



Defining the problem

The economic effects of defaulted property is hitting the U.S. like a tsunami, rippling thru each state and impacting neighborhood values, government revenue and crime.

The wave of foreclosures began with creative subprime lending. Unfortunately many consumers who chose those loans didn't fully understand the terms and/or cannot make the mortgage payment once the loan resets.

According to the International Herald Tribune, *more than 44 percent of all subprime loans in 2006 were based on limited documents or none at all.*

It's no wonder that some of the largest financial institutions have weathered this financial storm poorly, including: Countrywide Financial, WaMu, Fannie Mae and Citigroup.

That economic effect is direct; 16,000+ people within the financial business sector lost their jobs. With that, incomes are gone, more mortgages default, consumer spending weakens, property values decline and violent crime increase.
(source: www.MortgageDaily.com)

Increase in violent crime

- Markets with a high number of defaulted properties are seeing an increase in violent crime due to abandoned houses. (www.ACORN.com)
- It's estimated that each foreclosure generate between \$430 and \$19,227 in direct costs to cities for police work to combat crime.
(Source: Homeownership Preservation Foundation)

A decrease in market value

- The Baltimore Sun reports that the Center for Responsible Lending's study projects more than 329,000 homes will lose value because of their neighbors' subprime woes.
- The Woodstock Institute, a nonprofit that promotes community reinvestment and economic development in lower-income and minority communities, found that each defaulted property lowers the value of neighboring properties by 0.9 percent.

3 impacts to government revenue



1. Foreclosure reduces property tax revenue.
 2. Lower property values reduces wealth, which tightens credit conditions, which decreases home equity lines of credit, which reduces consumers from buying taxable goods.
 3. Fewer home sales reduces Transfer Fees.
- Translation: State and local governments probably will be forced to choose between raising taxes to maintain services or cutting services to balance their budgets.

Economic cost to Palm Beach County

According to the Association of Community Organizations for Reform Now 136 homeowners who took out subprime loans in 2006 will lose their home to foreclosure when their rates reset.

- The stakeholder cost will exceed \$160 million:
- Value of individual foreclosures: \$978,804
 - Cost to lenders and investors: \$149,486,268
 - Cost to local government: \$2,613,815
 - Neighbors' lowered home values: \$7,008,237

*Lack of money
is the root of all evil*

- George Bernard Shaw

Legal matters

- www.Money.CNN.com reports about a “Subprime Bailout” plan from President Bush *offers help to 1.2M; Mortgage interest rates will be frozen only for ARM borrowers who are not yet in foreclosure.*
- www.NPR.org explores if the “Subprime Bailout” is a good idea or a moral hazard.
- The Federal Reserve Board Bank reviews lending practices in the Senior Loan Officer Opinion Survey On Bank Lending Practices report. It addresses changes in the supply of, and demand for, bank loans.



Money management

- The Joint Economic Committee published *Solid Economic and Jobs Growth Despite the Drag from Housing* report. (11/7/2007)
- Moody’s cut ratings or placed on review 496 bonds backed by first mortgages issued in 2007.
- S&P had cut ratings on 433 securities from last year that were backed by subprime loans.
- Fitch cut ratings on \$18.4 billion of bonds backed by subprime loans

Something to consider

When deciding which financial institution to work with, ask if they have a Community Outreach program. If they don’t, you might want to do business with another company.

On a positive note

The default crisis created a need for financial sector to be translucent, and the following organizations have gained recognition for their responsibility efforts.

- ShoreBank is America’s first community development bank holding company. They’ve been recognized as one of America’s Best Leaders (2007), and their “Rescue Loan Program” has been featured on PBS.
- The National Association of Hispanic Real Estate Professionals is fighting predatory loan practices with a code of trust. Their goal is to regain and maintain the public’s confidence and protect all consumers.
- HUD shows “counseling is an extremely effective way to help people facing foreclosure improve communication between customers and lenders.” They recommend the National Foundation for Credit Counseling as a communication source.

International effects

The municipality of Narvik, Norway (population 18,000) got caught up in the default crisis after making two investments tied to U.S. subprime securities.

One-fourth of their \$163 million annual budget was invested with securities linked to municipal bonds in the U.S. The value declined. Payroll for municipal workers were missed, resources for nursing homes kindergartens, and cultural institutions were cut.

Since then, Norway’s financial regulation agreed the Securities brokers misled the town and revoked their license. Their parent company (Terra Group) is owned by 78 savings banks. They remain in business, and they’ve rejected calls for them to compensate the town.

(source: New York Times, November 30, 2007)