



Defaulting on the Dream:
States Respond to America's Foreclosure Crisis

California

ONE IN 20 CALIFORNIA HOMEOWNERS is projected to be in foreclosure as a result of their subprime loan made in 2005 and 2006—exceeding the U.S. average of one in 33 homeowners. The state's subprime crisis has transformed into a foreclosure crisis. Years of rising home values and new loan products made homeownership a possibility for many individuals. The boom ended abruptly, however, as house prices stagnated and then fell, and once-favorable lending terms reset to include higher interest rates and principal payments, revealing the true costs of the new mortgage loans.



ASSESSMENT: In the face of this crisis, California created a statewide task force to consider possible interventions and has issued a notice to lenders encouraging them to work with financially stressed borrowers to provide loan workouts. These workouts may include modified loan terms or converted loan products with payments that are easier for the borrower to manage. Policy makers have proposed a number of additional actions, such as freezing interest rates on adjustable-rate mortgages for borrowers who are keeping up with their payments, broadening the types of loans covered by the state's high-cost lending statute and improving underwriting requirements for loans (e.g., evaluations of the borrower's ability to repay the loan, including taxes and insurance). These proposals had not been approved by the end of 2007.

THE FACTS: The ripple effects of the foreclosure crisis

- **1 in 20** homeowners is projected to experience foreclosure on their home as a result of their high-cost loan
- **24 percent** of all loans made in 2005-2006 were subprime
- **64 percent** of all homeowners will likely feel the ripple effects of foreclosures from subprime loans
- Affected homeowners are expected to lose **\$14,282** on average in property value
- **\$107 billion** is projected to be lost from the combined state and local tax base

How severe is the state's challenge?
Four filled houses represent the most severe challenge.



THE RESPONSE: Preserving a piece of the dream

GOALS	ACTIONS	STATUS*
Avoiding foreclosure	State-funded refinance program	<input type="checkbox"/>
	Loan modification	<input checked="" type="checkbox"/>
	Preventing rescue scams	<input type="checkbox"/>
	Counseling available	<input type="checkbox"/>
Using all your tools	Task force	<input checked="" type="checkbox"/>
Pre-empting high-cost lending	High-cost lending laws	<input checked="" type="checkbox"/>
	Aligns mortgage broker to consumer interests	<input type="checkbox"/>

■ = action taken □ = no action taken

How responsive has the state been?
Four filled houses represent the most responsive.



*As of January 31, 2008

THE FORECLOSURE NUMBERS:

The projections above are from the Center for Responsible Lending's subprime spillover research. These estimates focus on foreclosures resulting from subprime loans made to owner-occupants in 2005 and 2006. For a full description of the methodology, please see *Defaulting on the Dream: States Respond to America's Foreclosure Crisis*.



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1025 F Street NW | Washington, DC 20004 | www.pewtrusts.org