

**Martin J. Gruenberg,
Vice Chairman, FDIC
11th Annual Wall Street
Project Economic Summit,
New York, New York
The Church and the Subprime Crisis
One Thousand Churches Connected Breakfast
Churches and Foreclosure
January 8, 2008**

Thank you for that kind introduction. It is an honor for me to be here this morning. I am pleased to have the opportunity to share with you some thoughts on the critically important role churches can play in addressing this issue of subprime mortgage foreclosures.

I would like to begin by making a few brief points.

First, we do have a crisis on our hands. There were approximately 600,000 homes with subprime mortgages which entered foreclosure during the first three quarters of last year.¹ When the numbers for the entire year are in, subprime mortgages entering foreclosure are likely reach 800,000 to 1 million. The FDIC estimates that in 2008 and 2009 about 1.7 million subprime mortgages will reach their so-called reset date when the interest rate on the mortgage increases dramatically and the borrowers won't be able to pay the adjusted rate. Hundreds of thousands of those homeowners will be at risk of foreclosure.

Second, subprime mortgage lending, as you know, is heavily concentrated among minority borrowers. Under a Federal law, the Home Mortgage Disclosure Act (HMDA), the Federal Reserve collects data on so-called "high cost" mortgage lending, defined as mortgage loans which are 3 points above the Treasury rate. According to the most recent HMDA data released by the Federal Reserve last year, 54 percent of African-Americans and 47 percent of Hispanics received high cost mortgages in 2006. Only 18 percent of non-Hispanic whites received high cost mortgages. The Federal Reserve study found that borrower related factors accounted for only one sixth of this disparity.

Third, when foreclosures occur, it is not only the homeowner and the homeowner's family that are affected. When two or three homes in a neighborhood are foreclosed, it affects the value of all the homes in that neighborhood and community. These subprime mortgage foreclosures will affect neighborhoods and communities all over this country.

Fourth, it has been said that a lot of these homes were bought on a speculative basis and people who did that don't deserve help. That is true of some. But it is important to understand that the majority of subprime mortgages were refinancings of existing homes. In other words, these were homes in which the homeowner was living, with mortgages that the homeowner was paying and could afford. In many cases the

homeowner was encouraged or induced to refinance into one of these subprime mortgages with exploding interest rates that the homeowner couldn't afford.

Subprime mortgage lending was promoted as a way to increase minority homeownership in the United States. At the end of the day, when this whole process has played out, subprime mortgage lending may well result in a net reduction in minority homeownership in this country.

So what can we do? Some of these homeowners may be able to refinance out of these mortgages into a new loan they can afford, either directly with a private lender or with an FHA guarantee. That's a good solution. But particularly with falling housing prices across the country, many people will have difficulty qualifying to refinance their mortgage. That is why the Chairman of the FDIC, Sheila Bair, came forward with a simple proposal. For those subprime mortgages whose interest rates will reset and for which the borrower has been paying the starter rate but won't be able to afford the higher rate and can't refinance, simply fix the interest rate at the starter rate, which is already at or above the prime rate in many cases, for the term of the loan. That way foreclosure is avoided and the investors in the securities in which these mortgages are tied up will actually benefit because the highest cost option is foreclosure.

This proposal received a great deal of attention. The American Securitization Forum, which represents the securitization industry and its participants, many of which are also servicers of these mortgages (the financial companies which collect payments on the mortgages on behalf of the investors) agreed to put forward a framework under which the servicers will fix the interest rate on the mortgages at the starter rate for five years for those borrowers who live in their homes and have been making their mortgage payments at the starter rate.

The FDIC is encouraging servicers to try to restructure any loan that is owner occupied and for which the borrower has a willingness and ability to repay. We should try to keep as many people as possible in their homes. We will be carefully scrutinizing the level of loan modification activity under reports required by the American Securitization Forum (ASF) framework, and we will push for changes to the framework if the level of loan modifications remains low.

Churches can play a crucially important role in encouraging people in their communities that have one of these subprime mortgages to contact their servicer or lender. These mortgages can't be modified if the borrowers don't interact with the servicer or lender. The FDIC and the other federal bank regulatory agencies have urged the lenders and servicers to proactively reach out to borrowers, but your churches can be invaluable intermediaries in helping to facilitate that contact.

You really do have a critical role to play. The challenge before us is great and we all need to make a contribution.

Thank you very much.

1 Estimated based on data reported by the Mortgage Bankers Association's National Delinquency Survey.

Last Updated 2/28/2008