Subprime mortgage crisis is of global significance

by Marc_H._Morial

With news of lending giant UBS taking a $10 billion hit as a result of the U.S. subprime mortgage meltdown hanging in the air earlier this month, the National Urban League joined a coalition of civil rights groups, labor unions and housing activists on Wall Street to trumpet the cause of millions of Americans struggling with troubling adjustable-rate, high-interest and/or high-cost subprime mortgages.

The rally, interestingly enough, attracted a substantial amount of foreign press - from Japan to Germany to England, demonstrating that the crisis has grown from one of domestic significance to one of global significance. Subprime woes in the U.S. threaten to cause major disruptions in both domestic and international credit markets as well as throw the U.S. and world economies into a tailspin. But worst of all, they threaten to devastate urban communities, where subprime lending helped millions of hardworking, middle-class Americans into their own homes for the very first time, propelling homeownership rates, especially among minorities, to historic levels.

Americans have lost jobs, become temporarily disabled, incurred unexpected medical expenses or have been forced to choose between paying the mortgage or repairing the car that transports them to the job that pays the mortgage. It is a vicious cycle exacerbated by inconsistent state laws on mortgage default and foreclosure, and inconsistent policies of mortgage lenders and servicing companies in the way they approach delinquent borrowers.

That is exactly why the NUL unveiled its Homebuyer's Bill of Rights earlier this year in the first place. At the Wall Street housing rally on Dec. 10, the league also unveiled a new and improved version that includes one more right - The Right to Fair Treatment in Case of Default - in addition to the six original ones.

The NUL believes that, in the case of default, homebuyers struggling with their mortgages should be afforded the following: 1) the opportunity for loan restructuring that includes the conversion to fixed-rate loans for those determined to be onerous; 2) fair and unbiased counseling; 3) accessibility to reasonable workout plans that promote home preservation to the greatest extent possible and resort to foreclosure when all other options are exhausted.

Moves by lenders to amend their approach to dealing with delinquencies have given hope to some homeowners teetering on the brink of default. Those moves, combined with a Bush administration proposal to freeze interest rates for some adjustable-rate mortgage holders, represent small but promising steps to address the crisis. President George W. Bush described the effort as a "sensible response to a serious challenge." According to the White House, as many as 1.2 million Americans stand to benefit. Industry experts, however, have revised that statistic downward to between 250,000 to 400,000.

U.S. Treasury Secretary Henry Paulson played a major role in brokering the agreement with lenders and conceded that it was "not a silver bullet" but would give the nation a "chance to work through a housing cycle." In other words, it buys select borrowers time or, in the words of Rep. Barney Frank, D-Mass., "kicks the can down the road."

Paulson assumes that an improved housing market in five years will enable borrowers struggling to make payments to sell their homes at a profit. But we need more than good intentions from our leaders. What we need is a giant leap forward to keep the subprime cancer from spreading to other parts of the U.S. economy and elsewhere.

Even as the average interest rate on a 30-year, fixed-rate loan fell last month to less than 6 percent, subprime borrowers with adjustable-rate mortgages will still have trouble refinancing under the Bush administration's proposal. That's largely because the qualifications are strict - borrowers must live in the home and cannot have missed more than one payment in the past 12 months.

"Investors may have thought that Bush and Treasury Secretary Henry Paulson stuck their fingers in a hole in the dyke, thus forestalling disaster. But given the rising tide of bad debt across the economy, today's actions are more like throwing a sandbag into a rising Mississippi River," observed Daniel Gross, a columnist for Slate magazine. "That awful smell in Midtown isn't from the horse-drawn carriages carrying tourists around. It's the distinctive odor of debt going bad."

That's not just mortgage debt. All kinds of debt. We'd be fools to assume that the subprime fiasco is an isolated and contained situation. Just ask the foreign press. There's a reason why the rest of the world is watching what happens here.

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