

ILLINOIS ATTORNEY GENERAL LISA MADIGAN

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Media Contact: Robyn Ziegler
312-814-3118
rziegler@atg.state.il.us

**MADIGAN, WORKING GROUP SAY FORECLOSURES OUTPACING ASSISTANCE,
CALL FOR INNOVATIVE SOLUTIONS FROM FEDS AND LOAN SERVICERS**

Seven of 10 Seriously Delinquent Borrowers Are Still Not on Track to Get Help

Chicago — Attorney General Lisa Madigan today called on mortgage lenders and the federal government to step up efforts to reduce mortgage foreclosures in light of new data showing efforts are barely keeping pace with the rising rate of homeowners in trouble. Madigan is a member of the State Foreclosure Prevention Working Group, a group of state attorneys general and banking regulators working to prevent unnecessary home foreclosures.

The group issued its second “Analysis of Subprime Mortgage Servicing Performance” report this morning, concluding that the number of borrowers working with their loan servicers in an attempt to avoid foreclosure has increased, but this increase has been matched by an increasing level of delinquent loans.

“This report shows that seventy percent of borrowers who are seriously delinquent are still not getting the help they need to try and save their homes,” said Attorney General Madigan. “I join with other members of the working group to urge the federal government to develop innovative approaches that recognize the extent and scale of the foreclosure crisis.”

The report is based on data collected from subprime mortgage servicers for the period October 2007 through January 2008. The Foreclosure Prevention Working Group’s first report was issued February 7. For copies of the report go to www.illinoisattorneygeneral.gov or www.csbs.org.

“The collective efforts of servicers and government officials to date have not translated into meaningful improvement in foreclosure prevention outcomes,” the report said, despite widely-publicized campaigns to encourage homeowners in trouble to seek help, and initiatives by servicers to “fast-track” loan modifications. “In major respects, the subprime servicing data for January 2008 is nearly *unchanged* from October 2007,” the new report said.

In addition to the percentage of borrowers not on track to get help, the major findings of the Foreclosure Prevention Working Group include:

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- **Servicers' loss-mitigation departments are severely strained in managing the current workload.** The report noted that almost two-thirds of all efforts started to help borrowers save their homes are not completed in the following month. "We are concerned that servicers overall are not able to manage the sheer numbers of delinquent loans," the report said. Data suggest that "the burgeoning numbers of delinquent loans that do not receive loss-mitigation attention are clogging up the system on their way to foreclosure," the report said. "We fear this will translate to increased levels of vacant foreclosed homes that will further depress property values and increase burdens on government services."
- **Homeowners who do receive assistance to save their homes are most likely to receive some form of loan modification.** The Foreclosure Prevention Working Group said such modifications are a solution that offers better long-term prospects for successful resolution of problem loans. Many servicers are replacing their use of repayment plans in favor of loan modifications.

The Foreclosure Prevention Working Group said it believes "more robust approaches to avoid preventable foreclosures are necessary."

The Foreclosure Prevention Working Group said mortgage servicers, investors and government officials must work together on developing a more systematic loan work-out system to replace the intensive, individual, "hands-on" loss-mitigation approach. "Initial efforts to develop systemic approaches are far too limited to make a difference in preventable foreclosures," the report said. "Without a systematic approach, we see little likelihood that ongoing efforts will make a serious dent in the level of unnecessary foreclosures." The Foreclosure Prevention Working Group said it "will continue to work with servicers to promote systematic solutions to modify loans in a more streamlined and efficient manner." The Foreclosure Prevention Working Group also encouraged the federal government to develop innovative approaches that recognize the extent and scale of the foreclosure crisis.

The Foreclosure Prevention Working Group began as a cooperative dialogue of state officials and mortgage servicers in September 2007. Since October 2007, the Group has collected data from the largest subprime mortgage servicers, with 13 of the largest 20 servicers participating, representing approximately 60 percent of subprime mortgage loans serviced.

The State Foreclosure Prevention Working Group is led by representatives of the Attorneys General of 11 states (Arizona, California, Colorado, Iowa, Illinois, Massachusetts, Michigan, New York, North Carolina, Ohio and Texas), two state banking departments (New York and North Carolina), and the Conference of State Bank Supervisors.

An estimated 1.7 million adjustable rate subprime loans are scheduled to reset across the nation through 2009, including many of the approximately 200,000 subprime loans held by Illinois the homeowners. These resets likely will result in additional foreclosures in Illinois and across country. Illinois is among the top 10 states nationally for foreclosure activity. In 2007, Illinois

experienced 90,782 foreclosure filings, a 25 percent increase in foreclosure activity over 2006, according to RealtyTrac, a national foreclosure data service.

According to the Foreclosure Prevention Working Group's first report released in February, the impact of a foreclosure reaches far beyond the homeowner and lender involved. While devastating for the individual homeowners and their families, foreclosures also have a negative effect on the property values of neighboring homes. The Center for Responsible Lending estimates neighborhood property values nationwide will decline \$202 billion due to subprime foreclosures, resulting in a loss of approximately \$5,000 for each homeowner living near a foreclosed property. Similarly, the Woodstock Institute found that each foreclosure within a city block of a single family home reduces that home's property value by approximately one percent.

Attorney General Madigan has worked aggressively on several fronts to address the mortgage foreclosure crisis. Madigan's office has sued 12 mortgage rescue companies to stop deceptive practices and successfully participated in three multi-state settlements against major subprime lenders Household Finance, Ameriquest and First Alliance Mortgage Company. To date, she has obtained more than \$600 million in enforcement actions against these lenders.

Madigan has issued subpoenas as part of ongoing probes into the loan origination practices of Countrywide Home Loans, Inc. and the fair lending practices of Countrywide, and Wells Fargo Financial Illinois, Inc.

Madigan played a principal role in working to pass the High Risk Home Loan Act of 2003 and drafted the Mortgage Rescue Fraud Act of 2006. Last year, she announced a comprehensive strategy to address the looming home foreclosure crisis in Illinois. As part of this strategy, the Attorney General drafted a new law to tighten controls on brokers and lenders, and, in addition, has introduced a bill this legislative session to ensure that homeowners in foreclosure are aware of their rights and have greater opportunity to exercise those rights. Madigan's office hosted a statewide home ownership preservation summit in July 2007, bringing together more than 100 participants from the mortgage lending industry, consumer advocacy groups and government agencies to identify problems and look for solutions to mortgage foreclosures.

Madigan urged Illinois homeowners who are facing foreclosure to immediately contact their mortgage company or a HUD-certified housing counselor for assistance. To get a referral to a certified housing counselor or to learn more about the steps to take to avoid foreclosure, homeowners can call Madigan's Homeowners' Referral Helpline at 1-866-544-7151 from 8 a.m. to 7 p.m. Monday through Thursday and 8 a.m. to 5 p.m. on Friday.

In addition, Madigan's office has compiled the *Illinois Mortgage Lending Guide*, a resource manual containing step-by-step instructions for those struggling to make their loan payments and a list of HUD-certified counseling agencies that offer default counseling services. Homeowners can obtain a copy of this free guide by visiting the Attorney General's Web site at www.illinoisattorneygeneral.gov or by calling the Consumer Fraud Hotline at 1-800-386-5438 (TTY 1-800-964-3013).