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Panel 6 - Evaluating State and Federal Responses.

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MR. THOMAS: Hello, everyone. Things are slowing down a little bit. There's a big cookie crash outside. Hopefully a few more folks will join us. It is 4:20. I'm thinking about an hour for this panel, after which there is a reception, to which, of course, you are all invited. This panel is called evaluating state and federal responses, but Austin tells me he will evaluate local and state; and Mark will take the federal side. Let me tell you who these folks are, in brief.

Austin King, to my left, is the national director of the Acorn Financial Justice Center, the policy and campaign for which members fight against foreclosures, predatory lending, refund anticipation loans, Payday loans, and other economic rip-offs -- which is a technical term.

MR. McDERMOTT: Which means vote yes on Issue 5.

MR. THOMAS: He served two terms on Madison, Wisconsin city council, including a term as council president -- the youngest in city history -- where he authored numerous pieces of legislation to attack economic inequality. Mark McDermott -- and we will only have two presenters, not only, two fabulous presenters. For two you get the riches of three in these two people right here. Mark is vice president of the central region and homeownership programs director for Enterprise Community Partners. He oversees the Cleveland, Columbus, Dallas and St. Louis offices' work to address community needs. He also coordinates support of affordable homeownership programs nationally. And I believe he will start us off.

MR. McDERMOTT: Let's see, there's only two of us, and there's about half as many people in the room as there were before. We should take a vote. I say Austin should speak twice as long as me. Everybody can agree with that. All right, good. Thank you.

I'm going to talk about -- really, about some recent federal responses to the foreclosure crisis, mostly around the problem of the plague of vacant properties in our communities, our low income, moderate income communities and communities of color. What the feds have recently moved to do, and what they're kind of talking about doing behind the scenes a little bit in some areas, and what they're not doing. I like this one, I made this up myself on the front page here. I'm going to experiment. If I hit this button, it will go forward. I'm going to skip the slides about who Enterprise is and what we do. We do work across the county, in about 17 cities, and a number of rural areas, Native American reservations, around helping to build preserve, manage affordable housing for those families most in need in our country. A lot of that has been around affordable homeownership. And what we have experienced is that responsible -- I assume everyone in this room knows responsible affordable home ownership, both on the part of the lender, on the part of the consumer, is one of the most successful endeavors in this country. And I could point to Columbus Housing Partnership or Cleveland Housing Network or hundreds, if not thousands, thousands of non-profits around the country that have done affordable

homeownership response that have a default rate, even today, of 2 percent, guaranteed. So screw the people who were saying it's CRA's fault. Screw the people that say it is an advocate's fault. They're full of shit -- excuse me. It can be done, it's done all the time, and they will continue to do it for a long time to come. That's my editorial comment. Excuse my French.

I want to give you a context for what we see as our goals out there. I want to talk about HUD's new neighborhood stabilization program. And I want to talk about a couple other federal programs. I'm not talking about the bail-out bill. Our lunch speaker did a fantastic job talking about that. If you have other questions, I probably won't know the answers to them. You guys have got to help me out, here. Really, you can't leave me hanging high and dry, because I have to set the stage up for Austin anyway.

What a lot of the community development work and affordable housing work in low income communities, communities of color across the country for the past decade, have been around what you might call market recovery strategies; trying to build more market value in targeted neighborhoods through extensive investment, both public and private investment, creating neighborhoods of choice for current residents and new residents who want to come in. Ask any low income person who lives in a majority low income neighborhood whether they would like better city services, higher housing values, more stable neighbors, et cetera. And, of course, they're going to say yes.

Mixed income communities that work for both low-income, moderate income, and we'll take upper income residents, are a deal. It helps the tax base, it helps school systems, et cetera, right? But we're really talking about a model that talks about neighborhoods of choice for current and future residents. There are models that are working, have been working in this way across the country with cities in partnership with banks in partnership with non-profits, et cetera, around the country.

Where investors, both for-profit and non-profit, end price being one of the non-profit ones, has chosen with strong community input and support neighborhoods for this kind of targeting investment. I'm going to touch quickly on Cleveland. I'm going to pick one neighborhood in Cleveland that shows how these elements listed up here, comprehensive plans with community engagement, real estate projects that are helping to turn neighborhoods around, ways of keeping investment and value in neighborhoods, et cetera, and how it's worked in Cleveland. I'm going to move through this quickly, because I want to talk about the federal programs.

This is Cleveland's Buckeye neighborhood, 95 percent African-American neighborhood; one end of it, really low income, the other end of it, fairly mixed income. If you've been on the east side, you'd know it, existing conditions. This is a plan community residents came up with about three years ago; existing conditions. Through a very coordinated approach, with targeted investment on all fronts, have begun implementing the plan to include new housing in one corner of the neighborhood, the redevelopment of a huge, old abandoned hospital site next to it; a new library being built by the library system, because the old one was, you know, full of asbestos, et cetera. And even -- saints be praised -- the school system coordinating, their work -- Cleveland Public School System, coordinating their new investment work with the community. We have a great new superintendent now who is actually doing this. So, in fact, a new school is being built on the same site that a new library is being built on, where new affordable housing is being built, where new, you know, moderate income condos are being built. It's a great system, especially since the after school program of choice for many low income families is the local library. Right? So it's a great approach. It's been working fine.

And all of a sudden, what hits us is, everything we have been talking about for the past year and for earlier today, which is here's the map (indicating), percent loan originations, subprime foreclosures to African-Americans. The dark colors are the concentrations. What happens next? Foreclosures, same areas. What happens next? Vacant properties, same areas. So this strategy of targeted revitalization all of a sudden gets hit on the head and turns into a neighborhood stabilization strategy. How do we stop losing ground? How do we stabilize what's going on in our community? Public funds are being just stressed greatly, we were just talking about the city of Columbus' budget, right, cities across the country getting hit hard. How do we stop the bleeding so that we can help out those low income homeowners who need the help so we can -- let me go to the next slide.

So all of a sudden, what does the strategy become? It becomes keeping residents at home, just like Mark Seifert was talking about in the last session, restoring market confidence so people don't keep leaving, preserving property values, because for every 5 percent drop in property values, foreclosures go up by this much, because people are under water and they start walking away from properties, et cetera. And creating new tools in order to stop this bleeding, land banks, get properties from the banks and the REOs and servicers who hold them, et cetera. Okay? I'm not going to talk about this very much.

So what happens? The fact of the matter is that states and cities -- and if you want to take Ohio as the poster child, states and cities are not able to respond to this problem, absolutely not able to respond to this problem, because the amount of subsidy needed in order to achieve these goals right here (indicating) that we talked about, providing money for foreclosure counseling, money in order to buy the vacant properties coming on board, et cetera, there's no way states and cities can provide that kind of subsidy. And subsidy is what is needed, absolutely what is needed. So what do we get? We get four billion -- although when you take out the money going to neighbor works for homeownership counseling, we get \$3.92 billion for states and cities around the country to buy and rehab and rent or sell vacant foreclosed properties.

So what I wanted to do -- and I didn't have the guts to do -- was to do a chart, which would be the scales of justice up here, which would be 3.92 billion dollars here. Great thing, it's going to make a big difference. And it starts going like this (indicating), because you have seven hundred billion up here for bailing out Wall Street. Let me tell you one other thing -- you get my political persuasion here. The only reason we have this 3.92 billion -- which is going to make some difference, but it is only a start. The only reason we have it is because two weeks before the legislation got adopted, Harrah, the new housing bill, got adopted, Freddie and Fanny were tanking, and the administration needed to get the democrats in Congress to agree to the Fanny and Freddie bail-out. And because the president was going to veto four billion dollars, that was going to help save vacant properties in cities, that was part of the deal.

Anybody here have a degree in public policy or city planning? Here's what they ought to teach in public policy school, which is that it's 30 percent really, really hard work, and 70 percent making friends and luck. We wouldn't have gotten this four billion dollars, because the president would have vetoed it, and we probably wouldn't have the override. We only got it because Fanny and Freddie were going under water. It allows us to do great things, in terms of buying vacant, foreclosed property, great things. And the legislation is brilliant, it really is, because of the breadth of the things you can do with it. I won't go into the specifics. So what happens in terms of making sure this money gets used wisely, because the fact of the matter is that we need a lot more than

3.92 billion dollars in order to save the neighborhoods and the cities that are so negatively impacted across this country. What happens is there's a 15-day comment period, but every state has to have the plan to HUD by December 1st. People really need to be out there making sure they're talking to their cities, counties and states about how the local and state units of government are going to use this money.

Secondly, good news, is that it is requiring all those banks -- here's the sharks, if you were here earlier, all those banks, REO holders and servicers, to sell at a discount, it is between 10 percent and 15 percent on the average, at a minimum, 5 percent. It sets a standard. So for all those holders of REO property, foreclosed property out there, they know in a lot of places they're going to need discount off the appraised value by an average of 10 to 15 percent, which is more than to date. It sets a standard across the county. It requires homebuyer education, and requires that any family that buys a property financed by this servicer has a mortgage that makes sense. You can read it in terms of what it says, in terms of what is safe. It is affordable and has long-term affordability. It guarantees properties developed with this money will remain affordable in the community. It is like a 10- to 15-year period of time. If it is used for tax credit, it will be a 30-year period of time. It's great stuff.

Who is getting money? I don't know if people have seen this yet. But this is a group of cities that Enterprise works in. Columbus, \$22 million for Columbus, here in Ohio, was a good number. They didn't necessarily expect that much, or a lot more. When Cleveland found out they were getting sixty million dollars, one of the epicenters of the foreclosure crisis for four years now, it was absolutely devastated; I mean, unbelievably devastated. Rochester, it's getting zero. It is not a huge center for foreclosure activity, but it has to go to the state to get money.

If you look at states and who's getting money, you can see what happened was, in fact, a lot of this money ended up going to states. The state of Ohio is getting \$116 million. No way was it expecting to get this much money. The day after these were announced, the guy who runs this program at the state, Bill Graves, got more phone calls and e-mails since his return to state government. Everybody is now his best friend. Ohio has to figure out, what's the best way to get this money out soon, in order to impact on vacant foreclosed properties in communities throughout Ohio? The good news is, they can put this money in the entitlement cities, so they can give more to Cleveland, which I'm sure they will do.

Anybody here from Texas? I had to do work in Texas. For them to figure out how to spend 100 million dollars in the next 18 months, there is no way in hell they'll do this. They're not ready to do this type of thing. It's not because they don't have a commitment to do affordable housing in Texas. They will have to find big cities willing to take the money and spend it. Well, this is a summary of the allocation formula, some issues. I'm not going through it. If people were here saying, why the hell are states getting some little -- cities getting so little and states getting so much, it would be interesting. It's really not.

I do want to talk about, at the federal level -- this is not a federal government solution. But there is an entity being formed by four non-profits enterprise list, housing partnership network, and the Neighbor works -- John O'Callaghan referenced it in the last session -- called the national community stabilization trust. The idea is that all of those banks and REO servicers that Mark Seifert throws sharks at, they don't necessarily want to deal with -- or that Acorn deals with -- they don't want to deal with 400 local advocacy groups, rehab groups, cities around the country. So the idea behind

the trust is to set, sort of a national arrangement and a national standard on how those large institutions might actually make properties available throughout the country for renovation and either sale, rental or lease purchase. I would be happy to talk to you about it more. It is also hopefully going to be an entity that will provide finance for acquisition of properties around the country for the same purpose. I'm not going to talk about the -- that was the bail-out bill, which the luncheon speaker did a fantastic job speaking about.

Second to last thing, at the federal level, as you can imagine, there are a number of things going on where they are being forced, through their regular programs, or their regular financing, to deal with this question of vacant, abandoned properties. For example, on the new market tax credit side, if you are not familiar with it, I won't go into details. They are looking at how to use new market credits, doing this in a couple cities, including Columbus, to acquire and renovate vacant foreclosed properties. FHA, as you can imagine, as credit tightens, and as a lot of these scummy mortgage companies are no longer in business or providing loans, a lot of banks are now going FHA, which they weren't doing for a number of years, for affordable homebuyers. That trend has been going up, and the issue is FHA all of a sudden is coming up -- I'm sorry. The FHA inventory of their own foreclosed homes is greatly increasing in Ohio and Michigan they had, last I heard, 14,000 foreclosures in Ohio and Michigan alone. We work with the city of Cleveland -- let me give the background, because this is a good story.

Next week, on the 7th and 8th, the HUD secretary is holding a housing summit. I'm not going to remember his name. He came over from commerce, like two months ago. I don't know what kind of guy he is. He's holding this summit. And he told his FHA property sale folks, he said, I want to be able to announce what we're doing, I want to be able to announce we are responding to the issue of FHA foreclosed properties in the marketplace. I have worked with FHA on the property sales for 18 years. They have been more aggressive about trying to make something work in the past two weeks than anything combined in the past 18 years.

So the deal is this: We -- at a time it's on the table, and we think it will come to some version of this, which is in the city of Cleveland, anything you have valued under \$20,000, you sell to the city for a hundred bucks, they're tearing it down. Anything in these targeted revitalization areas, no matter what the price is, you discount 75 percent. The market is already discounting FHA properties in the city of Cleveland 50 percent, meaning what they're actually selling the property for through the contractor versus what the appraisal comes out at is 50 percent lower. We're saying, instead of 50, 75 percent, and those properties will get rehabbed responsible instead of flipped, et cetera. And anything over 60 days old, sell to us at whatever the offer is that we can put on the table.

So we're hoping they respond positively to this, when something gets announced as a pilot next week, which could be replicated in cities around the country. They have been intrinsic about how they would run the programs CHP had to cancel because the numbers were ridiculous, they were upside-down before they bought the property. The last thing I will talk about -- I'm not going to talk about the other FHA piece.

The last thing I will say is, why the feds and ourselves ought to take this advantage to green everything that gets done, in terms of vacant property. The reality is, we know it costs a bit more. But why should we do it? And this is just making the case. The pilot programs we are involved with in Cleveland -- and a couple cities across the country are doing it. The bottom line is, for low to moderate consumers, it creates a

more affordable house and healthier house. And I should stop there and say it should be federal policy. If you can provide a more affordable and healthier house to the consumer, that's what we ought to do. Secondly, it puts cash back into the low-income consumer's pocket, which means in some way it goes back into economy. Thirdly, the point about we have the land, which means in many cities we're tearing stuff down, so eventually it's going to get rebuilt in some way, and it ought to be done in a way that meets serious green standards.

I'm going to quit there.

MR. KING: My name is Austin King, and I work for Acorn. Does everyone in here know what Acorn is? If you answered the organization that single-handedly caused the crisis we're in, you would have been watching Lou Dobbs, or anything else on cable television.

It's been a strange week for us, to be told we were about to get hundreds of millions of dollars in the bail-out package that we were not aware of, but it certainly sounded like good news, until it got stripped out. And before we knew it, it was in every news story about the bail-out. It has been coupled with this strange and factless attack on the community reinvestment act we've been discussing a lot of today. Ultimately, it has just been so deflating to have these bizarre world debates with people about whether the poor are responsible for the financial crisis and whether mighty, mighty Acorn is the reason that Countrywide made hundreds of thousands of loans they shouldn't have made. As deflating as the last week has been, it's been wonderful to be here, with so many people who have an intellectual grasp of the crisis we're in. I'll start with this slide.

Did anyone see the report that came out this week from the state working group of attorneys general for the state foreclosure prevention working group? It's the third such report they've released. It looks at servicing practices. It relies on voluntary data coming from the mortgage servicers. Last April they released a report we thought was a bombshell that said seven out of ten of people delinquent on their loans who should be on track for loss mitigation and modification were not on track for loss mitigation because of the ineffective servicing practices that the understaffed and overwhelmed servicing companies have. From April to October we've regressed from seven out of ten not being in line to eight out of ten not being in line. The idea that mortgage servicing has caught up to the crisis we face is a myth being perpetrated by the same mortgage servicing industry that created the hope now alliance that trumpeted their one millionth borrower served with a workout. And in the fine print you noted that 770,000 of those million workouts were repayment plans that did nothing to fundamentally alter the structure of the unaffordability of the predatory loans. We have an absolutely broken and anti-economical mortgage servicing system that is not doing its job. They are preferring to take a huge loss on a foreclosure than bite the bullet and admit modification that would save money. It is irrational -- and frankly, it's one of the causes of the crisis snowballing. Every time there's a new there's a new foreclosure, property values are declining. People can't refinance. Equity goes down. We all know this. So there's a completely absent regulatory structure, especially when it comes to mortgage origination. This has been discussed this morning, so I don't need to get into it.

One phenom of the last couple years has been the outrageous abuses of the Bush administration and usurping power of the states. The OCC issued a ruling in 2003 that pre-empted a Georgia statute that stopped predatory practice of financing bogus credit insurance in mortgage origination. Ever since then, the Supreme Court case, *Wachovia*, that undermined the ability of states to regulate the most basic homeowner

protection for any bank that claimed any sort of national scope or federal charter.

There are a lot of things we need to be doing. I will discuss a few of the solutions we've been working on at the state and local level. Despite the press accounts, we don't have a very big presence in Washington D.C. I wish we did. Traditionally, we haven't had a big presence in state capitals. We're a block-by-block organization. We have 400,000 members, 1,000 chapters in 100 cities. We've been more of a zip code-based organization rather than area code. That has been changing, as we've done a lot of intakes. On the service side of things, building larger membership bases that transcend metropolitan areas. I have been overseeing that process. We've gone from five state legislative directors to almost 20 now, which is a huge expansion for Acorn.

We been working on a lot in different states, and I would like to share with you some things we've been learning. The first thing we came out with before we began to understand the technicalities of the servicing world and its strange machinations, we said we should stop foreclosures. It is a moral demand, and it is one that got translated into bill, one year moratorium on home foreclosures, residential property owner-occupied which passed the state assembly 118 to 10, it was the leverage we used to get a fairly strong predatory lending bill signed by Senator Patterson. We pushed for moratoriums on the local level. The really miraculous effort underway in Philadelphia, which has been the nation's success. We cut foreclosures in half in Philadelphia. There's a huge need for massive counseling intervention and outreach. Acorn does a lot outreach, and we have a few state contracts to do that. We also have a non-profit sister corporation Acorn housing, in Chicago with offices in 40 cities, we were the first in the that went to housing counsel, we are completely overwhelmed, and so is everybody else. There's not enough money going to housing counseling on the origination side of things, certainly, there's not enough money going to housing counseling now when so many borrowers are in trouble and they're paying \$1,000 to \$2,000 to for profit vultures that don't help get modification.

We have to talk about mortgage services that basically exist in a regulatory vacuum. That are a handful of states that license servicers, usually under the rubric of a lender licensing system, hardly any of them have regulations beyond good faith and fair dealing. But there's no requirement in any state that mortgage servicers actually do the job they're supposed to do on paper under the contracts with the pooling and servicing agreements, which is to make an economic analysis called loss mitigation of whether foreclosure represents a bigger loss than modification. We know they're not doing their jobs. Part of that is because they have bifurcations in the companies where there's the collection side only authorized to collect payments and create repayment plans. And it is not authorized to underlying terms of the mortgage part of it is the investment community has been rosy, I'd about the housing bubble and think the market will recover and they don't want to leave money on the table. They have pushed back so hard -- we haven't gotten write do you understand except for very few lenders. In Minnesota, this is some low-hanging fruit. There was a table that was brought together by a state legislator with the industry and advocates, as well -- and this is the only thing everybody agreed on -- we can create a mechanism for automatically notifying housing counseling agencies upon 30 days delinquency, with an out-and-out provision that said if the delinquent homeowner, if he chose, could opt out of having notification passed along to a housing counseling agency. But instead of getting involved at the 60 or 90 or 120 day level to involve the housing counseling agency at the earliest stages of delinquency is absolutely the low-hanging fruit. We know from Freddie Mac that half the foreclosures that happened in

2007 happened when the borrowers and lenders never spoke. And housing counseling agencies are a critical go-between to bring the conversations about.

Other policy topics have been discussed in other areas. Tenants are the unheralded victims of the crisis. The professor at the door at OSU talked about the importance of requiring upkeep of properties. This is part of factoring in the loss mitigation when a service is this it's going to be hit with fines for not keeping up properties. The math changes. It is especially true if communities are passing ordinances that have very steep fines, or progressive fines, in which you don't get just fined by the property but by the owner of all the property. So it is thousands of properties, each fine increases, that definitely hits the wallet, and that gets into the calculus they're using, which is flawed, which they should be using a theoretical model, which would encourage fewer foreclosures. We need to regulate state servicers. We don't get data from servicers. This is an effort state attorneys general has been voluntary the number of servicers attached to federally-regulated institutions have absolutely refused to participate, including WAMU, before they got bought out, or transferred to Chase, because OTS told them if you participate with the state AGs, on a voluntary basis, not exchanging policies, even just providing data as to how many modifications you are providing a month, you know, well, we don't want you to do that, is basically what they said. The state attorneys general don't have good data from a number of major servicers out there attached to federally regulated institutions. We also have an issue that's popped up in states, which are vulturing equity scams, in which equity theft is going on. A lot of states if they have taken any action, have taken action on this point, republican governor, several attorneys general have done litigation against those people, but the problem will persist, so long as the foreclosure problem exists. Scumbags that sold the predatory loans in the first place don't have work anymore. It is realtors and mortgage brokers we are seeing participating in these big scams.

In terms of the challenges before us, we have to stop the foreclosure crisis. We have to build a regulatory structure on lending there's a major issue with state based versus federal regulations which I have touched on already. But with regulating the conduct of mortgage brokers, it has to be done at the state level because the federal government doesn't regulate mortgage brokers, they regulate the lending institutions. And that's a big piece of this. In terms of creating a fiduciary duty, that has to be done at the state level by requiring either a fiduciary duty or a very strong language around good faith and fair dealing. In 41 states it is completely legal and very much the case that brokers rip off borrowers constantly. It's not that they're bad people, they are paid for it. Yield spread premiums, which were mentioned, these are kickbacks that lenders pay to brokers putting some in the there are only two states in which yield state premiums have been banned. In Massachusetts, in North Carolina became the first state ever to prescribe yield spread premiums with a bill that got signed. This should be the law in all 51 states. We have a lot of catching up to do. Your basic model predatory lending bill, you want to require verification of the borrower's ability to repay full term. The strongest language includes rebuttable presumption about borrower debt to income ratio. In Minnesota, there's a presumption if a borrower is borrowing more than 25 percent of income toward housing debt, the borrower's ability to pay the debt is not fully considered. That's the rebuttal presumption in Minnesota law. You want to ban negative amortization loan. That regards neglecter had a ban on his desk vetoed it. These are the most toxic loans on the market they are the reason the foreclosure crisis isn't going to stop in 2010 it will go to 2011, 2012. We payment pen generalities are the principle trap by which lenders

keep borrowers in bad loans. They are egregious we setting after two years when the premise of the loan is you can refinance out and find out there's a \$10,000 penalty to do so. It obviously is a bad idea. These are things that should be on any predatory lending bill.

Assignability. This allows you to go up the food chain to the secondary market. In New York state we -- actually the bill Governor Patterson signed this year includes assigning liability and it was followed by a tantrum from Fannie Mae and Freddie Mac in which they were going to pull out of the subprime market. It applies to loans, 3 percent or more above the yield. I think it's a good thing Fannie Mae and Freddie Mac are pulling out of the subprime market in New York for now. Frankly, it shows some real problems about what they know their responsibility has been.

Fannie and Freddie failed us on many levels. They came from a good place once upon a time. Those companies have no soul anymore. And they have been a big part of the problem recently. I want to lay light some of the 51 most important people in the country that hardly ever get talked about, those are our state attorneys general. They have some incredible power. About five or six of them have their powers curtailed by the legislator or state banking executive. And they don't have any real authority. Starting earlier this year, acorn embarked on a project -- because we've been working with several AGs, Laurie Swanson in Minnesota; Martha Coakley, in Massachusetts; Andrew Cuomo in New York, we've been working with really fantastic attorneys general on the front lines, fighting against predatory lenders, fighting against foreclosures. And the question we had been kicking around, why doesn't every AG do this? It is great press. So we set on to have a census of what the AGs are doing. That turned into a report card, we graded all attorney generals. We gave six incompletes. 45 ended up getting a grade as to the reaction they had to the foreclosure crisis, and how robust it was, in terms of litigation and to advocate for solutions. We knew with necessary what kind of services they were providing and overall leadership on a number of fronts. We ended up giving, out of six, A pluses. Tom Miller in Iowa, he was the convener of the state foreclosure working group. Lisa Madigan in Illinois, and Richard Blume, that rounded out the top six. It is through they were all democrats. I did an analysis of the partisan breakdown. There were four democrats that got Fs, and a couple republicans got As and Bs. But the trend was strongly towards democrats being better attorneys general. That's not surprising, given we cross looked at the data another which was to look at quintile of states in terms of what their foreclosure rates were and what the grades of the Attorney General were. There are four states in the top ten that have top ten foreclosure rates that have republican AGs none got an F. And all four that the got an F are in the bottom foreclosure states. When we rank them in how active they are about the crisis, it is hard to blame them for not being attentive to the foreclosure crisis in Vermont, because there's no crisis in Vermont. I think it is interesting to note when republicans are pressed and they have public outcry. I'm thinking of Cox in Michigan has done good things, the Colorado AG's name, he has done a couple good things. They've come to the table they've joined advocates and more importantly they joined colleagues. The state foreclosure prevention working group is a bipartisan effort. But the problem is, right now, they're purely data driven voluntary association. And if they don't step up and engage in a multistate litigation effort on some front and soon, we're going to be losing ability to leverage impact for borrowers.

I want to highlight Cokely's lawsuit in Massachusetts against FREMONT, Inc. It is a lawsuit alleging violation of the state's consumer laws and predatory lending laws.

What she sought instead of traditional relief for the select number of borrowers that she had stories written up for was a broad preliminary injunction against every foreclosure filing that Fremont would seek to undertake in the state of Massachusetts for any loan that had a number bearing a number of characteristics: Whether it was an interest-only loan, if the VTI was more than 40 percent, there were various characteristics of predatory loans Fremont was peddling in Massachusetts. In order to file foreclosure, they had to seek her permission. Fremont has not filed any foreclosures on their large portfolio in Massachusetts after this lawsuit.

UNIDENTIFIED SPEAKER: Have they appealed that at all?

MR. KING: I don't think it's been appealed. I think they're out of capital and can't hire any lawyers. I don't think they want to appeal it. If it went to that state supreme court -- it was a state appeals court that made the ruling. They had a low probability of winning, was the industry's guess. They don't want to get to the higher court where it might be a binding precedent.

Andrew Cuomo in New York has sued Fannie and Freddie and federal loan banks as well as S&P for defrauding everybody. I think everybody knows the ratings agencies were able in this and giving AAA ratings to junk paper. We also know that the GSEs, this was about their accounting practices in particular, appraisals, really. So the GSEs were not requiring arms length appraisals there were lots of problems that were resolved with settlements with Cuomo. The settlements are now in question, in terms of the conservatorship of Fannie and Freddie, Lockheart has said he's not sure he want to abide by the agreement. We have demanded that he does. I don't know if he's paying attention to us. There have been lots of individual suits. I want to talk about strategies at the local level some have been discussed. Affordable housing trust funds can be used if they have been set up by counsels over the years. Now that there is a national housing trust fund I think more cities and states will be moving to create trust funds that can act as recreep table vehicles which may appear in the future. He talked about the upkeep. I want to talk about Philadelphia. They've had a bad foreclosure problem, and they have had bad problems related to the unique industries in the state. In the 80s when the steel mills shut down everybody was unemployed, Philadelphia, Pittsburgh, number of counties across the state saw huge increase insurance foreclosures this was the case nobody to blame it on poor people this was clear steels mills were moving out of Pennsylvania and people were hurting. Philadelphia unemployment project in 1983 or '84 set about trying -- if he manning a local moratorium on sheriff's stale. It is a judicial fore clear state. Non judicial foreclosure states are a problem in terms of leverage to be able to win changes so having a basic overview is often a create call baking point that can help people save their homes. Filled had history here. The law on this dates back to supreme court case from the '30s in the state of Minnesota which en abilitied moratorium on farm foreclosures in the great depression. The case is blaze Del it was ruled in 38 or 39 it attends you can suspends the traditional mechanisms by which lenders take back property they have a hold on with a debt. Fast forward to 2008. There had been a history there was a couple month moratorium in filled in the '80, filled. Acorn was upset about the foreclosures we wanted to make it stop. Hundreds of people were coming to ours offices wondering what we could do for them and normally we try to organize a committee and march on a big company. Big companies were falling. One of our local organizers decided we should go afer the sheriff because. We were ticked off he was the one selling the process and he claimed to be a man of the people. We had a meeting in filled at a church and city council letters come out who was a rookie trying to make a name for himself. The sheriff

didn't show up even though he promised he would. The city council had this resolution they made more fiery in its language demanding the sheriff stop all sales for a time unspecified. It ended up this resolution comes before the counsel. It is a nonbinding resolution I have authored and voted on many in my lifetime and very few made a difference this one did because after it passed the sheriff said I'm suspending sales in April and May. This was the end of March. The sheriff sales were suspended in April and May and we celebrated and the question was what's the soft landing? If we're kicking the can down the street two blocks for two months we are not solving anything. With the help of the local common pleas court, which oversees all foreclosures, we developed with lenders a process by which it was required that lenders show up in court and sit down as a conciliation with borrowers. Borrowers did not have to show up in court, obviously they could lose their homes if they didn't show up. But many showed up. The interesting thing about this is traditionally judicial foreclosure reviews simple fact, are the owner of the property, did the loan if he adult if he inserted an extra level of review which was extra did you additional there's no statutory basis for what we did other than the courts have the discretion to implement programs in the public interest. It hasn't been litigated but lenders have been participating. They've been showing up. So when regularly scheduled foreclosure hearings happen once a month, and -- I think it's once every two weeks. This program started in June was the first month the program was implemented the city spends money on outreach. They had a don't borrow trouble hot line. They paid people to go out and knock on doors of people facing foreclosure in a pilot. So half of the potential homeowners to be helped by the program got a door knock from acorn. The others got a letter in the mail and phone call. 90 percent of the people whose doors we knocked on showed up. About half the people whose doors we didn't knock on showed up. They get separated off into conciliation conferences with a mediator. The lender comes to the table with an offer and said we'll modify to this or we'll modify to that. We have had such power in these here's we've told them to go back and get a better deal. The only standard written into the judge's orders is a standard of reasonableness but the lenders are scared to go back before the judge so 90 percent of the conciliation conferences resulted in loan modification that are sustainable that go to fixed rate. The 10 percent that have it go before the judge. In almost all of the cases it is an absurd case where somebody's over-leveraged to the hilt, has a \$20,000 income and a \$600,000 loan. There are those cases that we cannot save when people say that they usually mean at least half are recap loans and can't be saved. 90 percent of the loans gone to conciliation cases resulted in demodifications. These are not payment plans, these are not recap bonds that result in redefault. Literally with just this one big meeting a lot of organizing going on, one big meeting, one city council resolution, couple friendly judges we cut foreclosures in half. We've been wondering actually, people magazine were interested in the story and the reporter asked why isn't everyone doing this? We said, that's a damned good question. Because we have been wondering, why isn't everyone doing this? I think not everybody knows about it. The New York Times covered the filled miracle story in the Sunday paper. But frankly sheriffs and judges across the country think they're doing a great job and acorn or whoever is pressuring them don't want to listen to us, especially the judges who think when a local acorn sites place Del we get laughed at. There's been a gap between local power and trying to create political pressure and the legal hurdles we are having a hard time getting over in some places. But the reality is all those sort of hurdles and stuff aside the sheriff was against it in filled and came around because we created a political environment. In which the rate of

foreclosures was unacceptable. When we create that environment through organizing, messaging and all the things we've been talking about today and will continue to talk about tomorrow we can top the foreclosure or not. In particular, with these local efforts where people are elected, both the sheriff and judges are elected they're responsible to the constituents, even if they're not responsive, they will ultimately side with the people who elect them rather than the banks who don't. That, I think, is a good reminder of the power of the people and an organization that more people to get more power is one of the great untold stories in terms of local responses to the current crisis and has resulted in a bill in Harrisburg that will require counties to develop similar plans to that implemented in filled. So hopefully the word is spreading and we are going to be able to start fighting back against this epidemic. Thank you.

MR. THOMAS: We have time for a few questions.

UNIDENTIFIED SPEAKER: One quick question for Austin. What has been the average property discount there in filled modifications?

MR. KING: Generally -- in terms of writing down the principle? They're still hesitant to write down the principle. We are usually able to get a write down to the current appraised value. If it's close. In filled the neighborhoods the folks were in were not bubble neighborhoods where there was 80, 90 percent inflation overnight in the housing market. So the problem in filled is the terms on the loans more than false appraisals and people being under water. It hasn't been as big an issue as in empire California or the Las Vegas area. That is a critical question. We do direct protest and negotiations with major lenders and we have agreements with some of them. They are so loath to write down principle because of the investors that are rattling lawsuits I would love to see, for example, in the litigation section that was just discussed, a lot of talk about how do we litigate around ridge nation procedures, I think there are public entities including pension funds to mitigate against servicers in not providing enough modifications. It is really clear to me the Ohio pension fund state employee appear pension fund probably has a bunch of securities that are losing more value because of foreclosures and they would be losing if they were widespread modifications. In terms of multistate litigation, things that I would like to see, I think there are some origination practices but I would like to see the servicers gone after hard. If we don't have the regulatory framework, now maybe the federal government too, we hopefully have standing to argue that not enough loss mitigation is going on. One other piece on this, in terms of principal writes do you understand, the program that was supposed to go live yesterday other than the money for neighbor works the one program Congress created that will actually help people in theory get out of bad loans and prevent foreclosure. It's completely voluntary, the lenders can participate if they want to. The terms are you have to write down the principle to essentially 87 percent of the current appraised value. FHA backs it up 90 percent. When you're talking about property where there's a 10 percent haircut, lenders really loath to take that. The worst part is in terms of us being cut out of the bail-out. It will trample any successful help homeowners had. That's the most galling --

MR. McDERMOTT: What's the logic?

MR. KING: Because of the information, a symmetry between Wall Street and the federal government, we think they're going to be unloading their worst loans on the best term they can get -- I doubt they will be taking 30 to 40 percent on these sales to Paulson, and I don't think Paulson will demand that. Even the 87 percent ratio was a Barney Frank provision. One of the things I would have loved to see in the bail-out -- I

know we're getting into the bail out now and it has been much discussed -- is at least a requirement that whatever assets being unloaded come with a certification that we have the authority, the sole authority to modify the underlying assets. Right now that's not clear at all. Even if Hank Paulson isn't doing the job, we can hope about a May answer treasure are you will you an aggressive job on underlying mortgages. Paulson is not going to be looking to buy mortgages and securities that come with servicing rights. He is buying whatever Wall Street is selling. There are so many problems with the way this has come about. A lot of it comes down to irrational expectations on part of the investment community, refusing to engage in economic irrational behavior by taking a smaller loss than taking a bigger loss. Because nobody to take a loss. At some point you have to do the math. And they are just not doing that right now.

MR. THOMAS: Any more questions? I think we're done. Again, join me in thanking these folks.