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Mortgage Foreclosures: The Ethical Implications of Options and Legislation

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The effects of the residential mortgage crisis in the US continue to ripple in the economy. This paper explores the options available to borrowers in danger of foreclosure and the legislation passed to curb foreclosure problems. It analyzes the ethical implications of the legislation and reviews the responsibilities of residential mortgage borrowers and financial institutions.

The residential mortgage crisis is entering its fifth year in the United States. This paper will briefly explore the options that are available to borrowers in danger of foreclosure, the legislation that has been passed to attempt to curb the problems, and finally a discussion of the ethical implications and responsibilities of the enacted legislation, residential mortgage borrowers and financial institutions. Prior to my discussion of these topics, I provide a brief overview of the timeline from when a loan becomes delinquent to when it is in danger of foreclosure.

The following mortgage foreclosure timeline has been generalized for the sake of discussion. The process begins with the borrower missing a payment due the financial institution. From 15 to 30 days of this missed payment, the bank charges a late penalty on the payment and contacts the borrower to determine when payment is likely to be made. If the bank does not receive payment or a response between 45 and 60 days from the date of missed payment, a demand letter is sent out to the borrower stating that the mortgage is in default. The letter typically states which terms of the mortgage have been broken and gives a time period for the borrower to make right the default, typically 30 days.

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After approximately 90 days from the date of missed payment, if the bank has still not received word from the Borrower regarding payment or the demand letter, the foreclosure department or special servicer takes over to initiate foreclosure proceedings. The foreclosure is officially noted to the county courthouse and is advertised in the local paper. Anywhere from 150 to 415 days from the date of delinquency, depending on the state and county regulations, the home can be sold at foreclosure auction to the highest bidder. At this point the borrower is no longer the rightful owner of the home. However, some states allow for a redemption period in which the borrower can make full payment to the bank and retain ownership of the property.

Options of the Foreclosed

One option for a homeowner that is facing foreclosure is to seek refinancing with another financial institution. This option is the most conventional, practiced method of getting out of loans with high interest rates. The option is a way to extend the life of the loan should a balloon payment not be made at the loan's original maturity date. However, banks typically have a threshold for which they will lend money against the value of the home. The ratio is known as loan-to-value. Banking institutions will typically lend anywhere up to roughly 80% of a home's value to the borrower[1].

If refinancing is not an option, due to the borrower's credit score or suppressed property value, a forbearance agreement may be the next best alternative. This arrangement is made between the borrower and the lending institution. It is an agreement by the bank not to begin or continue foreclosure actions against the borrower. The borrower is requesting time to either bring the loan back into compliance with the loan documents, to seek refinancing from another institution, or to allow the bank to take the property back via a deed-in-lieu, described below.[2] During this time period it is common for the Borrower to be given reprieve on making loan payments to the bank, to assist the borrower in locating an exit strategy to cure the default.

If an exit strategy cannot be achieved as a result of the forbearance agreement mentioned above, the borrower may be faced with turning the property over to the bank via a deed-in-lieu of foreclosure. This process involves the borrower signing the deed to the property back to the bank rather than having the bank foreclose on the property. This method is a benefit to the borrower in that

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1 Shetty, Anand and Kroleski, Steven, "The Mortgage Crisis: Government Intervention and Debtor's Options," *Journal of Business & Economics Research,* Volume 8, Number 4, April 2010, 59-62.

2 *Ibid*.

the bank does not pursue the borrower for any deficiency related to the loss the bank takes on their loan by taking back the property. If the bank would have foreclosed on the property and then sold the property to another individual, the bank could have sued the previous borrower for any loss the bank would have taken as a result of selling the property to a new party at a reduced price.[3]

In lieu of the difficult lending guidelines enacted by both governments and banks as a consequence of the recent financial crisis, the options noted above may be limited in their application to some borrowers. The next method utilized by some borrowers when faced with difficult financial situations, especially the cost of continuing to pay on a mortgage for a property that is not as valuable as it once was, is to seek Chapter 13 bankruptcy protection. In this type of filing, the court system has the power to place a stay on all creditors seeking repayment, including mortgage-lending institutions. The idea is for the court to allow borrowers time to get their finances in order and emerge from the filing in a better position to repay debts.

Despite the reprieve received by homeowners, the court system does not have limitless power to assist borrowers during this economic crisis. The courts do not have the ability to rewrite the borrower's loans to bring their loan amount and terms in line with the property's new value and borrower's specific economic situation. For example, the borrower may have a loan outstanding with a bank in the amount of $300,000 on a home that was, before the crash, worth $375,000. The house is now worth $275,000, but the courts cannot reduce the loan amount to be in line with the new home value. The court can modify some of the loan terms to make repayment of the loan easier for the borrower by either forbearing payments for a given time or lowering the interest rate to make the financial load a bit lighter and more manageable for the borrower.[4]

The inability for the bankruptcy courts to rewrite loans speaks volumes about the importance of contract law in the United States. The respect for contracts is paramount for lending institutions to function within the market. If banks feared their loans would simply be modified when borrowers filed for bankruptcy, loans to individuals would be few and far between. Without this key characteristic, the market would not function and fewer families would be home owners in the United States. Banks would have a more limited avenue for lending to the public. The strength and respect of financial contracts illustrates our duty based market society, as our society places a great emphasis on a person's duty to fulfill his side of an agreed upon contract, whether it is with another individual or with a financial institution.

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[3] *Ibid*.
[4] Anand and Kroleski (2010).

The most popular and most practiced methods of keeping both lender's loans secured and homeowners in their homes, is the loan modification process. The process allows both borrowers and lending institutions to negotiate modified loan terms outside of the court system in an attempt to reach an agreement that ultimately benefits both parties. These arrangements are typically seen in either lower interest rates, smaller monthly payments, or extended maturity dates on the original loans.[5]

One of the modification options for lenders and borrower is to adjust the interest rate the borrower is paying on their loan. Lowering the interest rate will typically result in the borrower making smaller monthly payments for either a longer period of time, when coupled with loan extensions, or result in a bigger balloon payment at the loan's maturity. For example, fixed to floating interest rate loans were fairly popular prior to the housing bubble bursting in 2007-2008. With this type of loan, the borrower has a smaller, fixed interest rate for the first three or five years of the loan. The loan's rate subsequently 'floated' with a predetermined interest rate index plus a margin agreed upon at the loan's origination. The abiding belief was that home values would continue to rise and the borrower would have enough value in his house to refinance prior to having the interest rate increase after the first three to five years of the fixed low interest rate.

For the first three to five years, the borrower may pay five – six percent. The loan switches to a floating rate based on an index plus three percent. If the index is between five and six percent, adding an additional three percent on top makes a significant increase in the borrower's monthly payment. Borrowers often found that their homes had lost significant value prior to their low interest rate period running out and they were not able to refinance their homes. Borrowers were stuck with a much higher monthly payment than they had before and owed more to the bank as a result of the decline in home prices, borrowers found themselves in difficult financial positions.

The ability for lenders and borrowers to agree upon a modified interest rate as a part of these loan modifications, allows home owners to remain in their houses and borrowers to manage their mortgage payments. Banks are able to recover their investment and not have to own the property.

Another option for lenders when negotiating new loan terms with borrowers is to extend the loan's maturity date to allow borrowers more time to seek refinancing as well as allowing the borrower's monthly payments to remain at affordable levels. By allowing borrowers more time to locate refinancing

[5] *Ibid*.

opportunities, the bank again keeps itself from having to take the home back from the borrower and allows the borrower to continue to make loan payments to the bank. By extending the loan or re-amortizing the loan's balance, the borrower's monthly payment is reduced back to or below the level prior to the interest rate increase, allowing the borrower to continue to pay.

Re-amortization is the re-casting of loan payments over a new period of time, given the extended maturity date. At the loan's origination, the borrower's monthly payments are typically made in equal amounts for the entire length of the loan. Consider a $200,000 loan, with a 6.5 percent interest rate, paid back over a 30 year term, a common repayment period in the real estate market. A borrower makes equal monthly payments of $1,264.14 each month until the loan matures.

Now, consider that after 2 years the borrower can no longer afford the payments and asks the bank for a loan modification. At this time, the loan has been reduced to an outstanding balance of $195,000 based on the principal payments that had been made over the past two years. The bank agrees to extend the maturity date out for another two years and re-amortize the loan over the remaining payments (another 30 years). The borrower's payments are reduced to $1,232.53 per month. This reduction was made without even lowering the interest rate. If the bank agrees on an interest rate reduction as well, even a 1% reduction, the borrower's monthly payment is reduced to $1,107.19 per month. The table below outlines the various payment changes associated with the hypothetical modification terms.

Comparisons	Fixed Mortgage	Fixed Mortgage	Fixed Mortgage
Mortgage loan amount:	$200,000.00	$195,000.00	$195,000.00
Mortgage term:	30 years	30 years	30 years
Interest rate:	6.500%	6.500%	5.500%
Beginning monthly payment:	$1,232.53	$1,232.53	$1,107.19

One final option for borrowers to consider, to avoid foreclosure is to pursue a short sale agreement with a third party. The term "short sale" indicates the nature of the transaction as it relates to the bank. The lender receives less than what is owed by the borrower with proceeds from the sale of the property to a new owner. This sale is possible only under certain circumstances because of the negative result to the lender. The borrower must be insolvent, owing more in debt than they can support through current assets. The borrower must currently be in

default of his loan by at least 60 days. The property the borrower is selling must be worth less than the amount owed to the bank. Finally, the borrower must provide the bank with a sound reason for this option, proving a substantial financial hardship will continue to exist if the borrower does not sell the property and released from the loan. This is most commonly seen in situations such as when there is loss of a job or the decease of a spouse.[6]

While this option may at first seem to be to the complete disadvantage of the lender, there is some benefit to the bank. First, the bank does not become the owner of the property and second, the bank saves both time and money not having to foreclose on the property. Prior to 2007, this short sale method of removing a debt obligation from the borrower would not have been without its drawbacks to the home owner. Previously, the amount that the bank took as a loss, the difference between what the property sold for and the outstanding loan balance, also referred to as the deficiency balance, would have been charged to the homeowner as income on a 1099 form for tax reporting purposes. Therefore, despite the borrower not owning the property, they must pay taxes on the amount not repaid to the bank with the sale proceeds. This situation changed in October 2007, when President Bush enacted the Mortgage Forgiveness Debt Relief Act of 2007. This act allows homeowners relief from taxation on deficiency amounts written off by banks as a result of short sales for up to $2,000,000.[7] This legislation has a three year life. Subsequently, the provisions of the act will be dissolved and return to the previous statutes.[8]

Legislation

Housing and Economic Recovery Act (HERA)

The Housing and Economic Recovery Act (HERA) was enacted in 2008. The Act made available $3.92 billion to the Community Development Block Grant, whose purpose is to infuse capital into areas hit hardest by rising vacancies as a result of property foreclosures. The grant a gives funding for rehabilitation, purchase or demolition of properties in an effected area in an attempt to stabilize property values, preventing others in the community from suffering property loss. In addition to funding for community development, HERA established an additional $11 billion in housing bonds to be used in a myriad of ways. Funds were earmarked for sub-prime loan refinances, funding for first-time home buyers

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6 Anand and Kroleski (2010)

7 *Ibid*.

8 Berger, Barrie Tabin, "President Signs Landmark Housing Law," *Government Finance Review*, Volume 24, Issue 5, October 2008, 68-70

as well as funding for construction of low income housing in areas hard hit by the economic downturn.[9]

In addition to the highlights of the legislation mentioned above, other provisions of the Act include reform of the Federal Housing Administration (FHA), tax incentives for first time home buyers, increasing confidence in Freddie Mac and Fannie Mae, and the establishment of an Affordable Housing Trust Fund. The Act allowed the FHA to insure up to $300 billion of refinanced sub-prime mortgage debt as long as lending institutions adjusted their loan balances to sub-prime borrowers to 90% of the current appraised value of the property they were lending on. The Act also provided a tax credit for first time home buyers up to $7,500 to offset the costs of purchasing a new home to stimulate the housing market.[10]

Support for the government's main home mortgage lending institutions, Freddie Mac and Fannie Mae, is promoted in HERA by allowing the Treasury to extend its line of credit to these institutions. The government purchases company stock in an attempt to build the public's confidence in these companies. In addition to infusing capital into the companies, the government set out to develop an oversight agent for Freddie and Fannie as well as the Federal Home Loan Bank System. Finally, the Act created the Affordable Housing Trust Fund, whose purpose is to construct, repair, and maintain affordable housing for both individuals and families who earn less than 50% of the median household income.[11]

Home Affordable Mortgage Program (HAMP)

The Home Affordable Mortgage Program (HAMP) enacted in 2009 by President Obama, assists home owners that have not suffered job losses, but are still at risk of defaulting on their mortgages and foreclosure. HAMP provides loan modifications to bring borrowers' monthly payments to no more than 31% of their household income. This payment reduction is achieved utilizing three methods of modification: interest rate reduction, loan extension, and principal reduction. First, the borrower's loan is reduced to a 2% interest rate. If this fails to bring the payment under the 31% benchmark, the loan term is extended, up to 40 years. Finally, if these modifications are not sufficient to lower the monthly payment, the borrower's principal amount due to the lending institution is forgiven until the appropriate payment amount is reached. However, after five years of these modified payments, the borrower' s interest rate will steadily

[9] *Ibid.*
[10] *Ibid.*
[11] Berger (2008).

increase 1% per year, until it reaches the market rate when the modification was made in effect.[12]

One key feature of these modifications, that differentiates them from typical modifications undertaken by private lending institutions, is the modification is considered 'temporary' for the first three months. This feature is to ensure the borrower can sustain the modified payments. Once the borrower successfully delivers on three monthly payments, the loans are considered full modifications.[13] Loans made through either Fannie Mae or Freddie Mac qualify for this program. The Obama administration's April 2011 score-card issued on HAMP, shows at the 12 month mark after a modification has been made permanent, 84% of homeowners continue to perform under the modified payment terms. The other 16% failed to make three consecutive monthly payments under the new terms and were disqualified from the program.[14]

Emergency Homeowner's Loan Program (EHLP)

The Emergency Homeowner's Loan Program (EHLP) came about as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act. EHLP allows the US Department of Housing and Urban Development (HUD) to provide assistance to homeowners who find themselves more than 90 days past due as a result of household income reduction. The program is restrictive in its application and homeowners hoping to benefit from it must have suffered specific job loss and income reduction to qualify. The reduction in income must be at least 15% and be due to either involuntary unemployment, underemployment, or medical conditions.[15] The homeowner must also be at risk of imminent foreclosure by the lending institution from which they are borrowing funds. This program is focuses on middle and lower class homeowners. It restricts applicants to those who earned less than 120% of the median area income prior to their loss of household income.

The benefits of the program are as specific as its requirements. EHLP allows for mortgage payment assistance of up to $50,000 over a 24 month period. Taking their lead from the cancelled Home Affordable Modification program, the EHLP requires borrowers make their mortgage payment each month up to 31% of

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12 Goodman, Laurie S., Ashworth, Roger, Landy, Brian, and Yin, Ke, "Timing is Everything: Sources of Uncertainty in Non-Agency Cash Flow Timing," *Journal of Structured Finance*, Volume 15, Number 4, Winter 2010, 29-42

13 *Ibid.*

14 "Obama administration issues April Housing Scorecard," *Mortgage Banking*, Volume 71, Number 9, June 2011, 10-12.

15 Hollar, Michael, K., "Regulatory Impact Analysis: Emergency Homeowner's Loan Program," *U.S. Department of Housing and Urban Development, Cityscape: A Journal of Policy Development and Research,* Volume 13, Number 2, 2011, 185-193

their new household income. The program pays the difference to the lending institution.[16] These payments are extended to the borrowers through a 5-year, no interest loan. Taking into consideration the possible 24 months of loan payments being made by the program on behalf of the borrower, the homeowner has up to seven years from the date of first disbursement by the government to repay the loan in full. One final limitation of EHLP is it's focus on a specific region of the country not already covered by the Department of the Treasury's Innovation Fund for Hardest Hit Housing Markets program. Thus, EHLP is concentrated in 32 states within the contiguous United States and Puerto Rico.

Despite the EHLP's restrictions on qualification for assistance, there are a number of parties that stand to benefit from this program: homeowners in danger of foreclosure, lenders nearing foreclosure on underperforming properties, neighbors living near foreclosed home and local governments. The benefits to homeowners have been described in detail above, but added savings to the homeowners include funds not spent to relocate and legal costs associated with the foreclosure process. The same foreclosure cost savings are realized by lenders who have made loans to these borrowers. In addition lenders need not carry these properties on their balance sheets.

Neighbors near a foreclosed property often suffer property value losses, so the ability for a household to remain occupied is a source of financial and community strength for the entire area. Finally, local governments stand to benefit from the program as well, saving on legal costs associated with a foreclosure, additional policing services to monitor an area with multiple foreclosed, vacant properties, and savings associated with demolition of vacant households to make room for new developments.[17]

Keep Your Home California

Keep Your Home California is a federally funded program within the state of California, managed by the California Housing Finance Agency, and charged with dispensing $2 billion dollars of federal stimulus money to assist in keeping homeowners in their homes. The program was enacted in February 2011 and will run until 2017. To be eligible for the program a homeowner must be in either the low or moderate income level of their county and the value of their home cannot exceed $729,000. The program can be used to assist homeowners in a variety of ways: making their mortgage payments (up to $3,000) for up to nine months; making a $15,000 payment to offset delinquent payments due to financial institutions; or helping to pay down the outstanding principal loan balance owed on their homes. In addition, should a borrower be forced to leave his home due to

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[16] *Ibid*.
[17] *Ibid*.

foreclosure or short sale, the program will make a one time payment of up to $5,000 to help defray the costs of relocation.[18]

Through October of 2011, nearly 50 banks, credit unions, and mortgage servicing companies have signed up to use these funds and dispense them to their customers. Despite the availability of principal reductions as a part of this stimulus funding, lenders are reluctant to use federal funding for this purpose. One reason is the banks that use federal funds to offset principal owed by borrowers, must also use their own funds to reduce the principal in an equal amount. Lenders state they have their own internal modification processes they can utilize rather than accept federal funds. However, Peter Swire, a law professor at Ohio State University feels that principal reductions are the best use of federal funds and can help home owners the most saying, "When a family is way underwater on their mortgage, they realize that they probably will never again have equity in that house. Principal reductions take underwater families and puts their noses above water."[19]

The legislation discussed in the preceding pages has helped to provide assistance to homeowners across the country to avoid losing their homes to foreclosure. The long-term effect on legislation's ability to help recovery from the economic downturn and the collapse of the housing market remains has yet to be seen. The Housing and Economic Recovery Act of 2008 strives to infuse capital into those areas hardest hit by foreclosures and areas with large low-income populations. Community redevelopment is underway, but areas such as Detroit are still depressed markets where home values have yet to climb back to pre-2007 levels. In addition, HERA introduced the first time homebuyer tax credit, which failed to adequately entice buyers to absorb the excess single-family home supply. Finally, new rental apartment buildings are springing up, a sign that the market is unsure about the housing recovery has taken hold.

Congress is terminating HAMP and the subsequent Home Affordable Refinance Program passed by the Obama Administration because of the programs' lack of successes. In addition, funding for loan modifications through government agencies like Fannie Mae and Freddie Mac come at the expense of the taxpayer. These programs, while admirable in assisting home buyers get on their feet, is not sustainable for long term recovery.

EHLP is a helpful program to support homeowners that have suffered financial hardship due to unemployment. Yet it is a short-sighted solution to a long-term problem. The program allows for only seven years until repayment.

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18 Daysog, Rick, "Keep Your Home California helps many, but critics say the program slow to grow," *McClatchy-Tribune Business News*, Washington, October 24, 2011.

19 *Ibid*.

The program supplements at least 69% of the household's mortgage payment and therefore, relies on the homeowner's ability to find work in less than two years from their time of last employment. While in the interim the homeowner's benefit from this assistance, the program may actually be burdening them further by adding another loan on top of their mortgage, which they could not previously afford.

Finally the success of the Keep Your Home California program is uncertain, but critics argue the $2 billion in federal funding is not being dispensed fast enough and in the most appropriate manner. A great deal of the federal funding is going to homeowners to supplement payments to their current lenders and not getting to the root of the problem, the outstanding debt to the bank. If the core problem of reducing principal owed to the bank (in an environment of depressed home values) is ignored, the program may be simply throwing good money after bad.

The overall success of this legislation is still yet to be seen, as these programs are in the early stages. Despite criticisms of all of the programs, I believe that they are moving us in the right direction. Legislation alone will not allow us to recover from this economic crisis, but it can help to shape the way our financial system, in reference to mortgage lending practices, works. Changes in this area will benefit society the most and keep us from experiencing another hard crash in the future.

Ethical Analysis

An analysis of the housing crisis, its root causes as well as the legislation that has fought to bring the country out of the quagmire, can be evaluated ethically on several fronts. For the purpose of this paper, the areas of ethical examination will focus on the theories of justice, deontology, and finally on virtue ethics.

I respect the goals of government legislation of supporting homeowners struggling to keep their homes and steering financial institutions to prudent money lending. However, I feel the legislation places the burden of financial recovery on the shoulders of the financially responsible. Consider the situation faced by a majority of the homeowners that are the targets of this legislation's benefits. These individuals were enticed into contracts with financial institutions. Some did not fully understand the nature of the financial transactions, others thought they could use the mortgage loan for their benefit through the purchase of a home for themselves and their families.

Borrowers entered into these contracts at a time when home values were going up, with the view of refinancing. They would either lock in a low interest rate permanently or sell their houses and trade up into a bigger, better one. Few, if any, really took the time to focus on the downsides associated with continuously rising home values, or the risks associated with a fixed-to-float loan. With regard to sub-prime mortgages extended by lending institutions, the individuals who took out these mortgages probably did not understand the repayment process or were simply trying to live beyond their means.

Legislation passed in the wake of the mortgage crisis has focused on how the country can assist in bringing these borrowers back to a position of financial health. Placing the financial burden of recovery on those who had the foresight to either fully understand and appreciate the contracts they were entering into, or the financial strength to absorb the additional costs associated with homeownership, violates the tenets of distributive justice. This form of justice relies on the fair distribution of wealth and economic burdens throughout society. In the case of the mortgage crisis, the burden suffered by a section of the country is being borne by those who remained financially solvent through the downturn. Would those who benefit from the government's legislation in their favor feel it is fair to bear another person's financial hardship? A hardship caused by recklessness, ignorance, or greed?

Legislation aimed at upholding the market is also not adequately holding the parties responsible. The Mortgage Forgiveness Debt Relief Act of 2007 is a prime example. It allows homeowners who utilize a short sale method of paying off their debt to escape the income tax on their forgiven debt. Taxpayers, many of who continue to pay their mortgages, support the Emergency Home Loan Program that subsidizes mortgage payments through Fannie Mae and Freddie Mac. Even Keep Your Home California uses taxpayer funds.

A borrower on a mortgage loan makes a personal commitment to the bank, a duty based obligation of repayment. For reasons either unforeseen or uncontrollable, individuals are unable to pay the mortgages and need help. Some have reached out for help and are being assisted by the programs listed above, but some have chosen to simply walk away and default on their commitment, leaving the financially diligent to pick up the pieces.

This decision by borrowers to simply breach their contract by discontinuing payment under their contract with the bank violates Kant's Categorical Imperative. No borrower can justify his act on the basis of the three versions of the Categorical Imperative. The practice of not honoring contracts is not consistently universal. If contracts have no value at all to people, then our market driven society cannot function. Borrowers who walk away from their

mortgage contracts are treating financial institutions as means to an end, to secure financing for the purchase of a home they live in but to which they do not make payments. Mortgagees have a duty to honor their commitments and those who choose to either walk away or seek government protection for their inability to handle the financial burden are in violation of their commitment.

While a lack of government intervention could have been disastrous to the housing market, the legislation enacted does not focus enough on addressing the underlying issues that contributed to the housing collapse and subsequent economic crash. Unfortunately, I do not believe that legislation can correct these issues *i.e*., the unethical actions of lending institutions. These institutions did not adequately educate their borrowers on mortgage products being purchased. The borrowers did not do their own due diligence and wanted more than they could afford. The causes that led to the housing collapse can only be corrected through moral education of both lenders and borrowers.

A focus on the importance of transparency and honest communication with borrowers needs to be taught and fostered within financial institutions. The mortgage lending market exists to serve consumers. If consumers no longer trust the people who provide the funding, consumers will find find financing elsewhere or not transact within the marketplace. In addition, this crisis has taught most people they need to be more diligent in their understanding of financial tools and products available to them. Financial professionals have a duty to provide sound financial products to their customers and they need to be honest in their communications and evaluations of customers to ensure that the products that they are selling the right ones for each customer.

Borrowers too need to undergo a moral transformation in order to ensure that a crisis like this does not happen again. The values of prudence, honesty, and steadfastness need to be reinforced in the everyday consumer. Going forward, consumers, especially those of financing products that are so directly connected to their livelihood, need to learn to live within their means and be honest with themselves about what they need versus what they want. They also need to learn when to ask questions to be sure they are making the right decision. Once a contract is negotiated and is signed, they need to understand that they must be a dependable party to the contract and be able to continue to operate under it even in difficult situations. Our society is built on faith in contracts, both written and oral. If progress is to be made on this current state of affairs, trust and the sanctity of contracts must be upheld.

The residential mortgage crisis has been an episode in our country's history that has brought with it great suffering, but more importantly, it has allowed us an opportunity to assess where we stand ethically, as a nation.