

HOME INSECURITY: FORECLOSURE GROWTH IN OHIO

OHIOANS ARE LOSING THEIR HOMES

Ohio, like the rest of the nation, has experienced a dramatic growth in subprime and predatory lending since the early 1990s. Over this same period, the number of foreclosure filings throughout Ohio has doubled and sheriff sales of foreclosed properties have tripled. More than 43,000 foreclosure cases were filed in Ohio in 2001, and more than 24,000 Ohio families lost their homes to sheriff sales. Subprime and predatory lending partly contributed to these statewide increases.

THE FACTS

Foreclosure filings in Ohio increased 155 percent between 1994 and 2001, and 23 percent between 2000 and 2001.

Sheriff sales of foreclosed properties increased by 200 percent between the pooled years 1994-96 and 2001, and 17 percent between 2000 and 2001.

One out of every 520 Ohio households lost its home to a sheriff sale in 1995; in 2001, one out of every 181 households lost its home to a sheriff sale.

TEN COUNTIES WITH HIGHEST FORECLOSURE RATES:

Pike County lost one in every 93 households to foreclosure in 2001.

Perry County lost one in every 96 households.

Hardin County lost one in every 102 households.

Allen County lost one in every 104 households.

Montgomery and Clark counties lost one in every 108 households.

Lucas County lost one in every 111 households.

Madison County lost one in every 120 households.

Brown County lost one in every 122 households.

Logan County lost one in every 133 households.

In most of these foreclosures, homeowners defaulted on their home loans, or were unable to meet monthly mortgage payments. Increased consumer debt and spending, stagnant wages, increased housing costs, and altered welfare policies all play a role in home loss. Yet, recent work from the Ohio Community Reinvestment Project (OCRP) found that a growing number of foreclosures in a sample of Ohio counties began as subprime loans. Subprime loans are high-interest loans issued to borrowers considered credit risks by traditional or "prime" lenders. The subprime industry lends mainly to low-income, elderly, and minority borrowers. In 1997, 1999 and 2001, foreclosure filings resulting from subprime loans increased 333 percent in Summit, Lorain, and Montgomery counties, compared to a 122 percent increase in foreclosure filings resulting from prime loans.

SUBPRIME LENDING: HELPING OR HURTING?

The subprime industry has exploded since the early 1990's, from \$20 billion of the mortgage market share in 1993 to \$150 billion in 1998. Lack of subprime regulation and an open market of borrowers spurred this growth. By 1999, Ohio had the third largest volume of subprime refinancing activity in the country.

Certain subprime loans include terms that prey on borrowers, charging excessive fees

and interest, using coercive marketing and collection methods, and attaching unnecessary and expensive services to loans. Predatory lenders issue loans without regard for a borrower's ability to repay and often refinance borrowers at increasingly worse terms. Recipients of predatory loans end up trapped in debt and can end up losing their homes.

Subprime borrowers use loans for debt consolidation, medical and educational expenses, home improvement and, most frequently, home refinancing. These loans often tie unsecured debt, like credit card debt, to a borrower's home equity, endangering a borrower's home if s/he cannot repay the loan.

WHO IS HIT THE HARDEST?

The subprime lending industry has clearly defined its market: elderly, minority, and low-income borrowers. Nationwide in 2000, borrowers 65 years and older were three times as likely as those 35 years and younger to hold subprime loans. In 1999, subprime refinancing loans made up 31 percent of refinancing loans to low-income whites, 50 percent to low income Hispanics and 65 percent to low-income blacks, as compared to 8 percent of refinancing loans to upper-income whites, 15 percent to upper-income Hispanics and 33 percent to upper-income blacks. Similar trends hold in Ohio.

More than just poor credit history limits many subprime borrowers' access to traditional credit. In fact, low-income housing corporations Freddie Mac and Fannie Mae estimate that 35-50 percent of subprime recipients could have qualified for prime loans. Many of these borrowers favored by the subprime industry face a credit void in their own neighborhoods. In too many low-income areas conventional banks have been steadily disappearing, and the void is being filled with "fringe lenders," such as check cashing outlets, pawnshops, rent-to-own shops, title lenders, and subprime lenders.

Predatory lending feeds off of this environment full of potential borrowers, using fraudulent and high pressure-tactics to take high fees and interest from homeowners.

RECOMMENDATIONS

In February of 2002, the state of Ohio passed HB 386, and passed up an opportunity to crack down on predatory lenders. The bill did little more than reiterate protections already given under federal law. Besides that, it barred cities in Ohio from passing their own regulations on predatory lenders until June of 2003. In light of rapid foreclosure increases, quick and effective action against predatory lending, both on the state and local level, is warranted. Many states have already prohibited prepayment penalties, balloon payments and attaching single credit life insurance to loans. Others have required home loan counseling for all buyers of high-cost loans. In addition to passing similar regulations, Ohio should provide adequate funding for enforcement, place financial institutions under its anti-fraud legislation and allow borrowers more direct ability to sue predatory lenders.

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