Executive Summary

Like the rest of the nation, Ohio has experienced a dramatic growth in both subprime and predatory lending since the early 1990's. Over this same period, the number of foreclosure filings has more than doubled and sheriff sales of foreclosed properties almost tripled throughout Ohio.

This brief reports on Ohio's rising rate of foreclosure filings and sheriff sales, and examines how predatory loans have contributed to destabilizing Ohio communities by encouraging debt that leads to home loss. Foreclosures usually occur when a borrower, unable to meet mortgage payments, defaults on a loan. Sheriff sales are the actual sales of foreclosed homes. In foreclosure cases due to loan defaults, proceeds go to the lender.

Our research finds:

- Overall in Ohio, foreclosure filings increased 155 percent between 1994 and 2001, and 23 percent between 2000 and 2001.
- Actual sheriff sales of foreclosed properties increased by 200 percent between the pooled years 1994-96 and 2001 in Ohio, and 17 percent between 2000 and 2001 alone.
- More than 43,000 foreclosure cases were filed in the year 2001.
- More than 24,000 Ohio families lost their homes to sheriff sales in the year 2001.
- One out of every 520 Ohio households lost its home to a sheriff sale in the year 1995. By 2001, one out of every 181 households lost its home to a sheriff sale.
- Though Ohio's eight metropolitan counties continue to generate over half the state's sheriff sales, rural counties emerged with the highest percentage increases in sheriff sales between 1994-2001, indicating that the problem is spreading past urban centers.

These consistent foreclosure increases beg for explanation. We can suggest several possible causes, including rising consumer debt, increased housing prices, increased spending, stagnant wages and changes in welfare policies, among others. Two factors that clearly help to explain a large subset of these foreclosures are subprime and predatory loans, which have grown over the same period of this foreclosure explosion. Nationwide, subprime lending grew by 900 percent between 1993 and 1998. In 1999, Ohio had the third highest volume of subprime refinance loans in the nation.

Predatory lending, a subset of the subprime lending industry that sets manipulative, sometimes fraudulent loan terms to strip equity from borrowers' homes, is a widely criticized and growing phenomenon. Predatory loans, which disproportionately victimize elderly, minority and low-income people, often result in foreclosure.

Unlike states like Georgia and North Carolina who have adopted strict legislation against predatory lenders, Ohio's HB386, passed February of 2002, outlawed legislative action against predatory lending until the summer of 2003 when the state completes a predatory lending study. We conclude with suggestions for regulatory reform to reduce predatory lending and thereby reduce foreclosures associated with loan default.

Among these suggestions:

- Cities and localities should be empowered to pursue actions against predatory lenders, to bar such lenders from doing business with local government agencies and to conduct consumer education on predatory lending.
- Ohio should adopt a comprehensive definition of predatory lending encompassing practices widely considered to be predatory.
- Ohio should adequately fund an enforcement agency that is accessible to consumers and charged with aggressively investigating and handling complaints against lenders. The state should stop exempting financial institutions from its Unfair and Deceptive Acts and Practices statute, which would allow more latitude for legal recourse against predatory lenders (UDAP). Under any state legislation adopted, consumers should be allowed private right of action, in order to directly sue predatory lenders.
- Better research is needed to understand Ohio's high foreclosure rates and to determine how best to prevent foreclosures. The state should require centralized reported of sheriff sales to better track foreclosures. Additionally, further research should be conducted to:
    - Document the race, gender, age and income of those most impacted by foreclosure.
    - Determine the extent to which foreclosures result from subprime loans.
    - Estimate the proportion of subprime loans that can be characterized as predatory.
    - Begin to determine the causes of foreclosures that do not result from predatory loans.