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TARP Anniversary: US Treasury Profits, Americans Still Face Foreclosure *State legislatures must pass mortgage reform to directly assist borrowers, homeowners*

ATLANTA – October 3, 2009 marks the first anniversary of our nation’s \$700 billion bailout known as TARP, the Troubled Asset Relief Program. Of the banks that received TARP funds, 22 have repaid their obligations, yielding a \$4 billion profit for the U.S. Treasury. Unfortunately, none of those monetary gains have yet to trickle down to the thousands of American taxpayers who remain in the sinking sands of the rippling consequences of irresponsible lending.

“A year after TARP, families and communities around the state are deeply mired in the foreclosure crisis caused by irresponsible lending practices,” Georgia Watch Deputy Director Danny Orrock said. “While the TARP money helped to balance the books of big banks, it has not required those banks to shore up their lending policies.”

Prior to the housing market collapse, lenders assumed real estate prices would continue to rise and dropped traditional lending standards. That decision put financial institutions and the market at severe risk by lending to borrowers who lacked the ability to repay high-interest loans. When real estate values stopped rising and loans began to default, banks, along with the American economy, teetered on the brink of failure. In late 2008, Congress posted bail, via TARP, for the nation’s major banks to recoup the lending machine that provides everything from car loans to mortgages.

Now, a year after the government made haste to salvage the bottom lines of numerous financial institutions, foreclosure and personal debt remain high across the country. Georgia ranks seventh in the nation for foreclosures. Moreover, numbers are likely to rise as more borrowers default on high-interest loans.

In 2010, Georgia lawmakers have a chance to bring stability to mortgage writing. SB 57 would curb irresponsible business practices of lenders and mortgage brokers, and keep borrowers from taking out loans they cannot afford.

Key provisions of SB 57:

- Ban prepayment penalties. A high-cost loan should be a bridge to better financing, not an anchor to high-interest debt.
- Ban yield spread premiums, otherwise known as kickbacks. When brokers steer borrowers to higher interest rates than they really qualify for, the lender pays them a kickback. YSPs are a perverse incentive for brokers to make loans more expensive than necessary.
- Require lenders to verify borrowers’ financial ability to repay the loan. Income verification would prevent borrowers from accepting loans they cannot afford.

“TARP is helping to relieve the banks of their losses, but as far as keeping them from doing it all over again, it’s done very little,” Orrock said. “We need rules in place that would keep them from making the same mistakes in the future. And SB 57 is the most viable tool to do this.”

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