOR SPRING 2008 AGENDA

SUBPRIME MORTGAGE CRISIS IN NYC

High-cost mortgage lending characterized one out of three loans in New York City in 2006 and has continued growing. Neighborhood Housing Services of New York City has for 25 years assisted lower income families in minority neighborhoods to get responsible and affordable mortgages totaling \$135 million. On April 9, 2008 the CEO of Neighborhood Housing Services, Sarah Gerecke, a Harvard-trained lawyer, met with WCC's Housing and Planning Committee to talk about how high cost and subprime lending is victimizing minority neighborhoods in NYC.

To examine the causes and consequences of the subprime mortgage crisis and remedies to relieve it, Ms. Gerecke began by recounting the story of a misinformed buyer who suffered foreclosure. Carol, a transit worker with \$10,000 in savings, earned \$32,000 a year and lived in Bedford-Stuyvesant in a one bedroom apartment with two grandchildren. She was talked into buying a three-family house from which she was promised rental income; the seller would provide the tenants. The down payment was \$9,995, the first mortgage payment 1%, or \$1500. She signed.

"I felt so stupid when I realized there were no tenants," Carol told an NHS counselor whom she belatedly consulted after foreclosure on her new apartment. The low interest rate turned out to be a one-month deal which went up to an 8.5% rate the next month. And there was no water on the second floor.

Despite massive misrepresentation by the broker, the documents and paper work were all legal. Page 34 stated that the favorable 1% rate was for one month only and would go up; that she was buying the house "as is," and there was no warranty. "When someone like Carol comes to us there is very little that can be done," Ms. Gerecke noted.

The seller employed the mortgage broker and the lawyer supplied to represent Carol in the transaction. The loan was immediately sold into a bundle of securities so it is virtually impossible to trace the current owner.

The irony is, Ms. Gerecke pointed out, that Carol's credit was good enough that she could have bought a \$150,000 co-op at the prime rate and been a responsible payer. "But because she had no counseling and was fooled she ended up in a horrible situation. If you are educated, have gone through classes on how to buy a home, work with a certified housing counselor, this does not happen to you," she stated. Federal studies show that over half the borrowers in the subprime market could have qualified for conventional loans.

Not only the borrowers, but the investors who bought subprime loans have been defrauded. Rating agencies rated such paper as AAA. It was a shock to Wall Street when these mortgage pools did not perform as predicted.

And there was an assumption throughout the system that there was some regulatory protection. "If you buy a used car there is more protection than if you buy a house," Ms. Gerecke observed.

Sarah: Is this accurate?

Price appreciation is another cause of the subprime mortgage crisis. Across the U.S. home prices went up 74% from 2000 to 2006, Ms. Gerecke stated. But incomes rose only 15%. And when returns to mortgage investors were not as advertised, money for lending dried up and prices decelerated.

The crisis has especially impacted Latino and African-American neighborhoods. In Jamaica and Bedford-Stuyvesant more than 50% of mortgages were high cost loans, according to Ms. Gerecke, compared with only 1% in Manhattan.

What are the solutions? One remedy under consideration is a foreclosure moratorium for some period of time. Other proposals include allowing the restructuring of mortgages in bankruptcy court and authorizing FHA to purchase the mortgage at a discount and modify the terms. Differences between Congress and the administration are holding up action.

Counseling of home buyers is urged by Ms. Gerecke as a way of preventing mortgage problems. The newly passed budget for New York State provides \$25 million for housing counseling, which can be accessed through the New York State Banking Department.

The Center for NYC Neighborhoods, composed of city agencies, nonprofits and the private sector, has been formed to coordinate action in New York City. It is presently in the process of organizing. And counseling is supposed to be available through the NYC complaint line, 311, and a national hotline, 1-888-995-HOPE.

The crisis has promoted a plethora of ads offering to lower interest rates for mortgage borrowers in distress, but most of these are scams, Ms. Gerecke reported, giving relief for only a month or so. In response, the NYC Department of Consumer Affairs is asking people to join its "Stop Predatory Practices" campaign. Persons who are aware of ads or businesses engaging in what might be deceptive practices are asked to contact the Department of Consumer Affairs who will investigate whether the city's laws have been violated. This is particularly useful for those who are aware of misleading promises about debt and credit repair, foreclosure rescue scams; or other financial swindles. For a copy of the NYC Department of Consumer Affairs reporting form, please contact the WCC office at 212.353.8070 x 203, or request a copy of the form from 311.

Written by Marilyn Wellemeyer

Reviewed by Fran Levenson and Barbara Chocky

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