A PREDATOR IN AMERICA'S MIDST: A LOOK AT PREDATORY LENDING AND THE CURRENT SUBPRIME MORTGAGE CRISIS

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Resume

The author of this article is focusing on the current subprime mortgage crisis and housing recession that has struck the United States of America. What could be the reasons behind the current recession? How could so many Americans now be finding themselves without a home and with looming debt? Who is responsible for this current crisis and how, if at all, can it be fixed so future generations will not have to go through the same problems?

The article begins with addressing what could be a major reason why, after a period of such economic and housing prosperity, the banks and lenders now find themselves losing money because of the many foreclosures and unpaid mortgages.

Firstly, the article explains one reason why so many Americans are now filing for bankruptcy and foreclosure: predatory lending. Predatory lending is the discriminatory practice of targeting certain groups of people, often low-income, minority and elderly persons, and teasing them into accepting a subprime mortgage with an adjustable mortgage rate. The result is that for the first few months the borrower is successful in making the payments, however, once interest rates inevitable rise, the borrower finds him self in the possession of being unable to make the payments. Finally, this results in the

borrower having to default on this mortgage and the bank has to foreclose and auction the home off without even coming close to paying off the rest of the debt. As the author shows, predatory lending and discriminatory practices of this nature are not a new phenomenon. Long before the passage of the Civil Rights Act of 1968, and since the passage of the law, those in society seen as uneducated, lower-income and unable to understand the extent of their choices are often the targets of these types of lending practices.

The article examines some case studies that have been done, which point to the fact that in America a majority of these subprime loans have been peddled to most of America's less fortunate populations. Most of these borrowers were brought in with low or no interest rates in the beginning, and many of them were never read the fine print. Thus, after only a few months, piles of credit card debt, mortgage debt, and bills were too much for even the average American to handle.

Along with the effect of predatory lending, the author next analyzes why subprime mortgages are attractive to banks and mortgage lenders. The author examines what exactly a subprime mortgage is, and why using these types of mortgages can help the bank sell them on the secondary mortgage market in order to free up more money in order to allow the institution to lend even more money. Also, the author examines how a subprime mortgage can actually help a person, who ordinarily would be unable to get a mortgage because of financial reasons, obtain a mortgage with the hopes of owning his or her own home. The author examines the risks that both the borrower and lender must take when deciding to give and to accept a subprime mortgage.

After defining predatory lending and the subprime mortgage market, the author then seeks to look at the current state of American economics with respect to the housing boom. The author chronicles the economic boom of the early 2000s up until the current recession, which began in 2005. The author looks at foreclosure statistics and how the idea, which seemed good only a few years before, has caused catastrophic consequences to not only homeowners, but to the banks and lending institutions as well. The author shows how the over abundance of subprime mortgages in the market led to an insurmountable amount of risky securities that never could have had much backing by the lending institution, the homeowner, and especially not by the secondary mortgage market investor.

The last part of the article analyzes three new proposals: 1) FHA Housing Stabilization and Homeowner Retention Act; 2) The Neighborhood Stabilization Act of 2008; 3) The Subprime Borrower Protection Plan. The author analyzes each plan, the first two have been proposed in Congress and a leading economist in the field has proposed the latter plan. The author explains the key points of each of the plan, what effect each plan is deemed to have on the current crisis, and the author then points out what weaknesses each plan may have.

In conclusion, the author makes it clear that the economy in America is bound to get worse before it can get better. The purpose of the article is to show that although homeownership, financial sector prosperity and economic wealth can make everyone involved feel lucky for a little while, by not looking into the future and realizing the potential consequences of the situation this will lead to all parties involved without much recourse. Although the author concedes that something must be done to help both the homeowners who have lost their homes and the banks and financial institutions that have lost most of its promised profits, the real question the author wants to pose is how does American now produce laws that are actually enforceable. The reality of the situation, the author seeks to point out, is that even though there are laws in place and there are new laws being proposed to combat the situation, this may not be the ultimate solution to the problem. The real problem is that without the government and the people truly calling for an enforcement of these laws, such as those that are already seeking to combat discriminatory techniques like predatory lending and the issuing of subprime mortgages to borrowers who have no real chance of keeping up with payments, America may be bound to repeat the very reasons why it finds itself in this current position in the first place.

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