



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

# United States

## THE SUBPRIME CRISIS QUICKLY MORPHED INTO A FORECLOSURE CRISIS

and now is an economic miasma. Projections show that one in 33 current U.S. homeowners will face foreclosure, primarily over the next two years, because of subprime loans. The federal response to this crisis has been slow and stymied by partisanship. Meanwhile, many states are beginning to fully understand the true costs of foreclosures, and are acting to try to address these challenges. Some states are using public funds to help families refinance their high-cost loans. States are also negotiating wholesale loan modifications for their borrowers, counseling families, and protecting homeowners by outlawing predatory rescue scams that take advantage of distressed families. Finally, some states are moving to strengthen their high-cost lending laws, requiring strict underwriting standards and regulating mortgage lenders to better represent the interests of consumers.



**ASSESSMENT:** Homeownership is not only the primary vehicle through which American families build financial security, it's also an essential building block of our national economy. Federal lawmakers are deliberating important proposals to try to address the crisis. Among other measures, Congress is considering allocating federal funds to expand counseling programs for homeowners at risk of foreclosure, issuing tax-exempt bonds for localities to refinance subprime loans, and increasing federally insured mortgages. It also is debating the need to strengthen underwriting standards. Federal leadership is needed. But Congress should take into account what some states already have put in motion to try to stem the foreclosure tide and prevent the crisis from happening again. As it deliberates, Congress should be aware of how its decisions will impact states' efforts already underway, and ensure that states retain flexibility to respond to local conditions and needs.

### THE FACTS: The ripple effects of the foreclosure crisis

- **1 in 33** homeowners is projected to experience foreclosure on their home as a result of their high-cost loan
- **26 percent** of all loans made in 2005-2006 were subprime
- **43.5 percent** of all homeowners will likely feel the ripple effects of foreclosures from subprime loans
- Affected homeowners are expected lose **\$8,771** on average from property values
- The U.S. is projected to lose **\$356 billion** from its state and local tax base

How severe is the nation'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 checked="" type="checkbox"/>
Using all your tools	Task force	<input 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 nation 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*.



The Pew Charitable Trusts applies the power of knowledge to solve today's most challenging problems. Our Pew Center on the States identifies and advances effective policy approaches to critical issues facing states.

1025 F Street NW | Washington, DC 20004 | [www.pewtrusts.org](http://www.pewtrusts.org)