



# Addressing the Subprime Crisis

**Efforts by Industry, Regulators, and Congress**

**Joseph Pigg  
American Bankers Association**



# INDUSTRY EFFORTS: HOPE NOW

- **HOPE NOW** is a financial services industry effort cooperating with the Treasury in offering support and guidance for homeowners.
- Through Jan. 31 **HOPE NOW** has facilitated 1,035,000 loan workouts -
  - 758,000 repayment plans
  - 278,000 loan modifications



# Subprime Loan Workouts

- 638,000 subprime loan workouts
  - 443,000 repayment plans
  - 195,000 loan modifications

Subprime modifications increased to nearly 50% in January from 19% of total workouts in the 3<sup>rd</sup> quarter of 2007, and 35% in 4<sup>th</sup> quarter of 2007.



# Workouts Eclipsing Foreclosures

- Nearly 3 times as many homeowners received a loan workout compared to the number of completed foreclosure sales:
- 1,035,000 loan workouts (thru Jan. 31)
- 350,000 completed foreclosure sales



# MODIFICATIONS vs. WORKOUTS

- In January for the first time, subprime modifications number almost the same as repayment plans:
- **MODIFICATIONS – 45,320**
- **REPAYMENT PLANS – 48,155**

Data provided by 18 services covering approx. 2/3 of the industry.



# Federal Regulatory Response

- Proposals are pending from multiple agencies:
  - The Federal Reserve Board has proposed revisions to the Homeowners Equity Protection Act (HOEPA)
  - HUD has proposed revisions to RESPA



# Federal Reserve Board

- **HOEPA** proposal would create a new category of “higher priced loans” which would carry significant new restrictions and requirements.
  - Proposal would include greater disclosures for ALL mortgage loans – including advertising and disclosure of broker fees
  - Lenders making “higher priced” home loans would have to comply with new consumer protection requirements – including escrow requirements and ensuring an ability to repay.



# HUD's RESPA Proposal

- **HUD has proposed revisions to the Real Estate Settlement Procedures Act. The proposal would:**
  - Expand the Good Faith Estimate
  - Modify the HUD-1 Settlement Statement
  - Impose tolerances on settlement charges
  - Require a new “closing script”
  - Amend definitions such as “thing of value” and “required use”



# Legislative Efforts

## Frank and Dodd Bills

- House Financial Services Chairman Barney Frank (D-MA) and Senate Banking Chairman Christopher Dodd (D-CT) have both proposed “mortgage rescue” legislation
- Proposals would:
  - Provide up to \$300 billion for an expanded Federal Housing Administration to provide guarantees for refinancing troubled loans
  - Establish a voluntary FHA program with a goal of putting a floor under the housing market
  - Lenders choosing to participate would substantially write-down principal balance (to 85% of current appraised value)
  - Applies to loans originated between Jan. 1, 2005 and July 31, 2007.



# Frank and Dodd proposals (cont.)

- Original lender would receive a short payment of the original loan in return for releasing borrower from all existing credit exposure. Borrower must be able to meet repayment terms of the new loan.
- New loan will carry FHA guarantee
- Loan will have a “soft second” lien which will run for the life of the loan and which will repay the government 3 percent of the original loan balance.
- Loan will also carry a lien based upon a declining percentage of any profits (e.g., from 100 percent in year one to 20 percent in year five and 0 thereafter). After year five only the 3 percent exit fee will apply.
- New FHA loans must be based on *current* appraised value of the house and borrower’s documented income and debt-to-income of 40%(borrowers with higher (but not disqualifying) debt levels would need to make six months of timely payments at the new FHA payment level to qualify for the guarantee)



**If you have any questions, please  
contact Joseph Pigg at:**

**Email: [jpigg@aba.com](mailto:jpigg@aba.com)**

**Phone: (202) 663-5480**