



Legislation Text

File #: Res 1112-2007, **Version:** *

Res. No. 1112

Resolution denouncing foreclosures precipitated by subprime and predatory lending, and supporting state and federal legislation that regulates lenders and assists borrowers engaged in subprime mortgages.

By The Speaker (Council Member Quinn) and Council Members Comrie, Dilan, Seabrook, Fidler, James, Vann, Weprin, Barron, Brewer, Dickens, Eugene, Foster, Gennaro, Gerson, Gonzalez, Koppell, Liu, Nelson, Recchia Jr., Sanders Jr., Sears, Stewart, DeBlasio, White Jr. and Jackson

Whereas, Subprime mortgage lending is the practice of granting mortgages to borrowers with poor credit histories, typically at high interest rates, and is often the financing of last resort for people to whom other financial avenues are not available; and

Whereas, The originators of traditional mortgages generally permit some level of flexibility between the lender and the borrower, in contrast to the originators of subprime mortgages, who often force a borrower on the verge of default into foreclosure or to sell his or her home; and

Whereas, Subprime lending is often associated with predatory lending for its perceived tendency to lure unsophisticated borrowers to enter into agreements that they are incapable of honoring, thereby increasing their risk of default, seizure of collateral, and foreclosure; and

Whereas, Subprime mortgages have thrived over the past decade, growing from a share of 9 percent of all mortgages in the period between 1996 and 2004 to a share of 21 percent of all mortgages in the period between 2004 and 2006, and accounting for \$600 billion of the U.S. home loan market in 2006; and

Whereas, The economic bubble in the housing market that burst in 2005 has caused hundreds of thousands of borrowers to default on their mortgages and several subprime lenders to file for bankruptcy, wreaking havoc on the mortgage-backed securities market, the housing market, and local and international economies; and

Whereas, Foreclosure filings in the United States in September 2007 accounted for nearly twice the number of filings during the same month the previous year, increasing from 112,210 in September 2006 to 223,538 in September 2007, leading to a foreclosure rate of one filing for every 557 households in September 2007; and

Whereas, The Mortgage Bankers Association reported that 550,000 homeowners with subprime loans began a foreclosure process over the past year, a figure that is expected to increase dramatically in the near future; and

Whereas, While subprime lenders do overlook previous negative credit histories and provide loans to individuals who might not otherwise receive them, numerous reports have found that they frequently target racial minorities, the elderly and the less educated; and

Whereas, Studies have revealed systematic discrimination in the subprime lending industry, with higher rates of subprime mortgages appearing in neighborhoods that are predominantly African-American and Hispanic than in those that are predominantly Caucasian but with similar income demographics; and

Whereas, The U. S. Congress recently introduced several bills aimed at preventing or otherwise mitigating the effects of subprime mortgage foreclosures, including S. 2133, which would provide assistance and relief to low- and moderate-income individuals who find themselves at risk of foreclosure; S. 2114, which would amend the Truth in Lending Act to provide for enhanced disclosures to borrowers and enhanced regulation of mortgage brokers; and the companion legislation for H. R. 3648, which would, under certain circumstances, exclude cancellation of mortgage debt on primary residences from gross income for the purposes of taxation; and

Whereas, A number of bills are also being considered in the New York State legislature that would further protect unwitting borrowers entering into subprime mortgages, including A. 8973, which would require greater transparency and education in the borrowing process; A. 8357, which would protect low-income and minority consumers from predatory lending and potential foreclosure; A. 8881, which would enact a statewide

moratorium on the foreclosure of predatory subprime mortgages and establish a temporary state commission to study subprime lending practices; A. 8972-A, which would regulate the issuance of subprime and nontraditional home loans; S. 6394-A, which would enhance borrower protections for subprime loans; and S. 6454, which would amend the New York State tax law to exempt debt forgiveness resulting from mortgage foreclosure from being taxed as a part of adjusted gross income; and

Whereas, Legislatures in over 30 other states have also introduced bills aimed at curtailing predatory lending practices and foreclosure, and have initiated measures to protect borrowers who engage in subprime mortgages; and

Whereas, The subprime mortgage crisis has led President George W. Bush to call on the Federal Housing Administration to expand its federal mortgage insurance program to include an additional 80,000 homeowners with poor credit histories, a 50 percent increase over the annual average number of participants; and

Whereas, While it is important for individuals interested in purchasing a home to be able to acquire the resources to do so, it is equally essential that mortgage terms are fair and do not further exacerbate a precarious financial situation; now, therefore, be it

Resolved, That the Council of the City of New York denounces foreclosures precipitated by subprime and predatory lending, and supports state and federal legislation that regulates lenders and assists borrowers engaged in subprime mortgages.

DMB
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