California State Assembly Banking and Finance Committee

The Mortgage Crisis Today: Better or Worse?
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The Impact of Changes to Federal Reserve Regulation Z

On November 1, 2007, the Assembly Banking and Finance Committee conducted an informational hearing "Subprime Mortgage Crisis in California, A Community Hearing to Examine Solutions and Mitigation Efforts," that examined the mortgage crisis through the testimony of consumer advocates, community leaders and industry experts. At the time of that hearing it was clear that the subprime mortgage crisis was only the beginning of larger problem that would go on to shake up capital markets worldwide. Insufficient risk calculation, as well as, the abuse of certain mortgage loan features led to a downward spiral of both credit and confidence. Years of insufficient underwriting standards combined with a bubble in home price appreciation created the perfect combination of financial disaster. Mortgages offered to borrowers who often had no ability to repay the loan combined with over inflated property values were packaged into securities and sold on the secondary market where the inherent risk of these products was overlooked or even ignored. These securities garnered high rates of return, a gold mine in a market that was flush with liquidity and those willing to spend it. This encouraged a cycle were the rates of return were so great on these products that Wall Street demanded more investment in mortgages, which in turn led many mortgage lenders to churn out subprime mortgages with little or no secondary review. At the time of the November, 2007 hearing several large subprime lenders had filed for bankruptcy or were in the process of being absorbed by larger financial institutions in order to avoid a complete collapse of the mortgage market.

In California, lenders filed 72,571 "notices of default" on borrowers in the third quarter of 2007, eclipsing a record of 61,541 set in 1996, according to DataQuick Information Systems. In Stockton, California in the 3rd quarter of 2007 1 in every 27 home had received some time of foreclosure filing. Today that statistic, for the second quarter of 2008 was 1 in 25 homes. Additionally, foreclosure filings were reported on 739,714 U.S. properties during the second quarter of 2008, a nearly 14 percent increase from the previous quarter and a 121 percent increase from the second quarter of 2007. That means that 1 in every 171 U.S. households received a foreclosure filing. The California cities of Stockton and Riverside-San Bernardino take the No. 1 and No. 2 spots with the most foreclosure activity nationwide, with 10 of California's metropolitan areas in the top twenty nationwide (Stockton at No. 1, San Bernadino/Riverside at No. 2, Bakersfield at No. 4, Sacramento at No. 5, Oakland at No. 8, Fresno at No. 9, San Diego at No. 11, Orange at No. 15, Ventura at No. 16 and Los Angeles at No. 19.)

A large percentage of foreclosure filings are notices of default (NODs). However, not all NODs lead to a foreclosure sale and due the legally mandated timelines for the foreclosure process it can take up to a year to determine how many NODs have actually led to a home loss, though the data reflects that more than half of NODs lead to a foreclosure sale. For example, Foreclosureradar.com looked back to NODs filed in June of 2007 and found that 60% of those resulted in the property sold at auction.

Is the crisis getting better? The expert consensus is that the worst of the crisis is not over. Home prices continue a rapid decline as the housing market is oversupplied with homes, many of which are foreclosed properties. Credit standards have tightened as the availability of easy credit has dwindled. Now, even borrowers with good credit are facing some difficulties getting financing for a home.

Additionally, more loans continue to default as we now see new classes of loans in the Alt-A loan market face growing pressure and stress. Many subprime and Alt-A loans that are currently avoiding large payment increases due to lower interest rates will potentially face higher payment potential when rates normalize in the next few years.

Alt-A home loans are issued to borrowers with good credit ratings who often lack adequate income documentation to satisfy the requirements for a conventional prime loan. As of April 2008, an estimated 16.3% of the Alt-A loans issued in 2006 and 2007 were under water, in that the debt exceeds the value of the property, and the number of under water loans is expected to grow. These loans are at high risk of default and foreclosure even in the face of some lender's willingness to reduce interest rates or otherwise modify terms. Fourteen months after origination, 4.21 percent of Alt-A loans made in 2006 face 90-plus-day delinquencies. The 90-day default rate was 1.59 percent for 2005 Alt-A loans and 0.91 percent for 2004 originations after 14 months of existence. The figures exclude exotic loans such as pay-option adjustable rate loans (POARMs) which allow borrowers, within certain specified parameters, to choose a payment amount each month. The large proportion of Alt-A loans used to finance second homes and investment properties further increases the risk that borrowers will default and allow the property to be foreclosed.

Over the next two years, up to 5 million homeowners are at risk of default, representing only half of the total borrowers who have negative equity positions.[1]

[1] *Update on U.S. Household Finances.* Moody's Economy.com. July 2008

Additionally, home prices are expected to fall by another 10%, making the total from peak to floor decline 25% with the bottom being reached in the third quarter of 2009.[2] Another analysis finds that up to 2.7 million subprime loans will go into foreclosure by the end of 2012 with a total of 6.5 million loans of multiple varieties going into foreclosure over the next five years, with a peak of 2.8 million between 2008 and 2009.[3] The total dollar amount of losses related to residential mortgages will be $525 billion.[4]

Recently, the HOPE NOW coalition of mortgage lenders, servicers, investors and community advocacy groups, designed to streamline assistance with loan modifications to trouble borrowers released its report for the month of June. More than 76,000 borrowers had their loans modified in June, up 9% from May. Another 105,000 homeowners were given repayment plans, which are less effective over the long term, which made up 58% of all mortgage workouts in June. This attempts have still not stemmed the tide of foreclosures as Hope Now reported that 82,039 people lost their homes, up 12% from May. For California, it is estimated that in the second half of 2008 up to 83,829 homes will fall into foreclosure.[5]

The statistics and outlook for the next two years is certainly grim. Rising foreclosures distress local communities and hamstring government finance. Hundreds of local governments throughout California face budget deficits that are related to the housing crisis.

The purpose of this hearing is to examine and review the recently proposed and adopted changes to the Federal Reserve Regulation Z, as well as, examine the events that have taken place since this committee last convened a hearing on the mortgage crisis.

LOAN MODIFICATIONS.

In September of 2007, the commissioner of the Department of Corporations (DOC) designed a voluntary survey to query the loan modification efforts of loan servicers. DFI also engaged in a survey of state chartered banks and credit unions. Subsequent to this survey effort, Governor Schwarzenegger and DOC commissioner DuFauchard announced an agreement with five of the largest loan servicers to streamline the modification process. The agreement was reached with four lenders representing 25 percent of the sub-prime loan market in California with the agreement consisting of three basic principles providing that mortgage lenders will:

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[2] Ibid.
[3] *Foreclosure trends- A Sobering Reality.* Credit Suisse. Fixed Income Research. April 23, 2008.
[4] *Update on U.S. Household Finances.* Moody's Economy.com. July 2008
[5] Isaac, Rani. *Foreclosures in California: The Current Housing Crisis is More Severe Than Previous Corrections.* California Research Bureau. May 2008

- Reach out proactively to borrowers well before their loans reset;
- Streamline the processes by which they determine whether borrowers may reasonably be expected to be able to make the reset payment; and
- For people who are in their homes and making timely payments now at the starter rate, but who lenders determine cannot make the reset payment, keep them at that starter rate for a sustainable period of time.

Additionally, DOC continued to collect data from their licensees who service mortgage loans to determine the pace and scope of loan modification efforts. DOC has collected and reported this data on a monthly basis with the Commissioner pledging to collect this data for a long as necessary. Additional observations made by the Commissioner, together with survey data, are available on the department's web site, at
http://www.corp.ca.gov/press/news/SubprimeLending.asp

In early December 2007, Treasury Secretary Henry Paulson announced an agreement to streamline and establish standards for loan modification and in some cases freezing the interest rate on some loans for five years. This agreement
(http://www.americansecuritization.com/uploadedFiles/FinalASFStatementonStreamlinedServicingProcedures.pdf) was reached in conjunction with the American Securitization Forum (ASF), an organization that represents companies that issue mortgage backed securities, as well as investors, loan servicers and rating agencies. The ASF modification parameters sorts subprime borrowers whose rates are about to reset into three categories:

1) Those who are current on their loans, have decent credit scores and equity in their homes, and are likely to be eligible for refinancing. The plan "encourages" servicers to refinance these loans without prepayment penalties, but there are no guarantees.

2) Those who are current on their loans but are not eligible to refinance because of poor credit scores or zero to 3 percent equity in their homes. This is the group that could be fast-tracked into a five-year freeze at the loan's introductory rate, to prevent their monthly payments from shooting up.

3) Those who are delinquent on their loans even at the introductory rate and do not qualify for refinancing. This group could very well end up in foreclosure or have to "short sell" their home if no other option can be worked out.

The ASF plan also called for voluntary data collection by its members on loan modifications and workout arrangements.

In February 2008, the State Foreclosure Prevention Working Group (SFPWG), released its first of two reports, summarizing data collected by a working group comprised of the Conference of State Bank Supervisors and representatives of the Attorneys General of 11 states, including California. The SFPWG's first report summarized data provided by 13 servicers, representing approximately 58% of the subprime servicing market, for the month of October 2007. Its second report, released in April 2008, included data from the same servicers, for loans made from October 2007 through January 2008. The SFPWG's reports can be found at http://www.csbs.org/Content/NavigationMenu/Home/StForeclosureMain.htm

In February 2008, the HOPE NOW Alliance released its first set of national data, and has subsequently added state-specific data. The HOPE NOW Alliance is an industry-led group that has grown to include virtually all of the large, federally-regulated financial institutions that service residential mortgage loans, as well as many of the large state-regulated institutions. To date, it has released state-specific and national data on foreclosure starts, foreclosure sales completed, repayment plans established, loan modifications completed, and repayment plan inventory for all four quarters of 2007 and the first quarter of 2008 (the same time period reflected in Commissioner DuFauchard's data). HOPE NOW's most recent data release includes data from 21 servicers, representing 66% of all outstanding residential mortgage loans and 85% of outstanding subprime residential mortgage loans. The HOPE NOW data can be found at http://www.hopenow.com/media/press_release.php.

LEGISLATIVE RESPONSES.

In September 2006, the five federal banking agencies (OCC, OTS, FRB, FDIC, and NCUA) issued guidance on nontraditional mortgage product risks. The guidance applies to both prime and nonprime loans and covers federally-regulated financial institutions, their subsidiaries and affiliates, and federally-insured financial institutions. Nontraditional loans are those that allow borrowers to defer repayment of principal, and in some cases, interest. They are also known as alternative or exotic mortgages. Borrowers who obtain these loans are given the opportunity to make relatively low payments during an initial low interest rate period in exchange for agreeing to make much higher payments during a later amortization period. Nontraditional loans are not unique to the subprime market; they are sold in the prime, alt-A, and subprime markets. Common loan types covered by the federal guidance include payment option mortgages and interest-only mortgages (readers are directed to the background paper for Senate Banking & Finance Committee's January 31, 2007 hearing for the definitions and common terms of these loan products).

Key components of the federal guidance include the following:

1) Financial institutions' analyses of borrowers' repayment capacity should include an evaluation of ability to pay the fully indexed rate, not just the initial low introductory rate. Analyses of repayment capacity should avoid over-reliance on credit scores as a substitute for income verification;

2) Institutions should avoid the use of loan terms and underwriting practices that will heighten the need for a borrower to rely on the sale or refinancing of the property once amortization begins;

3) Higher pricing of loans with elevated risks should not replace the need for sound underwriting;

4) Second mortgages with minimal or no owner equity should not have a payment structure that allows for delayed or negative amortization unless the risk is mitigated;

5) Institutions with high concentrations of nontraditional products should have good risk management practices in place and capital levels commensurate with the risk; and,

6) Institutions that offer nontraditional mortgage products should make the potential consumer of these products aware of all possible risks and should provide this information to potential borrowers in a clear, balanced, and timely manner. Payment shock, negative amortization, prepayment penalties, and the cost of reduced documentation loans should be explained. Monthly statements on payment-option adjustable rate mortgages should explain the consequences of each payment option.

In issuing the guidance, the federal regulators urged states to work quickly to apply similar guidance to state-regulated entities engaged in mortgage lending and brokering. Last year, this committee passed SB 385 (Machado) Chapter 301, Statutes of 2007 which implemented the Guidance for state licensed entities. Subsequent to the enactment of this legislation, the Department of Real Estate and Department of Corporations passed regulations to implement the guidance on their licensees. The imposition of the Guidance was a good first step as recognized by the Federal Reserve Board:

> *The guidance issued by the federal banking agencies has helped to promote safety and soundness and protect consumers in the subprime market. Guidance, however, is not necessarily implemented uniformly by all originators Guidance also does not provide individual consumers who have suffered harm because of abusive lending practices and opportunity for redress.*[6]

[6]Official staff commentary of the Federal Reserve Board on publication of final rule amending Regulation Z.

With the convening of session earlier this year, the Legislature responded to this crisis with numerous bills addressing the current crisis and addressing mortgage issues on a going forward basis. The legislature introduced 15 bills designed to address this crisis though strengthening regulations and consumer protections.

AB 69 (Lieu) clarifies that DOC has ability to request loan modification data from its licensees. This bill is pending on the Senate floor.

AB 180 (Bass) revises the law related to foreclosure consultants to ensure that those facing foreclosure do not become further victimized by scams or outrageous fees. Provide for a registration process for persons acting as foreclosure consultants. This bill is pending before Senate Appropriations.

AB 529 (Torrico) requires lenders to notify borrowers of an impending interest rate reset of an adjustable rate mortgage. This bill is currently on Senate third reading.

AB 1830 (Lieu) Provides California regulators with authority to enforce provisions of federal law relative to mortgages. Currently in Senate Appropriations Committee.

AB 1837 (Garcia) bans payment of compensation for originating a subprime loan or nontraditional loan with an interest rate above the wholesale par rate for which the consumer qualifies. Currently in Assembly Banking and Finance.

AB 2161 (Swanson), requires the Department of Corporations, Department of Financial Institutions and Department of Real Estate to compile a report concerning consumer complaints relating to mortgage lenders. This bill is currently pending in Senate Appropriations.

AB 2187 (Caballero) requires each notice of default and foreclosure to include a homeowner bill of rights that provides a list of their legal rights and responsibilities in the foreclosure process. This bill was held on suspense in Assembly Appropriations Committee.

AB 2880 (Wolk) specifies, among other things, that that mortgage brokers have a fiduciary responsibility to their clients, and requires licensees to maintain a surety bond with their regulator. This bill was held on suspense in Assembly Appropriations Committee.

AB 2359 (Jones) would prohibit a broker, trustee, or mortgagee, or his or her agent, beneficiary, or assigns from requiring as a condition of an agreement regarding a high-cost covered loan, subprime loan, or nontraditional mortgage, as defined, that a borrower or an applicant for the loan waive any rights, duties, remedies, obligations forums, or procedures of California law with respect to a residential mortgage or mortgage foreclosure. Held in Senate Banking, Finance and Insurance.

AB 2509 (Galgiani), would establish the Homeownership Preservation Mortgage Guarantee Program, as specified, administered by the Business, Transportation & Housing Agency. Held in Senate Banking, Finance and Insurance.

AB 2740 (Brownley) provides that a loan servicer, or a bank, credit union, or finance lender that services loans secured by residential real property, owes a duty of good faith and fair dealing to a borrower. The bill would regulate the fees and charges that may be imposed by loan servicers or mortgage loan servicers. The bill would also establish various other prohibited acts and requirements applicable to the servicing of residential mortgage loans. Held in Senate Banking, Finance and Insurance.

SB 1053 (Machado) requires every real estate broker licensed by DRE who makes, brokers, or services mortgages to notify DRE about those activities on an annual basis; Requires supervising real estate brokers (those in charge of mortgage brokerage businesses) to submit detailed compliance reviews of their books and records to DRE annually, along with business activity reports detailing the loans their businesses brokered, made, and serviced during the prior year. Held in Assembly Banking and Finance Committee.

SB 1054 (Machado): Gives the Department of Real Estate (DRE) the ability to ban individuals who have been found guilty of violating the Real Estate Law from real estate-related employment for up to three years. Held in Assembly Banking and Finance Committee.

SB 1137 (Perata): This bill enacts several changes to the procedures that must be followed before the holder of a mortgage may issue a notice of default or notice of trustee sale, requires the holder of a mortgage to mail a specified notice to the tenant(s) of a property on which foreclosure proceedings have begun, and imposes penalties on property owners who fail to adequately maintain foreclosed properties, as specified. Chapter 69, Statutes of 2008

SB 1604 (Machado): Under finance lenders law, requires that applicants show a minimum tangible net worth of $25,000 for "brokers," $50,000 for "a broker engaged in the business of negotiating or performing acts in connecting with residential mortgage loans," and $250,000 for finance lenders (of residential mortgage loans), and require that licensees maintain the applicable net worth at all times; Maintains surety bond generally at $25,000, but increases to $50,000 for finance lenders (of residential mortgage loans); Requires any person seeking employment with a finance lender or broker to complete a specified employment. Currently in Assembly Appropriations Committee.

Thus far, the only bill to reach the Governor has been SB 1137 (Perata) which contained an urgency clause. SB 1137 represents the Legislature's efforts to mitigate the current impacts of the housing crisis by requiring increased contact between lenders/servicers and borrowers before the property enters the foreclosure process. Specifically, this bill requires that the mortgagee or trustee contact the borrower, or attempt to make contact, at least 30 days prior to mailing a NOD. Furthermore, it requires that the owners maintain vacant properties or face $1,000 per day fine. It also provides the owner 30 days to correct a violation once notification has been received from the local government. Finally, it provided enhanced protections for renters by allowing for additional time for renters in foreclosed properties.

Another key component of this legislative package is AB 1830 (Lieu). AB 1830 has been amended several times in order to strike a compromise between consumer and industry advocates. The goal of AB 1830 is to provide consumer protections for higher priced loans building upon the recent announcement of changes to the Truth in Lending Act (TILA). Key components of AB 1830 have included the regulation and restriction of prepayment penalties, limits on the use of yield spread premiums, and establishing rights for individual borrowers.

FEDERAL RESPONSE:

On January 9, 2008 the Federal Reserve Board (Board) published proposed rules that would amend Regulation Z (Reg Z), which implements TILA and the Home Ownership and Equity Protection Act (HOEPA). The proposal included new restrictions or requirements for mortgage lending and servicing designed to protect consumers from abusive mortgage product features and deceptive acts. This proposal creates a new class of loans for coverage called "higher-priced loans." These loans are considered to be those that have most dominated the subprime marketplace. Whereas, previous efforts, such as the Interagency Guidance on Subprime Lending defined subprime lending in terms of borrower characteristics, the changes to regulation Z focus on the features of the actual loan products. In the Board staff comments on the final Reg Z changes the commentary acknowledged that the best way to identify the subprime market is through "loan price, rather than by borrower characteristics."

The Board received 4700 comments on the proposal from community banks, mortgage brokers, bank holding companies, secondary market participants, credit unions, state and national financial services trade associations, realtors, realtor trade groups, individual consumers, state and federal regulators, and national community groups and consumer organizations.

The specific of the proposal and final rule follow.

Higher-priced loan Definition.

The proposal defined higher-priced mortgage loans as a consumer credit transaction secured by the consumer's principal dwelling for which the APR on the loan exceeds the yield on comparable Treasury securities by at least three percentage points for first-lien loans, or five percentage points for subordinate-lien loans. This definition excludes reverse mortgages, construction-only loans and bridge loans.

After taking into consideration numerous arguments during the comment period the Board decided to adopt a definition that is similar to the proposal, but different in the particulars. Instead of tying the definition to the yield on Treasury securities, the final definition will use the average offer rates for the lowest-risk prime mortgages, termed "average prime offer rates." The Board identified two main difficulties with using Treasury yields to set APR thresholds into law. First, the spread between mortgage rates and Treasuries changes in both the short term and long term. Second, it is difficult to determine the comparable Treasury security for a given mortgage loan.

The final threshold will be 1.5 percentage point above the average prime offer rate on comparable transactions for first-lien loans, and 3.5 percentage points for subordinate-lien loans.

It is possible that the selected thresholds for the definition of higher-priced loans could spill over and capture part of the Alt-A market. In the staff commentary to the final proposal (12 CFR Part 226, Truth in Lending: Final Rule. Federal Register, Wednesday July 30, 2008) the Board concluded:

> *If the selected thresholds cover more than the subprime market, then they likely extend into what has been known as the alt-A market. The alt-A market is generally understood to be for borrowers who typically have higher credit scores than subprime borrowers but still pose more risk than prime borrowers because they make small down payments or do not document their incomes, or for other reasons. The definition of this market is not precise, however. The Board judges that the benefits of extending § 226.35's restrictions into some part of the alt-A market to ensure coverage of the entire subprime market outweigh the costs. This market segment also saw undue relaxation of underwriting standards, one reason that its share of residential mortgage originations grew sixfold from 2003 to 2006 (from two percent of originations to 13 percent). To the extent § 226.35 covers the higher-priced end of the alt-A market, where risks in that segment are highest, the regulation will likely benefit consumers more than it would cost them.*

Ability to Repay.

The proposal prohibited creditors from extending credit without regard of the borrower's ability to repay from sources other than collateral. The ability to repay also require that the borrower must be able to repay the loan plus applicable real estate taxes and hazard insurance premiums. The proposal requires that creditors verify income and assets using reliable third party documentation. The proposed rule included a "pattern and practice" standard to determine when a violation has occurred.

The Board found that the most risky types of loans often were made to borrowers without any consideration of their ability to repay the loan over its entire life cycle. For example, on a 2/28 ARM the borrower was qualified to pay the loan on the first two years of the fixed rate but no consideration was given to repayment ability after the interest rate adjustment at the end of year two.

The final rule is substantially similar to the proposal. The major difference is the final rule removed the "pattern and practice" language. The Board commented:

> *The Board believes that removing ''pattern or practice'' is necessary to ensure a remedy for consumers who are given unaffordable loans and to deter irresponsible lending, which injures not just individual borrowers but also their neighbors and communities. The Board further believes that the presumption of compliance the Board is adopting will provide more certainty to creditors than either ''pattern or practice'' or the proposed safe harbor. The presumption will better aid creditors with compliance planning, and it will better help them mitigate litigation risk.*

Prepayment Penalties (PPPs).

One of the most controversial and least understood features of subprime lending has been PPPs. PPPs are typically a feature of subprime mortgage loans that require that a borrower pay a percentage amount of their loan should they pay-off (refinance) the loan within a certain time-frame. On average, a PPP is around 3% of the outstanding balance of the loan. With the high cost of homes in California this can range from $2500-$6,000. According to First American LoanPerfomance data, three-quarters of securitized subprime loan pools originated from 2003 through the first half of 2007 had a PPP. Furthermore, approximately 55% of subprime 2/28 ARMS originated from 2000-2005 prepaid while the PPP was in effect.

As recent media accounts have portrayed, these penalties are a source of much controversy. Media reports abound with stories of borrowers "trapped" into ARMs with rates set to rise above what they can afford, but they are unable to refinance due to the prepayment penalty.

On the other side of this debate, some contend that PPPs can actually provide for an interest rate reduction for the borrower because loans with this feature command more value on the secondary market. For a borrower who is educated on their mortgage loan options, a PPP may make perfect sense for them to reduce their interest rate. However, far too many stories reveal that most borrowers do not understand the trade off they are making, nor is the imposition of the penalty properly explained in context of the interest rate. Furthermore, due to the secondary market appetite for these provisions, the incentive to offer a loan with a prepayment penalty may have altered some lender's concerns with risk.

The Board's proposal only allowed PPPs if:

- The penalty period does not exceed five years from loan consummation.
- The borrower's debt to income ratio, at consummation does not exceed 50%.
- The penalty period expires 60 days prior to an interest rate reset.
- The penalty does not apply if there is a refinancing by the same creditor or its affiliate.

The Board's final proposal was stronger than many had predicted. In their commentary on the final proposal the Board concluded:

> *The Board concludes that prepayment penalties' injuries outweigh their benefits in the case of higher-priced mortgage loans and HOEPA loans designed with planned or potential payment increases after just a few years. For other types of higher priced and HOEPA loans, however, the Board concludes that the injuries and benefits are much closer to being in equipoise. Thus… the final rule prohibits penalties in the first case and limits them to two years in the second.*

The final rule bans PPPs for higher priced loans if the payment can change with the first four years after consummation. With most adjustable rate loans ranging from two to three years, this provision effectively bans PPP for ARMS. Additionally, for loans that do not have a payment change the PPP is limited to the just the first two years after consummation.

<u>Escrows for Taxes and Insurance.</u>

While escrows are common in the prime mortgage market, the opposite is true in the subprime market where a majority of borrowers do not have escrow accounts for taxes and insurance. Creditors who do not offer escrows can quote lower monthly payments than those creditors who do offer escrows. Furthermore, the lack of escrows provides for additional problems as it can take advantage of borrowers who are shopping for the lowest monthly payment. A loan with an escrow account built in will inherently cost more per month than one without. In the Board's staff commentary on the final change regarding escrows they found:

> *The lack of escrows in the subprime market increases the risk that consumers will base borrowing decisions on unrealistically low assessments of their mortgage-related obligations.*

The proposed rule required creditors to establish an escrow account for property taxes and homeowners insurance on higher-priced loans secured by the first lien on the principle dwelling. The creditor may allow the consumer to cancel the escrow account 12 months after consummation. The final rule adopts the proposal.

Creditor Payments to Mortgage Brokers.

The Board had proposed to prohibit a creditor from paying a mortgage broker, in a covered transaction, more than the consumer agreed to in writing that the broker would receive.

This was the Board's attempt to regulation what are known as yield spread premiums. YSPs are points paid by the lender to the broker for originating a loan at an above par rate, meaning slighting higher than that for which the borrower may qualify. A YSP is financed over a particular time period during the loan. This practice, in recent years, has come under increasing scrutiny due to the appearance that it is an enticement for brokers to steer borrowers into more costly loans than they could otherwise get. Industry has responded that YSPs serve as a way for borrowers to pay no money toward closing cost as the YSP is used to refund the broker their payment for cost associated with the transaction. This view is a subject of dispute among several parties.

The Board attempted to design model language for an agreement and disclosures. The Board conducted tests and interviews with consumers and based on the results of those tests decided to abandon the proposal. The Board concluded that the proposed agreement and disclosures would actually confuse consumers and undermine their decision-making ability. The Board committed to revisiting this issue at a future date.

Coercion of Appraisers.

The Board proposed to prohibit creditors and mortgage brokers and their affiliates from coercing, including, or otherwise encouraging appraisers to misstate or misrepresent the value of a consumer's principle dwelling. The Board adopted the rule as proposed with some limited changes regarding examples of prohibited conduct.

Servicing Abuses.

The Board proposed to prohibit certain practices of servicers. The proposal provided that no servicer shall:

- Fail to credit a consumer's periodic payment as of the date received.

- Impose a late fee or delinquency charge where the late fee or delinquency charge is due only to a consumer's failure to include in a current payment a late fee or delinquency charge imposed on earlier payments.

- Fail to provide a current schedule of service fees and charges within a reasonable time of request.

- Fail to provide an accurate payoff statement within a reasonable time of request.

The final rule adopted most of the proposal except for the fee schedule language. Some consumer groups argued that the fee disclosure would not help because borrowers can not shop for servicers. Additionally, some industry groups argued that the disclosure of fees would be difficult due to the use of third party providers and the possibility that the listing of all potential fees could take numerous pages. The Board chooses not to act on this part at this time but may reexamine the issue of servicer fees in upcoming reviews of Reg Z.

Advertising Restrictions.

The Board proposed new advertising rules for open-end home equity plans (HELOCs) and closed end loans. The new disclosure for HELOCs require that their terms be disclosed in a clear and conspicuous manner with clear disclosure of an initial promotional term associated with the loan. Specifically, the advertising must disclose the following in a clear and conspicuous manner:

- The period of time during which the promotional rate or promotional payment will apply;

- In the case of a promotional rate, any annual percentage rate that will apply under the plan; and,

- In the case of a promotional payment, the amount and time periods of any payments that will apply under the plan.

- In variable-rate transactions, payments determined based on application of an index and margin to an assumed balance would be required to be disclosed based on a reasonably current index and margin.

For closed end loans, the Board also proposed advertising changes to ensure that rates and promotional rates are disclosures clearly. The Board also proposed changes for Prohibited Acts or Practices relating to mortgage advertisements. The Board proposed to prohibit the following seven acts or practices:

- The use of the term ‘‘fixed’’ to refer to rates or payments of closed-end home loans, unless certain conditions are satisfied;

- Comparison advertisements between actual and hypothetical rates and payments, unless certain conditions are satisfied;

- Falsely advertising a loan as government supported or endorsed;

- Displaying the name of the consumer’s current lender without disclosing that the advertising mortgage lender is not affiliated with such current lender;

- Claiming debt elimination when one debt merely replaces another debt;

- The use of the term ‘‘counselor’’ or ‘‘financial advisor’’ by for-profit brokers or lenders; and

- Foreign language advertisements that provide required disclosures only in English.

The final rule concerning advertising is substantially similar to the proposal.

Consumer Disclosures.

The Board proposed a requirement that creditors deliver required loan disclosures three business days after application and before the consumer has paid any fee, other than a fee for obtaining the consumer's credit report. The Board concluded that current requirements were not enough to ensure that borrowers had the opportunity to fully review their loan documents. When borrowers receive their documents at the closing table, they may feel trapped in the transaction or falsely believe that they have reached a point of no return.

The final rule is substantially similar to the proposal.

Operative Dates.

Finally, the final changes to Reg Z will go into effect October 1, 2009, with an exception regarding the escrow requirement for higher priced loans. The implementation of the rule concerning escrow accounts is effective April 1, 2010.

HR 3221: American Housing Rescue and Foreclosure Prevention Act of 2008

The American Housing Rescue and Foreclosure Prevention Act (H.R. 3221) was signed into law by President Bush on July 30, 2008. The legislation combines a number of bills including measures to modernize the Federal Housing Administration (FHA) and reform the Fannie Mae and Freddie Mac. These changes are intended to provide crucial liquidity to the mortgage markets, and also strengthen regulation and oversight for the future.

In addition, HR 3221 will help families facing foreclosure keep their homes, help other families avoid foreclosures in the future, and help the recovery of communities harmed by empty homes caught in the foreclosure process.

The subsequent discussion will examine each part of HR 3221.

The “Federal Housing Finance Regulatory Reform Act of 2008"

This title strengthens and modernizes the regulation of the housing government sponsored enterprises – Fannie Mae and Freddie Mac (the enterprises) and the Federal Home Loan Banks (FHLBs) – and expands the housing mission of these GSEs. In addition, it creates a new program at Federal Housing Administration (FHA) that will help at least 400,000 families save their homes from foreclosure by providing for new FHA loans after lenders take deep discounts.

Safety and Soundness Regulation of the Housing GSEs

The “Federal Housing Finance Regulatory Reform Act of 2008" establishes a new, independent, regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The legislation endows this regulator with broad new authority, equivalent to the authority of other federal financial regulators, to ensure the safe and sound operations of the GSEs, including the power to:

- establish capital standards;
- establish prudential management standards, including internal controls, audits, risk management, and management of the portfolio;

- enforce its orders through cease and desist authority, civil money penalties, and the authority to remove officers and directors;
- restrict asset growth and capital distributions for undercapitalized institutions;
- put a regulated entity into receivership; and,
- review and approve (subject to notice and comment) new product offerings of the enterprises.

Mission Improvement

The new legislation also significantly enhances the affordable housing component of the GSEs' mission, and expands the number of families that the enterprises can serve by raising the loan limits in high cost areas above the standard conforming limit to 115 percent of median house price up to 150 percent of the conforming loan limit.

Currently, this would be $625,500, and would be adjusted for inflation. For the enterprises, the legislation tightens targeting requirements of the affordable housing goals, and rewrites those goals to ensure that the enterprises provide liquidity to both ownership and rental housing markets for low and very-low income families. The legislation requires the enterprises to serve a variety of underserved markets, such as rural areas, manufactured housing, and the preservation market. The legislation improves reporting requirements for affordable housing activities, including the expansion of the public use database, and strengthens the new regulator's ability to enforce compliance with the housing goals.

Finally, the legislation creates a new Housing Trust Fund and a Capital Magnet Fund, financed by annual contributions from the enterprises, which will be used for the construction of affordable rental housing.

For the FHLBs, the legislation requires new affordable housing goals similar to those that apply to the enterprises for FHLB mortgage purchase programs. The legislation also requires the FHLBs to create a public use database for such programs. Treasury-certified Community Development Financial Institutions (CDFIs) are made eligible to join FHLBs. Finally, community financial institution members of the FHLBs may use FHLB advances for community development purposes.

Treasury Emergency Authority

The legislation contains several temporary provisions requested by Secretary of the Treasury Paulson designed to shore up the confidence of the financial markets in the GSEs and the FHLBs, including the authority for Treasury to purchase debt securities issued by the GSEs and the authority for Treasury to purchase common stock of the enterprises with the agreement of the companies. This authority expires on December 31, 2009. Before exercising these temporary powers, the Treasury would have to determine that actions taken under this authority are necessary to:

- protect the taxpayer;
- provide stability to the financial markets; and,
- prevent disruptions in the availability of mortgages.

The Treasury would set the terms and conditions regarding any use of the temporary authority, including requiring that repayments to the government receive priority or preference. In addition, the emergency authority gives the Director of the Federal Housing Finance Agency (FHFA) the authority over executive compensation, whether or not the government exercises its temporary authority to purchase debt or stock.

Finally, the legislation requires the new Director to consult with Governors of the Federal Reserve when developing regulations or guidance regarding capital, portfolios, and prudential management standards, taking into consideration the risks posed by the regulated entities to the financial system. This requirement also expires on December 31, 2009.

Mortgage Broker and Originator Licensing

The "Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) is intended to create greater accountability and transparency by establishing a uniform licensing and registration system for all loan originators, including mortgage brokers and loan officers. Under this provision, all loan originators at federally-regulated institutions will have to be registered through the nationwide system, and all other loan originators will be required to be licensed by the state or through a HUD-backup system if a state does not establish a licensing system. To meet the requirements under this provision, within 12 months, states will have to develop licensing requirements to ensure that applicants meet minimum standards including educational requirements, background checks, and testing. If a state does not establish a licensing system that meets the minimum requirements, HUD is directed to establish a licensing system for loan originators in the state. Under this provision, borrowers and lending institutions will be able to access information about all loan originators, including their background and history as a loan originator.

Summary of the "HOPE for Homeowners Act of 2008"

The “HOPE for Homeowners Act of 2008" creates a new, temporary, voluntary program within FHA to back FHA-insured mortgages to distressed borrowers. The new mortgages offered by FHA-approved lenders will refinance the loans of distressed owner-occupants at risk of losing their homes to foreclosure at significant discounts. In exchange, homeowners will share future appreciation with FHA.

The program is built on five principles:

1) Long-term affordability. The program is built on the idea, expressed by Federal Reserve Chairman Bernanke, that creating new equity for troubled homeowners is likely to be a more effective way to avoid foreclosures. New loans will be based on a family’s ability to repay the loan, ensuring affordability and sustainable homeownership.

2) No investor or lender bailout. Investors and/or lenders will have to take significant losses in order to benefit from the proceeds of the loans refinanced with government insurance. However, these losses would be less than the losses associated with foreclosure.

3) No windfall for borrowers. Borrowers will share their new equity and future appreciation equally with FHA. Borrowers will pay for the FHA insurance.

4) Voluntary participation. This will be a voluntary program. No lenders, servicers, or investors will be compelled to participate.

5) Restore confidence, liquidity, and transparency. Credit markets are fearful and frozen in part because banks and other financial institutions do not know what their subprime mortgages and related securities are worth. The uncertainty is forcing lenders to hoard capital and stop the lending necessary for economic growth. This program will help restore confidence and get markets flowing again.

The new program will be overseen by a Board made up of the Secretary of HUD, the Secretary of the Treasury, the Chairman of the Federal Reserve Board, and the Chairman of the Federal Deposit Insurance Corporation (FDIC). The Board will have the authority to develop standards within the framework of the legislation.

Only owner-occupants who are unable to afford their mortgage payments are eligible for the program. No investors or investor properties will qualify. Homeowners must certify, under penalty of law, that they have not intentionally defaulted on their loan to qualify for the program and must have a mortgage debt-to-income ratio greater than 31 percent as of March 1, 2008. Lenders must document and verify borrowers' income with the IRS.

The size of the new FHA-insured loan will be the lesser of the amount the borrower can afford to repay, as determined by the current affordability requirements of FHA, or 90 percent of the current value of the home. Loans must be 30-year, fixed rate loans.

In order to avoid a windfall to the borrower created by the new 90% loan-to-value FHA-insured mortgage, the borrower must share the newly-created equity and future appreciation equally with FHA. This obligation will continue until the borrower sells the home or refinances the FHA-insured mortgage. Moreover, the homeowner's access to the newly created equity will be phased-in over 5 years.

In order to protect against adverse selection, the program prohibits the Secretary from paying an insurance claim whenever the representations and warranties required to be made by lenders are violated, or in cases in which a borrower has an early payment default and misses the first payment. The Act provides the Board the authority to establish other protections against adverse selection, such as requiring "seasoning" for certain higher risk loans before they can be insured under the program. Appraisers of property insured by FHA must be certified by the state where the property is located, or by a nationally recognized professional appraisal organization, and have "demonstrated verifiable education" in FHA appraisal requirements. Before participating in this program, all subordinate liens must be extinguished. This will have to be done through negotiation with the first lien holder.

The legislation provides servicers with an incentive to participate in the program by offering a safe harbor against legal liability. The program is authorized to insure up to $300 billion in mortgages and is expected to serve approximately 400,000 homeowners.

The program will begin October 1, 2008 and sunset on September 30, 2011. CBO say the program will net nearly $250 million for taxpayers. The program is paid for by using part of the Affordable Housing Trust Fund; the GSE bill provides a further $2 billion cushion for the government by establishing a reserve fund at Treasury over ten years. If the program costs less than projected, the unused funds are returned to the Affordable Housing Trust Fund. If the program more than pays for itself (as was the case during the Roosevelt Administration), any excess savings are dedicated to reducing the national debt.

Summary of the "Foreclosure Prevention Act of 2008"

The Foreclosure Prevention Act contains the following provisions:

- **Assisting Communities Devastated by Foreclosures.** Homes that have been foreclosed upon and are sitting unoccupied lead to declines in neighboring house values, increased crime and significant disinvestment. To ensure that communities can mitigate these harmful effects of foreclosures, $3.92 billion is provided to communities hardest hit by foreclosures and delinquencies. These supplemental Community Development Block Grant Funds will be used to purchase foreclosed homes, at a discount, and rehabilitate or redevelop the homes to stabilize neighborhoods and stem the significant losses in house values of neighboring homes.

- **Providing Pre-Foreclosure Counseling for Families in Need.** To help families avoid foreclosure, this legislation provides $150 million in additional funding for housing counseling. These funds will be distributed by the Neighborhood Reinvestment Corporation by the end of 2008 to ensure families can quickly get the help they need. As many as 250,000 additional families are expected to connect with their mortgage servicer or lender to explore options that will keep them in their homes as a result of these counseling funds. In addition, $30 million is provided to help provide legal services to distressed borrowers.

- **Enhancing Mortgage Disclosure.** To ensure that consumers are provided with timely and meaningful disclosures in connection with mortgages, the legislation expands the types of home loans subject to early disclosures (within three days of application) under the Truth In Lending Act (TILA) to include all mortgages, including refinances and home equity loans. The legislation requires that disclosures be provided no later than 7 days prior to closing so borrowers can shop for another loan if not satisfied with the terms. The bill requires a new disclosure that informs borrowers of the maximum monthly payments possible under their loan, and also doubles the range of statutory damages for TILA violations to $400 to $4000.

- **Housing Assistance for Veterans.** To assist returning soldiers avoid foreclosure, this bill lengthens the time a lender must wait before starting foreclosure from three months to nine months after a soldier returns from service and also provides returning soldiers with one year relief from increases in mortgage interest rates. In addition, the Department of Defense is required to establish a counseling program to ensure veterans and active service members can access assistance if facing financial difficulties. Also included is a provision that increases the VA loan guarantee amount, so that veterans have additional homeownership opportunities. The legislation contains provisions to do the following: increase benefits paid to veterans with disabilities such as blindness for the purpose of adapting their housing; provide a moving benefit to servicemen and women who are forced to move out of rental housing because the owner of the housing was foreclosed on; provide that veterans benefits received in a lump sum are treated the same for the purposes of eligibility for housing assistance as monthly benefits; and to allow the Veterans Administration to provide for improvements and structural alterations to homes of veterans with service-connected disabilities.

MORTGAGE CRISIS HISTORICAL TIMELINE

JULY 2008

July 30: President signs the American Housing Rescue and Foreclosure Prevention Act (H.R. 3221). The centerpiece of the legislation is a program that will allow homeowners facing foreclosure to refinance into lower-cost, government -insured mortgages they can afford to repay.

July 14: The Federal Reserve Board approves a final rule for home mortgage loans to better protect consumers and facilitate responsible lending. The rule prohibits unfair, abusive or deceptive home mortgage lending practices and restricts certain other mortgage practices.

July 10: Foreclosure filings for June 2008 have jumped 53 percent from this time last year. According to Realty Trac, foreclosure filings were reported on 252,363 homes last month the second straight month in which more than a quarter of a million properties received foreclosure filings.

July 10: With market fears that Fannie Mae and Freddie Mac will continue to lose money in a declining housing market, the stock prices of the two Government Sponsored Enterprises have dropped 76 and 83 percent respectively. News reports have begun to indicate that the Bush administration has begun planning for the more serious possibility that one or both of these mortgage giants could falter.

July 8: The Federal Reserve and the Securities and Exchange Commission announced that they have entered into an information-sharing agreement in order to execute their respective regulatory duties.

July 2: According to the American Bankers Association, the share of delinquencies for home equity lines of credit has nearly doubled in the last year. 1.1 percent of all home equity loans were delinquent in the first quarter; up from just 0.6 for the same period in 2007.

JUNE 2008

June 25: Home prices nationwide are down 15.3 percent from a year ago. The Case-Shiller Index, using numbers from April has shown that home prices in 20 major housing markets are now back down to their 2004 levels.

June 25: The State of Illinois is suing mortgage giant Countrywide. The lawsuit charges that Countrywide sold misleading, intentionally risky loans to people who couldn’t otherwise qualify for comparable loans.

June 21: According to data from the Census Bureau, Americans are renting houses and apartments at the highest level since 2002. The drop in households headed by homeowners was the sharpest decline in over 20 years. This report shows that much of the homeownership growth during the Bush administration has vanished, in part due to the subprime mortgage crisis.

June 20: 406 people have been arrested since January as part of the FBI's crackdown on mortgage fraud. According to the Justice Department, those indicted during Operation Malicious Mortgage were responsible for up to $1 billion in losses.

June 20: Two Bear Stearns executives, Matthew Tannin and Ralph Cioffi, were charged with nine counts of fraud for misleading investors and lenders prior to the bank's collapse. The managers failed to disclose the imminent collapse of their funds to individual investors. While their funds plunged in value, Tannin and Cioffi painted a rosy picture to allay fears from worried investors. They are the first executives from Wall Street investment banks to be criminally charged over the credit crisis.

June 16: According to the New York Times, Wall Street's largest banks wrote down a staggering \$107.2 billion worth of assets over the last year – fueled by staggering losses in subprime mortgage backed securities. These losses wiped out nearly half of the gains this sector enjoyed during the previous three years.

June 13: During the month of May, over 73,000 American families lost their homes. According to Realty Trac, the foreclosure explosion marked a 158% increase from May 2007. This gloomy data, coupled with a 14.1% decrease in national home prices over the past year, proves that the rug continues to be pulled out from under the American homeowner.

June 12: Conflicts of interest and limited disclosure prompted the Securities and Exchange Commission (S.E.C.) to propose stricter rules for the credit rating industry. The S.E.C. has pushed for greater openness in the credit rating industry after the three major firms all failed to identify the risks in subprime mortgage backed securities.

June 9: The Federal Housing Administration (F.H.A.) announced that it expects \$4.6 billion in losses from high default rates on home loans. The F.H.A.'s clients primarily consist of first-time buyers, minorities, and low-income owners, who were hurt by the weak economic conditions and subsequently defaulted. The expected loss is the highest since 2004. Brian Montgomery, the F.H.A. commissioner, said: "Unless we take action to mitigate these losses, F.H.A. will soon either have to shut down or rely on appropriations to operate."

June 7: In May, the US unemployment rate had its highest jump in 22 years. According the Labor Department, the rate spiked to 5.5%, marking the 5th straight month of job losses and the highest unemployment figure in 3.5 years. Many experts fear the US is spiraling into a recession.

June 5: For the first time in history, more than one million homes are now in foreclosure. According to a Mortgage Bankers Association report, the number of homes in foreclosure now is 1.1 million - up from the 938,000 homes that were in foreclosure at the end of last year. This marks the first time that more than one million homes have been in foreclosure Also in the report were indications that the foreclosure crisis is worsening; 448,000 homes began the foreclosure process during the first quarter, up from 382,000 that began the process in the last quarter of 2007. According to the MBA, loans at subprime rates are to blame for 39% of the foreclosures

MAY 2008

May 27: First quarter data revealed that US home prices plummeted 14.1% from their prices last year. The S&P/Case-Shiller index recorded the fastest rate of decline in the history of the index. This evidence indicated that the mortgage crisis is only worsening. David Blitzer, the chairman of S&P's index committee, warned, "There are very few silver linings that one can see in the data. Most of the nation appears to remain on a downward path."

May 22: Moody's, which provides credit ratings, began investigating whether internal computer errors caused the company to assign high ratings to poor securities. The announcement raised many questions about the reliability of Moody's ratings, which are heavily relied upon by investors of all sizes. Following the announcement, its shares fell 15.9%.

May 21: The Mortgage Bankers Association released its weekly report of mortgage application volume, which shows that applications dropped by 7.8% during the week ending May 16. This week's survey is exactly five years after the peak in the housing boom, mortgage applications now stand at one-third of the volume at the high point in May 2003.

*May 14***:** According to Reality Trac, the number of foreclosure filings hit a record in April, with filings spiking 65% compared with the same month a year earlier. April saw the largest number of foreclosure filings since data tracking began in January 2005. This marked a 4% increase from March, indicating that the housing crisis is showing no signs of letting up. Furthermore, the report showed that home prices nationwide have plunged 7.7% in this year alone.

May 12: Real estate analyzer First American Core Logic revealed that the rise in mortgage delinquencies currently being experienced will continue to grow during the next six to twelve months. In their forecast, First American released an index of foreclosure risk, which increased 16% from the same period last year. These projected delinquencies are expected to increase as declining home prices and difficult economic conditions persist.

May 12: MBIA announced a $2.4 billion loss during the first quarter of 2008. The company exposed itself to more and more risk as mortgage defaults rose from the subprime crisis. In contrast, MBIA posted a profit of $199 million for the first quarter of last year.

May 9: AIG, one of the world's largest insurance companies, experienced its worst three months in its 89-year history, losing $7.81 billion and $3.09 a share. The plunge was four times worse than Wall Street's expectations.

May 7: Fannie Mae reported a $2.2 billion loss during the first quarter. Over the same period a year ago, Fannie reported a $961 million profit. As defaults and foreclosures in the housing market have mounted, the government has increasingly depended on Fannie Mae and Freddie Mac. On top of the $2.2 billion loss, Fannie is projecting losses to continue into the next several quarters. The report showed the amount of unrealized losses on mortgage investments has nearly doubled from the last quarter of 2007, increasing from $4.8 billion to $9.3 billion.

*May 7***:** UBS reported that it sold $15 billion worth of subprime mortgage debt to the wealth management firm BlackRock at a 32% discount. The Swiss bank also announced it would cut 5,500 jobs by the middle of 2009.

May 6: House Speaker Nancy Pelosi issued a report entitled, "Stabilizing Housing Is Key to America's Economic Recovery." In this report, Speaker Pelosi chronicled the millions of foreclosures, declining home values, and trillions of dollars lost in household wealth.

May 5: Federal, state, and local agencies have stepped up efforts in their investigation of the subprime crisis, with a special focus on Wall Street. Investigations into the valuation of UBS' mortgage-security holdings and last summer's collapse of hedge funds at Bear Stearns are already underway. The task force has expanded since the FBI began it in
January as details on companies' lending practices have emerged. Countrywide alone is facing scrutiny from federal prosecutors in California and Illinois, the United States Trustee, and the S.E.C.

May 1: The Board of Governors of the Federal Reserve lowered the Fed funds rate by 25 basis points. This marked the 7th rate cut since September - reflecting the economy fragility. In a statement, the Fed acknowledged the economy is weak, "household and business spending has been subdued and labor markets have softened further. Despite the lowering of this key interest rate, financial markets remain under considerable stress." The Fed also cited "tight credit conditions and the deepening housing contraction" as justification for the rate cut. Critics warned that low interest rates will only cause more inflation

APRIL 2008

April 29: First quarter data prepared by Realty Trac revealed a 112% jump in foreclosure filings compared with the same period last year. In this year alone, more than 155,000 families have lost their homes to foreclosure. Nationwide, one in every 194 U.S. homes received a foreclosure filing this quarter, with Nevada hit the hardest, where 1 of every 54 households received filings. Foreclosure filings only worsened towards the end of the quarter, with a 5% jump in foreclosure filings from February to March. It appears the housing crisis will only worsen, with experts warning that foreclosures will peak in the 3rd or 4th quarter.

April 29: Countrywide recorded a nearly $900 million loss in the first quarter as housing market woes torpedoed the lender's bottom line. The loss, which comes out to $1.60 per share, was a far cry from the expected profit of 2 cents a share. Despite Countrywide's poor earnings, the firm's top two executives will receive a combined payout of $19 million in stock through the impending buyout from Bank of America. President David Sambol will receive an additional $28 million in cash.

April 22: UBS released a report in which it detailed the "blind drive for revenue" that pushed the bank to take imprudent risks. The investment bank has written off nearly $38 billion since the subprime crisis began, $19 billion of which came in the first quarter of 2008.

April 21: The profits of the nation's second-largest bank, Bank of America, sunk by 77% during the first quarter. The company was forced to set aside $4.8 billion for its home equity, small business and homebuilder divisions, signaling the deepening impact of the mortgage crisis.

April 18: Citigroup announced quarterly losses of $5.1 billion. Citi's banking division lead the sea of red ink as it contains all of Citi's liabilities in the subprime lending crisis. The downward trend continued from the previous quarter, when Citigroup reported its largest quarterly drop in its company's history at $9.83 billion. The bank was forced to raise capital totaling over $30 billion, much of it from sovereign wealth funds, in late 2007.

April 17: Merrill Lynch announced losses of $1.96 billion in the first quarter of 2008 - compared with a $2.16 billion profit over the same period in 2007. Merrill's loss in profits was coupled with another announcement that it will cut 2,900 jobs—10% of its workforce. The firm has written-down $27.4 billion over the last three quarters.

April 15: Realty Trac announced that foreclosure actions in the U.S. shot up 57% during the month of March. Foreclosure papers were filed for 234,685 homes last month. Since last year, banks have repossessed 129% more homes than the year before.

MARCH 2008

March 31: The Treasury Department released its plan to overhaul financial regulatory agencies. This blueprint was a response to the failure of these agencies to recognize the warning signs of the mortgage lending crisis. The proposal gives the Federal Reserve more authority over Wall Street Firms, but does not apply stricter rules to markets for risk and hedging, which are largely unregulated. It also recommends merging the S.E.C. with the Commodity Futures Trading Commission. The plan was quickly met with criticism. Senator Dodd, Chairman of the Senate Banking Committee said, "It fails to realize that the Fed helped create this crisis by ignoring the red flags as far back as five years ago. It does not make sense to give a bigger shovel to the very people who helped dig us into this hole."

March 31: Janet Yellen, the president of the Federal Reserve Bank of San Francisco, urged the government to provide more financial education for minority and low-income borrowers. Yellen said they will be hardest hit by the housing crisis and the least informed. She warned that leaving low-income borrowers uninformed and devoid of resources could lower property values, increase crime, and deplete government revenues.

*March 27***:** A five-month investigation by the Justice Department into New Century Financial, one of the nation's biggest subprime lenders, revealed that accountants are largely to blame for the mortgage crisis. According to the report, New Century's "significant improper and imprudent practices" were enabled by the lack of oversight from auditors.

March 25: The S&P/Case-Shiller index reported that home prices dropped once again in the month of January. January's drop represents the 19th straight month that home prices dropped and the largest single-month drop in the 20 year history of the report.

March 24: JPMorgan Chase announced it would raise its offer for embattled Bear Stearns Co to $10 a share from the previous bid of $2/share. Even by quintupling the price JPMorgan is willing to pay, Bear Stearns is valued 90% lower that it was when its stock reaches its $170 high last year.

March 20: Citigroup announced that it will be cutting another 2,000 jobs. This is on top of the 4,200 layoffs already announced by Citigroup in January. Over the past year, more than 60,000 jobs have been cut throughout the financial sector, in large part due to contracting subprime mortgage lending divisions.

March 19: Federal regulators finally acted to allow Fannie Mae and Freddy Mac to buy more mortgages, easing pressures on the cash strapped mortgage market.

March 18: On the heels of the collapse of Bear Stearns, Wachovia has released a report showing that Merrill Lynch is the most at risk major broker behind Bear Stearns due to their vulnerability from subprime securities.

March 16: Investment bank Bear Stearns announced that it will sell itself to JPMorgan Chase for $2 a share – a 93% discount on the current stock price. This fire sale comes as worldwide markets showed concern that Bear Stearns was close to folding under the pressure of their subprime liabilities.

March 7: Employers cut 63,000 jobs in February, the largest single month decline in the workforce in almost five years. Also, December and January numbers were revised to reflect dimmer employment markets than previously reported.

March 6: Numbers released by the Mortgage Bankers Association showed that by the end of 2007, 2.04% of all mortgages were in the foreclosure process. This marks the highest level of foreclosure ever recorded in the Mortgages Bankers Association's report.

March 5: Chairman of the Federal Reserve Ben Bernanke urged mortgage lenders to forgive some of the debt held by homeowners on the brink of foreclosure. This position is in stark contrast to the Bush administration who has consistently opposed debt forgiveness

March 4: The Treasury Department announced that the administration's "Hope Now" program designed to assist homeowners struggling to repay subprime mortgages has helped 45,000 people in its first month. Meanwhile, industry experts question whether the program centered on extending repayment periods is doing enough to alleviate the core issues of the foreclosure crisis.

March 3: The Commerce Departments revealed that construction spending plummeted by 1.7% in the month of January. This is the single biggest single month drop in the sector in 14 years.

February 29: A report from market analysts at UBS shows that losses within the financial sector from subprime mortgage back securities could reach $600 billion. This new report on expected losses marks a 50% rise from previous estimations made just months ago.

FEBRUARY 2008

February 25: In January, the median home price fell and, for the sixth straight month, existing home sales dropped. The 0.4% drop in sales along with the 4.6% drop in price have been spurred by lenders making it more difficult for families to take out mortgages, making it more costly to receive a loan.

February 19: Credit Suisse, the second largest Swiss bank announced it would write down $1 billion in subprime losses. Up to this point, Credit Suisse had been one of the few major international financial institutions who hadn't been affected by the subprime collapse.

February 15: The nation's fourth largest bond insurer, FGIC announced it would seek to split its company into two. After receiving a tarnished credit rating from all of the major ratings agencies, FGIC hopes to protect its municipal bond sector from the subprime backed securities which has caused the ratings drop.

February 13: The bipartisan economic stimulus package is signed into law. With this measure, taxpayers can expect $300-$1200 tax rebate checks to arrive in the second half of 2008. This $162 billion package was passed due to the looming threat of recession spurred by the subprime mortgage crisis.

February 12: Bank of America, Citigroup, Countrywide, JPMorgan Chase, Washington Mutual, and Wells Fargo announced a joint venture to assist mortgage borrowers struggling underneath the burdens of rising monthly payments. “Project Lifeline”, as it will be called, will be in addition to the Bush administration backed “Hope Now” which has come under fire from critics who say it wasn’t a large enough step towards helping American homeowners.

JANUARY 2008

January 30: Standard and Poor’s announced it would be cutting the credit ratings of $534 billion in subprime mortgage backed securities. Downgrades of these securities could lead to another $265 billion in losses for the financial industry.

January 30: UBS, the world’s largest wealth manager, announced the need to write down another $4 in subprime-related losses. This new write-down brings the total for UBS subprime losses over $18.4 billion. Subprime related losses pushed the company its worst year of performance in its institutional history.

January 29: The Wall Street Journal reported that federal investigators have begun inquiries into possible criminal actions taken by 14 companies due to their role in the securitization of subprime mortgages.

January 29: The House of Representatives passed an economic stimulus package with $146 billion in targeted tax relief.

January 29: The number of houses in foreclosure rose 79 percent in 2007, according to Reality Trac. December also marked the fifth straight month where 200,000 or more foreclosure filings were made.

January 28: New home sales dropped 26.4% in 2007, according to a Commerce Department report. In addition, the median price of new homes fell by 10.4% from December 2006 - the biggest 12 month decline in 37 years.

January 17: Lehman Brothers said it would no longer continue the practice of wholesale mortgage lending. As a pioneer in issuing mortgage backed securities, Lehman Brothers also announced it would cut 1,300 jobs. These job cuts come on top of 2,500 other jobs eliminated since June 2007.

January 15: Citigroup the largest bank in the U.S. announced that its mortgage portfolio dropped in value by $18.1 Billion. This news led Citigroup to its first quarterly loss in 16 years.

January 11: Merrill Lynch, the nation’s third largest securities firm, announced it would need to write down more than double its initial projection related to subprime mortgage losses. Initial projections showed Merrill Lynch would lose around $7 Billion; however, it now appears that number could reach $15 Billion.

January 11: Bank of America, the nation's second largest banking institution, announced that it would buy Countrywide Financial, the nation's largest mortgage lender. This acquisition ended days of speculation that Countrywide, due to its role in the proliferation of subprime mortgages, would be forced to declare bankruptcy.

January 10: Countrywide Financial reported that late mortgage payments and foreclosures reached the highest level ever recorded this past December. The foreclosure rate on Countrywide's mortgages grew from just 0.7% a year ago to 1.44% last month. On the announcement of this news, shares in Countrywide dropped to their lowest price in over a decade.

January 4: The Labor department announced that the unemployment rate skyrocketed from 4.7% to 5% in December. These numbers were fueled by the loss of 28,500 jobs in residential construction and 7,000 jobs lost in the mortgage lending industry throughout 2007. The fall to 5% made December's unemployment jump the largest unemployment increase since the days after Sept. 11, 2001.

DECEMBER 2007

December 20: Reeling from the subprime mortgage crisis, investment bank Bear Stearns announced the first quarterly loss in the institution's eight-decade history. With this announcement from Bear Stearns, Wall Street's losses had reached a combined $40 Billion from the subprime mortgage crisis.

December 19: Morgan Stanley announced it would be writing down an additional $9.4 billion in losses on subprime linked investments. The company also announced it would be selling a $5 billion dollar stake to a foreign investment fund.

December 18: The Commerce Department reported that housing construction was down 3.7 percent for the month of November to a seasonally adjusted rate of 1.187 million units. This marked a 24.2 percent drop in new home construction in the 12 month period and the lowest level of home construction in more than 16 years.

December 17: Treasury Secretary Henry Paulson announced he favors temporarily allowing Fannie Mae and Freddie Mac to purchase home loans in excess of $417,000.
This allows Fannie Mae and Freddie Mac to provide home loans in more areas throughout the country.

December 14: The US Senate passed legislation giving needed tax relief to those at risk of foreclosure on their subprime mortgages**.** The Mortgage Forgiveness Debt Relief Act both extends the tax deductions on mortgage insurance premiums and eliminates taxes accrued by receiving debt forgiveness. Previous to this legislation, debt forgiveness was treated as income and taxed accordingly, further crippling struggling American families.

December 11: The Federal Reserve Board announced only a 25 basis-point cut in the discount rate

December 11: Washington Mutual announced that it expected its fourth quarter loan losses would reach $1.6 Billion. In addition, it expected that 3,000 Washington Mutual employees would be laid off as a result of investments in subprime mortgage-backed securities.

December 10: Swiss bank UBS announced it would write down an additional $10 Billion in subprime losses –possibly resulting in a net loss for all of 2007. UBS also announced it has solicited a cash infusion of $11.5 Billion from GIC, Singapore’s sovereign wealth fund, and an unknown Middle Eastern investor.

December 10: Fannie Mae and Freddie Mac announce that they are changing their criteria for purchasing delinquent home loans. The two government-sponsored entities, which together own or guarantee approximately two-fifths of U.S. home mortgage debt, have recently set aside billions of dollars to compensate for bad home loans. Their profits have declined at a time when home prices are falling and defaults are soaring on high-risk mortgages.

December 6: Standing between Treasury Secretary Henry Paulson and Housing and Urban Development Secretary Alphonso Jackson, President Bush announces measures to help many struggling homeowners. President Bush touts the HOPE NOW Alliance as an example of government uniting members of the private sector to address voluntarily the housing crisis without taxpayer subsidies or government mandates. The President calls upon Congress to, among other actions, reform both the Federal Housing Administration and the Government Sponsored Enterprises Freddie Mac and Fannie Mae.

December 5: The *Wall Street Journal* reports that New York Attorney General Andrew M. Cuomo sent out subpoenas to major Wall Street firms including Merrill Lynch, Morgan Stanley, Deutsche Bank, Bear Sterns, and Lehman Brothers over the late summer to explore further their role in the packaging and selling of subprime mortgages.

November 2007

November 29: According to Realty Trac, there were 222,451 foreclosure filings last month. It is a 94 percent increase from October 2006 and represents one foreclosure filing for every 555 households in the nation. The 2 percent increase from
September 2007 indicates that the subprime crisis is only getting worse.

November 29: According to a government report released today, there were 516,000 new homes for sale at the end of October. It would take 8.5 months to clear that inventory at the current sales pace.

November 29: Treasury Secretary Henry Paulson meets with leading banking regulators and industry representatives, including loan servicing companies responsible for collecting and distributing loan payments, to discuss a subprime plan
aimed at controlling resetting interest rates for subprime borrowers. No official details are announced.

November 29: Federal Reserve Chairman Ben Bernanke, speaking to a group of business executives in Charlotte, N.C., indicates that the economy may need another general rate cut. He expects consumers to suffer from the deepening housing slump.

November 29: California Governor Arnold Schwarzenegger rolls out a $1.2-million education campaign to help borrowers and lenders restructure loans before a home is lost to foreclosure. Speaking at a press conference in Riverside, CA, Governor Schwarzenegger says that hundreds of thousands of monthly mortgage payments in the state are expected to soar by hundreds of dollars over the next few years.

November 28: The National Association of Realtors reports that sales of existing single-family homes and condominiums dropped by 1.2% in October to a seasonally adjusted annual rate of 4.97 million units. The median price of a home sold in October declined to $207,800, a drop of 5.1 percent from October 2006. It is the single largest one year decline on record.

November 28: With the subprime housing credit crisis spreading, the Commerce Department reports that orders to factories for big-ticket manufactured goods declined by 0.4% in October. It was the third consecutive decline, the longest slump in nearly four years.

November 21: Shares of Countrywide, the largest U.S. Mortgage Lender, close below $10 for the first time in more than five years.

November 19: Fannie Mae shares are down 7.3% to $37.70 on reports from Credit Suisse that the government sponsored entity may report a loss of between $1 billion to $5 billion on its subprime AAA portfolio.

November 15: The U.S. House of Representatives approves H.R. 3915, "The Mortgage Reform and Anti-Predatory Lending Act of 2007," by a vote of 291 to 127. The historic bipartisan legislation reins in the abusive lending practices that contributed to the current mortgage crisis.

November 15: Barclays Group PLC takes a $2.7 billion write-down for losses on securities linked to the U.S. subprime mortgage market collapse.

November 14: According to Realty Trac, foreclosure filings rose in 77 of the largest 100 metropolitan areas from the prior quarter. Overall, residential foreclosure filings nearly doubled in the third quarter from a year earlier.

November 14: HSBC Holdings PLC, Europe's biggest bank, reports that it took a $3.4 billion impairment charge at its U.S. consumer finance division, HSBC Finance Corp.

November 8: Testifying before the Joint Economic Committee, Federal Reserve Chairman Ben Bernanke expresses his concern over the subprime housing crisis and floats the idea of providing governmental guarantees against defaults on so-called "jumbo" loans, those above the $417,000 limit on mortgages that can be backed by Fannie Mae or Freddie Mac.

November 6: David Trone, a securities analyst at Fox-Pitt Kelton, downgrades Morgan Stanley amid speculation that the brokerage firm will suffer losses of $6 billion due to the reduced value of credit investments. In his report, Trone writes: "We suggest an outright avoidance until either management discloses more specific exposure data and it proves smaller than we thought, or they actually take write-downs big enough to get beyond this."

November 4: On top of the $5.9 billion write-down reported in early October, Citigroup says it will take an additional $8 billion to $11 billion write-down related to subprime mortgages. In a memo to employees announcing his resignation, C.E.O. Charles O. Prince III writes: “It is my judgment that the size of these charges makes stepping down the only honorable course for me.” Mr. Prince leaves with $105.2 million in cash and stock – in addition to the $53.1 million in compensation he took home over the past four years.

OCTOBER 2007

October 31: In a nearly unanimous decision, the Federal Reserve Board lowers the federal funds rate by one-quarter percentage point to 4.50%.

October 30: Shareholders sue Merrill Lynch & Co for issuing false and misleading statements regarding its expo sure to risk mortgage investments. The lawsuit seeks class-action status on behalf of purchasers of Merrill stock between February 26 and October 23, 2007.

October 30: Reports from the S&P/Case-Shiller index indicate that housing prices have again fallen at record rates. In the largest drop since June 1991, the 10 city index declined 5 percent in August 2007 as compared to the same month during the previous year.

October 29: John Robbins, former chairman of the Mortgage Bankers Association, says approximately a half of million U.S. mortgage borrowers each year for the next few years risk foreclosure. He expects that 1 million borrowers will lose favor with their lenders each year and that 500,000 of them will not be able to save their home loans.

October 24: Merrill Lynch writes down $7.9 billion due to exposure to collateralized debt obligations, complex debt instruments, and subprime mortgages. As a result, the firm takes a $2.3 billion loss, the largest in the firm’s history.

October 17: The Commerce Department reports that U.S. home construction starts fell 10.2% last month to their lowest level in more than 14 years. Building permit activity, an indicator of future construction plans, declined 7.3%, the largest drop since January 1995.

October 17: The Federal Reserve’s “Beige Book,” a survey of businesses, indicates that the housing crisis is intensifying and that businesses are concerned that other areas of the economy are likely to suffer as a result.

October 16: The National Association of Home Builders reports that its housing market index, which tracks builders’ perceptions of conditions and expectations for home sales over the next six months, dropped to 18, its lowest level since the inception of the index in 1985. The housing market index has declined for eight straight months. Builder confidence increased in the Midwest by two points, but the region still has the lowest overall rate in the nation.

October 15: Strongly urged to act by the Treasury Department, Citigroup, JPMorgan Chase, and Bank of America announce the creation of a new entity, called a Master Liquidity Enhancement Conduit, to raise $200 billion in order to purchase securities that are otherwise likely to be dumped on the market and further depress the housing debt crisis.

October 15: Citigroup acknowledges that its risk management models failed its customers and shareholders during this summer's credit crisis, leading to the company's 57 percent drop in third-quarter profit. Citigroup was forced to write off $3.55 billion and set aside $2.24 billion to cover anticipated losses stemming from failing mortgages and consumer loans.

October 15: Federal Reserve Chairman Ben Bernanke says that the housing crisis is far from over and will create a "significant drag" on domestic economic growth into next year.

October 10: The National Association for Realtors revises down its outlook for home sales. It lowers its prediction for existing home sales for the year from 5.92 million to 5.78 million. Although demand for applications to purchase homes and refinance existing mortgages rose during the preceding week, consumers continue to have trouble getting loans approved. New home sales are projected to fall to 805,000 this year and to 752,000 next year.

October 10: The Bush administration announces a new mortgage industry coalition to help homeowners stay in their homes. Treasury Secretary Henry M. Paulson Jr. estimates that the new initiative, dubbed Hope Now, will assist 2 million homeowners whose initial mortgage rates are resetting to higher and often unaffordable rates. The coalition includes 11 of the largest mortgage service companies, which represent 60 percent of all mortgages in the nation. They will be joined by mortgage counseling agencies, investors, and large trade organizations.

October 9: The U.S. Securities and Exchange Commission (SEC) announces its intention to review potential conflicts of interest in the credit rating agencies due to questionable practices associated with the ratings given to mortgage-backed securities that have contributed to the spreading housing crisis. SEC Chairman Christopher Cox says: "We have underway right now the beginnings of examinations that are focused on conflicts of interest, and books and records examinations, and whether the agencies are following their own procedures."

October 4: The credit ratings agency, Moody's Investors Service, reports that subprime mortgage bonds originated in the first half of 2007 include loans that are going delinquent at the fastest recorded rate. The Moody's report predicts that accelerating delinquencies from 2007 bonds are likely to surpass the number of delinquencies in 2006, which hit a peal not seen since 2000.

October 3: Residential foreclosures in New York City hit 698 during the third quarter. It represents a 64% increase from the same period last year. Yet the spike in New York pales in comparison to the third quarter increases in Los Angeles (247%) and Miami (168%). Miami's foreclosure rate per household is 116% higher than Los Angeles and 852% higher than New York City.

October 1: Former Federal Reserve Chairman Alan Greenspan says the housing crisis is far from over. "As in similar situations of inventory excess, I would expect home prices declines to continue until the rate of inventory liquidation reaches its peak." Greenspan adds that the consumer and broader economy will suffer as a result.

October 1: UBS reports its first quarterly loss in nine years. The largest wealth manager in the world plans to write down $3.4 billion in its fixed-income portfolio and other departments and to cut 1,500 jobs in its investment bank. The loss is attributed to the spreading credit crisis stemming from the emerging housing depression.

SEPTEMBER 2007

September 27: Luminent Mortgage Capital, a home-loan investment company, downgrades its second-quarter profit as the company struggles to gain access to credit and bankers seize assets.

September 27: The Commerce Department reports that sales of single-family homes decreased by 8.3% last month, the lowest level in seven years. The median price of a new home declined by 7.5% to $225,000 in August 2007 as compared to the same month a year ago.

September 25: The National Association of Realtors releases new housing statistics that reveal sales of existing single-family homes dropped by 4.3 percent in August, compared to July. It is the sixth straight decrease, pushing sales to the lowest point in five years. The fall in sales pushes the inventory of unsold homes to a record 4.58 million in August.

September 25: According to the S&P/Case-Shiller's Home Prices Indices, which track housing prices in metropolitan areas, home prices continue to fall at an increasing rate. The 10-City Composite index shows an annual decline of 4.5 percent– the largest in 16 years.

*September 21**:*** HSBC Holdings announces its plans to close its U.S. subprime unit, Decision One Mortgage, and record an impairment charge of about $880 million. HSBC states that it no longer believes the mortgage business is sustainable. Approximately 750 U.S. employees are expected to be affected by the decision.

September 20: Testifying before the House Financial Services Committee, Federal Reserve Chairman Ben Bernanke says that the credit crisis has created "significant market stress" and that the Fed is "committed to preventing problems from recurring, while still preserving responsible subprime lending." Treasury Secretary Henry Paulson adds that the administration is considering raising the Fannie Mae and Freddie Mac loan limits so that they can temporarily buy, bundle, and sell as securities any loans exceeding $417,000. But Secretary Paulson emphasizes that any changes to include so-called jumbo loans must include stricter regulations for oversight.

September 19: The Office of Federal Housing Enterprise Oversight (OFHEO), the regulator of Fannie Mae and Freddie Mac, agrees to relax restrictions on the mortgage finance companies' investment holdings, enabling Fannie Mae and Freddie Mac to buy $20 billion more in subprime mortgages. But OFHEO Director James Lockhart reaffirms the administration's stance that he will not allow "any major increases in the (investment) portfolio levels."

September 19: The Commerce Department reports that construction of new homes fell by 2.6 percent in August to the slowest pace in 12 years.

September 18: Realty Trac Inc. announces that home foreclosure filings surged to 243,000 in August, up 115 percent from August 2006 and 36 percent from July**,** marking the highest number of foreclosure filings since Realty Trac began tracking monthly filings. The foreclosure filing rate nationally is now one in every 510 homes.

September 18: The mortgage lending crisis intensifies as Impact Mortgage Holdings Inc. says it will quit most lending activities, while Accredited Home Lenders Holding Co. posts a major quarterly loss and says its survival remains in doubt.

September 18: Federal Reserve cuts target federal funds rate by a half point to 4.75 percent. It is the first rate reduction in four years and the steepest in nearly five years. The Fed openly admits that the housing downturn is much more severe than initially anticipated. In response to the rate cut, the Dow Jones industrial average jumps 200 points and closes up 335 points at 13, 739.39.

September 18: The U.S. House of Representatives overwhelmingly passes H.R. 1852, the "Expanding American Homeownership Act of 2007**,"** which expands funding for housing counseling, authorizes lower down payments for borrowers who can afford mortgage payments, and directs the Federal Housing Administration to offer mortgage loans to higher risk – but qualified – borrowers.

September 17: Merrill Lynch & Co. Inc.'s $1.3 billion bet on subprime lending takes a turn for the worse when the world's largest brokerage confirms job cuts at its First Franklin Financial Corp. unit. Merrill Lynch declines to say how many jobs are being cut. Recently filed reports with U.S. banking regulators show that Merrill Lynch Bank & Trust Co., where a lot of the First Franklin franchise is housed, lost $111 million through the first half of 2007.

September 17: NovaStar Financial Inc gives up its real estate investment trust, effectively abandoning the lending business, because it cannot pay a $157 million dividend.

September 14: Merrill Lynch & Co., the biggest underwriter of collateralized debt obligations, signals that the subprime mortgage crisis may hurt third-quarter earnings. The New York-based firm reports that it made ``fair value adjustments" for potential losses to date on unspecified holdings and financing commitments.

September 12: According to the quarterly Anderson Forecast by the University of California at Los Angeles, the spreading housing crisis will push the national economy to the brink of recession but growth in other sectors of the economy could lead to a moderate recovery by 2009. David Shulman, senior economist for the forecast, lowers his forecast for housing starts to an annual rate of 1 million to 1.1 million, down from a range of 1.2 million to 1.3 million.

September 12: Speaking to representatives of leading financial firms, Treasury Secretary Henry Paulson says that the turbulence that has hit financial markets will take some time to be resolved, especially in the area of subprime mortgages. He urges the large firms to work with the administration to help ensure that subprime homeowners get assistance in dealing with sharply rising mortgage payments as their initial low adjustable rate mortgages now reset to higher levels.

September 6: Concerned by the exploding subprime mortgage crisis, Federal Reserve Governor Randall Kroszner says fallout may spread beyond housing market into general economy.

September 6: The Mortgage Bankers Association releases a quarterly report showing that the delinquency rate (the number of people who are behind in their payments but have not yet entered the foreclosure process) for mortgage loans on one-to four-unit residential properties was 5.12 percent of all loans outstanding in the second quarter of 2007, up 28 basis points from the first quarter of 2007, and up 73 basis points from one year ago. The delinquency rate for subprime loans was up from 13.77 in the first quarter to 14.82 percent in the second quarter. The delinquency rate for prime loans rose from 2.58 percent to 2.73 percent. Compared to this time last year, the seriously delinquent rate is 23 basis points higher for prime loans and 304 basis points higher for subprime loans.

September 5: The National Association of Realtors releases statistics on pending sales for existing homes. The figures reveal a 16.1 percent decline in July from a year ago and a 12.2 percent decline from the prior month. The July 89.9 level is the second lowest in the history of the index and its lowest since the September 11th terrorist attacks that severely disrupted the national economy.

September 5: The Federal Reserve releases its Beige Book, a largely anecdotal report on the economy based on interviews with business leaders throughout the country. Counter to investor sentiment, the findings do not indicate that the housing crisis is expanding into the general economy. The Dow Jones industrial average drops nearly 200 points.

September 4: The six banking regulators, including the Federal Reserve, call on mortgage companies to work with struggling homeowners likely to lose their homes as their adjustable rate mortgage interest rates escalate. Citing the benefit to both lenders and borrowers, Fed Governor Randall Kroszner says: “Keeping families in their homes is a matter of great importance to the Federal Reserve.”

AUGUST 2007

August 31: President Bush holds a press conference to highlight the growing problems in the subprime mortgage market. He says the “government has a role to play” in the growing crisis and calls upon the Federal Housing Administration to help subprime borrowers refinance into loans insured by the federal agency. The modest FHA program is expected to assist 60,000 delinquent borrowers. President Bush announces an additional program expected to help another 20,000 homeowners by reducing insurance premiums for those who pose less of a credit risk.

August 27: National Association of Realtors reports that existing home sales declined by 0.2 percent in July, leaving the level of sales 9.0 percent below the level 12 months prior.

August 22: Realty Trac Inc announces foreclosures were up 93% in July 2007 from July 2006. The national foreclosure rate in July was one filing for every 693 households. There were 179,599 filings reported last month, up from 92,845 a year ago.

August 17: The Federal Reserve cuts the discount rate by half a point. Stocks rally.

August 16: Countrywide Financial, the nation’s largest mortgage lender, draws down $11.5 billion from its credit lines.

August 16: All three major stock indexes were 10% lower than their July peaks – a marker indicating a correction of the stock market, due to tightening in the credit markets.

August 13: Aegis Mortgage files for bankruptcy.

August 9 and 10: European Central Bank and Federal Reserve intervenes in markets by pumping billions of dollars of liquidity into the markets.

August 9: American International Group, one of the biggest U.S. mortgage lenders, warns that mortgage defaults are spreading beyond the subprime sector. With delinquencies becoming more common among borrowers in the category just above subprime.

August 9: BNP Paribas, a French bank, suspends three of its funds because of exposure to U.S. mortgages.

August 6: American Home Mortgage files for bankruptcy.

August 1: Two hedge funds managed by Bear Stearns that invested heavily in subprime mortgages declare bankruptcy. Investors in the funds file suit against Bear Stearns, alleging that the investment bank mislead them about the extent of the funds' exposure.

JULY 2007

July 31: Home prices continue to fall, marking the 18th consecutive decline, beginning in December 2005, in the growth rate of housing prices, according to the monthly S&P/Case-Shiller's Home Prices Indices, which tracks housing prices in metropolitan areas and is considered a leading measure of U.S. single-family home prices. The 10-City Composite index showed an annual decline of 3.4% (it's biggest since 1991) and the 20-City Composite reported an annual decline of 2.8%.

July 30: IKB Deutsche Industrie bank, a German bank, is bailed out because of bad bets on U.S. mortgage-backed securities.

July 25: The JEC examines the impact of the subprime lending crisis on Cleveland, Ohio, one of the hardest hit communities in the nation. The hearing reveals the individual faces of the subprime mortgage crisis. Local residents and city council members testify.

July 19: The Dow Jones industrials close above 14,000 for the first time.

July 18 and 19: In two days of testimony in Congress, Chairman Bernanke said there will be "significant losses" due to subprime mortgages, but that such losses are "bumps" in "market innovations" (referring to hedge fund investments in subprime mortgages). Bernanke reiterated that problems in the subprime mortgage market have not spilled over into the greater system. Bernanke also said the problems "'likely will get worse before they get better." He forecasts that the economy is poised for moderate growth, but continuing problems in the housing market prompt the Fed to slightly reduce its growth expectations.

July 18 and 19: Chairman Bernanke testifies in front of the House Financial Services Committee and the Senate Banking Committee in his Second Monetary Report to Congress in 2007.

July 18: Commerce Department announces housing starts are down 19.4 percent over the last 12 months. Also announced is a 7.5 percent plunge in permits to build new homes, the largest monthly decline since January 1995. Permits are 25.2 percent below their level a year ago, reflecting continued pessimism among builders over the near-term outlook for new homebuilding.

July 18: Bear Stearns announces its two hedge funds that invested heavily in the subprime market are essentially worthless, having lost over 90% of their value, equal to over $1.4 billion.

July 17: The Federal Reserve announces a pilot program to monitor brokers, joining the Board of Governors of the Federal Reserve with the Office of Thrift Supervision, the Federal Trade Commission, and state agencies represented by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators, to conduct targeted consumer-protection compliance reviews of underwriting standards, oversight, and risk-management practices within non-depository lenders with significant subprime mortgage operations.

July 10: Standard and Poor's and Moody's downgrade bonds backed by subprime mortgages. Fitch follows suit.

July 10: The Senate Appropriations Committee approves $100 million of the requested $300 million for HUD Housing Counseling programs in the Transportation, Housing, and Urban Development, and Related Agencies FY08 Appropriations Bill. With these funds, non-profit agencies are able to provide individual counseling by working one-on-one with borrowers stuck in unaffordable subprime loans.

JUNE 2007

June 22: Bear Stearns pledges up to $3.2 billion to bail out one of its hedge funds because of bad bets on subprime mortgages.

June 14: Goldman Sachs reports flat profit from a year ago due to mortgage market problems.

June 12: Realty Trac announces U.S. foreclosure filings surged 90 percent in May from May 2006. Foreclosure filings were up 19 percent from April. There were 176,137 notices of default, scheduled auctions and bank repossessions in May. The median price for a U.S. home dropped 1.8 percent the first three months of 2007. According to Freddie Mac, typically, more than half of all home sales occur in the April to June period.

June 6: ZipRealty Inc., a national real-estate brokerage firm, announces that the number of homes listed for sale in 18 major U.S. metropolitan areas at the end of May was up 5.1% from April. This is a striking deviation from the general trend as tracked by the Credit Suisse Group, which says on a national basis; inventories of listed homes have typically been little changed in May during the past two decades.

MAY 2007

May 25: The National Association of Realtors reports that sales of existing homes fell by 2.6 percent in April to a seasonally adjusted annual rate of 5.99 million units, the slowest sales pace since June 2003. The number of unsold homes left on the market reached a record total of 4.2 million.

May 17: At the Federal Reserve Bank of Chicago's Forty-Third Annual Conference on Bank Structure and Competition, Chairman Bernanke reiterates his March statement by saying the Fed does not foresee a broader economic impact from the growing number of mortgage defaults.

May 9: The Federal Open Market Committee meets and leaves rates unchanged. The FOMC states in their minutes, "The correction of the housing sector was likely to continue to weigh heavily on economic activity through most of this year, somewhat longer than previously expected." However, the FOMC continued to refer to the housing crisis as a "correction".

APRIL 2007

April 24: The National Association of Realtors announces that sales of existing homes fell 8.4% in March from February, the sharpest month-to-month drop in 18 years.

April 18: Freddie Mac announces plans to refinance up to $20 billion of loans held by subprime borrowers who would be unable to afford their adjustable-rate mortgages at the reset rate.

April 12: According to the Los Angeles Times, Tony Fratto, Spokesman for the White House, said "individuals need to make smart decisions in taking on debt, and there has to be some responsibility for making those decisions." He also said that any federal action would be unwelcome and would encourage "risky behavior."

April 6: American Home Mortgage writes down the value of risky mortgages rated one step above subprime.

April 2: New Century Financial files for bankruptcy.

MARCH 2007

March 27: At a Joint Economic Committee hearing, Ben Bernanke, Chairman of the Board of Governors of the Federal Reserve System, says housing market weakness "does not appear to have spilled over to a significant extent." More Bernanke: "At this juncture, however, the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained. In particular, mortgages to prime borrowers and fixed-rate mortgages to all classes of borrowers continue to perform well, with low rates of delinquency."

March 20: People's Choice files for bankruptcy.

March 8: New Century Financial, the second largest subprime lender in 2006, stops making loans.

March 2: Fremont General stops making subprime loans and puts its subprime business up for sale.

March 2: The Federal Reserve announces draft regulations to tighten lending standards. Lenders would be required to grant loans on a borrower's ability to pay the fully indexed interest rate that would apply after the low, initial fixed-rate period of two or three years. New regulations are met with skepticism in Congress.

FEBRUARY 2007

February 20: Nova Star Financial reports a surprise loss.

February 12: ResMae Mortgage files for bankruptcy.

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DECEMBER 2006

December 28: Ownit Mortgage Solutions files for bankruptcy.