



The Joint Economic Committee SUBPRIME MORTGAGE MARKET CRISIS TIMELINE

Senator Charles E. Schumer, Chairman

August 2007

DECEMBER 2006

- *December 28:* **Ownit** Mortgage Solutions files for bankruptcy.

FEBRUARY 2007

- *February 7:* The Senate Banking Committee holds the first hearing of the 110th Congress addressing legislative solutions to predatory lending in the subprime sector.
- *February 12:* **ResMae** Mortgage files for bankruptcy.
- *February 20:* **Nova Star** Financial reports a surprise loss.

MARCH 2007

- *March 2:* The **Federal Reserve** announces **draft regulations** to tighten lending standards. Lenders would be required to grant loans on a borrower's ability to pay the fully indexed interest rate that would apply after the low, initial fixed-rate period of two or three years. New regulations are met with skepticism in Congress.
- *March 2:* **Fremont General** stops making subprime loans and puts its subprime business up for sale.
- *March 8:* **New Century** Financial, the second largest subprime lender in 2006, stops making loans.
- *March 20:* **People's Choice** files for bankruptcy.
- *March 22:* The Senate Banking Committee holds a hearing to investigate the sharp increase in defaults and foreclosures, questioning banking regulators, a Federal Reserve representative, industry executives and two homeowners. Both **Democrats and Republicans criticize banking regulators for failing to respond more quickly** to curb the growth in risky home loans to people with weak credit.
- *March 27:* At a **Joint Economic Committee** hearing, Ben **Bernanke**, Chairman of the Board of Governors of the Federal Reserve System, **says housing market weakness "does not appear to have spilled over to a significant extent."**

More **Bernanke**: "At this juncture, however, **the impact on the broader economy** and financial markets of the problems in the subprime market seems **likely to be contained**. In particular, mortgages to prime borrowers and fixed-rate mortgages to all classes of borrowers continue to perform well, with low rates of delinquency."

APRIL 2007

- *April 2:* **New Century** Financial files for bankruptcy.
- *April 6:* **American Home Mortgage** writes down the value of risky mortgages rated one step above subprime.
- *April 11:* The **JEC**, chaired by Senator Charles **Schumer**, releases a report analyzing the subprime mortgage foreclosure problem and its economic impact on the most vulnerable communities. The report, entitled "**Sheltering Neighborhoods from the Subprime Foreclosure Storm**," argues that foreclosure prevention is cost-effective and presents policy suggestions for curbing future subprime foreclosures.
- *April 12:* Senator **Schumer** **calls on Federal Government to intervene on behalf of homeowners** in response to a **National Association of Realtors** report showing falling home prices due to rising foreclosures and a Los Angeles Times story in which the White House blamed homeowners for signing up for deceptive subprime mortgages.
- *April 12:* According to the Los Angeles Times, Tony Fratto, Spokesman for the **White House**, said "**individuals need to**

Legend:
In the Markets
In Congress
In the Administration

make smart decisions in taking on debt, and there has to be some responsibility for making those decisions.” He also said that any federal action would be unwelcome and would encourage “risky behavior.”

- *April 18:* **Senator Dodd** hosts the **Homeownership Preservation Summit**, bringing together some of the largest subprime lenders, securitizers, and servicers, as well as consumer and civil rights groups, to discuss ideas and develop solutions to the subprime mortgage market crisis. Following the summit, **Senator Dodd states, “I am not overly anxious to legislate... We think there may be enough laws on the books.”**
- *April 18:* **Freddie Mac** announces plans to **refinance up to \$20 billion of loans held by subprime borrowers** who would be unable to afford their adjustable-rate mortgages at the reset rate.
- *April 24:* The **National Association of Realtors** announces that **sales of existing homes** fell 8.4% in March from February, the **sharpest month-to-month drop in 18 years.**

MAY 2007

- *May 3:* **Senator Schumer** introduces the **first comprehensive plan to help homeowners avoid foreclosures.** The plan includes a request for \$300 million in federal funds for community non-profits to help homeowners refinance current mortgages through personalized financial counseling. Schumer calls on banks and lenders to also provide funding for non-profit counselors. Senator Schumer, along with Senators Brown and Casey also introduce the **“Borrower’s Protection Act of 2007,”** which proposes federal regulation for mortgage brokers in order to avoid future defaults on subprime loans. The bill seeks to regulate mortgage brokers and originators under the Truth in Lending Act (TILA) by establishing on behalf of consumers a fiduciary duty and other standards of care. In addition, the bill outlines standards for brokers and originators to assess a borrower’s ability to repay a mortgage and holds lenders accountable for brokers and appraisers.
- *May 4:* The **House Financial Services Committee** passes the **“Expanding American Home Ownership Act”.** The bill would allow Fannie Mae and Freddie Mac to purchase and securitize larger mortgages (up to \$625,500 or the region’s median home price) in high-cost areas of the U.S. where the median price exceeds \$417,000 (the current loan limit). The bill would also authorize zero down payment loans and direct the Department of Housing and Urban Development (HUD) to serve higher risk borrowers who would otherwise turn to predatory and high priced mortgage loan alternatives.
- *May 9:* The **Federal Open Market Committee** meets and **leaves rates unchanged.** The FOMC states in their minutes, “The correction of the housing sector was likely to continue to weigh heavily on economic activity through most of this year, somewhat longer than previously expected.” However, the FOMC continued to refer to the housing crisis as a “correction”.
- *May 17:* At the Federal Reserve Bank of Chicago’s Forty-Third Annual Conference on Bank Structure and Competition, **Chairman Bernanke reiterates** his March statement by saying the **Fed does not foresee a broader economic impact from the growing number of mortgage defaults.**
- *May 25:* The **National Association of Realtors** reports that sales of existing homes fell by 2.6 percent in April to a seasonally adjusted annual rate of 5.99 million units, the **slowest sales pace since June 2003.** The number of unsold homes left on the market reached a record total of 4.2 million.

JUNE 2007

- *June 4:* **Housing and Urban Development (HUD)** Secretary Alfonso Jackson **endorses counseling and financial education as the best way to tackle the subprime foreclosure boom** in a speech at the National Press Club.
- *June 5:* At an International Monetary Conference in Cape Town South Africa, **Chairman Bernanke endorses the basis of a proposal made by Schumer to increase federal funds for community non-profits engaged in helping families in unsuitable subprime loans avoid losing their homes to foreclosure.**
- *June 6:* **ZipRealty Inc.**, a national real-estate brokerage firm, announces that the number of homes listed for sale in 18 major U.S. metropolitan areas at the end of May was up 5.1% from April. This is a striking deviation from the general trend as tracked by the Credit Suisse Group, which says on a national basis, inventories of listed homes have typically been little changed in May during the past two decades.

- *June 12:* **RealtyTrac** announces U.S. **foreclosure filings surged 90 percent in May from May 2006**. Foreclosure filings were up 19 percent from April. There were 176,137 notices of default, scheduled auctions and bank repossessions in May. The median price for a U.S. home dropped 1.8 percent the first three months of 2007. According to Freddie Mac, typically, more than half of all home sales occur in the April to June period.
- *June 14:* **Goldman Sachs reports flat profit** from a year ago due to mortgage market problems.
- *June 22:* **Bear Stearns** pledges up to **\$3.2 billion to bail out one of its hedge funds** because of bad bets on subprime mortgages.
- *June 26:* Senator **Schumer** convenes housing experts to examine how to protect homebuyers from subprime lending and other mortgage industry abuses in a **Banking Subcommittee hearing**. The hearing focuses on the mortgage origination process, abuses in mortgage lending industry, responsible solutions to protect consumers in home-buying process and the impact of these proposed solutions on the market as a whole. The hearing also examines the Borrower's **Protection Act of 2007 (S. 1299)**, which seeks to address many of the abuses that have taken place in the mortgage process by creating new regulations and requirements for various mortgage originators.

JULY 2007

- *July 10:* **Standard and Poor's and Moody's downgrade bonds** backed by subprime mortgages. **Fitch** follows suit.
- *July 10:* The Senate **Appropriations Committee approves \$100 million** of the requested \$300 million **for HUD Housing Counseling programs** in the Transportation, Housing, and Urban Development, and Related Agencies FY08 Appropriations Bill. With these funds, non-profit agencies are able to provide individual counseling by working one-on-one with borrowers stuck in unaffordable subprime loans.
- *July 18:* **Bear Stearns** announces its **two hedge funds** that invested heavily in the subprime market are essentially **worthless, having lost over 90% of their value**, equal to over \$1.4 billion.
- *July 17:* The **Federal Reserve** announces a **pilot program to monitor brokers**, joining the Board of Governors of the Federal Reserve with the Office of Thrift Supervision, the Federal Trade Commission, and state agencies represented by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators, to conduct targeted consumer-protection compliance reviews of underwriting standards, oversight, and risk-management practices within non-depository lenders with significant subprime mortgage operations.
- *July 18:* **Commerce Department** announces **housing starts are down 19.4 percent** over the last 12 months. Also announced is a 7.5 percent plunge in permits to build new homes, the largest monthly decline since January 1995. Permits are 25.2 percent below their level a year ago, reflecting continued pessimism among builders over the near-term outlook for new homebuilding.
- *July 18 and 19:* Chairman **Bernanke** testifies in front of the House Financial Services Committee and the Senate Banking Committee in his Second Monetary Report to Congress in 2007.
- *July 19:* The **Dow Jones industrials close above 14,000 for the first time**.
- *July 18 and 19:* In two days of testimony in Congress, Chairman **Bernanke said there will be "significant losses" due to subprime mortgages**, but that such losses are "bumps" in "market innovations" (referring to hedge fund investments in subprime mortgages). **Bernanke reiterated that problems in the subprime mortgage market have not spilled over** into the greater system. Bernanke also said the **problems "likely will get worse before they get better."** He forecasts that the economy is poised for moderate growth, but continuing problems in the housing market prompt the Fed to slightly reduce its growth expectations.
- *July 25:* The **JEC examines the impact of the subprime lending crisis on Cleveland, Ohio**, one of the hardest hit communities in the nation. The hearing reveals the individual faces of the subprime mortgage crisis. Local residents and city council members testify.

- *July 30:* **IKB Deutsche Industriebank**, a German bank, is **bailed out because of bad bets on U.S. mortgage-backed securities**.
- *July 31:* Home prices continue to fall, marking the **18th consecutive decline, beginning in December 2005, in the growth rate of housing prices**, according to the monthly **S&P/Case-Shiller's Home Prices Indices**, which tracks housing prices in metropolitan areas and is considered a leading measure of U.S. single-family home prices. The 10-City Composite index showed an annual decline of 3.4% (its biggest since 1991) and the 20-City Composite reported an annual decline of 2.8%.

AUGUST 2007

- *August 1:* **Two hedge funds managed by Bear Stearns** that invested heavily in subprime mortgages **declare bankruptcy**. Investors in the funds file suit against Bear Stearns, alleging that the investment bank misled them about the extent of the funds' exposure.
- *August 6:* **American Home Mortgage** files for **bankruptcy**.
- *August 7:* The **Federal Open Market Committee leaves the overnight federal funds rate at 5.25%**, referring to tightening in the credit markets and ongoing housing market crisis as a "correction". Despite financial market turmoil, the FOMC forecasts that "the economy seems likely to continue to expand at a moderate pace over coming quarters, supported by solid growth in the employment and incomes and a robust global economy."
- *August 7:* Senators **Schumer** and **Dodd** separately write to James B. Lockhart III, director of the **Office of Federal Housing Enterprise Oversight (OFHEO)**, **urging him to consider temporarily raising the limit on purchases of home loans by Fannie Mae and Freddie Mac** in response to increasing concerns of a credit crunch spilling into the broader mortgage market.
- *August 7:* **Senator Clinton** introduces a plan to address mortgage lending abuses, including new regulations on brokers, strong state licensing standards, and federal registration for brokers. The plan also proposes a **\$1 billion fund to assist state programs that help at-risk borrowers avoid foreclosure**.
- *August 8:* **Senator Schumer** writes to **Federal regulators, urging them to devise an action plan to deal with the current liquidity crunch in the mortgage markets that threatens to spread** across the economy as a whole. Schumer expresses his concerns that regulators are underestimating the spillover effects of the housing market crisis. "Nobody, including me, wants or expects the Federal regulators to step in and lend a hand to the private sector players who took risky gambles in the subprime market," says Schumer. "But when millions of Americans who have good credit now face the real possibility of not being able to purchase a home because of spillovers from the subprime market, we need the regulators to play a leadership role to preserve market liquidity and minimize the damage."
- *August 8:* **Treasury Secretary Hank Paulson** says, "Borrowers weren't quite as disciplined as they should be... Lenders clearly weren't as disciplined as they should be. **We've seen some excesses**. We've seen it in the subprime area, and that will be with us for a while."
- *August 9:* **American International Group**, one of the biggest U.S. mortgage lenders, **warns that mortgage defaults are spreading beyond the subprime sector**. With delinquencies becoming more common among borrowers in the category just above subprime.
- *August 9:* **BNP Paribas**, a French bank, **suspends three of its funds** because of exposure to U.S. mortgages.
- *August 9:* **President Bush** addressing the housing market crisis, saying, "The fundamentals of our economy are strong... I'm told there is enough liquidity in the system to enable markets to correct." Bush also said, "The conditions for the marketplace working through these issues are good. My hope is that the market, if it functions normally, will be able to yield a **soft landing**."
- *August 9 and 10:* **European Central Bank and Federal Reserve intervene in markets by pumping billions of dollars of liquidity into the markets**.
- *August 10:* **John Edwards** responds to President Bush's comments, calling on the Administration to act to moderate the

housing crisis. Edward's a plan to protect homeowners and fight predatory lending includes strong national legislation to regulate mortgage abuses and prohibit predatory mortgage lending based on North Carolina's state law and a Home Rescue Fund to work with local non-profits, government agencies and community financial institutions to help struggling homeowners renegotiate or refinance their mortgages.

- *August 10:* In regards to lifting the caps on **Fannie Mae and Freddie Mac**, **President Bush** said he would like to see Congress get GSEs “reformed, **get them streamlined**, get them focused, and then I will consider other options”.
- *August 10:* The **federal regulator for Fannie Mae** denies the mortgage finance company's **request to grow its investment portfolio**, but did not close the door on the possibility of lifting the cap in the future.
- *August 13:* **Aegis Mortgage** files for **bankruptcy**.
- *August 15:* Rep **Barney Frank** announces plans to hold **hearings** in the **House Financial Services Committee** investigating **credit rating agencies role in the subprime mortgage crisis**.
- *August 16:* **Countrywide Financial**, the nation's largest mortgage lender, draws down \$11.5 billion from its credit lines.
- *August 16:* All three **major stock indexes were 10% lower than their July peaks** – a marker indicating a correction of the stock market, due to tightening in the credit markets.
- *August 17:* The **Federal Reserve cuts the discount rate by half a point**. Stocks rally.
- *August 22:* **RealtyTrac** Inc announces **foreclosures were up 93% in July 2007** from July 2006. The national foreclosure rate in July was one filing for every 693 households. There were 179,599 filings reported last month, up from 92,845 a year ago.
- *August 22:* In letters to more than **40 major market players**, and **federal financial regulators** including Chairman **Bernanke** and Secretary **Paulson**, **Senator Schumer cautions that regulators' efforts to bring liquidity to tightened credit markets have so far overlooked** the harrowing situation in the **underlying mortgage** market that stoked the credit crunch in the first place. **Schumer urged banks, lenders, and loan servicers to direct resources to the non-profits on the frontlines** of the mortgage crisis in the same vain as the Senate Appropriations Committee, which has set aside \$100 million for nonprofits that work with homeowners to prevent foreclosure.