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National Convening on Subprime Lending, Foreclosure and Race
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Panel 2 - Innovative Local (Neighborhood & Legislative) Responses*

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MR. THOMAS: Hello, everyone. Thanks for coming. My name, again is, Andrew Grant Thomas. I'm the deputy director for the Kirwan Institute. This panel is on innovative local (neighborhood and legislative) responses. And I'm joined by three people, who I will introduce briefly in a second. I have about ten minutes of three, and I'm told we should try to wrap up just before four so that we can have a five-minute transition to the next panel. So I'm asking our three guests to take about 15 minutes each for their remarks, which will leave another 15 minutes or so for Q&A. I will introduce them in the order in which I think folks will present.

So starting on the other side of the podium, John O'Callaghan serves as the president and CEO of Atlanta Neighborhood Development Partnership, where he leads the organization's policy, lending and housing development programs aimed at insuring mixed-income housing opportunities near job centers across metro Atlanta. Most recently, Mr. O'Callaghan spent 11 years as the regional public affairs director at Fannie Mae where he worked with lenders, real estate professionals, home builders, elected officials, and community leaders to identify and solve community housing needs.

Next to me is Mark Seifert. Mark was a co-founder of the East Side Organizing Project, and became its executive director in 1999. Under his direction, the project has become nationally-recognized for its work on predatory lending and foreclosure prevention. Since 2003, ESOP and its work has saved more than 5,000 families from foreclosure and returned more than nine million dollars in fees and saved interest to those homeowners.

Last but not least, Linda Higgins, at the end, represents Downtown and North Minneapolis in the Minnesota state senate. She took office in the senate in 1997 and chairs a senate public safety budget committee. Senator Higgins also serves on the health housing and family security committee, the judiciary committee and the judiciary budget division. During the 2007 session, Senator Higgins was chief author of Minnesota predatory lending legislative package. It is because of the legislation that Minnesota has the strongest predatory lending laws in the nation.

The relevance of the expertise that these folks offer is very apparent. I will ask John O'Callaghan to begin.

MR. O'CALLAGHAN: Thank you. Right now the issue is all about foreclosure, who is going to win in our economy affecting economic well-being, affecting the tax base for the folks in this room at this conference. It is affecting the people that we know are left out of the mainstream because of their race, because of their income strata. They have been left out, and they are getting kicked out the door even more.

In Atlanta, we have an economy that had been booming. We had been working to ensure there were mixed-income opportunities for housing near job centers. So wherever there were amenities, we wanted to make sure everyone had a chance to live there. That's the mission of our organization. We started in the city of Atlanta. Now we serve metro

Atlanta. We do development, lending, and we're very intentional about public policy, because housing more than any other industry, maybe save defense, is established to public policy. We have the mortgage interest deduction for your primary home. As we learned in this campaign, some folks have seven homes, and they get the deduction for each of the homes. Policy has a big say in what goes on. We are in a state that does not have housing as its top agenda. And I would say we are in the country that does not have affordable and mixed income housing at the top of the agenda. Much of our response has been working in collaboration with others at the state level and through the national organizations, many of which are here today at the national level, but particularly working in our local communities to make the difference where we can.

What I wanted to share with you is thoughts around local tax policy and what we found in Atlanta was we can make a difference to address foreclosure and address housing opportunities, and I think it may be something that could impact your community as well. Historically, back in the 1930s -- and you are going to hear a lot of talk about the great depression in the 1930s, because we haven't seen anything since that like what we are experiencing now. Back in the 1930s, local government's response to ensure homeowners could continue to stay, and that the local governments did not own all of the houses in the community, was to have a homestead exemption. And the thought was, if you had a median-priced home, you did not pay property tax. Back then you might have gotten a \$2,000 homestead exemption. We do it on this 4 percent of assessed value, I think to make it confusing so people don't know what that means. It means if you had a \$5,000 home, you didn't pay taxes in the 1930s. Yet over time, the price of that house went up. And in Fulton County, actually the school system in Fulton County, which is where Atlanta is, it has not been increased since the 1930s. The home price is no longer at \$5,000. The median home price is \$270,000.

If we go to the roots of that homestead exemption, you didn't pay taxes in the city of Atlanta. Outside of the county, with our city schools and taxes, our homestead exemption would have been increased in 1993 to \$15,000. And that would have the cost of a home around \$35,000, \$50,000. It wasn't near the median, but there were a few houses priced at that point. At that point, you didn't pay property taxes. Home values have increased 2.7 times since then, yet the homestead exemption has not increase.

So we went to our local legislative delegation. In most states, it is not the city council or the county commission that sets it, or the school board, it is the General Assembly, oftentimes the act of the General Assembly. We made the case to them. We said, homestead exemption, this was a conservative principle going back to the '30s, republicans and democrats can agree -- and in fact republicans and democrats in our delegation did agree -- that there was incorrect push back from the local governments. These are tough times for local governments, they need the dollars. My kids are in public schools. I want to be sure the dollars are there. I'm concerned about public safety. I want to be sure the dollars are there. I want to be sure the public hospital is open. The homestead exemption isn't about how many dollars the local government has, it is about who pays. Tradition was, if you had a median-priced home, we wanted to have you in the community. If you had a an upper income home or a business, you were going to pay the property taxes.

The state of Florida, under a republican governor, took leadership. They were the national model on homestead exemption, statewide constitutional amendment, the homestead exception is \$50,000 throughout the state of Florida. Why? They understood that the people working in their restaurants, that were working in their offices, working in the hotels and amusement parks, could no longer live in the community. So everyone decided,

republican or democrat, rich or poor, they understood, you know, the problem is just not about them, it is about us.

So I encourage you to look at what is the homestead exemption in your town? What does it take to fix it? What does it take to update it for inflation? Once we entered it, we had to get 1,100 personalized letters to elected officials. We had to get up 500 yards signs. We had to work with a variety of partners. But it wasn't just the affordable housing advocacy community, the home builders came to the defense. The environmental community knows if people live near their jobs and stay in town, they don't have that much pollution. We had a wide array of people who cared about the problem.

What does it mean? If you are a homeowner owning a \$100,000, \$125,000 a year house, not just doubling, sometimes tripling, sometimes you have to make a deal. That's \$623 a month. That helps, may be the difference for someone struggling. If you are in a high foreclosure neighborhood and you are there, many of the homes are vacant in the city of Atlanta. Some neighborhoods have about 50 percent of the homes vacant. If you are one of the struggling homeowners hanging on, you have a roof to fix, you can no longer get a second mortgage to fix it. What are you going to do? Currently, in the county tax listing, your home is listed at a very high value. Why? There were some market conditions, some neighborhoods were improving, and that's a good thing. They were becoming mixed income, as long as we can make sure there's a place for low-income folks and middle-income folks and upper-income folks to live together, that's fine. But it was also speculation. There was also mortgage fraud, there was flipping. So the values that the county assessor was catching were inflated values. They go into the computer. So that's the price of the home.

We're non-profit that wants to fill empty homes. We learned as a developer, what does it take to buy that house, turn it around, get someone to rent it or purchase it or buy it to get it reoccupied again, because we know if that home is vacant, for every 1 percent increase in vacancy, that the crime rate goes up 23.1 percent. We know nearby homes suffer from being near foreclosed homes. We found out we can't do it. The stacks were too high. We came across this, we can buy this home for \$20,000. But the taxes are set like it's \$140,000. We did research for one neighborhood. We said, would you in this neighborhood every resident is over paying \$1,400 a year in taxes because of the disconnect. Who is going to believe us, the little small non-profit?

So we hired Robert Charles Lesser & Company. It's a nationally-known real estate company that advises, oftentimes big commercial clients. They gave us a very good deal and did good research. We asked them to identify in the metro area, five core counties, because it is not just a city problem, it's throughout states, but particularly in metro areas. Identify the top three zip codes based on foreclosure. Foreclosure filings are very high in these zip codes for each of the five counties. Look at 2008 market sales, not foreclosure sales on the courthouse steps, because those aren't normal for the market, but look at ones that went through a realtor, that went through the FMLS, multiple listing service. So there is a market for 2008 sales. What did those homes sell for? We got a median price for those homes. Well what did those homes that sold for a low price, what are they assessed for? We got a very high assessed value. What is the difference in taxes between the two, so that we have some real data to share with some elected officials. I'm going to share with you orally some data we are not releasing until next Friday. We're going to have a big press event on a formerly foreclosed home. We're going to invite the county commissioners and the local citizen tax assessors. In most communities, it is a citizen that serves on these boards that actually makes the decision.

So I will pick one zip code in downtown Atlanta, 38310. It is the highest foreclosure zip code. 8 and a half percent of the homes, just in a six-month period this year, went into foreclosure filing. The median sales price for those homes was \$38,500. There's a market, it was on the computer. Willing buyer, willing seller. The median appraised value in the county's computer for those homes is \$120,000. That's a ratio of about 32 percent. It is like a three to one ratio. The projected overpayment of taxes is \$1,464 a year. For that zip code alone, the overpayment of taxes for that zip code -- and it is a conservative number. The numbers we picked didn't pick up all the vacancies. It only picked up occupied homes. Ten million dollars of overpayment. In Fulton County's top three zip codes, 27 million dollars of overpayment of taxes for poor folks that live in neighborhoods with low home prices and not coincidentally in neighborhoods that are overwhelmingly minority, and in this instance, African-American population. The rest of the county -- take those three zip codes aside. What's going on? Maybe this is going on everywhere. Million-dollar homes are selling for less for less. The rest of the county is underpaying their taxes by four million dollars.

What do we have to do? We have to go and provide that research. We have to go to the citizen boards of tax says assessors who aren't used to hearing from the public, except a major real estate developer, and say this is not fair, it is wrong. The state law says value things right. Some say we never counted foreclosures, we don't count bank owned. In the state of Georgia, they can. Actually, Michigan changed their laws so foreclosure sales could count. So we have to make the case. They have to go to the county commission and say, to fix it, it's going to take a lot of money, we need a new software program, we're going to need consultants, we need people to go door-to-door to reappraise it. We have to help them when they go to the county commission to get the money to do it. We are going to the county commission to say, spend four million now, because next year your tax assessments are going to go down. I have heard some folks, that normally think they're advocates for poor people, that say, we agree with you, but the local governments need the money. Don't tell me they need it so much that we have to tax people in poor neighborhoods three times what they should be paying by tax law and tax everybody else a little less. That's not right.

The local governments may have to increase the millage rate. If they need money for the school teachers, for the firefighters, for the services, increase the millage rate two tenths of a percent for everybody. Don't overtax people. We need investment back in the neighborhoods as a non-profit, if I can lower the cost \$120, I can take the vacant home and get somebody in it, lower the rent by \$120, lower the mortgage payment by \$120 a month. That's the difference between \$700 to \$725 that people can afford and \$850, \$870 that people can't afford. We did research nationally to say what's going on around this tax issue. A lot of people are pointing at state government. A lot of people are pointing at federal government. We need to. But we may have to point the finger at our local government and ask, are you treating our citizens in high foreclosure areas fair? Thanks.

MR. SEIFERT: Good afternoon. Who has ever heard of ESOP? Who here from out of state has ever heard of ESOP? That's good. What do you know about us?

UNIDENTIFIED SPEAKER: I actually wrote about you.

MR. SEIFERT: I'm the director of what used to be called the East Side Organizing Project, which changed to Empowering & Strengthening Ohio's People. And the reason for that will become evident as I talk with you this afternoon. We were founded in 1993 in the Slavic Village. It is a very local community-based group to work on school issues,

working with parents around getting crossing guards, very basic quality of life issues. And we did well.

So in '93, until about this time in '99, we were doing well. We were building communities, having street clubs, getting work done. It was about this time of year in 1999 that all of a sudden people weren't showing up to meetings. We couldn't figure out what was going on. We called, phones were disconnected. So then we drove by the house, and the house was vacant. Predatory lending was not a term back then, or at least in our community, or so we thought. We began to do some research, and we would go and research the county records. And some of the same companies kept showing up, UC Lending, The Loan Zone, Citifinancial Associates. And again, we -- we saw it on the TV, but we still had no idea what the connection was between what they were doing and why our people weren't showing up to meetings.

So we began to track some of these folks down and began to talk to them. We worked within the schools. So oftentimes, the schools knew where the family relocated and/or the child was still in the school. They could get us hooked up with the parents. And we began interviewing them, and they told us the exact same story over and over again. By the way, these were poor, black people. They started telling us the same story about how somebody knocked on the door and said, you have housing code violations, you better take out this loan or you are going jail, or don't you want to take a vacation? You don't want to fix those steps, you want a \$5,000 loan to fix the garage, you need \$50,000. We hear how they came back years later and flipped the house four times in less than 13 months. These guys didn't owe a dime on their house. We couldn't figure out what was going on.

But as we talked to folks, we realized we had an issue. We had no idea to what extent the issue was. But in 2002, much of what's happening today we were predicting. Nobody thought it was going to be this bad. We thought someone would have common sense a couple years ago, but that didn't happen. So we began to organize. ESOP was founded. We are the direct action, in your face, community organizing community group. And I have the best job in the world. I know where to buy sharks. So we went out and bought 6,000 sharks, whatever it was, and we began going after these companies. The first company we went after was Citifinancial. We would show up at their offices and literally have 2,000, 3,000, 4,000 sharks in our pockets, and we throw them all over the office, their computers. That got their attention. And it was funny. You have never had fun unless you are doing this. It's what keeps me in the job. It's a good time.

We began organizing. Again, we were feeling our way. Nobody knew what was going on at this point. It was 2000, 2001. We began to organize. Citi was our first one, and we negotiated an agreement. And that is what ESOP has become known for over the years. And that agreement does, basically, two things. It says, going forward thou shalt stop doing these bad things. So single premium credit life insurance, or all of the crap that today we know was totally stupid, we would get them, in most cases to agree to waive.

The other thing we did -- and it is why we are successful and why we expanded -- is, we adopted what we call a hot spot card. Is anybody here familiar with the hot spot card? Okay. Back in the days when I did safety organizing, people would come to meetings that were afraid to report crime to the police, because the drug dealer might be in the same meeting. They were scared. So we developed a hot spot card where people reported the hot spots where the crime was. We would give it to the cops, tell the cops to come back in 30 days. We thought if we could make this work, as far as predatory lending, we are reporting the hot spot, we are telling you about the bad loan, and we want you to

report back to us on what you are going to do to fix it. We became known for our hot spot card program.

What that does is a few things. In most cases, it will stop the foreclosure dead in its tracks, not permanently. We have sheriff sales on Monday, we have folks show up Friday, and we are able to get the sale pulled. That's the first thing. Who has ever dealt with loss mitigation or collections? How does it feel for you?

UNIDENTIFIED SPEAKER: It's getting a little easier.

MR. SEIFERT: How was it six months ago? They suck. We recognize that. In our agreements, we have a designated point person we deal with, and it is not somebody in loss mitigation, it is somebody underneath executive management. These people make deals, forgive the mortgage if they want. It is a designated person, so we don't lose track of conversations or other kind of stuff. The other thing our hot spot card does is it has an appeals process. We can get up the chain of command to talk to the CEO and say, hey Ron, we don't like what Joanne did. That's important, because it gives Joanne incentive not to piss us off and to work with us to do a deal.

In essence, that's what our agreements are. Over the years we've done what we call rank them and spank them in meetings. That's how we pick our next target. We bring the community together and have them rank who the bad guys are. That resulted in a grievance with Citifinancial, which includes Citinetwork; Akwin, which is a service; SPS, a servicer; Citiresidential, which was the entity created after Ameriquest and Argent imploded. We have a fairly good relationship with companies like Homecomings, Option One, Saxson, sort of, HSBC, U.S. Bank and Charter One Bank. We have, unfortunately, an agreement with Chase. Anybody here from Chase? They suck. We have an agreement, they absolutely suck. They're living while the party is still going on, but we do have an agreement with them.

So again, we are a small little southeast side of Cleveland group. Who here has heard of Slavic Village? You are a reporter, so you don't count. Are you from Cleveland?

UNIDENTIFIED SPEAKER: Uh-huh.

MR. SEIFERT: Has anybody from outside of Cleveland ever heard of Slavic Village? It is considered the epicenter of foreclosure crisis. Over the last year, we've had well over 125 international outlets come to ESOP because they want to tour Slavic Village, they want to see what's happened. Cleveland is sort of, if we're not known for anything else, certainly not our sports team, we are known for being at the epicenter of the foreclosure crisis. We have the Australians next week, we had the French in this week. It is interesting, when they come into the office, they start interviewing each other, why is your country concerned about this crisis?

It has been off the hook. And for us, it's been great, because it allowed us to get a lot of media attention, which is how we get the word out. Again, we didn't get successful. We were plugging along, getting workouts, holding creditors accountable. Everyone thought we were crazy for throwing sharks, and funders couldn't touch us. I went months on end, just a few years ago, without getting a paycheck. All of a sudden, when it started hitting white people and the media got a hold of it and politicians -- we call them the downstate redneck republicans here in Ohio -- got a hold of it, we said, our constituents are losing their house, it became an issue. But it wasn't until 2006 that we looked at this as being an important issue. What's happened is now all of a sudden folks are looking at ESOP and saying, they can get workouts. And thankfully, Treasurer Cordray visited about a year ago, learned about what we do, and was behind us. He started pushing to get us statewide money. And that's allowed us to go from a staff of five in March of

this year to a staff of 30, and we're still growing. We have offices now in Cleveland, obviously, Lorain, Trumbull, Stark, Muskingum Counties. At the end of this month, we will have offices in Montgomery, Preble & Athens. It has grown tremendously, as has the number of people we are seeing. Last year, for example, we saw about 1,800 folks, and we did about 1,500 workouts, with roughly an 80 percent success rate. This year we're seeing about 125 people a week. We are expecting to do 3,500 workouts by the end of the year. That is about an 80 percent success rate.

Just real quickly, a couple thoughts about where this is going. One of the issues, again, nobody is listening to us, but one of the issues we have been talking about for the last 18 months is rescue fraud. The number one reason we can't do a workout anymore is because the homeowners come to us and they've already given away \$500, \$1,000, \$1,500, they don't have it. The lenders also want to see some money down. And if they don't have it, the workout falls through. It is the number one issue that's got to be addressed. I don't know if this current bailout thing, if there's a way to do something with that. That is going to kill us going forward getting workouts.

The second issue is, now that the party is over, somebody's got to clean up. I'm sure your neighborhoods are like this too. We have had reporters that have covered Iraq, covered Katrina, that take tours of Slavic Village. And we ask, what do you think? And one reporter, I think he's with the Times, he said, at least with Katrina, they wrote on the doors whether or not there were bodies inside. It is devastating what happened to the communities.

That is the next challenge, how do we clean up the mess. ESOP is working with neighboring congress in Cleveland trying to clean up properties. What's happening is, if you go on eBay, you can buy a house in the Slavic Village for \$400. They're doing that and flipping them. That's the next big issue. I'm not sure what the answers are. We have upwards of 12,000 vacant structures in the city of Cleveland itself. That's a little bit about ESOP. Thank you.

MS. HIGGINS: Hi, I'm Linda Higgins. I'm the state senator for North Minneapolis, which is -- I can't talk and do two things at once. Hang on just a sec. North Minneapolis is considered ground zero in Minnesota for the foreclosure problems. We are seeing a lot of the same things in North Minneapolis that Mark is seeing in Slavic Village. In fact, you can buy houses in North Minneapolis for \$500 now. So I thought I would tell you a few things that we are seeing in Minnesota, some of the local government ideas that are helping out homeowners. And then I will tell you a little bit about the legislation we've been passing in Minnesota, because I think we've done some really good work there. The three of us decided not to do PowerPoints. My senate web page has a whole lot of resources that we've put on the page for you, which is what I was trying to get up. If you type tiny, dot, cc/Higgins, you will come up with that page.

UNIDENTIFIED SPEAKER: Cc what?

MS. HIGGINS: Slash, Higgins. My real web page is this long (indicating) on the address. Always hire the best staff, and especially the people who know computers better than you do, because they can find things like tiny URLs.

I wanted to tell you a couple great things the homeownership center in Minnesota is doing. The first item is fairly new. They are telephone seminars for at-risk homeowners that are kind of like a radio call-in show. You can call in and connect up and be part of the phone call that has informational segments as well as question and answer periods. They're probably for homeowners who are just beginning to ask questions about their mortgage and whether they've got a problem coming up, and probably not ready to

acknowledge to a lender or a foreclosure counselor what their actual circumstances are.

The homeownership center is also the organization that puts together our statewide network of mortgage foreclosure prevention counselors. Since the 1980s, we have had foreclosure prevention counselors in Minnesota. The neighborhood group for the neighborhood I live in not that I had anything to do with it, but it is my neighborhood started them in the 1980s, where people come in and talk to counselors, who I think probably now have the best Rolodexes in the world. They have names, phone numbers from all the lenders, people to talk to, people who can make decisions, people who can help renegotiate the terms and conditions of loans. We picked it up as a statewide project a couple years ago, and it is helping throughout the state, having a system where people can go in and actually talk to real people who can help them negotiate with their lenders. The Minneapolis Urban League has had several evening sessions where the counselors come in, and you can just come in and talk to a counselor. Sometimes they are specific to one lender, but not always. The Urban League in Minnesota is also good about making sure you get a wheel while you are there.

Cleveland, Pittsburgh and Minnesota, Indianapolis is trying to get ours started, an early warning system to help the local governments use the data available to prevent, and if they can't prevent them, at least address the issues of abandonment, encourage better use of the resources and enhanced decision-making. They use information from board ups and tax delinquencies and water shutoffs, condemnations to head off the foreclosures, getting some early contact with the owners before it's too late and the property goes into the hands of the lender.

One of the neighborhoods in my district actually filed a careless lending lawsuit against Citimortgage. Mark Ireland, in the next set of breakout sessions, will be talking about that. They won. Very cool thing. They now own a house that Citimortgage had a mortgage of well over \$200,000 on. They took a good bath on that one.

There are a lot of organizations working together collaboratively now, trying to look forward. How can we recover from this foreclosure mess that we are in? We have organizations, like neighbor works and the family housing funds, the north side home fund, who are working with lenders who are allowing a first look at houses that are coming out of foreclosure, so that the organizations can acquire those properties and get them back into the hands of homeowners. They are using some federal funds, some state funds. And we're hoping that as many as 2,000 houses can be done in the next couple years through that process.

We have a little saying in my neighborhood: He who controls the land controls the destiny. And we are hoping that those organizations can help get families back into some homes. The first batch of first looked houses are being looked at right now. Some of them are in really, really tough shape. Some are in pretty good shape. So they're looking at various strategies about what we will do. You know, the worst problem that we will have, I heard the other day it is likely that there will be a million demolitions of houses in the next couple three years in the country, strictly related to foreclosure and what happens in communities because of the foreclosures.

I don't know about your community, but there isn't a vacant house in North Minneapolis that doesn't have the copper pipes stripped from them. I used to say people will come in and steal everything but the kitchen sinks. They're taking the kitchen sinks. They even try to get the pipes that are behind the walls. You walk into a house and the walls are missing, big, gaping holes where somebody came to get a hunk of pipe this long (indicating) to take it to the scrap yards. I carried a bill last year where we

put a lot of new regulations on the scrap yards. For a while it worked, and now it is worse than ever, so I might go to plan B on that one.

We'll talk a little bit about legislation. I want to first talk about -- anybody here from California? California passed a bill this last year that let's local governments impose a \$1,000 a day fine on financial institutions who fail to maintain their vacant properties. If they are going to let them fall into rack and ruin, they're going to pay. I'm going to look at that for a bill next year, because I'm seeing how much of the property in my district is owned by financial institutions. I swear, they don't even know they have them. They certainly aren't fixing them up. So I'm going to be looking at that one.

In 2007 Minnesota passed a package of predatory lending bills. We had a brand-new Attorney General elected in 2006. Before she even took office, she had convened a task force of people looking at predatory lending. And we started the legislative session with a couple of bills that went forward. And most of the original pieces became law, which is kind of unusual in Minnesota. They are common sense. They were basic pieces that were just plain missing in our attempt to protect homeowners from the unscrupulous predatory lending practices we had seen.

We had tireless advocates working on those bills, and they kept negotiating and working and thinking and talking with people who were originally not on board. And by the time we passed those bills, they were not unanimous in either house but they were darned close, which is a pretty good indication that we think we did a good job. Not all lenders are under state regulation, but some lenders are. Mortgage brokers are under state legislation. So there were some good that we did. I'll tell you a few things we required.

We required that the lenders verify that the borrower had the ability to repay the loan. How's that for rocket science. We prohibited refinancing that did not benefit the borrower. There's another one that kind of fascinated me. We required that mortgage brokers and the nonbank lenders, the ones under state regulation, act in the best interest of the borrower. We had a lot of discussion this morning about the fiduciary responsibility of the lenders and the brokers. We put it into law. We didn't say fiduciary responsibility, because people were having heartburn about that. What we did was define it in a way that said, basically, fiduciary responsibility.

We required that people receive financial counseling before refinancing a special terms loan, like a Habitat for Humanity loan. Those are usually zero interest loans. But we found people were actually refinancing those loans to an adjustable rate, throw you out of your house in three or four years sort of loan. So we just put in there, not that they can't do it, but they need financial counseling so they know it's in their best interest before they do it.

We banned prepayment penalties. We put in the bill that the mortgage originator actually had to tell a borrower what their additional taxes and fees would be when they quoted it. A lot of times you are not comparing apples and oranges when you are trying to figure out what your best loan is. So they have to tell all the information. We actually put into law that the borrowers could sue if they were harmed by predatory lending or overinflated home appraisals. And we made mortgage fraud an actual real crime in Minnesota. Before you were having to go after the bad actors on a variety of things, but now it actually says mortgage fraud.

The other piece that had a real effect this last couple of years was the Department of Commerce bill that actually required the brokers to have some skin in the

game, that they actually had to have a minimum net worth or surety bond, have some actual training to be able to be a broker. I thought it was significant, the number of brokers who actually surrendered their licenses rather than try to work under the new law. I kind of think of it as an indictment of their own bad practices. We have found that we have fewer problems going forward because of that bill. We had some good bills related to foreclosure that we passed this year.

We did quite a bit in helping the tenants. We require that the landlord actually tell the tenants that the building is in foreclosure. We require that they have two months' notice before they -- of the amount of time before they would have to leave. We have a very strange process in Minnesota. The sheriff's sale is at the beginning of the process and then you have a six-month redemption period. At the end of the redemption period, then the ownership goes to whoever buys the property at sheriff's sale, which is almost always the lender. During the redemption period, often the tenants are paying rent to the person who is not paying the mortgage, but they're not finding out that they -- they actually don't have a place to live in a few months. We allow them to go in and put the utilities in their name so that they aren't finding their water or electricity is shut off, their power.

I'm sure I'm running out of time. I wanted to tell you about a bill we passed that got vetoed by our governor, Tim Pawlenty. He was the one that probably should have been the vice president candidate with John McCain. He vetoed the Minnesota subprime borrower relief act this year. It would have allowed homeowners to defer a foreclosure for a year if their lender refuses to come to the table and negotiate new terms in good faith. It sounds pretty darned good to me lately. If the federal government would have been able to put something together like that, I think they would have had a much better bill than what we're all watching them do. But that one, we may be looking at soon.

Another piece that, if we have just another minute, Minnesota has a foreclosure assistant program through the housing finance agency. Last year the -- there was a cap of about \$5,500 available for helping people just to buyout of their foreclosure problems. We took the cap off and about doubled the amount of money available as a reflection of how much more people's monthly payments are. So that is helping out a lot of people as well. And owners would access that money through the network of foreclosure prevention counselors. So if you are a couple months behind in your mortgage, but going forward you could keep up, if you could pay back what is backowed, we can actually get you some money to help with that.

Minnesota is the land of Garrison Keillor and the Prairie Home Companion, and we think we're all above average. I think we really did do groundbreaking work in the legislature, and that part of it is actually above average. Thank you.

MR. THOMAS: Thank you to Linda, John and Mark. Before inviting your questions of them, I had a few questions of you. Namely, for anyone who cares to offer this, what's happening in your communities? Is there anything -- what's happening, both in terms of how this crisis impacted your neighborhood, your community? Is there anything, in terms of local responses, that are worth throwing into the mix that you find helpful but what frustrations may remain? And I'm also wondering, where do your neighbors of you, yourselves, your family members, friends, anyone who may find themselves, their own fortunes implicated in this, where do they turn for advice?

UNIDENTIFIED SPEAKER: I'm from Policy Link. And our home-based office is in California, so I will give a few examples from California. But I have been working on Katrina and Rita recovery, which has a whole other overlay to the problem. The department

of housing in Los Angeles has been doing innovative work to map all the foreclosure across the entire metropolis and then to do density and poverty and race overlays to develop an analysis of where its least likely that properties will turn over and be rebought up by the market and instead will contribute to deepening blight. And then they've proposed a strategy of taking their share of this four billion dollars that just got approved in the mortgage foreclosure bill a couple months ago -- or the HUD bill and their own CDBG money and city money and targeting, buying up those properties and getting them rehabbed, and then either partnering them with their first time homeownership programs or with their project based section 8 or section 8 voucher holders as affordable rentals. They are doing a very aggressive action to turn the properties back over and focus on areas where they think there will be much greater physical impact if they don't take action. I think they have been strategic in figuring out in every city council district where the neighborhoods exist so there's support for it. So that's one thing.

Our department of community development wrote guidelines for local jurisdictions about how they could use their CDBG money to do interventions. That had to do with slapping fines on abandoned properties for the banks that were doing no action so that fines would begin accruing. And they could either then issue liens on the properties or even take them over to do a same kind of strategy like this and to themselves use CDBG money to do maintenance so it wouldn't drive down property values of the surrounding homes.

So those are two strategies in California that seem useful. The guidances are on the department of housing and community development web site, if your state could use similar guidance.

The thing we're seeing in Louisiana is that the whole northern part of the state is having massive foreclosure going on. And these are hurricane nonaffected areas, because they had a lot of predatory lending. In the southern Louisiana area, there's been forbearance because of the disasters. We aren't seeing foreclosures there, even though people don't have the money to complete recover of their homes. Just issuing forbearance, you can see disparity in a state -- incredible ability of what forbearance does for keeping people in their homes.

So I think that was just an example, to me, that even in the midst of a crisis, people aren't losing their homes as rapidly as people who have just had these loans issued to them. So many predatory loans were issued in southern Louisiana because they've been out of commerce for three years when the loans were starting. It shows me if we could gut the loans from the market, like they weren't happening in southern Louisiana, and if we could issue forbearance, that you would see a lot more people being able to maintain properties even when they were having payment difficulties.

MR. THOMAS: Anybody else, or any questions for the panel lists?

UNIDENTIFIED SPEAKER: We have a number of things we are getting money from.

MR. THOMAS: Who is we?

UNIDENTIFIED SPEAKER: Toledo fair housing. We investigation discrimination. But 50 percent of the complaints that have come into the office in the last couple years have been predatory lending. So we felt we had to get into helping people with the foreclosure crisis. So we're doing that, big time. We have recently gotten a lot of money from TANF, because they've given money for foreclosures to help get people caught up, up to \$4,999 a family. We helped a lot of families get caught up. But they have to demonstrate they can afford the house. We don't throw money at them to prolong the agony, as James was talking about earlier today. That's been working out very, very well.

We actually went to our county and said, hey, if you keep referring people to us -- our county and the city, because our name is the Toledo fair housing center, everyone with a problem was calling us. We got tired of saying we investigate allegations of discrimination. We told the county and city, if you want us to help with this problem, because their solutions were refer everybody to the Toledo fair housing center. We said, you better give us money to do that, because we've got 13 people on our staff and we have four people dealing with this, pretty much full-time. So they found those TANF dollars, and we've been able to get a lot of money from them in the last year. Like I said, we saved a lot of people.

Also, the city's task force has identified properties that had been abandoned or foreclosed. And there is a database now starting so you can find out what those properties are and if you start seeing things happening to them, they can contact the banks. We are getting legislation that's going to do the same thing, we will be fining the banks if they didn't take care of the properties. A lot of sheriff sales we are seeing now, the banks either cancel it -- they don't take over the property because they don't want the property. There's no value there, and they know that. So they're walking away from the foreclosures, so it basically keeps it in limbo.

One of the things that's going to happen is almost a whiplash. The people affected first, which were in central city neighborhoods, might not be able to own the houses. But they might be living in them because the banks won't take them back. So it will be sitting there, and there wouldn't be equity coming out of the property, but they could be living in it for the rest of their lives free because the banks won't take it.

MS. HIGGINS: I have a question about that. Did you need to get a waiver from the federal government to use the TANF money that way?

UNIDENTIFIED SPEAKER: I don't know what they did, all I know is I got it. I don't know what the waiver was. We have gotten it three times. I know it is a pilot program, and they're looking at maybe doing it in other cities in the state.

UNIDENTIFIED SPEAKER: I have a question for Mark. My understanding is a lot of these mortgages were turned into security, and therefore the banks or financial institutions are servicing the mortgages rather than owning them. But your experience is you have been able to negotiate with the financial institution, even though they are servicing the loans, and get agreement to change the terms and make concessions and fine the owners and make those kinds of agreements?

MR. SEIFERT: Right. One of the lies that's out there -- I'm sure there's folks in here that believe this is this notion that Remick, whatever that stands for in the tax law, that says you can't modify loans, you can only modify a certain percentage per pool. That's a lie. What Remick says is, if a loan is in default or has a high likelihood of going to default, you can modify it. The lenders and the servicers, and the investors in particular, have hid behind this thing in the tax code saying oh, no, no, we would like to help you. They're full of it. They can do it if they want to. That's what we have gotten our servicers to understand.

The other thing on that is, yes, we probably deal more on the servicing side than we do with the origination issues. It was nice, about five years ago you could actually trace down origination and say, you are still holding this loan. Today that never is the case. I mean, this stuff is packaged and sold off within two hours. So with our servicers, though, we have been able to demonstrate, and they've helped us get to Wall Street. We've been there meeting with investors saying why it makes business sense to modify this loan. We have shown case after case after case where if you don't modify it,

we'll show them pictures of Slavic Village, this is what you are going to have.

We had Sandy Samuels in. He is the general counsel and corporate secretary for Countrywide -- when it was Countrywide. And we negotiated a very good agreement with them. We took him into Slavic Village and showed him some of the properties. We were trying to make the case of you guys are not making good business sense. We took him down to East 78th Street and showed him a vacant lot. We said, that's your property. He said, it can't possibly be ours. We explained to him, you have a \$210,000 mortgage balance on this property. The best house in Slavic Village, I mean, brand-new house isn't selling for more than \$120,000, if that, if it is even selling. So we've been showing them that it makes business sense.

To give you an example, Ackwin is a pretty large loan servicer. And we have a very good relationship with them, and they showed us data that in the Union Miles neighborhood their loss severity rate, what they lose on the house when it goes to foreclosure, this is a few years ago, before everything broke loose, the loss severity rate in the Union Miles neighbor was 125 percent. Think about that for a second. You have a house with a mortgage of \$100,000. At the end of the day, if it goes to foreclosure -- and a lot of them did -- they're going to lose \$125,000. They would have been better off writing the homeowner for a check of \$23,000 and forgiving the mortgage. They would have been ahead of the game for \$2,000.

Incidentally -- and again, this is three, four years ago -- the average loss severity rate in the city of Cleveland was 65 percent. What we've been able to do, and part of the success, we don't ask them to give us anything. Or workouts are not, oh, Mrs. Smith is a nice lady, give her the house. Although if it is Litton and she's a senior or handicapped person, we have gotten houses donated because of that promise. We show the business sense of if you do this, you are going to make more money. And we're coming to them with good cases. We are vetting these folks, we make the homeowners prove everything. And we're showing that, and the success rate has been pretty good.

MR. THOMAS: We have time for a couple more.

UNIDENTIFIED SPEAKER: I have a question on the foreclosed properties. ESOP and neighborhood partners incorporated have been doing work with the foreclosed properties. And work in Minnesota with the family housing fund is doing some good work. Do you know if any of the models where people are doing the bulk acquisitions to be able to really make a stake and grab chunks of property or chunks of paper where they can change a neighborhood dynamic? And if you know those models, where do they end up with the prices, in terms of the acquisition price, and the longer problems of carrying cost and rehab cost?

MR. O'CALLAGHAN: One issue in Atlanta is there is no concentration, a HUD concentration, there's no concentration. So if you had 50 homes, you would have to go to 40 lenders. Nationally, enterprise community partners works with the housing partnership network to develop a model whereby non-profits would get a first look. So I think that would be very helpful, if we had a national file for the loans that we could get a national best practice execution. But we still think, if we want a concentration in a neighborhood, we're going to have to deal with individual folks.

MR. SEIFERT: In Cuyahoga we are close to having a land bank that will allow the county to take properties en masse. We have had folks, like Litton Loan Servicing, with maybe 500, 600 vacant properties in the city of Cleveland, say you want them you can have them. So the thought is if we can get the land bank up and going, groups like that -- not all the other lenders have been saying that. Litton has been aggressive. Countrywide is

about to get aggressive. The challenge is, if we can't get it donated. That's the reason Chase sucks.

Most of the other lenders are pretty good about donating, or being realistic with the value of the houses. Chase, on the other hand, had a house that had been condemned. It was the only house left on a street that was being reused. It was going to be part of a football parking lot. These idiots, it took us three months and threatening to go to the media before they agreed to sell the house for some astronomically high price. We still wound up paying \$4,000 for it. They should have donated it and paid for the demolition. But that's the reason Chase sucks.

UNIDENTIFIED SPEAKER: What are communities doing once the properties get bought by the city or municipality? What are they doing to address the issue of having all those houses now and nobody to buy them, because the lenders aren't making the loans? When do people start addressing that, because you are going to get a bunch of CDCs getting properties, even if they get them for nothing, and they put rehab money in. And now who is going to manage the properties or try to get renters in or sell them when the lenders aren't loaning? We just heard, the biggest bank in, Toledo I just got a tip that even an investor who wants to buy a house -- and we are not looking for investors to do that, but there has to be that part of it too, where investors will come in. They won't do loans on nonowner occupied houses unless they're \$150,000 or more in appraisal, which eliminates all the central city neighborhoods in Toledo.

MS. HIGGINS: In Minneapolis, we're finding investors coming in and buying 50, 100, 200 houses at a time. They put \$1.25 into rehabbing each of them and think they're going to go forward. The neighborhoods are just really struggling with that. If you can take a condemned house and you pay \$5,000 for it, which some of them are doing, and they put a small amount of money in it, they're very proud of the fact they're paying all their workers \$8 an hour to do the work, and they turn around and rent the house for \$1,100 a month. None of the guys that are doing the work to rehab the houses could actually live in the house they're fixing by the time they're done.

We are starting to see the second round of predatory behavior come through the neighborhoods. It's really concerning. I think that's why the collaborative I was talking about all the various organizations so eager to get going on the first look and some of the other work that was referenced because it's a race between that type of work and the investors who are coming in to prey.

MR. O'CALLAGHAN: I think that's the number one issue, we are marketing a non-profit capacity to do this. In Ohio, they've been dealing with foreclosure in a while in Atlanta. The market had been handling it. Right now you can't get the purchaser in. The prices are low, but you can't get a loan. We're going to do a lease purchase and hope to transition folks. But right now self help has a pilot product, but there's not an -- you heard Jim talking about it. We need a product for good lease purchase. Shared concrete is a hold that's happened, I guess in your state, where you actually have -- not equity. I meant to say contractor deed. You continue to get the homestead exemption, you make enough income for federal tax credit or whatever you can get that. But we have to develop in line products, and we're going to need help, and I think advocacy, when the lenders get back into business, it has to be one product.

MR. THOMAS: Last question?

UNIDENTIFIED SPEAKER: Just a comment. One of the things we're looking at -- I'm Mary Crawford from Cincinnati, Ohio. We, as advocates, counselors, have to look at strategies for the homeowners. They all cannot save their homes. When they come to us

and they're at the point where they cannot save their homes, it's affecting their health, it's affecting their jobs, they're losing homes they've had in their family 30 years, you have to be able to state with them and give strategy on what your next steps can be for now to get immediate housing, because you know you were losing your home, to the fact that you can own a home, but do it the right way next time. Sometimes we are busy saving homes for people who can't afford them.

We have emergency money available in Ohio, in Cincinnati. It is good to have those things available. But once again, the ability to pay and the ability to afford that mortgage, not only now, in the next 12 months, but in the next 24 months, are you still going to be able to afford this mortgage? We have to look at the holistic approach to saving the homes. Sometimes it is an exit strategy that has to be looked at for some consumers.

MS. HIGGINS: I have a question. Are you finding that many to even most of the foreclosures in your community are refinances as opposed to first time mortgages?

UNIDENTIFIED SPEAKER: The biggest majority are. A huge issue in our state, and I'm sure in other states, is the fact they've been over appraised so much, outrageously over appraised.

UNIDENTIFIED SPEAKER: I live in Washington D.C. It is a mix. We are the metro. We're one of the last overt colonies with the United States where taxation is without representation, just a little message for everybody. In the outer ring suburbs where a number of foreclosures are happening, it is a gargantuan rate, principally first time homeowners who bought homes that were at inflated values because the metro is so inflated. And in Prince Georges County, as well -- and a lot of people have talked about Prince Georges County, there have been real interesting studies of people within income rates. And there have been studies that show African-Americans who bought homes in Prince Georges County have some of the highest incomes that we all know about, in terms of African-American populations in the United States. Their homeownership, their lending rates and all that qualitative and quantitative stuff that goes into it, was compared with people that live west of Rock Creek Park in Washington D.C. which is a euphemism for rich, white people, it has been established that the folks in Prince Georges County had better credit ratings and better incomes, but they were shoved in the subprime mortgages.

The foreclosure rates in Prince Georges County is eclipsing others. We have a mix of some refinancing, but in large part and where we live, it was inflated values on original loans for new home purchases, or they were upgrading to the second home.

MR. THOMAS: We are about to run over time. Mark wanted to get in one last word, and that will be the last comment.

MR. SEIFERT: I agree with you, not everybody is going to be able to save their house, not everybody should have gotten a house in the first place. What we see is, it's a pretty amazing time right now, where you can ask a lender to take a 60 percent cut on the mortgage balance. So I think we have a lot more tools. Kathy was talking earlier about how it is much easier to deal with these guys on the counseling side, while we're getting better workout, we need to keep pushing harder. As far as exit strategies, we do a lot of deals. This isn't part of the workout numbers, but 20 percent we can't help, we are typically able to do cash for keys, going into the winter months. We have been able to say, let Mrs. Smith have Christmas dinner with her family one more time, and she will be out in March.

You are right, lenders are also beginning to think through more seriously about a leasing option. They don't want to be landlords, but they also don't want to have a house

that has no copper in it the day after the sheriff's sale.

MR. THOMAS: Please join me in thanking the panelists.

This is a rough draft – it has not been proofread for errors