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Panel 5 - Credit Solutions for Communities of Color*

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HIRAM JOSE IRIZARRY OSORIO: Good afternoon. My name is Hiram Jose Irizarry Osorio. I am a research associate at the Kirwan Institute. And this is the panel entitled Credit Solutions for Communities Of Color.

We have three panelists. David Rothstein, Mary Crawford, and Rosalyn Crain. Their bios are included in the booklet for the program of the conference.

We're going to start with David for 20 minutes each, and then we'll have maybe 10 minutes of Q and A. Thank you.

DAVID ROTHSTEIN: Hello. My name is David Rothstein. I'm a researcher with Policy Matters Ohio. We are a non-profit, nonpartisan research organization in Cleveland, Ohio. We also actually have an office here in Columbus, as well. I primarily do work on consumer protection policy. I do some research on tax and wage policy, as well.

About five years ago, we started going to the Ohio Supreme Court's Web site and documenting what we thought was a pretty substantial rise in the number of home foreclosure filings. And when we put our first report five years ago, it got zero press hits. We sometimes track our reports by how many presentations we're asked to give our how many press hits we had. And it got very little attention. It wasn't a big deal. It was one of those things that it was not really understood, what a home foreclosure was, and it wasn't really understood what the impact of that actually meant in the community.

Well, you can imagine that our yearly foreclosure reports have sort of taken off now. It's -- we get calls about them nonstop if we've updated our numbers and so on. So I'm going to talk a little bit about the numbers and what they look like in Ohio, but I'm also going to talk about what I consider to be sort of a large significant group of folks who are often overlooked in foreclosure crisis or problem, and that is renters, families that are renting housing units in Ohio and across the country.

So to talk a little bit about foreclosures in Ohio, we've seen a dramatic rise in the last decade. We originally had about 15,000 new foreclosures in 1995 in the entire state. This last year, we had 84,000 new foreclosures. There's been a pretty steady increase each year in Ohio. It hasn't just been, you know, like from 1996 to 2000 that there was this giant leap. It's been almost maybe four or five thousand new foreclosures every year. The largest jump, however, did occur in 2005 to 2006, where we saw over a 20-percent increase in that year.

So lately, what we've been seeing is a continued increase but a slower increase. And for lack of better understanding of why exactly that is, one of the reasons is that these are new foreclosure filings every year, meaning that there is only so many people in Ohio who can have their homes foreclosed upon. We're getting to that stage where you can't sustain a level of 84,000 foreclosures a year.

One of the things that we found that's been particularly interesting in Ohio as opposed to maybe some other states is that rural and urban communities are admittedly affected by the foreclosures. One of the things that we do is we control for population

when we look at our foreclosure reports. And what we found is that the rural communities outside of, you know, just not Cuyahoga County or Franklin County, they have a significant amount of foreclosures on a per-capita basis once you control for their population. And I think a lot of times, especially I would say until about two years ago, this -- the foreclosure problem was definitely viewed as an inner-city urban problem when, in fact, you know, the statistics and maps we found have shown that it is actually -- it is everywhere. It is very pervasive.

One of the other things we documented in our yearly report is on sheriff sale increases. That's the sort of final step in the foreclosure filing process, where the sheriff puts the house up for auction and it is purchased.

The -- you know, because when we -- the talking about foreclosure data often gets really hard to do, because, in fact, the -- you know, you could have multiple filings on a property in the same year, and you could have multiple filings on a property in the same year and the house could not even end up being sold at a sheriff's sale. It could be -- you know, there is a workout that could be done, or it could be purchased by another family member or -- I mean, so there is -- when we talk about foreclosure filings, it is a very general term and it probably, to some degree, overestimates the amount of foreclosures.

At the same time, sheriff sales are probably a more realistic goal if you want to talk about how many folks actually are removed from their house. So what is associated with the sheriff's sale increases in Ohio has been dramatic home price declines. And that's because at a sheriff's sale, the house sells for virtually -- I mean, anywhere from, one, one-fifth to one-tenth of what it's actually worth or what it's purchased for. That has a huge effect, obviously, on property tax revenue, social services, and obviously other neighborhood homes, their values, as well.

Well, what was interesting was about two years ago now, we had a foundation, Sisters of Charity Foundation in Cleveland, and a group similar to the First Link group here in Columbus, which does direct referrals for people who, you know, need immediate help, and that's through 211, first call for help in Cuyahoga County. What we found was they came to us and said, you know, we were getting a lot of calls about people that need help with foreclosures, but what's happening is the calls are varying and they're saying, we're renters and I just found out that my water and gas are turned off. And then the sheriff came to -- I had a deputy sheriff come to my door and they said you've got to move out by tomorrow. And so the response is, we don't know what to do for these people. I mean, there's no workout plans we can give them, you know. The landlord has full right to terminate the lease if the property's not in their ownership anymore. Once the bank buys the property, they can immediately say, hey, you know, you've got to get out. We own this property. We don't want to rent it anymore. And so we were alarmed at this problem.

So I started to investigate exactly how much the percent of homes that are renters in Cuyahoga County and how many of those homes are in foreclosure. So according to the census data, the most recent available, about 36 to 37 percent of homes in Cuyahoga County are rental. It is very similar in Franklin County. I think it is actually a little higher. And I think that's also because of the state university here. Residential foreclosure filings in Cuyahoga County in 2006, 2007 were around 13,000 new foreclosure filings. So that's about an 8-percent increase.

What I also looked at was I pulled out of those numbers -- I pulled out the estimated number of foreclosures that were rental foreclosures. And as you can see, there was a 26-percent increase from '06 to '07. And for each year, obviously, there's -- so

close to 30 percent of the foreclosures in 2007 in Cuyahoga County were rental foreclosures. And I think this estimate is actually very well under the estimate of rental foreclosures. And that's for a couple reasons. The data is virtually almost unavailable to do rental foreclosure filing estimates. And that's because the auditor's offices in different counties in the state are supposed to keep track of if a property is a rental foreclosure or not. They're just starting to do that. This was a new part of the law that was passed in Ohio in 2006. So when I went to the state and asked them for all of the rental properties, they literally laughed, because their list is nowhere near being complete.

So what we would do was in Ohio -- and many of you received this, probably without knowing -- you get a 2.5 percent property reduction tax credit on your property tax if you're an owner-occupied home in the state. So what we did was I went the reverse way, and I identified every property in Cuyahoga County that did not receive that credit. And that's how we basically pinned which houses were either rental units or vacant for some reason. I removed the vacant properties so this is the estimate of what we have in terms of rental properties.

This slide shows what I was speaking to earlier, which is the number of total foreclosures per year since 1995. As I mentioned, with the exception of '05 to '06, there is a pretty steady increase and there is not a -- you know, each year there is not a huge jump, but just enough of a jump that you can see that we've been -- the problem has been getting worse in Ohio.

So I mentioned that tenant's group, Cleveland tenant's organization that serves tenants is sort of their advocacy and counseling group, the group first call for help, they also came to us. They're reporting record number of calls from renters saying, you know, either their utilities have been shut off or they've been asked to leave by a deputy sheriff or a bank.

Cleveland also is unique in a way that we have a Cleveland housing court, which handles both evictions and like, for instance if your gutters were improperly installed, they would cite you, that kind of thing. So our housing court in Cleveland actually has a good deal of power. And one of the things that they were noticing was that each month, their dockets were being flooded by banks seeking eviction notices on families in these properties where the banks recently purchased them, and they were renters. And the foreclosure process at the sheriff's sale terminates the lease; however, people are still living in the home occasionally. They don't leave because either they don't know the house has been foreclosed, they have nowhere else to go, or they make the assumption their lease is going to continue on after the sheriff's sale. What happens is the bank generally -- and when I say generally, it's 99 percent of the time -- files an eviction notice with the housing court to have the tenant removed from the property.

Urban areas are much more affected by this at this present time, in terms of percentage of people who are renters and who are being -- their rental properties are being foreclosed on. And that, we can see -- this is a map of Cuyahoga County. The sort of polka dotted area in the middle is the City of Cleveland proper. The blue area is the inner-ring suburbs, so the areas that are sort of touching Cleveland, and then the white area around there, the more rural areas that are the outlying suburbs. What you can see is that the nonowner-occupied foreclosures or the rental foreclosures, which are the darker black dots, are completely clustered in areas that -- and I didn't overlay it with this map, but these are areas of high racial minorities, much lower income areas in the City of Cleveland. And that's on the west and the east side of Cleveland. But what's

also significant to notice is that the first suburbs, the areas that touch the City of Cleveland, are also really affected by both owner-occupied foreclosures and nonowner-occupied foreclosures. So those are those blue areas. And what that really says to us when we're looking at this map is that it's expanding outward into the city limits, and it's also a huge problem because these are the areas where a lot of wealth had previously been transferred down from what had been created as a middle class.

So a little more about what exactly goes into a rental foreclosure. There is little protection for renters in the current state and national law. As I mentioned, at the sheriff's sale and the foreclosure, it terminates the lease and rental. So at that time, the renter has absolutely no rights to their property in terms of their living property. It is also difficult for them to keep their personal property. They're often given maybe three days' notice from the court that they've been evicted, so you can imagine how hard it is to keep belongings. It's nearly impossible -- during our interviews, we found it was nearly impossible for people to recover their deposits and rent. For instance, your security deposit and if you paid your first and last month's rent, those are all gone, because by the time the landlord is -- has been filed with this foreclosure, they're tapped out. There's very little ability to recover that money.

The -- you know, there are certain things that you can do if you know ahead of time that your house is going into foreclosure. You can put your rent into an escrow account and try to recover it, but that takes legal assistance, and most people don't know that that's a possibility.

One of the other things we've heard from families when we were talking to them is that it's very destructive to the family when this happens. They have to find a place to move. They have to do it quickly. They often end up doing what's termed doubling up, where they live with family or friends for a few weeks until they can find somewhere else. And this is very difficult, especially on children. They might not be able to get to school. They might have to switch schools abruptly in the middle of the school year. And you can imagine emotionally what this would do to a family.

There are also community costs. One of the things when I was talking to our county treasurer about this, how this contributes to vacant housing, when these properties are taken over by banks, they're not immediately rented back out, if they're rented back out at all. So the rental housing market, even though it is pretty strong in Cleveland in terms of both the low cost and the availability of rental units, the good rental units, quote, unquote, are starting to be less and less. It has also really put a demand on community services, like food pantries, shelters, and emergency aid that is coming in both from national groups and from the state. This money was -- is aimed at not necessarily families who are foreclosed upon, but just general welfare aid. And that extends to the city and county programs, as well.

One of the things that we did was we interviewed close to a hundred families who had been through this foreclosure process as renters, and we put together this estimated cost per family and the estimated cost total in Cuyahoga County. This is working off of that 13,000 family number of likely people who have been removed from their homes. As you can see, security deposits are -- you know, the lost and new security deposit costs are very high.

The change in rent, what that means -- I should give some explanation on that. What we found is because people had very little time to look, and because the market has become, well, crappy, for a better word, in terms of trying to find a rental unit, they're often paying close to \$50 to \$60 more in rent every month. When you add that up times 12

months, they're -- that's an added cost of \$600 per year for a family to come up with that rent change of what they were currently paying.

A lot of families lose appliances, furniture, clothing, other possessions, because they either can't afford to store them or they just can't take them with them. If they're doubling up with a family who already had three kids and two people living in the house, two adult family members, it's not like they can take couches and have seven couches in one room or something like that.

The cost to transfer or exchange utilities is a high cost. You -- one of the things that we found is that families were either to transfer their electric bills or transfer their gas bills, it was extremely expensive to do so. Again, for families who wanted to store items, there are moving and storage costs associated with that. And we consider that a conservative estimate of about \$2,500 per family, accounting for about \$10 million in basically family costs. And that's not community costs that I was speaking of, about community shelters, food aid, counselor aid. That doesn't include that number.

So what do we do? How do we move forward on this? We move forward on this in a couple ways. This is one of the -- one of the reasons this issue captures me more than some of the other foreclosure issues is that we can really make a huge difference without spending any money on this issue. And I mean that because there are two bills in the Ohio House and the Ohio Senate right now. One is HB 440 and the other is SB 295. What the passage of those bills in the Ohio Assembly would do, it would require the lease to survive the foreclosure, meaning that when the bank or when a personal investor buys a property at a sheriff's sale, it does not terminate the lease of that tenant. And what we can -- I mean, there is a few ways that can be handled. You can give them, like, three months after, you know the property is transferred before they're removed. You can give them some kind of property rights to get back their security deposits. But basically, you know, these two bills would enable a tenant to survive the foreclosure process.

There is an even stronger federal law, HR 5963, which would give -- it would allow the lease to survive the foreclosure, like the Ohio laws would, but also it would require three months' notice to renters. So, you know, it's very rare that somebody who is a landlord or a company would not know three months prior to the foreclosure filing that they're about to go under and there's going to be a sheriff's sale.

We've also asked that some of the money and counseling that's been going on for homeowners who are looking to do workouts also be directed toward renters. It doesn't require as much of a workout as doing a workout for a loan would.

The other thing is we worked with a couple foundations who are interested in setting up an interest-free revolving loan fund. And what that would entail is basically developing a pool of money, both public and private, and it would allow families to, you know, if they needed, let's say, a new security deposit, they would get \$500 from this fund and they would pay it back at no interest to the loan fund at whatever they could afford for the next year. And as they paid into it, it would keep the money coming. And we have a couple foundations that are interested in pursuing this with us, and we hope that maybe with some of the federal money that's coming in from the foreclosure bill earlier, that that would be part of it.

There is another process that hasn't been so much in Ohio but in New York and Chicago where the rental market is a bit stronger and they want to turn these properties over quicker. There is something called a cash for keys program, which I'm really intrigued about, which is where the banks, rather than going through the process of taking the family to court and trying to evict them, they basically approach the tenant and say,

we'll give you \$500 if you're out in, like, several days or if you're out in 10 days, or we'll give you a thousand dollars if you can get out in the next month. What this does is help the upkeep of the property. They don't -- you know, they don't necessarily -- not that this happens anyway, but the house is still in decent condition, it's not vacant for -- during the foreclosure process. Banks like not having to go to court and file eviction notices, and it is actually somewhat costly for them to make those moves. Again, the reason we haven't seen a lot of cash for keys programs in the Cleveland and Columbus areas are because there is just a lot of rental properties available. So there is less of an incentive for banks to really get the renter out.

One of the other things we're doing with the Cleveland tenants' organization is direct outreach. We have -- every two weeks, I pull from the recorder and treasurer's office, I pull the new foreclosure filings that are likely to be rental foreclosures. And I get those names and numbers to the Cleveland tenants' organization and the first call for help with the United Way and they do postcards and phone calls to try to let the tenants know that, hey, it's not for certain, but there is a foreclosure filing on your property, so you might need to be aware of that.

So some resources. We're Policy Matters Ohio. We do research and advocacy. Unfortunately, we don't do sort of direct service help, so we can't help clients necessarily. But if you want to be involved in the advocacy on this issue, we would love anyone's support on this. This is -- again, I see this foreclosure issue as the next wave of foreclosures. It is growing at a faster rate than residential foreclosures, almost by double.

The Ohio United Way and their local affiliates and the direct call for helps are starting to see this issue and having resources available for people. So I would encourage people to use the 211 service.

Any kind of tenants' rights organizations are a good place to turn. They're starting to see this. And they can provide legal assistance and let tenants know their rights. Legal aid is starting to see a lot of these cases, and they've been seeing this. They've been able to help people set up escrow accounts to put their rent in so they don't lose their rent during the year. The Ohio benefit bank program. I've briefed them on this, and I think they're going to try to figure out a way they can be of help, as well.

So, again, this is an issue that I suspect will be the next wave of the foreclosure, and that a lot, in turn, is because a lot of investors and people that wanted to be landlords or people that bought a big new house and couldn't sell their other house and wanted to rent it out, they're now facing the ARMs that are turning over, loans turning over, and they can't afford to keep all these properties. So that's why I really think this is the next wave.

I'll be happy to answer any questions at the end. Thank you very much for your time.

(Applauding.)

MARY CRAWFORD: Good afternoon. My name's Mary Crawford. And I'm here to speak a little bit on exit strategies for our consumers. What we have to do -- and what made me think about this, I do consulting work for two non-profits in Cincinnati, Ohio, which I do foreclosure counseling training, workshops for two separate non-profits and what there is a trend in. And I monitored and sampled 75 calls that I received. Out of 75 calls that I had received, over 50 percent of them could not afford the home, were not going to be able to keep the home, and needed an exit strategy for that property. So what I -- as I looked back, I said that there needs to be counseling for people who say, where can I turn the

keys in, because that's happening today.

I did a workout the other day. A woman was \$156,000 behind on her mortgage. They needed \$20,000 to bring it current. She went into her retirement and did it. But as I sat and thought about that, I said, did I do her justice by putting her into that debt modification? Will she be able to afford that mortgage in the next 12 months? So these are the kind of things, as far as working with our consumers, that we really need to look at. It is more than just a modification. It is more than just a check, we saved another home. Can they continue to afford that home over the next two or three years? That's why, as a counselor, I always ask them to bring in your closing papers so that I can see the type of loan that you signed for, because we know they don't know what they signed. So we want to -- we need to look at those things.

So as we're looking at this, and for those who cannot save their home, we need to look at an exit strategy to help them rebuild, so that maybe one day, they do want to own a home again, and they can. They will have that option.

So one of the things I was going to talk about is developing a plan to liquidate the property, establishing an after budget, and establishing a move-in plan.

Of course, the liquidation options, preforeclosure sale, short sale, deed in lieu, and maybe a possible reverse mortgage if it's age appropriate.

Preforeclosure sale, short sale, deed in lieu, the requirements that the servicers would want for these properties, so maybe when they're coming in the door and they don't have the ability to pay, we kind of get them connected with the realtor, go ahead and get the house on the market. Yes, you may be able to save it, but in the meantime, if there is an event that you can't, at least they've done the steps necessary to get them started on the short sale or deed in lieu process. So just maybe keep those options open on when you're trying to liquidate the property, what's required. I'm finding that the lenders are working with me on ones that we do have in this situation. And some of them are even kind of waiving the requirement for the 90 days being listed. If they saw that the person had the house on the market, they tried to sell and for whatever reason could not keep their home.

When you're sitting down and talking with our consumers what can they afford, what are they eligible for. Utilities. A lot of times they've had troubles with utilities. They move somewhere else, they're not going to have utilities. We need to start talking about these things and looking at these things. These are basic necessities. These are things making people sick, ill, they're losing their jobs because their health is failing because they're worried about a home that's probably been in their family and they're getting ready to lose. So we try to help them meet basic requirements.

Establishing a move-in plan. They need to say, now, how much do you have, what are you working with, do you have the funds to even come up with your deposit, the first month's rental. Do you have the funds to transfer your utilities. A lot of times utilities bills are so high they can't even transfer them. Do you have the ability to move? Because you don't want consumers sitting there waiting for the sheriff's sale, waiting for them to knock on the door to put them out. You cannot save all these homes, but if we can at least show them a way that you can, one, breathe again, and you can breathe again, because it is devastating when people lose their homes.

I keep hitting that. I'm sorry.

Rebuilding their credit after foreclosure. What I do is have them come in. Let's go ahead and look at your credit, see what's going on, because you've probably done that anyway when you were doing your modification. You have that information anyway. Go ahead

and look at that and see what things need to happen in order for them to start rebuilding, start a -- even if they can't do it now. I don't care. I don't care if you can't do it right now. At least you know, you know what, these are the things that I need to do to get back on track.

Create a workable plan -- I messed this up. Excuse me.

Okay. Establishing secure lines of credit with local banks and credit unions. Get them back to the basics. We have to go back to the basics right now, because there's going to be times they can't get credit from anybody. No one's going to give them credit. In order to get themselves re-established, they have to do something. Go in, let's start our basic relationships with our banks and credit unions through what I call old school, the way we did in the past.

Consumers should pay down debt, plan for outstanding debt, monitor their credit every six months. There may be other things that were going to pop up that were associated with that home on their credit and they need to know that. Sometimes people don't even know they had liens on the house that were out there, they didn't even realize they had. Hospital medical bills have turned into liens on that property. So these were some of the things that they needed to do as far as to rebuild and re-establish their lives to be able to get credit. Back to the basics.

I did 40 million dollars of loans in the '90s doing FHA and VA financing only. No subprime, strictly FHA. So there is opportunity for people to get into homes even with credit issues. I know it can be done, and it still can be done. That is a loan product that's out there for them to help them re-establish themselves.

Get a mortgage ready. Prepare the consumer for specific financing. FHA will allow you to purchase the home after the deed's been out of your name for three years. With the re-established credit and at least -- they say they don't go by credit score, but at least a credit score of 580 or above. What they normally do is run most of their clients through automatic underwriting, but they do give them the opportunity to be manually underwritten if they are denied through the automatic underwriting.

Make sure the clients -- this is just going off on its own. Make sure the clients are mortgage ready. We do a lot of education, classes, a lot of training, so we want to make sure that while we're doing that, we are getting them mortgage ready, making sure the client knows what their scores is, working with them on guidelines, getting the documentation needed to get that loan approval down the road. Now, note when someone's in a crisis and they're losing their mortgage, they're not thinking this way, but once they get to the point where they either save their home and they know they need to do something or they've lost their home and they're starting over, so we want to work with them on some of these exit strategies.

FHA has 203(k) program, which to me, I feel will come back. That's a program that's going to come back because you're going to have a lot of properties out there that have been vacant, that need rehabbing, and this will give them the opportunity to get back into a home. I had a lady that came into my office, her family lost their home about four to five years ago. It came on the market, she had an opportunity to go and purchase the house that was in her family and do a rehab on it. Now that house is back in their family. So there are options out there for people. We just want to be able to let them know what those options are and that it is not the end of the world if you do lose your home. Everyone's talking about save, save, save, but no one's talking about how to help them from that point.

Let's help them avoid pitfalls of borrowing. They know they need to shop around.

We need to teach them to understand the long-terms. Okay, you didn't read the paperwork the first time around. Let's make sure second time around you're understanding this process. We need to teach this in our training and education classes, whether it is at our churches, whether you're doing counseling, whatever you may be. We need to teach this information to people and always have it available for them. Churches is a wonderful avenue, even if you just have pamphlets out in the vestibule for them.

Understanding their total loan package. Know what they're getting into, because most of you know, most of them that had ARMs didn't know they had ARMs, and if they did, they didn't understand them, how they were working, when they were changing, when the payment would go up.

So we want them to understand this language and move forward, because what we're seeing now is we're working out relationships with different rental agencies in our area. Hey, what are your rules, so when people come into my office, they know that, okay, this space you cannot rent because of the foreclosure, but there are some nice apartments that are available that you can rent, and these are their guidelines. So you may want to add that to your Rolodex file, here is a couple places that will rent to you if you had a foreclosure on your record, they're willing to help you. Here's utility places that can help you. Have those resources available for them so as they're looking at an exit strategy and what they need to do to recover from this foreclosure, they know that it is not hopeless. Because that's what we're seeing now, is not getting any better. We know this.

So we want people to know that there is light at the end of this tunnel and there are steps that you may have to take. One is to start saving. You have to realize, a person who hasn't made a mortgage payment, six, seven, eight, nine months, even if they have the income and ability to pay, they haven't been paying their bills. So they need to get back on track of just paying a monthly payment every month. Someone who hasn't paid a mortgage payment in 10 months, it is hard for them to pay a payment every month, because they've been spending their money. They haven't been managing the money they have. And that's what we're finding. Even when we're working out these modifications, unless you're monitoring that client monthly, a lot of them are not making payments. So then they're back, they've given up those funds you had available for them, and their funds, to get the loan back on track, and they're not making the payments, only because of lack of money management.

So these are things that I feel we really do need to get back to, just the basic of money management, teaching that consumer that there is hope at the end of that tunnel. Even if you do lose your job, here are some options. I just want people to start looking at options that are available for people who have lost their homes.

Thank you.

(Applauding.)

ROSALYN CRAIN: Hello. My name is Rosalyn Crain, as they mentioned. First I would just like to thank the Kirwan Institute and The Ohio State University, everyone who has been involved in putting this meeting together. It has been a very informative day and I look forward to tomorrow.

As he mentioned, I'm with CFED, or as mentioned in my bio, CFED, the Corporation for Enterprise Development. We're a national nonprofit in Washington, D.C. that converges research, practice, and public policy in pursuit of asset building opportunities for low-income families. I'm a legislative manager there, so I'll be speaking to credit solutions from an asset policy perspective on a national level.

For my presentation today, I will start by briefly discussing the wealth gap or the lay of the land, if you will. Then I will quickly highlight some of the existing tools that expand access to credit and collateral for families. And finally, I'm going to talk about some promising proposals that are out there legislatively that will help create new opportunities for families.

Many of the speakers have already articulated a compelling case for how we've gotten into this situation, from predatory lending, to lack of regulation and oversight, to overdependence upon the equity in their home. We see there is a continuum of causes to this crisis, but I think we must acknowledge that there was a wealth gap that existed prior to this crisis. And this economic downturn is probably only going to exacerbate that. Not probably. It is.

So first I'd like to bring your attention to some of the data that CFED finds in its 2007-2008 asset and opportunity score card. Just to give you some background, the score card is basically a state-by-state report card of asset policies. And I have some materials here in the corner, my left, your right, that when you get a chance, if you could pick it up. I have the Ohio state page so you will see how the state of Ohio is graded.

And it looks at 12 core policies, from housing trust funds, to spending on education, to a host of policies that really, if you will, magnify the asset strength of that state or its weakness.

So using Ohio as an example -- and let me preface by saying that this is data that was available prior to our 2007-2008 report. As I mentioned earlier, clearly, with the economic downturn, some of these numbers might be different and unfortunately might be worse.

So we see for the state of Ohio, there is 16.4 percent of households that have zero or negative net worth. 18 percent of homeowners have subprime loans. 63 percent of Ohioans have interest-bearing beings. And 30.6 percent have noninterest-bearing accounts, which are good indicators of how many citizens are banked.

Looking at the wealth gap, you see that home ownership rate for whites in Ohio is around 74.8 percent and 36 percent for minorities. That's quite a large gap in comparing that with the national home ownership rate. The median net worth of whites in Ohio is around \$86,000, and for minorities, it is around \$25,000. In terms of asset poverty, 19.6 percent of white Ohioans are asset poor, whereas nearly twice as many minorities are asset poor. And I think one of the speakers earlier said income helps keep you afloat, but assets help you get ahead. So I think that's very significant in terms of how far we have to go in terms of closing the wealth gap.

Now, let's very quickly look at the national scope. Nationally, 49 percent of African-Americans own their home. There is a 48 percent home ownership rate for Hispanics. You can compare this with the 73 percent home ownership rate for whites.

Home equity represents at the median 40 percent of the net worth for white families, and for African-American homeowners and Hispanic families, it represents 57 percent and 71 percent respectively. So you see there is a great dependence upon the home as an asset for minority families.

And then finally, it's been said in the press and many other presentations around the country that this foreclosure crisis will result in the greatest loss of wealth for African-Americans in modern history. I've heard since the great depression, and I've heard since reconstruction. But I think the bottom line is that it's very significant in terms of historically the loss of wealth for African-Americans in this country.

So next I would like to look at some -- look into some existing tools and really high light what's out there in terms of what is available to families to rebuild, if you will, or even just to build wealth. And before I do that, I would like to kind of point out and say this one thing, that I think one of the things we need to be very attentive to in the current environment is a growing sentiment, a negative sentiment towards home ownership for low-income families. As we've heard earlier today, there has been lots of blame going around. One of the things from advocate's perspective that I think we need to be very careful is to not -- is to really try to not change the message but make sure that our voices are heard in terms of the importance of home ownership as an opportunity for low-income families. Especially now as federal policy makers are seeking solutions, I think it's a very opportune time to get in there and let our voices be heard among the diversity of voices that are really trying to have influence on Capitol Hill.

And then of course we know that home ownership is not for everyone at every point in their lives. For some, it may not ever be right for them. But it is also important that every family deserves and has a right to develop wealth and build assets. And so I think it's important that in addition to home ownership, that we advocate for other asset building and wealth building opportunities.

Okay. So looking at some of the existing tools, the first is individual development accounts. And as many of you may know, IDAs are matched savings accounts that

enable low-income American families to save, build assets, and enter the financial mainstream. There are approximately 1,100 project sites delivering the IDAs around the nation, so the popularity of IDAs is growing. There is pending legislation that would really expand this and bring it to scale nationally that I'm going to mention later on in my presentation.

IDAs incentivize families to save by matching their monthly savings, similar to an employer match for 401(k)s. One of the most common uses for IDAs is first time home ownership; however, IDAs can also be used for small business purposes and for education.

To offer a snapshot of what type of home loans IDA participants are entering into, earlier this year, CFED informally surveyed 27 individual development account programs across the country about the state of homeowners who had purchased homes in the previous five years. What we found is that of the over 1,200 IDA savers who purchased a home in the past five years, we estimated that a majority, perhaps as high as 85 percent overall, but 97 percent or more in two-thirds of the programs were able to get conventional fixed-rate mortgages, which is very important in terms of the problems we're seeing with the adjustable rate mortgages right now. And, of course, it is important in terms of making sure that we put low-income families into sustainable home ownership opportunities.

More IDA programs often coupled the match incentive with case management and other type of financial literacy education, which is very important in terms of combating predatory lending.

In addition to IDAs, there is also an array of federal resources that are available. Mary mentioned FHA. There are a host. I actually have a handout available here on the table, as well, that is basically an exhaustive list of federal resources that are available that provide down payment assistance or some other type of assistance to help families get into home ownership in a safe, nonpredatory, viable way. So at HUD, you have CDBG and HOME. Of course, USDA there are programs, HHS, all the way down to the federal home loan bank, AHP program. So there's a host of programs. You can look at them more in detail at the -- in the handout.

So now I would like to focus the remainder of my time on some promising ideas,

many of which are current legislative proposals that will expand the ability of families to build credit and acquire collateral for home ownership. So there is a growing -- and Jim mentioned this earlier, but there is a growing movement toward utility scoring that could have transformative effects upon low-income households. There are approximately 35 to 54 million Americans who are unscorable. And these are primarily low-income immigrant families in ethnic minorities. And the idea is that from enacting this alternative data scoring, that you would literally move throngs, millions, if you will, of low-income families into the financial mainstream.

One organization that has really been in the forefront of this has been the political and economic research council out of North Carolina. They've researched this. And in their findings, they find that basically -- because there has been some contention, but one of the things they find that having the data -- having alternative data added to the traditional credit scoring always results in a better credit score for the consumer. They also found that average scores for all groups, regardless of their income tier or ethnicity, increase over time as a result of having alternative data reported. This is the case both in their static analysis, and their reports are give credit where credit is due, and you score, you win. So if you like to kind of look this up later, you know where to find that. And they also find this in a dynamic analysis that looks at one, three, and five years period of time.

Finally, their research has found when new borrowers who have a good credit history acquire a good credit score from the new data being reported, that they don't go out and get new credit or open new credit accounts, that they actually wait and that they usually only open new accounts three to five years later, and they exhibit credit stability over time. So there has been some concern that by including this new data, that people would be bombarded with predatory offers from credit card companies and other type of financial institutions, and that hasn't happened.

They also saw a particularly large lift in the credit scores of Latinos and blacks. And in one presentation by PERC, they cited that nearly 40 percent of the black participants that were unscorable had scores above 620 when the energy or telecom data was added. So many people said, well, what if it hurts you, you know, if people don't pay their utility bills on time? Well, A lot of utility companies already report late payment. They just don't report the timely payments that are made by most people every month. So as I mentioned, it usually ends up being a better situation than negative.

CFED thinks this is a promising concept. There is a lot more to explore in terms of alternative data being reported for credit, but we think it's promising and we hope to see some legislation of a national level come about soon.

And then next, in terms of collateral, I'd like to talk about three legislative proposals that would create other asset opportunities for low-income families that would help them get into home ownership but would also provide other asset tools, if you will, that families can turn to when they have later-in-life costs, such as medical emergencies, retirement, or postsecondary education.

And to give you a little background on CFED's legislative framework, we view asset building policies through these four prongs, building infrastructure, creating incentives, responding to barriers, and wealth preservation. So, of course, with building infrastructure, we're referring to policies that promote or somehow induce -- sorry. With building infrastructure, we refer to policies that create mechanisms or systems of asset building for families. So the IDAs would qualify for that. That is a new infrastructure that has created a conduit for asset building policy.

With incentives, we refer to policies that promote or somehow induce savings on behalf of consumers or financial institutions. With responding to barriers, of course, we refer to policies that in essence address the inequities or disincentives to asset building that are out there in the current federal law. And this can be seen currently in the public benefits programs like SNAP, which is the food stamp program, and TANF, where there's assets limits that really discourage families from moving up the ladder because their benefits will be decreased or cut.

Of course, with wealth preservation, we refer to policies that help protect a families assets over time and keep them sustainable.

So in terms of the foreclosure crisis and the government's response, I think throughout today and tomorrow, we would have discussed a number of ideas and policies that fall under all four of those -- that four-prong parameter. And given the complexity of the crisis, I think it's clear that a combination of all of these policies will be necessary. And the panel prior to our panel definitely stressed comprehensive response. So I think that those four -- those four prongs definitely cover that ground.

So in interest of time, I would like to focus on these three pieces of legislation really quickly. The first proposal is the Savings for Working Families Act of 2007, which would create a financial institution -- which would create a financial incentive for financial institutions who invest in IDA programs. Institutions are reimbursed for their dollar-for-dollar match in the IDA account up to \$500 a year, and the investment -- the initial savings can be up to \$2,000. Financial institutions also receive an additional \$50 credit per year for four years to maintain the accounts, to cover the costs of just holding the account at their institution. This legislation represents a \$1.35 billion investment, over 10 years into asset building for low-income families, which sounds like a lot of money but it's actually a drop in the bucket in terms of how much nationally we invest in asset building. But that investment primarily benefits middle and upper middle income families. So this is literally a start in terms of creating that equality in terms of the asset building investment across the country.

The legislation would give \$20 million to non-profit organizations to fund financial education, which is vitally important right now. And it's a bipartisan bill, bicameral, and it has over 120 cosponsors. It is the most supported asset building legislation in Congress currently. Of course, with everything that's happening right now, we don't -- it's not going to pass this year, but we definitely think that it is a promising bill, and with this level of support, it's something -- and the current environment, if enough people go out and speak up about it, it will definitely pass next year.

The next bill is the Saver's Bonus Act, which is a fairly new bill. It was introduced in July by Senator Menendez out of New Jersey. Basically what this would do is expand upon -- in 2007, there was a win by tons of advocates where the Form 8888 was created in the IRS where people could split their tax refund into up to three accounts. This would expand upon that by giving families the opportunity to invest in a number of saving products, including IRAs and 401(k)s and several education accounts and savings funds. And it further incentivizes families to save -- or tax filers, rather, to save by providing up to a \$500 match annually for individuals who qualify up to 120 percent of the earned income tax eligibility. And that really allows low-income families, in particular, very low-income tax filers, to build meaningful savings that they really can't use for saving for their child's college education, saving for retirement, or meeting other emergency needs. As we've heard today, people fall behind in their mortgages for a

variety of reasons, including medical emergencies and things like that. So we think having these options available is vitally important to helping families meet those needs.

Finally, you have the Retirement Savings for Working Families Act, which would expand the saver's credit to additional middle income families by increasing the eligibility levels to \$30,000 -- it is currently around 23 or 26 thousand dollars for single filers -- and up to of 60,000 for joint filers. It will cover more people. It will require their credit to be deposited directly into the retirement account as a matching contribution from the IRS. People really will see the benefit of it. It establishes a flat 50-percent match, so that all tax filers receive equitable treatment under the bill.

So in closing, I'm sure some of you may be thinking, well, what do these retirement accounts have to do with credit solutions and creating solutions for people who have been foreclosed upon? Well, the wealth gap exists partially due to a lack of retirement accounts among low income and minority family -- minority families. And additionally, retirement accounts are how most people build wealth in this country, outside of their home. As I mentioned earlier, people of color have greater dependence upon their home as an asset, and we also heard earlier how a large number of these foreclosures are because of refinancings. And that, a lot of times, is due to legitimate reasons. People have emergencies, and when they don't have other assets available to them to tap into, they have to tap into their home.

So we think the Saver's Bonus Act and Retirement Savings for Working Families are just two tools that are available that, if enacted, could help promote asset building, wealth opportunities, and expansive asset building and wealth opportunity for low-income families. In terms of other opportunities, next year, during the 111th Congress, there is supposedly going to be a big tax bill that's going to drop. They've been talking about it for a while. We think that's another great opportunity to make sure that the voices of low-income families and people of color are heard. It's pretty -- there's a pretty good chance that the bill is going to be dropped. And so I think in terms of advocates, it's very important to make sure we're on the ground early of getting our voices heard.

And I know there may be some concerned about the feasibility of some of these policies. Particularly in this current environment, there is a lot of people that may be becoming gun-shy about home ownership, but I think you can kind of turn the crisis around and say a lot of the things that we're seeing now are just basically a -- they're more so -- instead of an example of why low-income people should not have home ownership, it's more of an example of why low-income families should have access to a continuum of asset policies, from home ownership to other asset building and wealth building tools.

As I mentioned earlier, there are a variety of causes of the foreclosure crisis, but one of the ways we can continue to serve communities of color and particularly low-income communities is to ensure that every family have a variety of tools available to them from home ownership and to make sure they can sustain that home ownership, and to meet other life needs, such as education, healthcare and retirement. I think we will continue to see those connections being made. This is bigger than just the home. It is literally people's lives. Thank you.

(Applauding.)

ROSALYN CRAIN: And there is my contact information if you have any questions or after the event if you would like to contact me.

HIRAM JOSE IRIZARRY OSORIO: Thanks David, Mary, and Rosalyn. We have about 10 minutes for Q and A. Any questions from the audience for any of our panelists?

DAVID ROTHSTEIN: We were that good.

HIRAM JOSE IRIZARRY OSORIO: Don't be shy.

I will start. I'm going to present a general question. I did the same thing with the other panel. And I'm asking -- I would like you to step back from your presentation, from your work, from your research, and try to incorporate in your thoughts regarding this crisis the -- all of the presentations that you have heard today, in addition to what your co-panelists, and if you would want or like to underscore one or two crucial interventions beyond the ones that you already underscored in your presentations, which would that be? Anybody can start.

ROSALYN CRAIN: And I don't know if this qualifies as an intervention, if you will, but I guess strengthening kind of the broader scope, so I'll say this in two pieces. One is regulation and oversight. I think that's been echoed throughout the day, and I can't stress that enough in terms of a lot of this is because of the lack of oversight and regulation. And then, too, as someone who has a housing policy background prior to coming to CFED, I can't stress enough the availability of affordable homes and just affordable housing in general. I think nobody's really talking about the environment prior to the crisis, and that is affordable housing is just purely nonexistent in this country, except in a few parts of the country.

And so I think bolstering the federal commitment to affordable housing, both rental and home ownership, is what I think one of the big take aways and that I would like to stress in terms of moving forward, is to not forget that. I mean, it's -- there's been a disinvestment in that, and attempted disinvestment in a great way over the past seven and a half years. Every year that the national budget has dropped, the president's budget for HUD, critical programs that creates affordable housing in the country are slated for decreases, and so I think we have a fight on our hands to keep those programs alive and sustainable.

DAVID ROTHSTEIN: Yeah, that's a -- I'm going to agree with both things Rosalyn said. I think the other thing that sort of strikes me after today, and actually on my drive down here, I was with somebody else from Cleveland who was doing a panel, and he's an attorney. And I think the -- one of the biggest problems throughout this entire process and through the postforeclosure phase, if you will, is that the legal system really isn't on the side of the consumer, the borrower however you -- the client, however you want to term it. And I think that there is a huge need to reform some of the legislation that's out there federally and at the state level so that the protections are there, but also when we're doing workouts and we're doing these -- some of the new housing things that we're -- that a lot of the people in this room are -- at this conference are doing, I think we need to tap into pro bono lawyers or, you know, even having community centers who do workouts, have lawyers on hand, because oftentimes we're now seeing people sign away their rights to sue when they do a workout for different things. That very much concerns me, especially with the rate at which workouts are now coming to be. I saw somebody -- a case document for somebody in Lorain and she signed away her rights when she did a workout and her house was falsely appraised and she could have gotten a little bit of compensation for that. So there is just -- the legal system in this whole thing is am so very scary to me.

MARY CRAWFORD: I brought some brochures, one on home economics that's put out by HUD, that you probably can get from HUD to use as a resource in your area, as well as just a basic foreclosure brochure. But I think we have to go back to the basis that owning a home is the American dream, but losing it is very devastating. So we have to teach

financialness and we have to constantly be teaching financial literacy. And as part of your financial literacy education program, include predatory lending, foreclosure prevention. Because a lot of times, we did in the '90s, we pushed home ownership. We pushed home ownership, home ownership, the American dream. We pushed it on people.

Once

they did get in that home, we didn't quite teach them the ability to keep that home.

Moving forward, we know what we need to do, so we want to make sure we are teaching that basic money management savings, because if you lose your job today, how many people do we know are one paycheck of work from being homeless? If you did not get your check on Friday, where would you be? So that's what we have to teach to our consumers, that at any point, any of us could be in this situation. So we need to have that savings and finances to fall back on.

HIRAM JOSE IRIZARRY OSORIO: Comments? Questions from the audience?

>>: I have a comment. First I would like to second what Rosalyn was saying about affordable housing, and add a point. In where we are now, in this era that we're so avidly discussing, it isn't only low-income home owners that are having a problem hanging on. And I don't -- and there have been speakers who have spoken to the question of issues that middle class families and middle class homeowners are dealing with. I don't want it to escape us that in many cases in these hyper inflated markets, which are going to quell some, but will revitalize themselves once we're past all, this the middle income homeowners are having a dickens of a time hanging on, almost to the same extent that low income homeowners are. And affordable housing at some point, we're going to -- in the affordable housing conversation at some point, we're going to have to inject that middle income homeowners fall under the same kinds of consideration. And the middle income level's getting higher and higher in terms of who can actually hang on to their homes.

The second point I want to make in all of this is I am firmly in the mix and understand fully that this is a conference about subprime lending and the homeowner foreclosure crisis. Another thing I don't want to escape us is that people of color in this country have had a hard time getting loans of any ilk, prime, subprime, under prime, overprime, whatever the nomenclature is that we put to it. And it isn't just homeowner loans. When we talk about wealth building, we've also got to talk about entrepreneurship and the capacity of people to wealth build under the rubric of entrepreneurship and pull yourself up by your bootstraps. And who is the guy that's the euphemism? You all know who I'm talking about.

In most cases, we have a hard time getting any kind of loan. I'm just repeating myself. And if we are really talking about wealth building, then at some point, in concert with this conversation that we're having about the subprime mortgage crisis, we need to also be talking about the incapacity of people of color to get loans to build businesses through which they can employ more people and otherwise help contribute to the economy in that way, as well.

So I'm not complaining about this at all. I'm just saying --

MARY CRAWFORD: Excellent point.

>>: -- there is some other credit stuff, too.

MARY CRAWFORD: You're right. Excellent point has been said. When my parents bought their home, they were not allowed to get a 30-year mortgage. They told my mother she had get a 10-year mortgage in order to get that home, not knowing that they did them a favor, because they were able to pay their homes off in 10 years. But that hasn't been that long ago. I audit loans from banks that went under, and it hasn't been that long ago. Yes, we are happy to be able to get that credit and buy those homes, but with the

education, not only -- as you said, not only on low income, but everyone across the board, just to educate them on what you're getting into and what you're signing your name to.

ROSALYN CRAIN: And I'd also like to echo your comments about entrepreneurship. I didn't talk about it today because the focus has been on home ownership.

>>: Horatio Alger. That's who I was thinking of.

ROSALYN CRAIN: Oh, okay.

But that's one of our core issues that we promote, is entrepreneurship. We really see it as something that's an important piece of closing in that wealth gap between people of color and whites. And just looking at it historically. That has been something that traditionally, African-Americans and then immigrant communities have relied upon to get a piece of the pie, if you will. They would no other choice but to focus on entrepreneurship to kind of get a -- you know, get their foot in the door. I definitely agree with you.

>>: But when you're talking about systemic discrimination, what you said about your parents is a prime example, because your parents had a good deal and they paid off their house in 10 years, that's true, but they could have afforded a better house, more expensive house, if they would have gotten a 30-year mortgage. And that was going to keep your parents and the neighborhood where that bank wanted them to be, not where your parents might have wanted to be, if they would have been told they could have gotten a 30-year because they could have afforded a better house.

>>: Probably 10 years before your parents got that mortgage, they couldn't get any mortgage.

MARY CRAWFORD: Nothing. That's the point.

>>: So that was a huge leap.

MARY CRAWFORD: Because it wasn't listed with a realtor. She went to the lady's home when someone died and asked her, what are you going to do with that house. It wasn't like they put a for sale sign in the yard and said, come and buy the home. So it was the wheeling and deal that you had to do behind the doors to even get into home ownership when you were African-American in those times. But it did -- I mean, they still were able to build wealth. They bought more homes. They still had the ability to build.

But you know what? They saved and they planned for the future. We don't see a lot of that now. We don't see that now. We don't see savings now. When people are coming in for loan modification, you ask them to bring in their bank statements, they don't have any money. Nothing. They have nothing. Most of them have even tapped into their retirement already. So that's what's scary about all of this, is they're not having anything to fall back on in these situations. Even when we modify their loan, they still may have used all their retirement to do that, or they've already tapped into their retirement so many times they can't go into it again, they have nothing to fall back on.

ROSALYN CRAIN: And that's why I think this legislation and these policies that are out there that promote savings, really is returning people back to the basics, like you described. I think our culture has been so credit dependent that people have really forgotten about the power of having savings. So I think that's why we think this is so important to have these tools available to people and to incentivize people to save. And from some of the demonstrations that CFED has engaged in, they found that once people started to save, they really became empowered. It didn't make them irresponsible in terms of financial management. It did the opposite. It made them more responsible and more conscious of how they spend their money and how they invested their money. So I totally

agree with you in terms of savings and getting back to the basics.

MARY CRAWFORD: Because in order for us to be able to purchase homes in the next five years, they're going to have to have their credit in order, period. They can't do anything without their credit being in order now. Can't get insurance, can't get a job, can't get anything without your credit being in order. So we have to get them back focused on rebuilding and getting your credit back in order so you do have the ability to go and purchase a loan, or like they said this morning, we'll be back where we were if that credit is not in order. We will be back where we were.

I started my career at the First National Bank of Vicksburg. If anybody knows, they were one of the banks with the community reinvestment act. I changed the rates of applications back then in 1984 just to get loans approved for African-Americans in Vicksburg, Mississippi. I know how they treat lending. As underwriting, I know what they look at behind the doors, what the rates is. They do look at it. Let's be clear about it. Before we get back to that stage, let's be able to say, hey, this person's good to go so if there is a reason they're denied for a loan, it better be a good reason.

>>: From you Vicksburg?

MARY CRAWFORD: No. I married into it.

>>: I was born out of it.

HIRAM JOSE IRIZARRY OSORIO: Any other comments, follow up, questions, reactions?

I want to thank the panelists and you for being here. And I want to make two announcements. The first one, we have a reception at 5:30. It is upstairs in the room Union AB. And we're going to have refreshments, appetizers and jazz music from 5:30 to 8:00 approximately. Tomorrow, the conference starts are around 9:00 a.m. with the breakfast and the first plenary session is at 10:10 in the morning. Hope to see you at the reception and tomorrow morning. Thank you.

(Applauding.)

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