



For Immediate Release
July 24, 2007

Contact: Robyn Ziegler
312-814-3118
877-844-5461 (TTY)
rzeigler@atg.state.il.us

**ATTORNEY GENERAL MADIGAN HOSTS HOMEOWNERSHIP
PRESERVATION SUMMIT TO ADDRESS GROWING
FORECLOSURE CRISIS**

Chicago—More than 100 participants from the mortgage lending industry, consumer advocacy groups, and government agencies gathered in Chicago today to address the burgeoning home foreclosure crisis in Illinois. Convened by Attorney General Lisa Madigan, the Illinois Homeownership Preservation Summit took place as foreclosures in communities statewide continue to rise, driven in part by the escalating failure rate of subprime home loans.

“We are here to lay the groundwork for strategies to help the rapidly growing number of homeowners in our state who are facing foreclosure as a result of being placed into subprime loans they could not afford,” Madigan said, addressing a crowd that included representatives from major lending institutions, state and federal banking regulators, housing counseling agencies, and consumer attorneys.

Noting that everyone present had a vested interest in keeping homeowners in their homes, Madigan urged participants to take advantage of the meeting to start a dialogue that would generate real solutions for distressed homeowners in the months to come. The day began with panel discussions that framed the problem on the local and national levels and surveyed existing efforts to bring relief to borrowers. In the afternoon, participants divided into working groups and were instructed to focus on specific strategies for expanding assistance for homeowners. The strategies discussed in the afternoon session included: developing resources to help homeowners get out of loans they cannot afford; removing barriers that prevent struggling homeowners from modifying the terms of high-cost loans; and improving communication between loan servicers and housing counseling agencies.

Madigan placed special emphasis on improving communication. “Experience has shown that housing counselors play a crucial role in preventing the loss of homes,” she said. “Lenders and servicers need either to improve or create partnerships with those counseling agencies so that we can preserve homeownership where viable.”

Skyrocketing foreclosure rates in Illinois provided a sense of urgency to the Summit. Foreclosures in the state jumped 55 percent in 2006, totaling 72,455, and are projected to rise much higher in 2007. Foreclosure filings in Cook County have risen more than 50 percent in 2007 and are expected to hit as high as 36,000 by year’s end, far outpacing last year’s record high of 22,248 filings.

Madigan noted that the problem is not confined to the city. Suburban communities are reporting the biggest jumps in foreclosure filings, she noted, and the problem has spread statewide. In a recent survey conducted by Madigan's staff, the majority of Illinois counties reported a significant increase in foreclosure filings in the last two years.

Madigan cited the rising failure rates of subprime mortgage products as a significant factor driving foreclosures. The subprime mortgage market has grown rapidly from a niche market, once intended to serve the credit repair needs of a small percentage of borrowers, into a \$665 billion industry in 2005.

Wall Street's practice of pooling subprime loans into high-yield investment vehicles has fueled the explosive growth in the market. Madigan observed that to meet growing investor demand, the subprime lending industry has engaged increasingly in irresponsible lending practices, commonly placing homeowners in loans that are designed to appear affordable upfront but prove fatally expensive later.

Recent years have seen a marked increase in subprime loans with multiple risk features, as noted in complaints filed with Madigan's Consumer Protection Division. These features include: "exploding" ARMs—loans with a low fixed teaser rate that adjusts upward at scheduled increments after the teaser period ends; prepayment penalties that lock homeowners into loans they cannot afford; stated income loans that may misstate borrowers' incomes; and monthly payment quotes that don't include taxes and insurance.

"It is no coincidence that foreclosures are on the rise at the same time that the subprime mortgage market is in decline," Madigan said. "Nearly one in five subprime mortgages originated in Illinois in 2006 is projected to end in foreclosure. This statistic is especially alarming when you consider that one in four of all mortgages originated in 2006 is subprime."

The Homeownership Preservation Summit is the second component of a two-part initiative that Madigan launched to address the foreclosure crisis. As the first component, Madigan crafted a bill this legislative session to address the problem at the point of loan origination.

The bill, which is pending in Springfield, will require mortgage brokers and other licensees under Illinois' Residential Mortgage License Act to adhere to underwriting standards similar to standards to which banks are subject under recent Federal guidelines. Specifically, the bill will require licensees to verify a borrower's ability to repay an adjustable loan at its highest rate, not just at the low teaser rate. Additionally, the bill recognizes and codifies the broker's obligation to work in the borrower's best interests. Mortgage brokers originate the majority of subprime loans in Illinois.

Madigan noted that while the legislation is aimed at preventing homeowners from getting into bad loans in the first place, the Summit and the initiatives that grow out of it will focus on helping homeowners already in trouble. Madigan announced that her office will assemble a series of on-going working groups that will continue the work begun at the Summit.

"My Office also will be monitoring the situation through our consumer complaint process, as well as our work with the housing counselors and community advocates," Madigan said. "We will ensure that lenders and

servicers are following through on their commitments to offer assistance to borrowers in trouble.”

-30-

[Return to July 2007 Press Releases](#)