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Albany should get to work on the mortgage meltdown - now

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The real estate bust may not have hit New York yet, but over the past two years more than 15,000 city residents have faced foreclosure actions that could throw them out of their homes. And this year, more than 14,000 more families are at risk, according to the Neighborhood Economic Development Advocacy Project.

With foreclosures concentrated in just a few neighborhoods, including Jamaica, Queens, with nearly 21 foreclosures initiated per 1,000 owner-occupied homes, and Bedford-Stuyvesant, Brooklyn, with more than twice that number, the toll is being felt not only by the families who lose their place to live and their biggest financial asset, but by entire communities suddenly plagued by boarded-up, abandoned properties.

Political will is building to help families at risk of foreclosure stay in their homes and restructure their debt. But to prevent the crisis from growing, Albany must take strong action now to fix the root cause of the problem: mortgage loans that families never had a prayer of paying back.

Contrary to what some will tell you, the main problem here isn't borrowers who live beyond their means - it's brokers and lenders gone wild who make irresponsible loans, and lax government regulators who look the other way. It is past time for our elected officials in Albany to curb the wave of reckless lending.

The state Legislature can no longer fiddle - focusing on political sideshows that mean next to nothing to ordinary New Yorkers - while our neighborhoods hang in the balance.

Once, lenders had a strong incentive to make sure borrowers could pay back a loan: If borrowers defaulted, the lender would be left holding the bag. But today, lenders make their money by bundling the loans they make and selling them off to Wall Street investors. As a result, the original lenders are no longer liable for loans that go bad. Their interest is simply to make as many loans as possible, profiting from high fees and the sale of the loans, not necessarily ensuring that homeowners can keep up with their payments.

So it is no surprise that the last few years have seen an explosion in subprime and exotic mortgages: teaser rates designed to entice borrowers and disguise the dramatic increase in costs a few years down the road; loans that require little or no documentation of a borrower's income and ability to pay; hidden fees and costs, and stiff penalties for trying to pay off the loan early.

For the most part, government regulators stood by and let these deceptive and dangerous financial products be sold, virtually ensuring that countless Americans would lose their homes.

Lawmakers in some states are finally waking up. Minnesota, for example, recently passed legislation barring lenders from refinancing a mortgage when there is no benefit to the borrower and mandating that lenders verify a borrower's ability to repay and inform borrowers about the monthly costs of insurance and taxes included with their loan.

What's more, lenders must end the grossly unfair tactic of steering borrowers toward a higher interest loan than they actually qualify for - a practice that has particularly victimized black and Latino borrowers.

New Yorkers need this protection, too. The 2007 Responsible Lending Act, crafted by New Yorkers for Responsible Lending and introduced in the Assembly last session, would crack down on those slippery lending practices and others, while increasing penalties for lenders that violate the law. As legislators return to Albany for a special session, this bill should be a top priority.

So far this year, 64% more New Yorkers have been thrown out of their homes by foreclosure than the same time last year. Direct assistance to homeowners trapped by deceptive, high-cost loans is needed, but Albany must also act to curtail the reckless lending that got us into this mess in the first place.

The time for speeches is over. New Yorkers need action.

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