

THE IMPACT OF THE FINANCIAL CRISIS/ HOUSING COLLAPSE FROM 2007 IN THE LEGAL MARKET
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BACKGROUND

The financial crisis of 2007/2008 was the largest and most severe financial event that reshaped the world of finance and investment banking. The effects are still being felt today, yet many don't understand the causes of the "Great Recession" as it has been termed. The effects are not just felt in the US but all over the world.

The underlying cause of the financial crisis was a combination of debt and mortgage backed securities (MBSs) which are issuance of bonds backed by mortgages. Securitization is the pooling of debts and then issuing assets based on that debt. In essence, investment banks were buying mortgages from mortgage issuers, repackaging and then selling off the debt to investors. Theoretically, the pooling of different mortgages reduced risk and therefore these assets should have been considered safe but in reality the majority of the mortgages being securitized were of poor quality (also called sub-prime loans).

In the mid 2000s, as a result of the Community Reinvestment Act (CRA), there were hundreds of billions of dollars worth of mortgages given to individuals with poor credit ratings on adjustable rates. CRA in essence allowed lenders to relax their lending requirements to allow for more home ownership even to people who normally would not qualify for a loan. These mortgages typically required low interest adjustable payments for the first 2 or 3 years (7-8%), then rates adjusted upward to 14-16% for the next two years. As the mortgage payments increased after the rate readjustment, many borrowers were unable to pay their mortgage. As house prices started falling, homeowners could no longer refinance since there is no more equity left on their home and they started to default.

These mortgages peaked in 2005/06 , and by 2007/08 the default rates on the subprime mortgages suddenly spiked and the housing bubble burst. The housing collapse had far wider and deeper

Another trend is the entry of large law firms into real estate law areas that they never used to have any interest on- mortgage foreclosure, loan workout arrangements, short sales and REOs. These are the largest sources of business in the US. In 2012- 2,304,941 foreclosure filings or 1 in 72 homes have had a foreclosure. This is down from 2010 with 2.9 million foreclosure filings. In 2013, Florida posted the nation's highest state foreclosure rate in 2012, with 3.11 percent of housing units (one in 32) receiving a foreclosure filing during the year. Other states with top 5 foreclosure rates were Nevada (2.70 percent), Arizona (2.69 percent), Georgia (2.58 percent), and Illinois (2.58 percent). In 2012 there were 70,233 foreclosure filings in Cook County or about 135,858 foreclosures in the Chicagoland area.

In addition to the above practice areas, many firms and or lawyers have focused on real estate law to develop their niche. Some of the niches that lawyers have found profitable are:

- Short sales/REO
- Eminent Domain
- Commercial loan modifications for developers
- Defense of Mortgage Foreclosure

In addition , the following practice areas (this is not a comprehensive list) have also become more prominent as a result of the housing collapse:

- Bankruptcy
- Guardianships and Estates Litigation
- Building Violation representation
- Landlord/Tenant
- Mortgage Fraud -Plaintiff
- Family Law- Divorce

Another trend is the proliferation of small solo practitioners as a result of partners in large or medium sized lawfirms leaving their firms or being cut from the budget or to retain clients are now starting their own firms. Some corporate clients who are loyal to you may not be willing to pay your

REGULATORY COMPLIANCE

- **ATTORNEY REGISTRATION AND DISCIPLINARY COMMISSION (ARDC)- IL**
- **CONSUMER FINANCIAL PROTECTION BUREAU (CFPB)/ DODD FRANK ACT:**

The most comprehensive financial reform since the Glass-Steagall Act. It sought to regulate the financial markets and make transactions more transparent and more accountable. The Dodd Frank proposed eight areas of regulation. They are:

1. Regulate Credit Cards, Loans and Mortgages (new Consumer Financial protection Bureau (CFPB))
 2. Oversee Wall Street- (Financial Stability Oversight Council)
 3. Stop Banks from Gambling with Depositor's Money (Volcker Rule)
 4. Regulate Risky Derivatives
 5. Bring Hedge Funds Trades Into the Light
 6. Oversee Credit Rating Agencies
 7. Increase Supervision of Insurance Companies
 8. Reform the Federal Reserve
- **ATTORNEY GENERALS SETTLEMENT WITH THE BIG 5**

Aurora Abella Austriaco is with the firm Clark Hill PLC, concentrating in the areas of Real Estate and Litigation practice groups including commercial and real estate litigation, construction litigation, mechanics' liens, mortgage foreclosure, mortgage fraud, title insurance claims litigation and other special chancery remedies. Clark Hill PLC is an entrepreneurial, full service national law firm that provides business legal services, government and public affairs, and personal legal services to our clients throughout the country. With offices in Arizona, Illinois, Michigan, Philadelphia, Pittsburgh, New Jersey, West Virginia, Delaware and Washington, D.C., Clark Hill has more than 300 attorneys and professionals.