S. HRG. 110–237

A LOCAL LOOK AT THE NATIONAL FORECLOSURE CRISIS: CLEVELAND FAMILIES, NEIGHBORHOODS, ECONOMY UNDER SIEGE FROM THE SUBPRIME MORTGAGE FALLOUT

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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WEDNESDAY, JULY 25, 2007

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met at 10:05 a.m. in room SH–216 of the Hart Senate Office Building, the Honorable Charles E. Schumer (Chairman of the Committee) presiding.

Senators present. Sherrod Brown, Amy Klobuchar, and Charles E. Schumer.

Representatives present. Elijah E. Cummings, Phil English, and Carolyn B. Maloney.

Staff members present. Christina Baumgardner, Katie Beirne, Chris Frenze, Nan Gibson, Colleen Healy, Michael Laskawy, Robert Weingart, and Jeff Wrase.

OPENING STATEMENT OF HON. CHARLES E. SCHUMER, CHAIRMAN, A U.S. SENATOR FROM NEW YORK

Chairman Schumer. The hearing will come to order. I want to thank everybody for attending, and I first want to welcome my colleague, Senator Brown from Ohio, because he has been so instrumental in not only moving of this whole issue forward in the Senate, Congress and the country, but also helping us talk about Slavic Village, one of many communities affected by the foreclosure crisis. I want to thank all of my colleagues.

Today, the subprime crisis is in the news everywhere. You read about it in terms of big numbers, big statistics, the effect on the economy and the effect on the stock market.

But it affects people. All those numbers represent people, and we're going to hear about that today. We're going to hear about the effect on one community. First, let's talk about the numbers.

The Center for Responsible Lending estimates as many as 2.4 million families may ultimately lose their homes to the subprime foreclosure crisis. That's at a cost of $164 billion in home equity.

That's money out of the pockets of people who can't afford huge amounts of money, just as CRA has sort of been a magical force almost, forcing money into the inner cities in ways that government couldn't, and it's been such a success. This foreclosure crisis is sucking money out, and it's just a shame.

In June alone, foreclosure tracker Realty Trac counted 165,000 new foreclosure filings, more than double the amount recorded in 2005. From June to October of this year, $100 billion of risky subprime adjustable rate mortgages are scheduled to be reset in a weak housing market, many of which are likely to default.

One in five—this is an astounding statistic, and we see the faces behind it with Ms. Anderson and Mr. Wade here—one in five subprime loans originated in 2005 and 2006 will end in a lost home.

These numbers are not the manifestation of a housing market correction, as the Administration's economists have argued. That's just false. These facts are not merely the byproduct of bad decision-making among a select few over-eager borrowers.

That's false. These shocking figures are a result of widespread systematic irresponsible underwriting practices by too many unscrupulous brokers and lenders that are now threatening the social fabric and economic well-being of our Nation's neighborhoods and towns, and even our national economy.

Worst of all, this subprime foreclosure crisis is just beginning. I wish that weren't so, but you've got to look at the facts. It's hard to imagine that it could get worse from here, but unfortunately it will.

The wave of foreclosures that we have seen to date does not include the vast number of risky "exploding" adjustable rate mortgages that were originated in 2006, because of course in the early days, the interest rate stays flat. It's not until the rate bounces up that you run into the problem, and the rates are going to start bouncing up in 2008 and 2009 in much greater numbers than they did in 2006, or they are in 2007.

Once these loans start resetting this fall and into next year, we can expect to see hundreds of thousands more families lose their homes. When this foreclosure storm subsides, it will have left a net loss of home ownership in its wake.

I called this hearing today for two reasons. First, I fear that the cries for help from millions of real people trapped in bad subprime loans today are getting drowned out by the headlines of investor woes, collapsing hedge funds and lower than expected earnings among lenders.

Again, all these huge numbers have faces of real people attached to them. That's what we're not paying attention to, and it may also lead us in the direction of a solution, since it's estimated that a large number of those who might be in foreclosure in the next 6 months to year and a half, could actually avoid foreclosure by refinancing.

Some have estimated 40 percent of the subprime mortgages on the edge of default could be refinanced with prime mortgages. That's an astounding fact, but it is true, because too many people signed up for interest rates higher than they had to pay because of the unscrupulous mortgage brokers who preyed upon them.

While every city in America is in this together, I chose to focus on the families and neighborhoods of Cleveland, like Slavic Village, that are being decimated by subprime foreclosures. At the importuning of Senator Brown, Slavic Village is a harbinger of the crisis that is unfolding in cities across the Nation, and I hope that by investigating the human toll of unscrupulous lending up close, we can better prepare to prevent more Slavic Villages from emerging in the future.

Second, I'm afraid that we're not learning the lessons of the present. I fear that this problem is beginning all over again right under our noses, with predatory lenders preying on those very families already in danger of losing their homes.

They go back again and they do the same thing again. The victims are innocent; they don't know, and they're sold a bill of goods. This idea that some have, including the Wall Street Journal editorial page, that the people who are buying these loans are so well-schooled in economics, that they can see through the fine print, the nuanced economic terms and the deceptive language of the seller just isn't reality, plain and simple.

When you need $50,000 because of a medical illness, and you can't get it anywhere else, then some guy comes in like magic and says "refinance your home," you're not in the best position.

We're reading headlines that lenders are tightening underwriting guidelines, and that some have even banned certain types of risky loans. Yet the data examined by the Center for Responsible Lending says otherwise.

At a hearing in June that I held on the Housing Subcommittee, CRL testified that many of the most recent offerings of mortgage-backed securities still included harmful prepayment penalties, and stated income or low documentation loans. Eighty percent of the mortgages were still risky, adjustable-rate loans.

The witnesses we have here today are at the epicenter of the subprime storm. The testimony that you will hear will tell a story of fraud, corruption, greed, negligence and heartbreak. Our witnesses will also inform us about an important side of the issue that's rarely discussed, the way foreclosure impacts not only on the families that own homes, but their neighbors.

You could be perfectly up to the date on your mortgage, but if three homes on your block are in foreclosure, it's going to affect your home's value. For instance, we never hear that one foreclosure on your city block can bring down your home's value by 1.5 percent, even if you've never missed a payment on your own mortgage.

In neighborhoods like Slavic Village, where over 1,000 homes are foreclosed and community leaders like Tony Brancatelli and residents like Barbara Anderson, both of whom are here today, are grappling with lost property values, this one little village, one community, $60 million, just think about that.

Sixty million dollars of financial security that the families in this one community were relying on has disappeared. As I said, it's sort of a giant sucking sound out of poor and working class neighborhoods.

Lower property values also mean lower tax revenues for the local government at a time when demands on them are high. County treasurers like Jim Rokakis, here with us today, will have fewer resources for their schools, their local law enforcement, and for important public services.

This is not a problem that's going to go away when the market corrects itself. The subprime mess is leaving deep scars that threaten economic security nationwide.

Whether in urban neighborhoods, like those in St. Louis or Baltimore, suburbs like Massapequa in my State on Long Island, or entire regions like Greater Cleveland, the bottom line is we can't afford inaction. To do nothing means that hundreds of thousands more families will lose their homes, their primary source of economic security.

To do nothing means that millions of other homeowners will see the value of their homes plunge through no fault of their own. To do nothing means that we will be permanently handicapping communities for years to come, which will have widespread repercussions on our entire national economy.

To stem the surge of foreclosures expected in the months ahead, Senators Brown, Casey, and I are fighting in the trenches for increased resources for non-profit groups. We are fighting to get $100 million of funding for HUD-approved foreclosure prevention programs in the Senate Transportation HUD Appropriations bill.

I want to thank Senator Murray for taking a real step out, putting her scarce resources into this much-needed idea. We're going to fight to make sure that this important resource is made available to organizations like Neighborhood Works and ESOP, here with us today, that are providing an invaluable service to help struggling borrowers keep their homes.

Remember, to refinance costs everybody—the banks, the people holding the mortgage, the community and most importantly, the homeowner—a lot less than a foreclosure.

So a small amount of money to groups can help people avoid foreclosure, because there's no one there to do it themselves, most of these mortgages don't come——

They come from a mortgage broker and the mortgage company, and they're now up in the big world of high finance. Then we'll come back and say, "I can help you get out of this mess." That's what we're trying to do, Senators Brown, Casey, and I, with this appropriation.

In April we also introduced a strong bill, the Borrowers Protection Act, to make it harder for irresponsible brokers and non-bank lenders to sell mortgages that are designed to fail the home owner and result in foreclosure.

That's to prevent any future crises. The first step is the present crisis. Our ultimate aim there is to strengthen standards for subprime mortgages by regulating mortgage brokers and all originating under TILA, by establishing on behalf of consumers, fiduciary duty and other standards of care.

The bill outlines standards for brokers and originators to assess a borrower's ability to repay mortgages, requires taxes and insurance to be escrowed on all subprime loans, and holds lenders accountable. We're hopeful, with Chairman Dodd's cooperation, that the bill will move fairly quickly through the Banking Committee.

So we look forward to all of our witnesses today. What we're going to do here is first allow my colleagues to make brief opening statements. Senator Brown will introduce our panel. So he'll be the last speaker.

Let me call on Vice Chair Maloney to make an opening statement.

[The prepared statement of Senator Schumer appears in the Submissions for the Record on page 40.]

OPENING STATEMENT OF HON. CAROLYN B. MALONEY, VICE CHAIR, A U.S. REPRESENTATIVE FROM NEW YORK

Vice Chair Maloney. Thank you so much, Senator Schumer for holding this hearing to examine the economic impact of the foreclosures caused by subprime mortgage defaults and to congratulate you on your outstanding leadership with your legislative proposals, and with the allocation you have achieved in the Senate budget, which will be fighting to keep in conference, and support in the House, likewise.

I also welcome my good friend and colleague, Senator Brown, who used to live down the hall from me. We miss him, but we are thrilled with his election to the Senate, and I've just congratulated him on his leadership on this and in some of the other areas.

In this hearing, we will hear from victims and local leaders from one of the hardest-hit cities, Cleveland, Ohio, but the same sort of economic pain is being felt in communities across the country, as subprime mortgage defaults and foreclosures rise.

As subprime mortgages reset to much higher rates than borrowers can afford, families are experiencing the devastating effects of these loans. Like a stone cast into a pond, the ripple is being felt throughout local economies, as losses mount for borrowers, lenders, government and neighborhoods.

Sadly, the worst is yet to come. If we do not stem the tide of these foreclosures, the coming crises could eclipse the number of people displaced by Hurricane Katrina, according to the National Consumer Law Center.

Moreover, consumer advocates estimate that at the current foreclosure rate, the surge of subprime lending could end up eliminating more home owners that it initially created.

Concern is also growing about whether the turmoil in the subprime market will infect the larger economy. At least four large subprime lenders are already in bankruptcy, and Wall Street investment banks are seeing huge losses in their subprime portfolios.

As reported in today's New York Times, yesterday Countrywide Financial, the Nation's largest mortgage lender, sparked a selloff in the stock market with the news that more borrowers with good credit are falling behind on their mortgage payments.

In their view, the housing market may not begin to recover until 2009. Both the Senate and House have held hearings, where we've heard from Federal regulators and industry and consumer representatives about the need to strengthen underwriting, correct abusive lending practices, and provide remedies for borrowers.

I applaud Senator Schumer's efforts to gain additional funding for foreclosure prevention programs, and for his efforts in general in this area. In terms of changing lending practices, the interagency guidance on subprime lending sensibly sets out principles that require lenders to assess borrowers' ability to pay over the whole life of the loan.

This guidance strikes a balance between making sure borrowers can repay the loans they get and helping borrowers who can repay a loan get one. We should extend that guidance to the entire universe of subprime lenders, not just the sliver of the primary markets regulated by Federal agencies.

The Federal Reserve has broad powers under HOEPA to regulate unfair and deceptive practices for all lenders. I have urged the Fed to use those powers to extend this guidance to the entire market, including mortgage subsidiaries of bank holding companies and state-regulated banks and finance companies.

We should legislate an enforcement scheme to support such a rulemaking, which could involve State authorities. Extending such underwriting principles to the secondary market is also important because lenders won't make these loans if they cannot resell them.

We need to take steps to help borrowers in crisis. We also need to return to healthy underwriting principles because that provides a sound basis for economic growth. I thank the chairman for holding this hearing. I look forward to the testimony of the witnesses.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 42.]

Chairman Schumer. We'll have a brief opening statement from Senator Klobuchar. Congressman Cummings? So we'll go to Senator Klobuchar and Congressman Cummings. Then Senator Brown, unless new people come in.

STATEMENT OF HON. AMY KLOBUCHAR, A U.S. SENATOR FROM MINNESOTA

Senator Klobuchar. Thank you so much, Senator Schumer, for calling this hearing. I'm alarmed by what's happening to hard-working families in Cleveland and in Minnesota, and across the country.

As we all know, the dream of owning your own home is becoming harder and harder for middle class families. The last 2 years, as I went around my State, we held living room forums, where we'd invite people in to talk about what was going on in their lives.

One of the things I most remember is people talking about their own kids who had just graduated from college. Parents were alarmed that their children who had just graduated and were starting a family, couldn't afford to buy a home.

It was a like lightbulb went on as they realized this isn't just about my kids having trouble, this is going on everywhere across this country. Too many families are being priced out of housing market.

In order to afford their own homes, these families are becoming increasingly likely to turn to risky mortgage practices that put their savings, their credit history, and ultimately their homes in jeopardy. In a prefect world, subprime lending products enable borrowers with limited capital or a less perfect credit history to purchase a home and establish credit.

But in recent years, we have seen a proliferation of abuse in the subprime market with too many borrowers being offered loans that the lenders knew they could not afford, and cannot sustain.

Unfortunately, this is an issue that I witnessed firsthand as a county prosecutor where I worked closely with the U.S. Attorney's Office on numerous cases involving mortgage slipping and other predatory mortgage practices.

I saw the devastation that these unscrupulous practices can have on families. As you see on the map here—do we have our map up for Minnesota yet? You guys can see it.

[Chart entitled, "Acceleration in Home Foreclosures in Minnesota May 2005 v. May 2007," appears in the Submissions for the Record on page 57.]

Across the Twin Cities Metropolitan Area, and in Hennepin County where I live, foreclosures have increased by more than 300 percent in the last 2 years.

According to the data from Realty Trac, in 1 month, this past May, foreclosure procedures were filed against 965 homes in Minnesota. That's a 785 percent increase in the number of foreclosures reported just 2 years ago.

I'm proud that Minnesota as a State has taken action to combat abusive lending practices by passing the strongest anti-predatory lending law in the country. This law, which will go into effect next week, will require that lenders verify that a borrower can repay the full indexed cost of the mortgage, rather than offering homeowners a loan they cannot afford.

The Minnesota law will also prohibit lenders from steering borrowers to products with higher rates than they qualify for. The law also eliminates prepayment penalty fees, allowing borrowers to refinance and take advantage of more favorable rates.

While I'm pleased that Minnesota has taken these positive steps to protect consumers, I commend Senators Schumer, Casey, and Brown for introducing legislation to protect consumers across the country from predatory lending practices.

I thank Senator Schumer for calling this hearing. I also want to mention on the House side, I know there's some good work being done by Congressman Ellison from my State, who's taken the lead on this issue, as well as Congressman Frank.

I thank you for being here and look forward to your testimony on this important subject. Thank you very much.

Chairman Schumer. Thank you, Senator Klobuchar.

Congressman Cummings, then Congressman English. We're having opening statements. You can go after Congressman Cummings.

STATEMENT OF HON. ELIJAH E. CUMMINGS, A U.S. REPRESENTATIVE FROM MARYLAND

Representative Cummings. Thank you very much, Mr. Chairman. I too applaud you for holding this hearing, and I applaud you for your leadership in the Senate in raising awareness about the inherent dangers of the subprime mortgage industry.

It is my privilege to represent the 7th Congressional District of Maryland, which includes Baltimore City.

My interest and desire to become involved in preventing predatory lending practices within the subprime mortgage industry and educating consumers developed not because of the number of foreclosures in Baltimore and the State of Maryland, which mirror the rate of those in Cuyahoga County, Cleveland or the State of Ohio.

My involvement simply began by realizing that hard-working people across this Nation were having the American Dream of home ownership stolen from them with just a few strokes of the pen, turning their dreams into nightmares.

However, it did not take long to realize that foreclosures were going to hit Baltimore and the State of Maryland in dramatic fashion. All too soon, my suspicion was confirmed.

Recent reports for the year estimate that 5,700 home owners in Maryland are currently facing foreclosure, while another 36,000 are currently late on their mortgage payments.

Most startling is the fact that in June, Maryland ranked 22nd nationally in foreclosures, up from 40th in 2006. My Congressional District alone had 466 foreclosures in the month of May. This equates to a 570 percent increase since May of 2005.

Unfortunately, these numbers are increasing nationwide, and the situation does not appear to be getting any better.

According to the Center for Responsible Lending, approximately 1 in 5 subprime loans issued in 2005 and 2006 will go into default, costing some 2.2 million home owners their homes over the next several years.

It is urgent that the Members of Congress, Federal regulators, and States begin working together to protect our families and communities. One of the simplest and easiest things to do to prevent this problem from getting worse is to make sure that potential home buyers and current home owners who are facing financial difficulty are properly educated about their options.

In April, I held a press conference designed to accomplish this goal. Community leaders and organizations such as NeighborWorks and the Neighborhood Association Corporation of America were invited to promote the resources that are available. It was startling to learn that many people were going through foreclosure just because they were too embarrassed to reach out for assistance.

However, educating consumers is simply not enough. It is time for the Federal Government and the State legislatures to begin regulating the mortgage brokers, non-bank lenders, and enacting more stringent consumer protection laws, period.

Earlier this year, I sent a letter to Chairman Ben Bernanke of the Federal Reserve, asking that action be taken to protect home owners from predatory lending practices, using his authority under the Home Ownership Equity Protection Act.

I was pleased to learn that the Fed and other regulators issued guidelines to lenders that encompass many of the ideals expressed in the letter sent in May and H. Res. 526, which I introduced and was passed by the House 2 weeks ago.

H. Res. 526 states that Government action should be taken to do the following: Encourage lenders to evaluate borrowers' ability to reasonably repay the mortgage over the life of the loan, not just the introductory rate; require that disclosures clearly and effectively communicate necessary information about any mortgage loan to the potential borrower; address appraisal and other mortgage fraud; raise public awareness regarding mortgage originators whose loans set high foreclosure rates; and finally, increase opportunities for loan counseling.

As Chairman Schumer has led the Senate by introducing the Borrowers Protection Act of 2007, I will work with my colleagues in the House to introduce comprehensive legislation to do the same.

I want to applaud you, Mr. Chairman, you Senator Brown and Senator Casey for all of your hard work with regard to this issue. With that, I yield back.

Chairman Schumer. Thank you, Congressman Cummings.

Congressman English.

STATEMENT OF HON. PHIL ENGLISH, A U.S. REPRESENTATIVE FROM PENNSYLVANIA

Representative English. Thank you, Mr. Chairman. As befits the House, I'm going to keep this very brief and simply say that I'm here to listen.

The testimony we're about to hear today has immediate relevance for parts of my district, down the lake from Cleveland, where we are experiencing some of the same phenomena in some of our older neighborhoods.

It has an immediate relevance right across the Ohio border, in the Chenango Valley part of my District. These are all issues that have a national relevance, and I want to thank the panel for coming forward to provide a local perspective.

Let me yield back with that.

Chairman Schumer. Thank you, Congressman English. Now to make an opening statement and then introduce our panel, Senator Brown.

OPENING STATEMENT OF HON. SHERROD BROWN, A U.S. SENATOR FROM OHIO

Senator Brown. Thank you, Mr. Chairman for your terrific work on this issue, working with Senator Casey and me on the legislation to protect buyers from predatory lending and for working with the Housing Appropriations Subcommittee for the $100 million in funding for HUD-approved foreclosure prevention programs.

That's not accomplished yet, but we're well along in the process and very hopeful. I appreciate Senator Schumer's work on that issue.

I want to thank two staff people in particular, Mark Powden from my staff, behind me, and Katie Beirne, who works for Senator Schumer, but is from Cleveland.

We want her to return to Cleveland—nothing against Chairman Schumer; sooner, rather than later, Mr. Chairman.

Ms. Sweet, Ms. Anderson, thank you for coming here from Cleveland. You're traveling to tell your story, along with Treasurer Rokakis and Counselor Brancatelli. People shouldn't have to go through what you have been through.

I want to thank Mr. Wade also for joining us for this hearing.

Thanks to its location on the shores of Lake Erie during the Industrial Age, Cleveland, as we know, helped build this country. Iron ore came down by barge from Minnesota, Senator Klobuchar's State, while railroads carried coal from Kentucky, Eastern Kentucky, Western Pennsylvania and Southern Ohio.

Steel mills sprang up from Erie through Ashtabula through Cleveland, through Lorain, manned by immigrants, new and old, from around the world. Many of the Poles and the Czechs who worked in the steel mills settled in the neighborhood of Cleveland that came to be known as Slavic Village, a solid working class neighborhood.

Most of the steel mills have been shuttered, but the neighborhood lives on. As our witnesses will testify, Slavic Village and communities like it are fighting for their lives. The economy is certainly a big part of my State's problems, but the steel mills shut down years ago and a stagnant economy is unfortunately nothing new.

As the chart shows, the fact is that unemployment has actually been falling slightly over the past 2 years in Ohio, while the number of subprime loans and delinquency has climbed steadily. What's true for Ohio is generally also true for Cleveland, and especially for Slavic Village.

[Chart entitled, "Economic Conditions in Ohio Do Not Explain Spikes in Delinquency and Foreclosure," appears in the Submisions for the Record on page 58.]

Both have been rebuilding over the past several years.

If you look at the State of Ohio on a county by county basis, there doesn't seem to be much of a relationship between jobs, the unemployment rate, and foreclosure.

Counties with low unemployment rates have high rates of delinquency and vice-versa.

The second chart illustrates that I'm talking about.

[Chart entitled, "Ohio Counties With Unemployment Rates Above 6% in May 2007," appears in the Submisions for the Record on page 59.]

The overlay shows counties with unemployment rates of 6 percent or more, concentrated on the east and southeast parts of the State along the Ohio River.

Bear in mind, the counties hit the hardest, the chart underneath, depicts the counties that have experienced the highest growth in foreclosure filings over the past 2 years.

[Chart entitled, "Acceleration in Home Foreclosures in Ohio May 2005 vs. May 2007," appears in the Submisions for the Record on page 60.]

As you can see, there's little relationship between unemployment and foreclosures. Delinquency rates today approach those in the last recession. We're told our economy is doing great.

Wall Street may not agree recently. The biggest mortgage lender in the country lost 10 percent off its stock price yesterday, and the markets were down 2 percent, probably because of worries about subprime loans.

But market swings tell only half the story. Sure, hedge fund investors have lost money and credit has tightened.

But there are a lot of people in this city who do not fully understand what lies behind these numbers.

Behind these numbers are thousands and thousands of people like Ms. Sweet and Ms. Anderson, communities like Slavic Village and counties like Cuyahoga.

That's why the hearing is so important today. I know some people want to dismiss the mortgage crisis as merely a problem for part of the Midwest.

Even if that were the case, it would demand our Nation's attention just as much as a flood or a tornado. A man-made disaster is still a disaster. Cleveland, to be sure, is the canary in the coal mine. What has happened there is beginning to happen in New York, California, Florida and Nevada and Colorado, and all over our country.

Millions of people across the country have been sold these loans that are designed to default, putting their entire life savings at risk in the face of this crisis.

Congress needs to act.

We shouldn't have to wait for this to become a crisis for investors on Wall Street, when our witnesses are living through a crisis everyday in the streets of Slavic Village and communities throughout Ohio.

We should not have to wait for the regulators to act, because every day we wait, thousands of families will have their exploding loans reset to unaffordable levels.

We shouldn't have to wait for the markets to self-correct. That correction costs a lot more than a hit to a hedge fund or to a lender's stock. It costs the hopes and dreams of home owners who are guilty only of trying to make a better life for their families. Communities like Slavic Village, Broadway and Fleet, and Cleveland need our help.

They've been robbed of too much already while the Federal Government has turned its head away. Thank you, Mr. Chairman, I will introduce our witnesses from left to right, and I'll introduce all of you, and then the Chairman will call on each of you individually.

Jim Rokakis, whom I've known for 30 years, took office as Cuyahoga County Treasurer in Cleveland in March 1997, after serving as a city councilman on the near west side of Cleveland, representing among other places the Cleveland Zoo, and for over 19 years served on the city council.

He spearheaded House Bill 294, which streamlines the foreclosure process for abandoned properties, and was instrumental in creating Cuyahoga County's "Don't Borrow Trouble" foreclosure prevention program.

Governor Strickland appointed Mr. Rokakis to Ohio's recently formed task force on foreclosures in Ohio.

Mr. Rokakis interestingly has been written up extensively in newspapers around the country on the auction of his childhood home, which was caught up in the subprime foreclosure crisis in Cleveland.

Councilman Anthony Brancatelli recently was elected as councilman for Ward 9 on the Southeast side of Cleveland, Slavic Village. Prior to his election, he was executive director of Slavic Village Development, one of the largest neighborhood-based community development corporations in the city of Cleveland.

He has devoted his life to this neighborhood, to this community, to economic development, to improving people's lives.

He's witnessed over $140 million of investment in the historic Broadway neighborhood and infrastructure, roads, housing and industrial development. He is currently on the front lines of the subprime foreclosure fight in Slavic Village, which registered the most foreclosure filings of any zip code in the Nation last year.

Audrey Sweet, who currently resides in Maple Heights, not too far from Slavic Village, with her husband Roland of 6 years and their 2 children, holds a Bachelor's degree in Social Work and a Master's degree in Education, and works at Cuyahoga Community College.

Since April 2007, Empowering and Strengthening Ohio's People, ESOP, a Cleveland non-profit, has been working with Ms. Sweet to aid in her negotiations to modify her unsuitable subprime mortgage.

Ms. Barbara Anderson currently resides in Slavic Village. She's employed by the Citizens of Cuyahoga County Ombudsman's Office. She's street club president working in a grass roots group called "Bring Back the 70s", a group of residents living between East 70th and East 78th in Slavic Village, an area plagued by vacant homes and high rates of foreclosure.

As the Chairman pointed out, a number of studies have shown when your neighbors foreclose what happens to the value of your own home, and how infecting of the whole neighborhood that is. She was a victim of predatory lending 5 years ago, but she's been, with the help of ESOP, able to avoid foreclosure and refinance her predatory loan with a safe fixed rate mortgage, and she smiles when she thinks of it.

Kenneth Wade is chief executive officer of Neighbor Works of America. You've seen his face around here fairly frequently in the last few months. He oversees a multi-million-dollar grant program and training activities to support a national network of some 240 to 250 affordable housing and community development organizations.

Neighbor Works of America is a public, non-profit corporation. It's played a major role in saving a lot of people's homes, and we thank you, Mr. Wade, very much for that. So the four of you from Ohio, thank you for coming this distance, and Mr. Wade also thank you. Mr. Chairman, thank you.

[The prepared statement of Senator Brown appears in the Submissions for the Record on page 43.]

Chairman Schumer. Thank you, Senator Brown, and all of my colleagues, for excellent statements that I believe show the gravity and the poignancy of this issue. We're going to ask each witness to limit their statement to 5 minutes.

Your entire statement will be read into the record without objection.

Mr. Rokakis, you may proceed, and I guess we'll go from my left to right.

With the witnesses, I just want to say I have to be somewhere briefly at 11 o'clock. I will be getting up.

I want to thank Congresswoman Maloney.

She will chair the hearing until about 11:20, if I'm not back by then. Senator Klobuchar has graciously agreed to take over, and I will come back and ask questions as well.

Mr. Rokakis.

STATEMENT OF JAMES ROKAKIS, TREASURER, CUYAHOGA COUNTY, OHIO

Mr. Rokakis. Mr. Chairman, Members of the Committee, thank you for the opportunity to speak before you today.

While the events of the past several months have focused the attention of the entire financial world on the practices of the subprime lending industry, we have suffered the consequences of recklessly irresponsible lending for many years.

Since the late 1990s, Ohio and Cuyahoga County have consistently led the Nation in the sad statistic of foreclosure filings. Consider these numbers. In 1995, over 3,300 private mortgage foreclosures were filed in Cuyahoga County, and almost 16,000 in the State of Ohio.

By 2000, over 7,000 private mortgage foreclosures were filed in Cuyahoga County, and over 35,000 in the State of Ohio, better than double the number of filings 5 years before. In 2006, last year, 13,610 foreclosures were filed in our county and over 79,000 statewide.

Sadly, we are on pace to foreclose on 17,000 properties in Cuyahoga County in 2007, 5 times the 1995 total.

The impact of foreclosures on the county's tax base has been overwhelmingly negative. Last year, more than 74,000 home owners filed for a property tax reduction with our county auditor and the Board of Revisions.

Professor Dan Imergluk, whom you've referred to of Georgia Tech, among others, has written extensively about the impact of foreclosures on vacant properties and on crime and property values.

While very few of my residents have read Professor Imergluk's work, they know this. Their neighborhoods are less safe and their properties are worth substantially less as a result of these foreclosures, and they are voting with their feet.

Fifty thousand residents have left Cuyahoga County in the past 5 years. Only Hurricane Katrina-afflicted counties have suffered greater population loss.

We estimate, and I'm going to point to a chart here, that at least 15,000 structures are vacant in the county as a result of this foreclosure epidemic. I think that's actually not generous enough.

[Chart entitled, "Total Vacancies Caused by Foreclosures in Cleveland and Eight Selected Suburbs in 2007,"appears in the Submissions for the Record on page 61.]

We think the number is closer to 18,000, obviously, most are in the city of Cleveland, but the suburbs are now beginning to catch up. The impact has been felt in the suburbs in other ways.

Almost every community in Cuyahoga County is being forced to maintain yards and properties of empty dwellings as a result of these foreclosures.

Shaker Heights, Ohio will be forced to spend over $500,000 this year to maintain vacant properties. The city of Euclid will spend almost 400,000.

Cleveland Heights, Garfield Heights, Maple Heights, South Euclid, Lakewood and Parma will also spend hundreds of thousands of dollars out of their general funds to maintain these properties, monies they cannot afford and expenditures that will result in the loss of services in other critical areas.

The last thing I want to discuss, Mr. Chairman, is the carelessness, sloppiness, and indeed rampant fraud in the mortgage lending industry, at least in our town. Look at the studies of foreclosed properties conducted by Cleveland State University.

The first chart is a page of foreclosed mortgages on loans made by Argent Mortgage in our community, a wholly owned subsidiary of Ameriquest.

[Chart entitled, "Argent Mortgages Ending in Foreclosure, 2003–2007 (Apr. 30)" appears in the Submissions for the Record on page 62.]

The first example is a random sample of mortgages on Cleveland's west side. Look at the auditor's fair market value in the second to the last column.

We color coded this chart to highlight our point. Every mortgage in red is a mortgage of at least 175 percent of the auditor's fair market value. Every mortgagee owes at least 125 to 174 percent of the auditor's fair market value.

Look at how many mortgages are loaned in amounts of at least 200 percent of fair market value.

The second part of the study done by Cleveland State University looks at the issue of negative equity. You might want to go the next chart. It shows there is, in the city of Cleveland alone, a negative equity totaling a $168 million on mortgages made by Argent, and $143½ million on suburban mortgages made by Argent.

[Chart entitled, "Argent Mortgages Negative Equity in Cleveland and Eight Suburbs 2003–2007,"appears in the Submissions for the Record on page 63.]

The negative equity in the city of Cleveland is probably much higher, since so many of these properties have been vandalized and stripped of their siding and copper piping and anything else of value.

The purchasers of these properties, and I must say this, Mr. Chairman, I'm not blameless. Many had horrible credit to begin with. Most put nothing down. Many were issued cash back at the closing, but the broker, the mortgage banker and Wall Street knew all of this, but the money was too good, the profits too powerful to ignore.

Don't buy the argument of the Federal Reserve Bank, that the market will correct itself. The market corrected too late, and only after neighborhoods in Cleveland and Buffalo and cities like Cleveland all over the country were decimated by this industry.

The real victims in this scandal, Mr. Chairman, were the hardworking citizens of my community, who paid taxes, maintained their property and who watched helplessly as properties were sold and resold around them and were being vandalized.

Citizens whose major and often only asset, their home, is stripped of its value, just as the home next door to them is stripped of its aluminum siding.

We must not forget, Mr. Chairman, to make the point that 90 percent of the subprime loans in our country are not to new home owners. They are refis.

So when this whole sordid mess is over, there will be fewer home owners than when this whole problem started. I'm out of time. I'd like to say, Mr. Chairman, I commend you and Senators Casey and Brown on the Borrower Protection Act. I think it's something.

I'm hopeful, we're all hopeful around the country, that the Senate will move quickly on this. We're also very impressed by the efforts of States like Minnesota and my good friend Prentice Cox with the AG's office.

I've attached additional testimony from Mark Weisman, who runs our foreclosure venture program. By reading that, you'll get an idea of how difficult it is on the ground for us to get modification and workout from this industry.

[Article by Mark Weisman entitled, "What the Borrower in Default Is Up Against," appears in the Submissions for the Record on page 45.]

[The prepared statement of James Rokakis appears in the Submissions for the Record on page 44.]

Chairman Schumer. Thank you for excellent testimony, Mr. Rokakis. I'd like to ask unanimous consent that the opening statement of Senator Voinovich, Senator Brown's colleague, will be added to the record.*

Chairman Schumer. Mr. Brancatelli.

STATEMENT OF ANTHONY BRANCATELLI, COUNCILMAN, SLAVIC VILLAGE, OHIO

Mr. Brancatelli. Thank you for the opportunity to talk today. Without piling on to the statistics as Treasurer Rokakis talked about, I just want to talk a little bit about a good community.

Slavic Village is a hard-working community that Senator Brown spoke so finely of. Our neighborhood is a wonderful neighborhood. It's not dying, not decaying, not falling apart.

We have wonderful opportunities created in our neighborhood. We have Rails and Trails programs, social and civic organizations, Boys and Girls clubs, golf courses.

Over a thousand new homes have been built, over a thousand homes have been renovated.

We continue to move forward with great partners like Cleveland Housing Network, Habitat for Humanity and are creating a vibrant community. We talk about the loss of industrial base that we have. Mottal Steel, one of the most efficient steel plants in the entire world today, with a much smaller workforce, the industry has changed significantly. So a renaissance that's moving forward is being derailed by this crisis. It's being derailed by what Treasurer Rokakis calls many times a perfect storm, a neighborhood undone many times by predatory lenders, by fraudulent lending. We look forward to what can be created to stop this.

Within the packet I have given you, we talk about the survey of vacant property we've done in our neighborhood.

There's over a thousand of vacant and abandoned homes in our community, over 700 boarded up I understand right now.

A housing court judge, Raymond Pinka Pianca, is going to charge me rent, because we've got so many staff in the housing court every day, testifying against absentee landlords, testifying against mortgage companies that continue to leave decaying and problem properties going on in our neighborhood.

You spoke very clearly about the loss of values in our community. The loss of values continue to pile on. We have created an inventory of the problem homes.

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*The statement of Senator Voinovich was unavailable at press time.

I have stacks of photos of vacant and abandoned properties in our neighborhood that are just openly vandalized, and the crime of stripping and fraudulent lending continues.

What once used to be homes available for working poor families of 20,000, 30,000, 40,000-dollar homes with a roof over their head are now stripped of any equity. Now the only thing left of them is the wrecking ball. The foreclosure trends are clearly outlined.

We are facing two foreclosures a day in the Broadway neighborhood. You can see the REOs now owned by mortgage companies, and you can see the disposition, the increase of forcing these companies to dispose of these properties, the increase of making the foreclosures happen sooner.

Disposition is happening at a remarkable rate, and they're virtually giving away homes just to get them off the rolls, and not to be a responsible property owner. These homes will now then go back in the prey to be recycled.

I certainly want to note what the Federal Reserve Chairman Bernanke talked about in his statement. He said the recent rapid expansion of the subprime market was clearly accompanied by a deterioration of underwriting standards, and in some cases by abusive lending practices and outright fraud.

He's absolutely right. Nevertheless, these are creating personal economic and social distress for many home owners and communities, problems that will likely get worse before they get better. We've not peaked yet, and it's coming even greater. If you look around our neighborhood, you can see questionable real estate fraud.

You can see questionable flipping practices. There was a documentary done called "Flip," which talked about flipping in Buffalo. It is absolutely horrifying to see what is happening on the Internet in the resale of real estate that way.

Within your document, you'll see a piece called QUACS, which is Questionable Urban Appraisals. When you look at these appraisals that are occurring in our neighborhood, you can see simply within our community a million dollars' worth of real estate purchased and 4 million dollars' worth of real estate sold.

These properties were purchased as foreclosures. They were sold to investors and are now being foreclosed on again. It is a cycle that is not ending. If you look at the people who are buying these homes, they're buying 10 to 15 homes at a time.

That tells you the lender is not paying attention. When you look at the lenders who are doing this, Long Beach, New Century, Argent Ameriquest, the list goes on. They're predatory lenders that are creating havoc in our communities when you buy 10 homes at a time.

I don't have any discovery within my jurisdiction. All I look at is the Internet. I look at what's available on-line. You can see people buying 10 and 15 homes at a time, yet the mortgage companies continue to lend.

Some of the folks we have interviewed in these lending practices never even went into the home. They're buying five homes at a time and never went through the home and now the home is being foreclosed on.

If you look at some of these folks who don't even have a job, some of the folks who never had a job, never declared income, are buying 10 and 15 homes at a time. That is fraud. That is being allowed by the mortgage companies to happen.

I'll wrap up. I understand. I'm looking at the clock.

But when I look at the victims in this, we had crime happen around our neighborhoods. Certainly some of those who have been victims of predatory lending can see what else is happening around our neighborhood, the crimes that are occurring, the social issues that are happening, the stripping of houses.

It's absolutely horrifying to see what's happening in our community. We have a great community. It will not be self-correcting. It needs to happen through Federal legislation. I certainly encourage the opportunity for you to step forward and continue the steps that you're doing in making this happen. Thank you.

[The prepared statement of Anthony Brancatelli appears in the Submissions for the Record on page 48.]

Chairman Schumer. Once again, excellent testimony.

Ms. Sweet.

STATEMENT OF AUDREY SWEET, RESIDENT OF MAPLE HEIGHTS, OHIO

Ms. Sweet. Thank you, Mr. Chairman, Members of the Committee. I appreciate the opportunity to come before you and want to thank Senator Sherrod Brown for his intense interest in the issue. I ask that my comments today be made part of this hearing.

Chairman Schumer. Without objection.

Ms. Sweet. My name is Audrey Sweet. When my husband and I did our home loan search, we believed that these responsible lenders were probably doing us a favor. We were then introduced to a real estate agent who said she could take care of everything.

We were so excited that finally, someone was going to give us a chance. She took us to the Countrywide Home Loans office and we began our home search.

When we finally found one we liked, the agent said that the seller and lender would do all sorts of things to give us a home. It was as though everyone was doing us a favor.

When you match that with our lack of funds, our lack of knowledge about mortgages, credit, finances and less then stellar credit, we were a dream come true, at least to the broker. When we were finally told the amount of the monthly mortgage payment, we were shocked. When we expressed our concern, we were told not to worry about it. We would be able to refinance to a better rate in a year.

We just had to prove ourselves. We requested that the property taxes be escrowed, but were told that if we did, the loan would no longer be affordable and we would not be approved.

In the excitement of the moment, I did not focus in on the fact that I was just told that my income would not support the expense of both the mortgage and property taxes.

He knew that I would eventually lose my home, yet went forward with the loan.

I lived up to my end of the deal by paying my mortgage, but neither he nor Countrywide lived up to their commitment.

Of course, the refinancing never happened and we've been since falling behind on our mortgage from time to time, but we've managed to bring it current each time.

I did end up seriously neglecting the property taxes.

In March of this year, Countrywide took action and paid back the taxes, a total of $3,493.51. I fully expect that they would do this to protect their interest in the property.

However, I did not expect what came next.

In April, I received a letter from Countrywide, informing me that my monthly payment was to increase by $658 effective in June for the next 12 months, because our back taxes had been paid by Countrywide.

In addition, our rate was set to adjust up in February 2008. It was written in our loan document that it can only adjust up, never down. $387.72 of this increase was attributed to the shortage amount. However, when you multiply that by the 12 months it was to be effective, that comes to $4,652.64.

I have yet to receive a clear explanation of what that amount was to cover. This new payment, in my experience with Countrywide's lack of willingness to help, prompted me to call ESOP, Empowering and Strengthening Ohio's People, also known as the Eastside Organizing Project.

In preparing for my visit to ESOP, I began to look over my home loan documents and discovered several things I had apparently overlooked until then. First, was that my gross monthly income was recorded as $726 more than it actually was. Second, I have two sets of loan documents, one that was created 10 days before we closed and another from the day of closing.

The closing date document lists my assets as $9,400 in my Charter One megaccount. I've never had $9,400 in the bank. The final item I noticed was that the tax amount listed on the appraisal report was $1,981.34, which comes to about $165 a month.

Countrywide listed my taxes as $100 a month. Again, looking back to my mortgage application experience, I was embarrassed. I remember how I felt so undeserving of a loan, because I'd been turned down so many times before and I realized that I finally made a 30-year mistake.

Once I realized that Countrywide was counting on my feeling this way, I became angry. I began to see how I had been taken advantage of, and was hoping that my initial feeling of embarrassment would keep me from sharing my experience with anyone.

However, that would mean I would lose my home, and I have decided not to let that happen. When I first came to ESOP in April 2007, various resources have been presented that I would not know of otherwise.

One service ESOP is offering me is a weekly conference call with Countrywide. These phone calls were essential to my result with Countrywide, as there were witnesses to every promise and excuse given.

While the calls were helpful to keep my case in their face, they also showed how little Countrywide cared. The same modification was offered twice. I had declined both times, as this did not fit what I could afford.

Although I have asked repeatedly for the following information, I have yet to receive it. The name of the compliance officer working on my case, the amount of the tax payment, and the $9,400 asset and the documentation to support this.

After these talks, I would usually end up feeling defeated. However, ESOP continued to encourage me. Without their support, I would have given up long before the issues were resolved.

Once Countrywide finally received a report from their compliance person, I received a call from them. They said that while what happened with my loan was not exactly illegal, there were definitely things that should have been done better.

Since then, the contact with Countrywide repeatedly refer to what happened with my loan as a special circumstance. In June, Countrywide executives met with ESOP to talk to their borrowers. At that meeting, I was struck by their less than willing attitude to help people keep their homes.

They refused to answer any questions and refused to sign a letter of commitment with ESOP to work with their borrowers. I'm going to wrap up because I've gone over my time.

But basically since then, they referred me to a program with Third Federal Savings and Loan, where they educate home buyers on home buying process, credit and finances, and I was able to refinance with them with a fixed rate of 7.2 percent.

That's where I'm at now with my taxes escrowed.

[The prepared statement of Ms. Audrey Sweet appears in the Submissions for the Record on page 49.]

Vice Chair Maloney [presiding]. Thank you very much for sharing your story.

Ms. Anderson.

STATEMENT OF BARBARA ANDERSON, RESIDENT OF SLAVIC VILLAGE, OHIO

Ms. Anderson. I also appreciate the opportunity to appear before you and want to express a special thank you to Senator Sherrod Brown. I'm pleased that my comments today, both written and oral, will be made part of the record for this hearing.

My name is Barbara Anderson, and I appear before you today as the treasurer and member of the Predatory Lending Action Committee of the Empowering and Strengthening of Ohio's People, formally known as ESOP.

ESOP is very well-known and recognized as a leader in the prevention of predatory lending. I also serve as treasurer of the Empowerment Center of Greater Cleveland and serve on the board of Ohio State University's Extension Program and Metro Health Advisory Committee.

I'm co-chair of the Slavic Village Development, Abandonment and Vacant Housing Committee. I've lived at 3435 East 76th for more than 25 years. That address is in the Slavic Village neighborhood that is widely seen as the epicenter of the foreclosure crisis facing the entire Nation.

When my husband and I bought our home, we were the first African-American family to move into Slavic Village. As you know, Cleveland has had a long history of racial tension, and we experienced them firsthand. Within months of our moving into our home, people set fires at our home. We lost our garage twice, had fires at three of the entryways and a major fire at the back of our home.

After the third fire, our insurance company dropped our coverage. For several years afterwards, we tried to make the repairs on our own. However, they became more and more of a struggle, and we were no longer able to do so, as my husband became ill.

We sought to refinance our mortgage, to get some of the equity in order to make the repairs. Several local banks did turn us down, not so much because of our credit, but rather because of the fire damage and because the insurance company would not cover us.

After being turned down, I was approached by a loan broker. He got us a loan at 8.5 percent through the now defunct Conti Mortgage. I didn't know that in the span of 4 years, that rate would jump to 14.5 percent, causing my payments to increase by nearly 60 percent.

Between 1996 and 2001, my loan was then sold no less than 15 times. Indeed, my home was a commodity for the market, as the secondary market got greedy and sold these loans with the same carefree business model my grandchildren used with selling lemonade on a hot summer day.

I came to the ESOP near the end of 2001. I was desperate, as my loan was now being serviced by Fairbanks Capital, and despite the exorbitant rate of my loan, my issue when coming to ESOP was the servicing of that loan, as my payments were not being applied.

I led a national fight against Fairbanks through ESOP's national affiliate, NTIC, the National Training and Information Center, headquartered in Chicago. We went on to win a national agreement that we had replicated with other lenders and servicers across the Nation.

For me, that agreement meant wiping out nearly $30,000 in bogus fees that occurred during the time of that loan. I was able to refinance with Third Federal Savings and Loan at a rate of 5.85 percent. I e-mailed, faxed, called and wrote so many different organizations for help, that I am at a loss to account for them.

I quickly realized that many of the organizations with neighborhood-friendly sounding names were mere pimps that preyed on the poor. Poor people are big business. These organizations increased their budgets with the promise of assisting victims, but very little else.

Being a victim of predatory lending penetrates your very heart and soul. It's an experience that leaves you devastated and attacks you with an overwhelming feeling of helplessness. You are robbed at penpoint. You have been tricked, fooled, bamboozled and you are ashamed at your own lack of finesse.

Houses, homes, children, mothers, fathers, whole families are stripped from the communities, just as sure as the aluminum siding and the copper have been stripped from the vacant, abandoned homes that litter the streets of a once-vibrant neighborhood.

I chose to move to Slavic Village because of the well kept-homes and the manicured lawns. I chose to live there because of my beliefs. I choose to stay because I still believe. I believe that we can recapture more of the look and feel of our community. I believe that we can sustain more of the benefits that we already have.

I believe that predatory lending and ever-spiraling effects of it can be halted. I believe that elected and appointed officials must step up and speak out. I believe that grassroots organizations and victims must take immediate action to stop the victimization.

I believe it should be done. I believe it must be done.

I believe it can be done, and I believe it will be done.

Thank you.

[The prepared statement of Ms. Barbara Anderson appears in the Submissions for the Record on page 52.]

Vice Chair Maloney. Thank you for your very moving testimony.

Mr. Wade.

STATEMENT OF KENNETH WADE, CEO, NEIGHBORHOOD REINVESTMENT CORPORATION

Mr. Wade. Thank you, Madam Chair. I want to thank the Committee for allowing us the opportunity to share some of our experiences on this issue. For those of you who may not be aware, we are a public, non-profit corporation created by Congress and supported by Congress, as well to support our activities.

I just wanted to highlight four main points. I submitted written testimony, but in light of some of the things that have already been said, rather than rehash some of those, let me just highlight some of the things I think haven't been covered, and also probably try to put this more in a national perspective.

There's no question that oftentimes in the context of macro statistics, we lose sight of the fact that this foreclosure crisis is having a specific impact on real people, real families, and real neighborhoods. The testimony from the folks here from Ohio helped illustrate that point. NeighborWorks essentially started working on the foreclosure issue 5 years ago. We saw this coming, based on the feedback that we were getting from our affiliates throughout the country.

NeighborWorks has done a lot of work to help low and moderate income families achieve the dream of home ownership. Over the past 5 years, our network has helped over 100,000 families be successful in achieving home ownership.

However, our affiliates began seeing people showing up at their doorstep in foreclosure. These by and large were people who had not had the benefit of pre-purchase counseling and people who were primarily in non-prime loans.

That suggested to us that something was going on that we needed to pay attention to. We funded some studies of our affiliate in Chicago and supported some activities that they began to address the foreclosure issue, trying to see if there were things that we could learn from the specific Chicago experience that we could replicate nationally.

As a result of that, we established the Center for Foreclosure Solutions about 3 years ago. Its main responsibilities include improving on the ground counseling capacity and providing training to counselors on foreclosure prevention; conducting research to better understand the scale and scope of the problem, in order to better develop solutions; supporting local efforts in cities and regions with high rates of foreclosure, we are supporting the efforts you heard about today in Ohio, working with the lending community to improve industry practices to avert foreclosure, and we're establishing a national public education and outreach campaign to reach consumers who are threatened with foreclosure.

I think as Congressman Cummings commented, one of the things we learned from our Chicago research is up to 50 percent of consumers who go to foreclosure never have any contact with their lender. They don't reach out to anyone, and they just allow the foreclosure to occur.

In addition to that, in Chicago we found that many of the consumers who eventually reached out for help reached out far too late. In Chicago 5 years ago, the average was about 5 months delinquent when the consumer finally had the wherewithal to reach out to someone for assistance.

As you can imagine, a consumer who is 5 months delinquent has limited options. So one of the things we thought we could do was contribute by developing a national public education campaign to get consumers, if they didn't want to reach out their lender, to be able to reach out to a non-profit counseling agency that would be able to assist them.

In Ohio specifically, we're working with the creation of an Ohio foreclosure prevention initiative. It's a state-wide coalition of 12 organizations across the State, 10 of whom are our affiliates, 2 of whom are not.

This state-wide coalition has joined forces with the work we're doing nationally, to do much more on the grassroots level to reach out to consumers. They also in Ohio, like in many other States, have done some things to put some resources on the street, in order to address this problem.

There's a $4.6-million Ohio rescue fund that's being administered by one of our affiliates in Ohio. Of this amount, $1.5 million is being provided to home owners as forgivable deferred loan funding. In addition, the remaining $3.1 million is being provided as deferred loans or due on sale loans on the transfer of the property, as a way to help consumers work through delinquency.

In addition, post-purchase counseling is a requirement, and is written into the loan document. So that counseling assistance is being provided to the borrowers.

It's pretty clear, from our experience, that if consumers had had the benefit of high quality pre-purchase counseling, many of the challenges that consumers are faced with today would not have occurred.

We have, from our own experience, as I said, have helped over 100,000 home owners achieve the dream of home ownership. Looking at the loan performance of consumers that have been assisted by our network, our delinquency rate is actually 10 times less than the subprime market, and basically it tracks comparable to where the prime market is.

I think that's a testament to what you can do with good pre-purchase counseling. Just to highlight some of the challenges that exist, and obviously you're wrestling with a range of things on what you might do to assist in this arena.

There's no question that high quality counseling is not universally available. Clearly, more resources are needed to support counseling at the grassroots level. It's not universally available; that's particularly challenging in rural areas, where people might have to travel a long distance to get assistance.

We also need better transparency in the lending process, as you can see from some of the testimony of folks earlier. You know, you don't really know the deal you have until you're sitting at the closing table, and oftentimes it's much too late for a consumer to take alternative action.

In addition to that, most of the time you've already spent a considerable amount of money, because most consumers have had to pay for the appraisal, they've had to pay an application fee, and essentially they somewhat feel trapped at that point.

Even though they might see things at the closing that might suggest to them that it isn't the best loan for them, there is an obvious need to do some things to enhance the regulatory regime so it can catch up with how the market has changed.

Today, there are a variety of players in the market, all of whom are unconnected in many cases. You have brokers operating independently, mortgage companies and investors on Wall Street, all of which have contributed to providing more credit.

But this environment also creates a challenging delivery system when you're trying to address a problem like foreclosures. We need more flexibility with lenders, servicers and investors around workouts and modifications, in order to help people out of foreclosure.

There's no question that many people can be helped, but we need much more flexibility from lenders and servicers if we're going to be as successful as we can; mostly we need to address the increasing rescue scams that are cropping up, preying on people who are having problems.

There are a range of scams out there that people are engaged in. We need better enforcement, in order to address these rescue scams.

[The prepared statement of Kenneth Wade appears in the Submissions for the Record on page 54.]

Vice Chair Maloney. Thank you for all of your hard work, really. I would like to ask Ms. Sweet and Ms. Anderson, the subprime market was intended to help people achieve the American dream, but that dream has turned into a nightmare for you and many other home owners.

One of the recommendations being made that really came out in the guidance of Chairman Bernanke and others, but one of the recommendations is to require lenders to assess the borrowers' ability to pay over the life of the loan, when it is fully indexed.

In other words, you don't give a loan to someone who cannot afford to pay for it. So my question is, is there any doubt in your mind that if that had been the practice when you were shopping for a mortgage, that you would not have been having this nightmare?

If they had looked at you and said we're not going to give you a loan unless you can pay for it, part of the question is do you think it's a good practice, even if it means that possibly you would not have qualified for the house that you have, but would have had to have a smaller house, possibly in a different neighborhood?

Ms. Sweet. Yes, I do think that would have been helpful. I think if we would have been put on pause and made to repair our credit and save money, we would have been able to get into a home that would have been probably equal to what we have now.

But we would have had less trouble sustaining and would have been able to move on to the next home sooner and easier.

Vice Chair Maloney. It would have helped you, even if it meant you possibly could not have afforded the home that you have? Ms. Anderson, would you like comment?

Ms. Anderson. I'm going to speak for both myself and other people. I do not think it would have been helpful for me. What would have been helpful to me is if they had not cheated, lied and stolen.

I think that would have been helpful to me, if they had not said it was going to be one rate, and then flipped it over and over and over again, and increased the amount by more than 60 percent. I think it would have been helpful to me if they had upheld their bargain.

I know you didn't ask me this question, but even when we started talking about counseling, I do believe counseling is helpful. I think it's very helpful to the brokers, the lenders, the appraisers and the servicers who need counseling in ethics, so they can do what is right when it comes to dealing with the American public.

Vice Chair Maloney. Would you like to comment further, Ms. Sweet.

Ms. Sweet. I would. I agree with Ms. Anderson that had they not, if that law would have been there, that they still would have done what they did, inflating my assets and what is the point? They knew I couldn't afford it, but they made it appear that I could so that they could approve it.

So I have to agree. They need to behave responsibly and abide by the law.

Vice Chair Maloney. But the guidance would require them to not do that, that they could not mislead you and could only grant a loan that you could afford to pay.

Ms. Anderson and Ms. Sweet both mentioned that, that comprehensive counseling would help them, and Mr. Wade, you've testified that that is really something that you think would be incredibly important.

But what we have now in the current situation in the subprime market, we have many, many borrowers defaulting on their loans or behind on their mortgage payments. What is the strategy, the best strategy to prevent foreclosure?

This is past counseling. This is in a crisis situation, keeping people in their homes, which everyone agrees helps the neighborhood, helps the economy and helps the family.

Now what is the best strategy to help, really, constituents, and people like Ms. Sweet and Ms. Anderson, stay in their homes, who are in the middle of this subprime crisis?

Mr. Wade. It's a complex problem, but again counseling is helpful here again. I think consumers who have the benefit of working with a counselor when they're behind have a higher success rate of being able to sustain home ownership.

Working with a lender or a servicer is a complex process, and I think most consumers on their own, without the benefit of working with someone who understands the ins and outs of that process, who knows all the programs that would be available from a lender, would make the possibility of averting a foreclosure that much higher.

Mr. Rokakis. Congresswoman Maloney, if I could add just one thing. We saw the chart of the Argent mortgages. As we tried to work out these mortgages, Congresswoman, we're not in a position, nor do I think we should refinance a mortgage that's been reissued for two, three, four times the actual value of the property.

One of the problems we're dealing with as we try to do mitigation, we have four counseling agencies that work with us in Cuyahoga County. We've taken over 5,000 calls in the past year, trying to work these out.

We have to get a recognition from the lenders that they have made huge mistakes in this process. They have overvalued these properties. They've overmortgaged them, and if we're going to do a workout, they're much better off accepting the real market value of the property and working with that borrower in a fixed rate that they can afford, as opposed to foreclosing on the property, losing the borrower and taking a complete loss on their investment.

They have to recognize the mess that they're in, and they've been reluctant to do that.

Vice Chair Maloney. You're absolutely correct. We'll be working to really bring that message to them. It obviously helps people and helps the community and helps the economy. I yield now to Mr. Brown, for such time as he may consume.

Senator Brown. Thank you, Madam Chair.

Ms. Sweet, Ms. Anderson, thank you for your personal stories and your courage, especially Ms. Anderson, for the last 25 years, and your pioneering spirit and your perseverance for both of you, all that you've done and your willingness to share your story.

Both of you, how do we stop—put yourselves back at the beginning of this process, if you can. I know it's not always easy. How do we stop these lenders and those who bought and sold your loans? Is it 15 times in 5 or 6 years? How do we stop them from this unethical behavior?

If we could have—if the State government, Federal Government, local government, regulators, legislators, whatever, if we had known more and done something, how do we stop them from doing this in the future?

Vice Chair Maloney. Sherrod, I have a meeting, and I am passing the gavel to Senator Klobuchar.

Ms. Anderson. One of the things that we need to look at, I don't want to confuse subprime lending with predatory lending. They're not one in the same. Subprime lending is what it is, but predatory lending is abusive practices.

If we look at what is abusive practices, if we were able to just kind of lay out what does it look like, we would see things like ARMs. We would see things like force-placed insurance. We would see these different things.

ESOP, the East Side Organizing Project, which is also Empowerment to Strengthen Ohio's People, is very good in forming partnerships with companies by showing them what an abusive practice looks like, laying out the 10 or 12 different items that we say these are the things that need to change.

We have come up with a list of those practices, and before we sign the partnership, we get agreements that say you will not practice these. These are things that you will not do.

If that was throughout industry-wide, if there was a standard, if there was a code of ethics, that there was something that says this is predatory lending, this is abusive practices, and they were glaringly out there, and we were able to hold the industry to that, then you would not see predatory lending.

Senator Brown. I'm sorry, Ms. Anderson. Are these community groups able to hold the industry to that standard, the voluntarily agreed-to standard?

Ms. Anderson. With the partners that we have formed, with the partnerships that we have, yes.

Senator Brown. What's to keep others from coming into any neighborhood and inflicting their damage on people that are less sophisticated than you, or who have a problem or something happens in their lives, such as a divorce or job layoff or whatever?

Ms. Anderson. That's right. Some of them are hardship cases. There's no doubt that that's the case, and that's the reason why so many fail; its because they're desperate. But we've been able to work to modify loans, to get people out of loans and maybe into bank loans.

Whatever it takes, that's what we've been willing to do.

Those servicers that we work with have worked diligently with us to help make that happen.

Senator Brown. So those voluntary agreements you've come to, should those be Federal laws? Should they be State law?

Ms. Anderson. I like the way you said voluntary. They might be forced.

Senator Brown. But no, they go into an agreement with you, with ESOP.

Ms. Anderson. They are.

Senator Brown. Voluntary in that sense. Should they be Federal laws, should they be State law?

Ms. Anderson. Let me say it this way. When those agreements—how can I say this nicely? Once we formed those agreements with those partners, the hell stops for those companies, for those loan servicers that we have agreements with.

Yes, I do believe that we could take that list, and it could become nationwide. Yes, I do.

Senator Brown. Ms. Sweet, your comments on how we stop this from happening?

Ms. Sweet. I agree. Federal and State legislation needs to be monitored by people like ESOP that are right there in the community, so that people like me can go ask someone who has the knowledge.

I'm educated. I'm not an ignorant person, but I am not educated on mortgage or finance. So I had to go to someone else that I could depend on for that information. When I signed my loan documents, I assumed that it was a broker that was going to do that, and was going to be honest and forthright with me.

Unfortunately, that wasn't true. When I needed help to work it out, I tried a few different places, and until I went to ESOP, I didn't have a real resolution. But when I went to ESOP, I was able to speak with someone who had practice in doing this, who knew what options there were available, what steps I could take.

The basis for me is that I didn't have the knowledge that I needed, and there was nowhere on the research. I researched it. I went on-line, I looked at what I can look for.

But there was no standard code of ethics that I could find for the mortgage industry. I was trying to find out where they went wrong and what they did wrong with my loan.

Up until I went to ESOP, I know it felt wrong what happened with the loan, but I didn't know that it actually was wrong.

So I just think yes, the Federal and state legislation would be helpful. But it needs monitoring locally and access for a regular citizen to go in and get that help.

Senator Brown. Thank you, Madam Chair. Just one more point real quick. You are far from alone in not understanding this. I don't know much of anybody who buys a house that really understands, especially when I bought my first house.

I'm not a lawyer. I went to college, but I don't think that very many of us understand this at all. You obviously were victimized, like so many people have been. Not out of ignorance, but out of malintent. Thank you.

Senator KLOBUCHAR [PRESIDING]. Thank you, Senator Brown. Thank you to both of you, Ms. Sweet and Ms. Anderson, for your stories. As Mr. Wade said, there's nothing that brings these points home more than personal experience, as opposed to simply statistics.

I thought that Mr. Rokakis and Mr. Brancatelli were looking a little lonely down there, so I thought I'd ask them a few questions. Recently, the Chairman of the Federal Reserve stated that the predatory lending crisis seems manageable, and that market forces, he said, are working to rein in excess.

He further stated that he does not think the crisis in the subprime market will affect the larger housing market or housing values more generally. Given your experiences in Ohio, would you agree with what he said and could you comment about that, I guess both of you?

Mr. Rokakis. Senator, I would not agree with it. Let's look at that chart again. We'll look at the Cleveland situation. If you're a home owner in Cleveland, and you're unable to sell your home because of the declining values, because of the devastation in your community makes your home virtually unsaleable, you're not going to be able to move to that next property, whether it's in the suburb of Lakewood or Parma.

It's going to really restrict the flow of buyers to next ring of suburbs. If people in that community are unable to sell their homes, how will that not impact the people in the next ring of suburbs, where they too will be unable to sell their homes?

We have seen the impact of this in every community in Cuyahoga County, with the exception of certain properties and luxury high-end homes. Talk to any realtor in Northeast Ohio. They will tell you they have felt the impact; they continue to feel the impact, and I think the notion that the chairman of Countrywide said "2009 recovery."

We deal with a mortgage expert named Tom LaMalfa, quoted nationally on a regular basis, he thinks it's a 4 to 7 year recovery. So I disagree with the fact that it's got to be limited in its impact.

Senator Klobuchar. Mr. Brancatelli.

Mr. Brancatelli. I fully agree with the Treasurer.

When you say terms like "self-correcting markets," when you talk about recommendations and advisories to get the market to behave in its normal course, it's absolutely wrong.

The values of real estate that were normally 30,000- and 40,000-dollar houses that were affordable housing, which got totally stripped of their wealth when they get overfinanced and then get actually physically stripped, and they bring that value down to zero, has just a devastating effect on an entire block.

We have lost blocks within our community because of these poor lending practices, and we will not recover just because we think the market will self-correct.

Senator Klobuchar. When I talked about this issue to some of our Minnesota bankers, and we have some wonderfully strong banks in Minnesota, they talk about how when we address this issue of predatory lending, we should be careful not to punish the entire banking community because of a few bad actors.

Is it your experience that there are particularly bad actors in the mortgage lending business, and are there particular practices we should be aware of that may be instructive for drafting future legislation?

Mr. Brancatelli. It's truly clear, when you look at who the bad actors are, and who is trying to do responsible lending. There's a misconception, that just because there may not be a bank on a street that people don't have good lending available to them, and that's just not true.

As was stated earlier, through good counseling, through education, there are good quality loans available. In the broader community we have Third Federal Savings right on Broadway. Their operations center and their headquarters is there. They're one of the most effective and efficient savings and loans in the Nation.

Throughout our neighborhood, we have a number of banks.

The mortgage companies that are out there preying on individuals need to be corrected. When you look at what can be done, it really does require stepping forward and putting in regulations, that the unregulated companies fall under some of the same regulations that the savings and loans have.

I think there can be a compromise, so that we don't get caught up in a wave of requirements and legislation that would really restrict lending that's happening already from good quality banks.

Just having more disclosures and having 22 font print isn't going to make it. It does take counseling, it does take responsible lending. What keeps responsible lending happening is having the ability to really go after those who are doing irresponsible lending.

Until there's criminal punishment for what they're doing, until there's criminal punishment for fraudulent appraisal, criminal punishment for title companies that are willing to look the other way, criminal punishment to brokers and loan originators who are willing to lie on the documents, we will not be able to correct it.

Senator Klobuchar. Ms. Anderson.

Ms. Anderson. Can I just add something? I don't want to answer that question, but I just want to talk a little bit about self-correcting.

When I first saw that word and thought about this industry, I thought about when you have a child who's throwing hands and feet and kicking and bruising other people because they're out of control. The most responsible people will not just wait until that child self-corrects.

Somebody, some responsible person who sees this going on and knows the damage that they're causing to other people, will correct that child. That's how I feel about this industry. We don't wait for it to selfcorrect, because it's damaged and hurt too many people, and it's not going to self-correct.

Senator Klobuchar. As I noted in my earlier opening statement, we certainly have seen that in Minnesota. That's why we adopted these State laws and why I favor some kind of Federal legislation.

Mr. Rokakis.

Mr. Rokakis. Minnesota has been very progressive, and I've followed you very closely in what steps have been taken. The problem is we have some banks that are State-regulated; we have some that are Federally regulated; and we have people who fly between the two.

We really need a uniform standard, so a bank doesn't say, "I don't want to do this, but I have to do it, because if I don't do it, they will." I can't tell you how many times I've heard people say, "I'm doing it because if I don't, they'll do it."

If we adopt a uniform standard, everybody in this industry has to adopt these guidelines and these sets of rules. I think it would serve to shut down these abuses.

Senator Klobuchar. Thank you very much.

Congressman Cummings.

Representative Cummings. Thank you very much, Madam Chair.

As I listen to this, it is interesting. It seems to me that this is a transfer of wealth. It really is. You have got everybody getting a chunk of the person who is trying to get a house.

Then the person who is trying to get a house ends up with nothing. Really, it is theft, it is theft, it is theft. It is theft of hope, it is theft of dreams, it is theft, period and I am trying to figure out if there's anything unique about Cuyahoga County?

I think Mr. Brown was talking about it a little bit earlier, the uniqueness of Cuyahoga County. Because it seems to me that if this were happening at the rate it is happening in this area of Ohio, in a whole lot of places in the United States, this would be truly a national emergency.

Because basically what you have here are people trying to get homes. And like I said, all of these people taking a chunk of money all the way down, fraudulently, lying and stealing. You have got hard-working Americans left holding the bag, and when you talk about communities, with the property values going down and down and down, at some point something has to give.

Is there something unique about the county?

Mr. Rokakis. I'm going to try to be non-political here.

I think the State government plays a critical role.

In progressive States like Minnesota, North Carolina, which have been very good on consumer protection and other states, these practices would not have been tolerated.

You need to know the city of Cleveland, the city of Dayton and Toledo on their own passed anti-predatory lending laws in 2002 out of a sense of desperation, because the State legislature has done nothing.

Within 30 days of those laws passing, the legislature convened and passed a law preempting the rights of cities to protect themselves with the promise that they would deal with it later.

They dealt with it last summer, because elections were pending for all the State offices, and they passed a good consumer bill and proceeded to gut it after the election, after the change of leadership at the State level.

All I can tell you is this. Common Cause has reported on this extensively. The power and the influence of the real estate lobby in the state legislatures is unparalleled.

It's like nothing I've ever seen.

Unfortunately, it was the fact that nobody was home at the State government that allowed this to happen in Cuyahoga County. Now that's changed. We have an attorney general that's very engaged. I think that will change. But that, I think, is the biggest reason.

Representative Cummings. One of the things that I hear from my people in the subprime business, they say, "Cummings, be light on us. We are trying to—if it were not for us, people would not have a house." I hear that over and over and over again.

When I hear testimony like Ms. Anderson and Ms. Sweet, at some point, I just think the truth will always rise to the top. Unfortunately, when it rises to the top, a lot of times there is a lot of pain that got it to the top.

So at the same time, you know, Ms. Maloney asked the question about whether we were doing some damage to the subprime industry because they are doing all these good things.

But it seems to me that if the end result is that a significant number of the subprime loans are going into default, and then it takes all the time that you all just talked about for recovery, means that there are some people who will never recover.

It just seems to me, in some kind of way, we have got to get ahold of this problem. I understand even moreso why you, Ms. Anderson and others, talk about the Federal solution.

Just one question for you, Mr. Wade. Talk about this counseling. How does that work? You said you have a 10 times better rate of getting people straightened out. How does that work? What do you all say to them? What do you do? These are people that are already in trouble?

Mr. Wade. I meant of the consumers that we counsel, to help get into home ownership, their foreclosure rate—or to say it another way, the foreclosures in the subprime market are 10 times higher than the consumers we've assisted to get into home ownership.

That's because good pre-purchase counseling arms people with the information to do the due diligence that's necessary. I would agree. Purchasing a mortgage is probably the most complex thing that most Americans will ever do, and you don't do it that often.

So the notion that a consumer on their own will be able to wade through this dizzying array of products is just, I think, too much to expect. So I think really we need to think about pre-purchase counseling the way that we think about a home inspection, when you're going to purchase a home.

Most consumers know they don't know enough about a house. They have go get a home inspector. I think we've come to that in the mortgage industry as well. It's too complex a process. It's not like it was 30 years ago, where basically you had a couple of choices.

There's a 15-year mortgage or a 30-year mortgage, and it wasn't very complicated. The person that sold you the loan was also the person that serviced the loan, and was also the person that held the loan. That's not the market today.

I don't know if you've ever seen a pricing sheet, a subprime pricing sheet. There's a dizzying array of options based on the person's credit score, the loan, the value of the property, how much they're going to put down. It's very complicated.

I would say most consumers on their own would have a difficult time wading through that. Coupled with the challenge that you really don't know the deal you have until you're at the closing table.

That's another complicating factor. I mean even when you get the good faith estimate, it's just an estimate.

It's not binding and it says right on there that it's subject to change based on a number of variables.

I had just an exchange the other day. One of our staff, who had a friend who knows that they work in this arena, at the closing table called her and said "Look. The loan documents say that I've got two points. They didn't tell me that ahead of time. What can I do?"

Well, the only thing you can do as a consumer is get up and walk away, because if you sign the paper, you're obligated. Unfortunately, the person felt trapped because they were counting on the purchase of this home going through in order to be able to sell their other home.

So if they got up and walked away, it would have a cascading effect on their life, and they just felt they were stuck. That's the complicated process we have today, and I think it creates a real challenge for consumers.

Representative Cummings. What we discovered in Baltimore is that a lot of people feel ashamed. You talk about both organizations, ESOP and the other one.

Sometimes you need somebody who can hold your hand, so you do not feel ashamed. Somebody who can say "Look, I have been there." I want to thank you all for your testimony, and thank you, Mr. Chairman.

Chairman Schumer [presiding]. I guess I'm on. I thank the witnesses for being here again, and apologize for my leaving. This one is for Jim Rokakis and Tony Brancatelli.

As I said, I think that Slavic Village is a forewarning of what's to come in other communities across the Nation.

These are communities that have a high percentage of subprime mortgage borrowers.

But we heard repeatedly from the industry and Administration representatives, that the market will fix this mess. Our economic growth will not take a hit. We should all breathe easy.

I want to ask Mr. Rokakis and Mr. Brancatelli, take whatever time you need here. What do you have to say to this optimistic outlook on the housing market?

Second, will this subprime housing market fall have a lasting impact on Slavic Village and other neighborhoods in Cleveland? Has it had any effect on business investment and the ability to hire new workers to date?

Mr. Rokakis. Senator Schumer, I think that's misplaced optimism. It may be true in some parts of the country. But in some parts of the country that are not doing as well, that are struggling economically, I think that's wishful thinking.

I don't see how they can make that statement, when there are thousands and thousands of vacant homes put just a drain on the local government's ability to deal with this problem.

How can they say that when properties are being devalued not only in areas they're located in, but throughout the region?

How can you think about the future of a community?

Think of your own personal circumstances. How could you think about the future when you're in a life and death struggle to hold on to what you have?

That's what has been so difficult for us in Northeast Ohio, in this foreclosure crisis. It's just heightened the tension and the problems we were already experiencing. So I think the optimism is misplaced. Has it hurt the county's ability to attract business? Is that the question, Senator?

Chairman Schumer. Yes.

Mr. Rokakis. Certainly the publicity has not been at all positive, and I struggle with that. Maybe we just need to keep our mouths shut and act as if it isn't a problem.

But the reality is it's too late. This problem has reached the crisis stage in our county. But it's going to become a crisis all over the country.

You've alluded to that fact. This is the beginning.

It's going to get much worse. If speaking up means that this Congress takes actions to prevent this going forward, then I think it's something we need to do.

Chairman Schumer. One other point here. You had mentioned before—we go to Mr. Brancatelli on this—you had mentioned, I think, that there were 15,000 foreclosures in Cleveland. Is that the city of Cleveland?

Mr. Rokakis. Seventeen thousand will be filed this year in Cuyahoga County. Seventeen thousand.

Chairman Schumer. Just this year in Cuyahoga?

Mr. Rokakis. That's just this year. Thirteen thousand six hundred last year.

Chairman Schumer. Do you have any idea how many total residences there are, owned residences, not rentals in Cuyahoga County?

Mr. Rokakis. That's a good question, Senator. We look at the pool of people who are facing foreclosure. We roughly break it out.

It's at least 50 percent who fall in the category alluded to by Mr. Brancatelli earlier, people who are buying multiple properties because they think they're going to get rich in the real estate business.

So I don't think—I don't want you to think that 17,000 families are being forced to leave their homes. We think the number is half or even less than that number.

Chairman Schumer. Mr. Brancatelli, in answer to my questions.

Mr. Brancatelli. Just one area I'd like to contradict Mr. Rokakis on, when he talks about not being good for business, there is one business that's doing remarkably well because of this industry, and that's the scrapyard business.

With the high cost, the high value of scrap aluminum and copper, the scrapyards have never flourished so well.

Houses are being stripped at a remarkable rate.

Good for the city, because we demand things like landscaping and fencing the scrapyards would never do to help protect our neighborhoods. It's bad for the city because we're seeing houses being stripped at a remarkable rate.

But from that, the down side is the businesses are suffering. You see a remarkable rate of move-outs in our community, as the treasurer outlined. You see that we can no longer support some of the local businesses that we have in place, the delis, the local stores are suffering.

We're suffering from such a huge loss of equity. So when grandma finally decides to sell her house, once she could have sold for $60,000; now she sells it for 40,000.

When you keep stripping that equity out of our neighborhoods, it has a devastating effect on the long-term investments that we have.

Certainly, I think, as Ms. Anderson pointed out, in our community we have a wonderful integrated community. We have a community that's moving forward.

But how do we recruit people to come into our neighborhood when we see 1,000 vacant and abandoned properties? How do we recruit people to invest in their real estate when they see the values going down? It's a very, very difficult thing to do.

I agree with the treasurer. It's difficult for me to stand here today when I spent 17 years of my life trying to promote home ownership and trying to get people into homes.

But it's not difficult for me to stand here and say, you know, look at how hard we've been hit. We have to say it, we have to do it, and we have to change the direction. We have to let people know it's no longer acceptable to go into liar's loans when the mortgage companies allow it.

Some of the people see this and they think "Well, it must be OK, because the mortgage company gave me the loan." This is a big mortgage company. It must be OK, and it's just not true. They're thieves, they're liars, they'll do anything to get you in a mortgage.

Chairman Schumer. I agree with your point. We find this across the board. People have trust in American institutions. So they say this is a mortgage company; there must be a bank somewhere. Banks have these nice buildings.

They're not stealing.

We find the same thing we found with the student loans just now. People say how would a college steer me to a higher interest rate loan? It's a college, but they're doing it. This is sort of a bit of, you know, this is a larger issue.

I don't know if on the JEC we should look at this, but it's sort of a breakdown of institutional trust, and people used lots of sort of, I don't know, codes.

They're not code words; they're not symbols. But you didn't have to scour the details of a mortgage document, because the bank would never rip you off, because the bank held the mortgage.

It was in their interest to make sure that you were given a good mortgage. But we don't have banks involved in most of these problems, the same thing with the colleges.

Let me ask one more question. Then I'll turn to Sherrod for a second round, and then I'll go for a second round.

But I wanted to ask both Ms. Anderson and Ms. Sweet you both testified about the importance of third parties intervening on your behalf. In both cases, this third party was ESOP.

I said in my opening statement Senators Brown and Casey and I are trying to get more resources to foreclosure prevention programs that are on the ground working with borrowers and homes. So I'd like to hear your experience with foreclosure prevention counseling.

Does it work? Is there any substitute? Is this sort of pie in the sky do-good stuff, or is this real on the ground stuff that matters? Tell me what role they played in your negotiations with the person who ultimately holds the mortgage? Do you want to go first, Ms. Anderson, and then we'll call on Ms. Sweet.

Ms. Anderson. OK. Let me just say this. First, I stumbled around for a long time looking for an organization to go to. In my opening statement, I made mention that I e-mailed, faxed, called, made all kinds, looked everywhere, all over the Internet, looking for who is it that can help me.

First, I had to deal with the fraud. It was unbelievable. Nobody believed me, number one. Then people tended to ask questions that I had no answer for, as in why would anybody do this to you? So that was devastating to me, because I couldn't answer that question either.

Why would your mortgage, out of all the mortgages across the country, why would someone single out your mortgage, not to apply your little money?

Chairman Schumer. Most people would be a little bit embarrassed too.

Ms. Anderson. I was embarrassed. Actually, I've said this before, but I began to do what most battered women do.

I began to blame myself. I began to think maybe I'm mailing them to the wrong place. Maybe instead of mailing it in my building, maybe I need to take it to the post office.

Instead of taking to the post office, maybe I need to put extra stamps on it. Instead of doing that, maybe I should send it certified, maybe send it registered. Maybe I should do this.

Maybe instead of sending the check, maybe I needed to send them a money order. I was doing and making all kinds of changes because for a long time I thought it was my fault.

I did stumble into ESOP. They weren't really working on my issue at the time. But the issues that they were working on were so interesting to me that I got caught up in the CRA, and kind of made my issue a secondary issue.

But we had an agreement with Charter One Bank. Charter One Bank made way for us or made an opportunity for us to appear on a radio station. We went to the radio station early one morning, one Sunday morning before church.

As we were sitting there, bombarded with questions about home ownership, foreclosure, predatory lending, they began to ask if there was any one servicer that you would mention, what servicer would that be?

Either I or the president of ESOP at that time said Fairbanks. At that time, all the lights in the studio lit up. One of the men who was actually working there turned around, pointed to himself gesturing that his mother had that kind of loan.

We said ESOP is going to have this meeting, come to the meeting. People from all over came. People from out of the city, just bombarded. We became worried that we might be exceeding the fire limits for the building.

Selfishly, I must say, I was so happy, because at that time I knew I wasn't crazy. I said I don't believe it.

Look at all of these people here. It's not just me. Then I began to work diligently, because for the first time it was confirmed to me that this is real.

This abuse is meant. This is not something just made up in my head. So we began to fight like never before. But ESOP began to really fight for so many people in that same shape I was. That was really what I considered our biggest, maybe just because it was me, our greatest challenge.

We had a meeting with Fairbanks. We came to an agreement. They wiped out over $30,000 off my loan. They asked me to stay. I said no way Jose. I'm out of here.

I've refinanced with Third Federal. Went from 14.5 percent to 5.85 percent, and I've never been happier making that loan payment every month in my life.

Chairman Schumer. You see, we could do that for hundreds of thousands of families, just with a small amount of this money to go the groups like yours. Ms. Sweet, do you want to say something quickly, and then I'll call on Mr. Brown. Then we'll wrap up.

Ms. Sweet. Yes. Definitely ESOP was helpful. What I think is unfortunate is that it sounds like Ms. Anderson, similar to myself, we're more proactive and assertive than I think most people. So we sought out that information.

I think a lot of people this happens to and no one even knows, because they don't step forward or they try to and they don't know how and they step back.

So I think, in addition to keeping ESOP and other organizations like it funded, getting the word out, I mean I have a degree in Social Work. So of course I know how to ask for help and who to ask.

But like you said, it's the battered wife syndrome. I was so embarrassed that I had allowed myself to get into an agreement that was so ridiculous.

Then when I looked back and saw that I didn't even review my closing documents closely enough, and missed all of these lies and untruths, I didn't want to bring that forward to anyone. I felt like an idiot when I had to. But I knew that I had to, or I would lose my home.

Chairman Schumer. We're glad you did.

Ms. Sweet. Yes. Definitely helpful.

Chairman Schumer. Senator Brown.

Senator Brown. Thank you, Mr. Chairman. You will not be surprised to know when you had to leave the room, that Ms. Anderson said the real counseling that we should have is the counseling of the bankers and the mortgage brokers, and there should be counseling in ethics. You missed that statement from Ms. Anderson.

But first of all, I apologize. I have to go to another committee to make a quorum. We're doing the FDA reform bill. So after a couple of questions, I'll have to run. So thank you, Mr. Chairman.

Mr. Rokakis and Councilman Brancatelli, some less sympathetic experts, if you will, have said, including mortgage bankers, have argued that the current wave of foreclosures in Cleveland and throughout the State are due to economic conditions rather than loan practices.

They also make another point often, that there's a price to pay for these prime mortgages, and that is that the whole point of subprime at its best is to get more people into home ownership. We certainly heard that, and I think that's certainly an arguable point.

But my question to both of you, particularly Mr. Rokakis, when you have said when this is all said and done, there will be fewer people, at least, between Fleet and Broadway. But fewer people probably in this country are going to own homes as a result of this, that would have owned homes if there weren't the aggressive kind of selling.

Would you both comment on that?

Mr. Rokakis. That's unquestionably true. The argument you hear about Cleveland, Ohio is just a variation of the theme that basically blames the poor for their plight.

Let me just say this. Every time I debate people from this industry, and I debate them a lot more than I want to these days, when they make that argument I ask them one question, and I've never gotten an answer.

If you knew that to be true about Ohio's economy, why do you continue to pour mortgage dollars into a depressed economy? Why do you continue to make loans in Northeast Ohio in 2003, 2004, 2005 and 2006, when the foreclosure rate in this community and the State was already the highest in the Nation?

You know, I've yet to get a response. I just want one person to respond to that. They can't respond, because it's unbridled greed. It's a complete lack of care and concern for the community.

Let's face it. These were great years for that industry. The profits were absolutely out of this world.

But you know, you can blame this entire meltdown on Ohio and Michigan, as I've heard and I've read.

Senator Brown. And Indiana.

Mr. Rokakis. Just wait. As you said, we're the canary in the coal mine, and it's going to get worse. It's going to be this way all over the country.

Mr. Brancatelli. It absolutely is all over the country.

When you see some of the most strongest markets in California and Florida, and you see the foreclosure rate that's happening there now, it may not be the 20- or 30-thousand-dollar homes in Slavic Village; it could be the half-million-dollar home in Naples. But it's happening all over on these aggressive lending practices that are happening.

When someone says "Well, we're providing home ownership opportunity," I think it's a real unfortunate script to hide behind. I'll be the first to admit that not everybody should be a home owner. We have wonderful counseling opportunities for people to get them ready to be a home owner.

But because they're not ready to be a home owner today doesn't mean they should get into a predatory loan. It means they should go through counseling and it means they should go to the appropriate agencies.

I spent 20 years of my life working at a non-profit agency before becoming an elected official, and there are some people that I turned down. I said, "You know what? You need more help." They turned around, they went to a predatory loan and they suffered the consequences.

For those who did go through the appropriate process, they are still in those homes. But the effect that's happening now, with the vacancy and abandonment that's happening and the stripping of the wealth, I agree with the treasurer. It's unbridled greed that's happening in our communities.

Senator Brown. Thank you to all of you.

Chairman Schumer. Because it's noon and you've been here a while, I have a few questions in writing I want to submit.

I want to thank you all. This hearing is adjourned. Sherrod and I will come over and say thanks.

[Whereupon, at 12 p.m., the hearing was adjourned.]

Submissions for the Record

JOINT ECONOMIC COMMITTEE
SENATOR CHARLES E. SCHUMER
CHAIRMAN

PREPARED STATEMENT OF SENATOR CHARLES E. SCHUMER, CHAIRMAN

I would like to welcome my fellow Committee Members, Senator Sherrod Brown, our witnesses and guests here today for this very important hearing on a problem that is plaguing too many families and communities across the nation—the subprime foreclosure crisis.

The numbers are staggering and getting worse.

Consider these statistics:

- The Center for Responsible Lending estimates that as many as 2.4 million families may ultimately lose their homes to the subprime foreclosure crisis, at a cost of $164 billion in home equity.
- In June alone, foreclosure tracker RealtyTrac counted 165,000 new foreclosure filings, more than double the amount recorded in June 2005.
- From June to October of this year, $100 billion of risky subprime adjustable rate mortgages are scheduled to reset in a weak housing market, many of which are likely to default and lead to further foreclosure increases.
- One in five subprime loans originated in 2005 and 2006 will end in a lost home.

These numbers are not the manifestation of a housing market "correction," as the administration's economists have argued. These facts are not merely the byproduct of a period of bad decisionmaking among a select few over-eager borrowers. These shocking figures are a result of widespread, systemic, irresponsible underwriting practices by too many unscrupulous brokers and lenders that now are threatening the social fabric and economic well-being of our nation's neighborhoods and towns.

And worst of all, this subprime foreclosure crisis is just beginning. I know it is hard to imagine that it could get worse from here, but it will. The wave of foreclosures that we have seen to date does not include the vast number of risky "exploding" adjustable rate mortgages that were originated in 2006. Once these loans start resetting this fall and into next year, we can expect to see hundreds of thousands more families lose their homes.

And when this foreclosure storm subsides, it will have left a net loss of homeownership in its wake.

I called this hearing today for two main reasons:

First, I fear that the cries for help from the millions of real people trapped in bad subprime loans today are getting drowned out by headlines of investor woes, collapsing hedge funds, and lower-than-expected earnings among lenders.

And while every city in America is in this together, I chose to focus on the families and neighborhoods of Cleveland, like Slavic Village, that are being decimated by subprime foreclosures. Slavic Village is a harbinger of the crisis that is unfolding in cities across the nation; and I hope that by investigating the human toll of unscrupulous lending up close, we can better prepare to prevent more Slavic Villages from emerging in the near future.

Second, I am afraid that we are not learning the lessons of the present. I fear that this problem is beginning all over again right under our noses, with predatory lenders preying on those very families already in danger of losing their homes—this time, with the promise that they are rescuing them from foreclosure.

We're reading in the headlines that lenders are tightening underwriting guidelines, and that some have even banned certain types of risky loans. Yet the data examined by the Center for Responsible Lending show otherwise. At the June hearing I held on the Housing Subcommittee that I chair, CRL testified that many of the most recent offerings of mortgage-backed securities still included harmful prepayment penalties and stated income or low documentation loans, and nearly 80 percent of the mortgages were still risky adjustable rate loans!

The witnesses that we have here testifying for us today are at the epicenter of the subprime lending storm. The testimonies that you will hear tell a story of fraud, corruption, greed, negligence and heartbreak.

Our witnesses will also inform us about an important side of this issue that is rarely discussed—the ways foreclosures impact not only the families that own the homes, but their neighbors, their communities, and their local governments.

We never hear, for example, that one foreclosure on your city block can bring down your home's value by 1.5 percent, even if you have never missed a payment on your own mortgage. In neighborhoods like Slavic Village outside of Cleveland, where over 1,000 homes are currently foreclosed and vacant, community leaders like Councilman Tony Brancatelli and residents like Barbara Anderson—both of whom are here today—are grappling with lost property values in the area of $60 million. Just think about that. $60 million of financial security that the families in this one community were relying on has disappeared.

And lower property values means lower tax revenues for local governments at a time when the demands on them are already too high. County Treasurers like Jim Rokakis here with us today now have fewer resources for their schools, their local law enforcement, and for important public services such as those that can help these imperiled homeowners.

This is not a problem that is going to go away when the market corrects itself—the subprime mess is leaving deep scars that threaten economic security nationwide, whether in urban neighborhoods like those in St. Louis and Baltimore, suburbs like Massapequa on Long Island, or entire regions like Greater Cleveland.

We cannot afford inaction. To do nothing means that hundreds of thousands more families will lose their homes and their primary source of economic security. To do nothing means that millions of other homeowners will see the value of their homes plunge through no fault of their own. And to do nothing means that we will be permanently handicapping communities for years to come, which will have widespread repercussions for our economy.

We don't have time for endless debate about the causes of this crisis. We need to help families everywhere, including those sitting in this room, who are struggling with foreclosures today. And we need stronger, common-sense regulations, to prevent a flood of risky or abusive subprime loans rushing into the vacuum that the current crisis has created.

To help stem the surge of foreclosures expected in the months ahead, Senator Brown, Senator Casey and I are fighting for increased resources for nonprofit groups in the trenches of the foreclosure prevention fight. We have succeeded in getting $100 million of funding for HUD-approved foreclosure prevention programs in the Senate Transportation-HUD Appropriations bill, and we will fight to make sure that this important resource is made available to the many organizations, like NeighborWorks and ESOP here with us today, that are providing an invaluable service to help struggling borrowers keep their homes.

Another goal that Senators Brown, Casey and I share is to create a national regulatory structure for mortgage brokers and other originators that fall through the cracks of the complex Federal and state regulatory structure.

In April, we introduced a strong bill, The Borrowers Protection Act, to make it harder for irresponsible brokers and non-bank lenders to sell mortgages that are designed to fail the homeowner and result in foreclosure.

Our ultimate aim is to strengthen standards for subprime mortgages by regulating mortgage brokers and all originators under the Truth in Lending Act (TILA) by establishing on behalf of consumers a fiduciary duty and other standards of care. In addition, the bill outlines standards for brokers and originators to assess a borrower's ability to repay a mortgage, requires taxes and insurance to be escrowed on all subprime loans, and holds lenders accountable for brokers and appraisers.

We look forward to hearing from all of our witnesses today. You are on the front lines of this battle, and your testimony that you will provide today will help better inform the Members of this Committee and of Congress, and shape Federal action to address this crisis.

Without further delay, let us get down to business. I welcome all Committee Members and honorary members here with us today to give their opening statements, starting with [Ranking Member Rep. Saxton] and Vice Chair, Ms. Maloney. Then we will proceed to the other members before my colleague from the Banking Committee and a leader on this issue, Senator Brown, offers his opening statement and introduces of our panelists.

JOINT ECONOMIC COMMITTEE
SENATOR CHARLES E. SCHUMER, CHAIRMAN
REPRESENTATIVE CAROLYN B. MALONEY, VICE CHAIR

PREPARED STATEMENT OF REPRESENTATIVE CAROLYN B. MALONEY, VICE CHAIR

Good morning. I would like to thank Chairman Schumer for holding this hearing to examine the economic impact of foreclosures caused by subprime mortgage defaults. I also want to welcome Sen. Brown and our witnesses.

In this hearing we will hear from victims and local leaders from one of the hardest hit cities—Cleveland, Ohio. But the same sort of economic pain is being felt in communities across the country as subprime mortgage defaults and foreclosures rise.

As subprime mortages reset to much higher rates than borrowers can afford, families are experiencing the devastating effects of these loans. Like a stone cast into a pond, the ripple is being felt throughout local economies as losses mount for borrowers, lenders, governments, and neighbors.

Sadly, the worst is yet to come. If we do not stem the tide of these foreclosures, the coming crisis could eclipse the number of people displaced by Hurricane Katrina, according to the National Consumer Law Center. Moreover, consumer advocates estimate that at the current foreclosure rate, the surge of subprime lending could end up eliminating more homeowners than it initially created.

Concern is also growing about whether the turmoil in the subprime market will infect the larger economy. At least four large subprime lenders are already in bankruptcy and Wall Street investment banks are seeing huge losses in their subprime portfolios.

Yesterday, Countrywide Financial, the nation's largest mortgage lender, sparked a sell-off in the stock market with the news that more borrowers with good credit are falling behind on their mortgage payments. In their view, the housing market may not begin to recover until 2009.

Both the Senate and the House have held hearings where we've heard from Federal regulators and industry and consumer representatives about the need to strengthen underwriting, correct abusive lending practices, and provide remedies for borrowers.

I applaud Chairman Schumer's efforts to gain additional funding for foreclosure prevention programs.

In terms of changing lending practices, the interagency guidance on subprime lending sensibly sets out principles that require lenders to assess borrowers' ability to pay over the whole life of the loan.

This guidance strikes a balance between making sure borrowers can repay the loans they get and helping borrowers who can repay a loan get one. We should extend that guidance to the entire universe of subprime lenders, not just the sliver of the primary market regulated by Federal agencies.

The Federal Reserve has broad powers under HOEPA to regulate "unfair and deceptive" practices for all lenders. I have urged the Fed to use those powers to extend this guidance to the whole market—including mortgage subsidiaries of bank holding companies and state-regulated banks and finance companies.

We should legislate an enforcement scheme to support such a rulemaking, which could involve state authorities.

Extending such underwriting principles to the secondary market is also imperative, because lenders won't make these loans if they can't sell them.

We need to take steps to help borrowers in crisis. We also need to return to healthy underwriting principles, because that provides a sound basis for economic growth.

I thank the chairman for holding this hearing and I look forward to the testimony of our witnesses.

PREPARED STATEMENT OF SENATOR SHERROD BROWN

July 25, 2007

Washington, DC—U.S. Senator Sherrod Brown (D-OH) released the following statement from today's Joint Economic Committee entitled A Local Look at the National Foreclosure Crisis: Cleveland Families, Neighborhoods, Economy Under Siege:

"Mr. Chairman, I am pleased that you have called today's hearing to look more closely at the current mortgage crisis and the toll it is taking on a single community. I also want to thank your staff for all of their hard work. Mrs. Sweet and Ms. Anderson, I appreciate your traveling here to join us to tell their stories. People should not have to go through what you have been through. I also want to thank Mr. Wade, Councilman Brancatelli, and Jim Rokakis for joining us as well. Each of them has been working hard on this problem for years and we are indebted to them.

"Thanks to its location on the shores of Lake Erie, during the industrial age Cleveland helped build America. Iron ore came down by barge from Minnesota, while railroads carried coal from the south. Steel mills sprang up throughout Northeast Ohio, manned by immigrants—new and old—from around the world.

"Many of the Poles and Czechs who worked in the steel mills settled in a neighborhood of Cleveland that came to be known as Slavic Village, a solid, working class neighborhood. Most of the steel mills have been shuttered, but the neighborhood lived on. As our witnesses will testify, today Slavic Village and communities like it are fighting for their lives.

"The economy is certainly a big part of Ohio's problems, but the steel mills shut down years ago and a stagnant economy is unfortunately nothing new. Unemployment has actually been falling slightly over the past 2 years in Ohio, while the number of sub-prime loans in delinquency has climbed steadily. And what's true for Ohio in general is also true for the Cleveland area and Slavic Village. Both have been rebuilding over the past several years. And if you look at the state of Ohio on a county-by-county basis, there doesn't seem to be much of a relationship between jobs and foreclosures. Counties with low unemployment rates have high rates of delinquency, and vice versa.

"Delinquency rates today approach those in the last recession. But we are told our economy is doing great. Wall Street may not agree. The biggest mortgage lender in the country lost 10 percent off its stock price yesterday and the markets were down 2 percent because of worries about sub-prime loans.

"But market swings only tell half the story. Sure, hedge fund investors have lost money and credit has tightened. But there are a lot of people in Washington, DC who do not fully understand what lies behind these numbers. Behind these numbers are thousands and thousands of people like Mrs. Sweet and Ms. Anderson, communities like Slavic Village, and counties like Cuyahoga. That's why today's hearing is so important.

"I know some people want to dismiss the mortgage crisis as merely a problem for part of the Midwest. Even if that were the case, it would demand our nation's attention just as much as a flood or tornado. A man-made disaster is still a disaster.

"Cleveland is the canary in the coal mine. What has happened there is beginning to happen in New York and California and Florida and Nevada and Colorado. Millions of people across the country have been sold these loans that are designed to default, putting their life savings at risk.

"In the face of this crisis, Congress needs to act. We shouldn't have to wait for this to become a crisis for investors on Wall Street, when our witnesses are living through a crisis every day in the streets of Slavic Village and communities throughout Ohio. We shouldn't have to wait for the regulators to act, because every day we wait thousands of families will have their exploding loans reset to unaffordable levels. And we shouldn't have to wait for the market to self correct. That correction costs a lot more than a hit to a hedge fund or a lender's stock; it costs the hopes and dreams of homeowners who were guilty only of trying to make a better life for their families.

"Communities like Slavic Village need our help now. They have been robbed of too much already, while the Federal Government has turned its head away. Thank you, Mr. Chairman."

PREPARED STATEMENT OF JIM ROKAKIS, TREASURER, CUYAHOGA COUNTY, OHIO

Mr. Chairman and members of the Committee, thank you for the opportunity to speak before you today. My name is Jim Rokakis and I am the Treasurer of Cuyahoga County, Ohio, the state's largest county, representing Cleveland and 59 cities, villages and townships.

While the events of the past several months have focused the attention of the entire financial world on the practices of the subprime lending industry, we have suffered the consequences of reckless and irresponsible lending for many years. Since the late 1990's, Ohio and Cuyahoga County have consistently led the Nation in this sad statistic of foreclosure filings.

Consider these numbers, please. In 1995, 3,345 private mortgage foreclosures were filed in Cuyahoga County and 15,975 were filed statewide. By 2000, over 7,000 private foreclosures were filed in Cuyahoga County and over 35,000 in Ohio—better than double the number of filings 5 years earlier. In 2006, 13,610 foreclosures were filed in Cuyahoga County and over 79,000 statewide. Sadly, we are on pace to foreclose on 17,000 properties in *Cuyahoga County* in 2007—five times the 1995 total.

The impact of the foreclosures on the county's tax base has been overwhelmingly negative. Last year more than 74,000 borrowers filed for a property tax reduction with our county auditor and the Board of Revision. Professor Dan Imergluck of Georgia Tech, among others, has written about the impact of foreclosures and vacant properties on crime and property values. While very few of my residents have read Professor Imergluck's work they know this: their neighborhoods are less safe and their properties worth substantially less as a result of these foreclosures and they are voting with their feet. 50,000 residents have left Cuyahoga County in the past 5 years—only Hurricane Katrina afflicted counties have experienced a greater loss. We surveyed vacant properties in seven suburbs and Cleveland, and estimate at least 15,000 structures are vacant in Cuyahoga County as a result of this foreclosure epidemic.

The impact has been felt in suburbs as well as in the city of Cleveland. Almost every community in Cuyahoga County is being forced to maintain yards and empty dwelling units as a result of these foreclosures. Shaker Heights will be forced to spend over $500,000 this year to maintain its vacant properties. Euclid will spend almost $400,000. Cleveland Heights, Garfield Heights, Maple Heights, South Euclid, Lakewood and Parma will all spend hundreds of thousands of dollars out of their general funds to maintain these properties—monies they cannot afford and expenditures that will result in a loss of services in other critical areas.

The last thing I want to discuss is the carelessness, sloppiness and rampant fraud that is so prevalent in the mortgage lending industry. Look at this study of foreclosed properties conducted by Cleveland State University. The first exhibit is a page of foreclosed mortgages on loans made by Argent Mortgage, a wholly owned subsidiary of Ameriquest. This first exhibit is a random sampling of foreclosed mortgages on Cleveland's west side. Look at the auditor's fair market value in the second to last column. We have color-coded this chart to highlight our point. Every mortgage in red is a mortgage of at least 175 percent of the auditor's fair market value. Every mortgage in yellow is at least 125 to 175 percent of the auditor's fair market value. Look at how many mortgages are loaned at amounts of at least 200 percent of fair market value. The second part of this study looks at the total value of Argent mortgages and the total value of these properties according to our county auditor. The study shows negative equity totaling one hundred eighty six million dollars in the city, and forty three and one-half million dollars in the suburbs. The negative equity in the city of Cleveland is probably much higher since so many of these properties have been vandalized and stripped of their siding and copper piping, and anything else of value.

The purchasers of these properties were not blameless in most of these transactions. Many had horrible credit. Most put nothing down. Most received cash back at the closing, but the broker, mortgage banker and Wall Street knew all of this but the money was too good, the profits too powerful to ignore. Don't buy the argument of the Federal Reserve Bank that the market will correct itself. The market corrected too late and only after neighborhoods in Cleveland, and cities like it all over the country, were decimated by this industry. The real victims in this scandal, Mr. Chairman, were the hard working citizens of my community who pay their taxes, maintain their property and who watch helplessly as properties are sold and resold around them, going dark and being vandalized—citizens whose major and often only asset—their home—is stripped of its value—just as the home next door to them is stripped of its aluminum siding and copper piping. And we must not forget, Mr. Chairman, that 90 percent of the subprime loans in our country are not new homeowners. They are existing homeowners who have refinanced their properties. That is why when foreclosures on subprime mortgages—there are about 800 billion dollars of subprime arm's resting this year and next—are all filed and adjudicated—there will be fewer homeowners in this country than before this whole sordid mess got started.

ARTICLE BY MARK WEISMAN

WHAT THE BORROWER IN DEFAULT IS UP AGAINST

When a homeowner is late on their monthly payments, the servicer who has been hired by the lender to process the payments will start calling to inquire where the payment is. The collection calls come fast and furious to the borrower's home phone. Unlike what the industry would have Congress believe, the tone of the phone call is anything but conciliatory or amicable.

There are various stumbling blocks that the borrower faces, in his efforts to save a loan from foreclosure.

First—nearly every subprime loan is sold to another lender. Sometimes an even different party services the loan; sometimes it is the new lender. The constantly changing cast of relevant characters merely adds confusion to an already muddled situation.

Second—when a borrower attempts to contact his lender or servicer, he is met by noncompliant voice mail, flat out refusals to reveal direct dial numbers, or mailing addresses and (because nobody in any loss-mitigation department is assigned to any particular loan) the need to rehash the entire story every time he calls back.

Third (and this is one of the most important aspects of the situation) by the time a loan gets referred for a foreclosure lawsuit, the borrower has been berated, threatened with eviction and homelessness, and screamed at and insulted for not paying the entire balance due. Is it any wonder that borrowers mistrust whoever tries to contact them?

Freddie Mac performed a study in 2005 that shows that the overwhelming majority of borrowers fail to respond to loss-mitigation efforts by their lender.[1]

The results of that survey are striking. More than 60 percent of borrowers were unaware that there were viable workout options open to them. Almost all of that 60 percent would have responded, had they known that options existed. Almost 20 percent did not call because they were afraid, embarrassed or didn't know who to call. Furthermore, almost 30 percent expressed the erroneous belief that their servicer could provide no help at all.

Every borrower wants to stay in his home and every borrower knows that the lender who is trying to contact them is the only party who can help. Unfortunately, what causes the defaulting borrower to ignore their lender is how borrowers are treated once they are in default.

Here is just one example of the trouble that awaits a borrower who attempted to work out the default on his home loan.

The foreclosure prevention program helped a man named John, who was in default on his payments. John was behind 3 months on his mortgage because of a serious illness to his wife. After the lender had given him an amount to pay to save his home from "being sent to foreclosure," he attempted to submit the payment amount. Unfortunately, his lender then delayed finalizing the deal for a week and referred his file to foreclosure. (Keep in mind that once a foreclosure lawsuit has started, the lender can legally insist on collecting legal fees, and at the same time, make the unstated threat of homelessness even more real. It is hard to imagine being able to place more duress on the borrower's shoulders.)

Unfortunately, John had no choice but to agree to pay whatever the lender wanted, even though he had the money to pay a week before the foreclosure lawsuit was filed. His monthly payment now includes the legal fees for that foreclosure because the lender was successfully able to put him off long enough to get their law firm to file the lawsuit. John could fight this if he could afford an attorney, but like 99 percent of the borrowers in foreclosure, he has no cash left. (Not to mention there are precious few attorneys who can actually take this type of case)

Even if a borrower is successful in convincing an attorney to take his case, the foreclosure bar has a clientele that will gladly finance a litigation strategy that has more to do with squashing any attempts the borrower can make at a legal defense and nothing to do with trying to keep the borrower in their house.

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[1] "Foreclosure Avoidance Research," 2005 Study commissioned by Freddie Mac. Performed by Roper Public Affairs, Dec, 2005.

In addition to the above example, this panel should be aware of the various foreclosure rescue scams that are proliferating in this Country. From the time a foreclosure case is filed, borrowers receive a barrage of letters, phone calls and see endless ads that promise to save their house and erase all of their problems.

These people (who are experiencing life-shattering events) are often powerless to protect themselves from a population of individuals who have no compunction about using someone who is desperate to make money. Too often these scams hasten the borrower's status as newly homeless, or worse, cause them to lose their house, even though they would have been able to satisfy their lender, had they had the opportunity to work out a payment plan.

By now, most players in the lending and servicing industry have introduced "loss-mitigation" phone numbers for borrowers to call when in distress. But, just figuring out the right party to call is not as easy as it seems. The typical caption in a foreclosure lawsuit (which is the only indicator of who the unsuspecting borrower should call, reads like this:

IN THE COURT OF COMMON PLEAS, CUYAHOGA COUNTY OHIO

CHASE MANHATTAN BANK NA AS TRUSTEE FOR THE REGISTERED HOLDERS FROM TIME TO TIME OF LEHMAN HOME EQUITY LOAN TRUST 1996–2 C/O BARCLAYS CAPITAL REAL ESTATE INC, DBA HOMEQ SERVICING CORPORATION, 1100 CORPORATE CENTER DRIVE, RALEIGH, NC 27607–0000.	COMPLAINT IN FORECLOSURE CASE NO. JUDGE
Plaintiff v. Jane Smith, et. al. Defendants	

This is the actual Plaintiff from a case that was recently filed in the Cuyahoga County Common Pleas Court. Unfortunately, it reveals two very daunting pieces of information that conspire to block any attempts the lone borrower can make to resolve the matter and avoid a sheriff's auction.

The first problem is obvious—who in the world does the borrower call? While an attorney or experienced housing counselor might be able to decipher this caption, nearly all borrowers would be stopped in their tracks. Does the average borrower know that CHASE bank holds this mortgage and that it is part of a securitized trust that is comprised of Mortgage Backed Securities that were pooled together in the mid-1990s and sold on Wall Street? Or, that the loan is being serviced by HOMEQ, which just makes its money by charging legal fees and late fees to the borrowers? Or, that Barclays Capital is an investment bank based in England?

Unfortunately, even if this borrower calls the right person, what they are going to be told is that—other than repay the entire balance due (together with late fees, attorney fees, a repeated monthly inspection charge, and who knows what else) there is nothing the borrower can do to stop the foreclosure.

This actually happened in another case that was handled by a public interest law firm in Cleveland on a loan that HOMEQ was servicing. Even though the borrower had the money that HOMEQ wanted him to pay to "avoid being sent to foreclosure," the case was sent to the foreclosure attorney. It was no matter that the money was ready, before any case was filed. According to HOMEQ, they "couldn't recall the foreclosure, once it was sent to the attorney's office." Understand, HOMEQ (like all servicers) is the party collecting the monthly payments, deciding whether the case gets sent to the foreclosure attorney, telling the Court what the balance due is and signing the affidavit that will be submitted to obtain judgment and a sale of the borrower's house. Yet, they claim not to have the power to stop the process! This is the direct result of fact that nearly all home loans are now securitized. The fact that most home loans are now sold and re-sold multiple times before the borrower experiences any problems, coupled with the fact that an entirely different party is hired to collect payments and hound the borrower if they are late has created a maze where an open field used to be.

The second problem apparent from the case caption listed above is not as readily apparent. But, it is no less damaging. Liability on the part of industry players in the home loan business has all but disappeared. Immediately after the loan closes and is sold to a third-party, the players that took part in the application process, the preparation of the paperwork, the approval of the loan and the actual closing disappear forever. The borrower now has an impossible task of assigning liability, if he ever wants to mount a legal defense.[2]

The securitization of the Home Lending Industry has created a shield for the ultimate holders of home loans to hide behind. The decision whether to keep any individual in their home now rests in the recesses of the individual Pooling & Servicing agreements that are used to facilitate the loan pools as they make their way along Wall Street and with the scores of invisible investors who stand to make money on the volume of the loans that exist.[3]

To further the confusion, nearly every summons in a foreclosure case instructs the borrower to contact the attorney for the bank, if they have questions. Unfortunately, the attorneys for the bank are most-often no help to the borrowers when attempting to resolve the matter. That is because, the attorneys who foreclose for the lending industry are typically paid only to work the foreclosure case, not to talk to the borrower and work to keep them in their home.

During a meeting with representatives of Cuyahoga County and the CEO of one of the top ten servicers in the Country, it was revealed that the servicers only pay their attorneys to foreclose—not to work with the borrower. In other words, there is an inherent disincentive for the foreclosure bar to even answer the phone when the borrower calls.

As this committee can see, the home mortgage system that our Country has allowed to form is extremely efficient at lending money irresponsibly to millions of homeowners, making money off of the volume of loans that are written for the industry that creates the loans, and the investment community and making sure that the borrower who doesn't pay is evicted from the premises. However, that same system has been designed to be completely unavailable to the borrower who wants to help themselves.

HOW VACANT PROPERTIES ARE CREATED

From the moment a loan goes into default, the borrower is peppered with phone calls from angry collection staff that constantly threaten one thing, for nonpayment—homelessness. The lender's representatives make it abundantly clear that if the borrower doesn't pay all that is due, they will lose their home. To the borrower who is uneducated about how long the judicial foreclosure process can take, the consequences of nonpayment seem much more immediate.

Too often, the borrower leaves the house at the very beginning of the foreclosure case, because they are under the (mistaken) impression that eviction is not far behind the initial lawsuit papers. In the inner-city, the simple act of leaving the home so that the lender can take it over is what leads to the destruction of what used to be an inhabited home.

In the city of Cleveland, it takes a mere 72 hours for a house to get looted. Once a house is empty of its residents, it is seen by many in the neighborhood as a source for scrap metal, wood and appliances. It doesn't take long for criminals to strip a house of its aluminum siding, its appliances, its woodwork and lastly as a fatal blow, its copper piping. Once the pipes have been stripped out of a home's walls, the cost of rehabbing the property is so prohibitive; demolition becomes the only viable alternative. Unfortunately, the effect on neighborhood crime in the wake of vacant homes is all-too predictable.[4]

The diminution of property values that results from the appearance of vacant houses, an already high foreclosure rate, and an inner-City area that is attracting no new residents created a rash of empty blocks that spread outward from Cleveland's inner core to the seventeen inner-ring suburbs that share a border with the city of Cleveland. Stopping this rash from taking over the County has now become a paramount concern.

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[2] "Predatory Structured Finance," Cardozo Law Review, Vol 28 Issue 5, Christopher Peterson, FN 441

[3] "Turning a Blind Eye: Wall Street Finance of Predatory Lending," Fordham Law Review Vol 75, at 2039, Kathleen Engel and Patricia McCoy.

[4] "The Impact of Single-Family Mortgage Foreclosures on Neighborhood Crime," Housing Studies, Vol 21 No. 6, 851–866, November 2006. Dan Immergluck and Geoff Smith.

Prepared Statement of Hon. Anthony Brancatelli, Councilman, Slavic Village, Ohio

FORECLOSURE CRISIS IN SLAVIC VILLAGE

- Slavic Village History and Demographics
  - Renaissance Derailed
  - Community in Change "Perfect Storm"
- Survey of Vacant Property
  - Conditions Assessment
  - Lost Values
- Foreclosures and REO's
  - Trends, 2 foreclosures per day
  - REO's and Disposition
  - Continued cycle of decline
- Questionable Loans and Appraisals
  - QUAC's
  - Property Flipping
- Social Impact, Quality of Life
  - Criminal Activity
  - Social Issues
  - Transient Population, Displacement of tenants
- Government Intervention
  - Criminal Prosecution
  - Mortgage Company Oversight

Slavic Village Vacant Property Survey, July 2007

January 2007 to July 2007 Changes in Boarded and Vacant Real Estate			
	Jan 2007	July 2007	Change
Boarded	604	614	10
Vacant/Secure	270	426	156
OVV	32	40	8
TOTAL vacant structures	906	1080	174
			0
Under Constr/New/or Rehab	44	85	41
Vacant Land	499	555	56
Unknown	23	6	−17
Demos		67	
Arson		3	
Partially Boarded		109	
Badly Damaged		2	
TOTAL	1428	1641	213

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ESOP

Empowering and Strengthening Ohio's People

a member of COMMUNITY SHARES

PREPARED STATEMENT OF AUDREY SWEET, RESIDENT OF MAPLE HEIGHTS, OHIO

Good morning Senator Schumer and ladies and gentlemen of the Joint Economic Committee. I appreciate the opportunity to appear before you and want to thank Senator Sherrod Brown for his intense interest in this issue. I ask that my comments today, both written and oral, be made part of the record for this hearing.

My name is Audrey Sweet. Together with my husband, and two children, I live at 16008 Northwood Ave. in the city of Maple Heights, an inner ring suburb that is to the southeast of the city of Cleveland. Maple Heights is home to about 26,000 residents[1] (a 7.1 percent decrease in just the last 6 years[2]). In 2005, the median home value was about $102,000 compared with $85,000 just 5 years earlier.[3] Indeed, this "increased value" in housing prices . . . a 16.7 percent increase in 5 years while Cleveland and most inner ring suburban valuations remained flat or declined . . . is an example of the after effect of abusive lending. Without question, housing prices did not appreciate this much in my community. Had they, I would have had no problem refinancing my loan to avoid the impending adjustable rate.

When my husband and I began our home loan search, we repeatedly heard that our financial situation would not allow it. We did not fully understand why nor did we appreciate the fact that these "responsible lenders" were probably doing us a favor to some extent.[4] We knew our credit was not great and that there was not a lot of money left at the end of the month. However, we also knew that we always paid our rent on time and we felt that if we could just get a mortgage payment for around the same amount we would be fine and could have the "American Dream." With that belief, we were then introduced to a real estate agent who said she could take care of everything.

We were so excited that finally someone was going to give us a chance. She took us to the Countrywide Home Loans office and the interviewer took our information and stayed in contact with the real estate agent. The agent took us to homes that were in our price range and when we finally found one that we liked the gent said that the seller and the lender were willing to do all types of things to help us get the home. *It was as though everyone was doing us a favor.* When you match that with our lack of funds, our lack of knowledge about mortgages, credit, finances, and less than stellar credit, we were *a dream come true; at least for the broker.*

When we were finally told the amount of the monthly mortgage payment, we were shocked! When we expressed our concern, we were told not to worry about it, as long as we paid the mortgage on time for a year we would be able to refinance to a better rate. We just had to prove ourselves. We requested that the property taxes be escrowed but were told that if we did, the loan would no longer be affordable and we would not be approved. In the excitement of the moment, I did not focus in on the fact that he just told me that by his calculations my income would not support the expense of both a mortgage and property taxes. He knew that I would eventually lose my home yet went forward with the loan. *I trusted the broker about "proving myself". Indeed, that is what makes me so angry: I lived up to my end of the deal by paying my mortgage but neither he nor Countrywide lived up to their commitment.*

Of course, a refinance never happened and we have since fallen behind on our mortgage from time to time *but have managed to bring it current each time.* I did end up seriously neglecting the property taxes. I knew that eventually Countrywide would become concerned but I never had enough money at the end of the month to cover the cost of the taxes. When you compare that bill to the others (daycare,

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[1] *http://www.city-data.com/city/Maple-Heights-Ohio.html*
[2] *http://www.city-data.com/citylMaple-Heights-Ohio.html*
[3] *http://www.city-data.com/city/Maple-Heights-Ohio.html.*
[4] Since I became involved with ESOP and this issue, I have learned a lot about the lending industry ommunity Reinvestment Act (CRA). While this is a topic for another hearing, I want to make it clear that, absent Third Federal Savings & Loan which has agreed to invest in me and my neighbors, I am hard pressed to name another bank in Cleveland that is stepping up to the challenge.

lights, gas, insurances, cars, water, groceries) it was the least urgent and repeatedly got pushed to the back.

In March of this year, Countrywide took action and paid the back taxes, a total of $3493.51. I fully expected that they would do this to protect their interest in the property; however, I did not expect what came next. In April, I received a letter from Countrywide, informing me that my monthly payment was to increase from $1055.61 to $1713.88 effective in June for the next 12 months because our back taxes had been paid by Countrywide. In addition, our rate is set to adjust up in February 2008 (*It is written in our loan docs that it can only go up never down*)! $387.72 of this increase was attributed to the "shortage amount", however when you multiply that amount by the 12 months it was going to be effective it comes to $4652.64. I have yet to receive a clear explanation of what that amount was to cover.

This new payment amount and my experience with Countrywide's lack of willingness to help prompted me to call Empowering and Strengthening Ohio's People aka East Side Organizing Project (ESOP).

In preparing for my visit to ESOP, I began to look over my home loan documents and discovered several things I had apparently overlooked until then. The first was that my gross monthly income was recorded as $726 dollars more than it actually was. Second, I have two sets of loan documents, one that was created 10 days before we closed and one that was created the day of closing. The closing day documents list my assets as $9400.00 in my Charter One Bank account. I have never had $9400 in the bank. Indeed, coming up on payday, I am fortunate to have $94 left! The final item I noticed was that the tax amount listed on the appraisal report was $1981.34, which comes to about $165.00 a month but Countrywide listed $100.00 a month as the tax amount.

As I began to think back to my mortgage application experience, I was embarrassed. I remembered how I felt so undeserving of a loan because I had been turned down so many times before and I realized that I had signed my name to a 30-year mistake. *Once I realized that Countrywide was actually counting on me feeling this way, I became angry.* I began to see that I had been taken advantage of and that they were hoping that my initial feeling of embarrassment would keep me from sharing my experience with anyone. However, that would mean I would lose my home and I have decided not to let that happen.

Since I first came to ESOP in April 2007, various resources have been presented that I would not know of otherwise. One service ESOP has offered me is a weekly conference call with Countrywide. These phone calls were essential to my result with Countrywide, as there were witnesses to every promise made and excuse given (and there were many more excuses than promises during those calls!). ESOP is also able to share with the borrower their knowledge of lending practices and experiences with Countrywide and other lenders. While the calls were helpful to keep my case in their face, they also served to show just how little Countrywide cared: for example, the same modification was offered twice. I declined both times, as it did not fit what I had stated I could afford.

Although, I have asked repeatedly for the following information I have yet to receive it:

(1) The name of the compliance officer working on my case (When asked, my Countrywide rep stated that he did not know what her name was).

(2) I have never had the amount of the tax payment explained

(3) I have never been told how the $9400.00 in assets appeared on my loan documents the day of signing or what was used to documentation this amount.

After these talks, I would usually end up feeling defeated. However, ESOP continued to encourage me. Without their support I would have given up long before the issues were resolved. Once Countrywide finally received a report from their compliance person, I received a call from them. They stated "while what happened with your loan was not exactly illegal, there were definitely some things that could have been done better" Since then my three contacts at Countrywide repeatedly refer to "the special circumstances" with my loan but have yet to explain to me what the circumstances are or admit to anything.

In June Countrywide executives met with ESOP to speak with their borrowers. As the Co-Chair of that meeting, I was struck by their less than willing attitude to keep people in their homes; whether or not, Countrywide made a bad loan! They refused to answer any questions from the borrowers or to sign a letter of commitment to work with borrowers through ESO.[5] When I approached one rep after the

[5] ESOPcurrently has formal written agreements with: CitiFinancial (extends through the entire Citi network), JP Morgan Chase, ACC Capital Holdings (i.e., Ameriquest), Litton Loan Servicing, Ocwen Financial, Third Federal Savings & Loan, Charter One Bank and Select Portfolio Servicing. Combined, they represent about 40 percent of the "servicing" market in Cleveland.

meeting about my ESOP specific situation, he said that he had never seen my file nor did he have any knowledge of it. Yet, I was told by another Countrywide employee that this gentleman was working very closely on my case.

Based on my "special circumstances", Countrywide offered me a new loan with the back taxes and various fees wrapped for a total of $122,000 at a fixed rate of 8 percent and taxes escrowed. Prior to coming to ESOP, I might have agreed to this workout. However, Countrywide has deceived me too many times to continue the relationship at this point. ESOP has referred me to a program with Third Federal Savings and Loan. The program includes classes on budgeting, credit and the home buying process. Because of ESOP's referral, I have been approved for a refinance loan through Third Federal. I will enter into the new agreement effective August 1, 2007. I will be in a fixed rate of 7.2 percent with my taxes escrowed.

I know that what happened with my loan was wrong and it is unfortunate that when left to their own devices Countrywide refuses to behave responsibly. I have tried to work with Countrywide on my own in the past. I have never been able to reach the same person more than once. My conversations and agreements were never recorded so that others have access to what should be happening with my account. I have been lied to. ESOP provided the backing needed to deal with lenders such as Countrywide. Without ESOP, Countrywide would not have been held accountable and I would have lost my home.

Ladies and Gentlemen, while I am proud to be a part of ESOP, I should not need to search endlessly for an organization to take "my case" in order to highlight the injustice. I got lucky with ESOP. While ill-funded, very grassroots, and, admittedly, "different", ESOP SAVED MY HOME.

It is my hope, that by appearing here today, I have shed light on what so many Americans, particularly in my area must endure to keep their homes. I am sad to say that my situation is not an isolated incident. I am asking that you take action and hold the lending industry accountable through better regulation and legislation.

Again, thank you for the opportunity to appear before you.

Per those agreements, ESOP has an 85 percent workout rate. Because we do not have a similar agreement with Countrywide, the workout rate is LESS THAN 50 percent, of the countrywide homeowners who have come through our doors.

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PREPARED STATEMENT OF BARBARA ANDERSON, RESIDENT OF SLAVIC VILLAGE, OHIO

Good morning Senator Schumer and ladies and gentlemen of the Joint Economic Committee. I appreciate the opportunity to appear before you and want to thank Senator Sherrod Brown for his intense interest in this issue. I ask that my comments today, both written and oral, be made part of the record for this hearing.

My name is Barbara Anderson. I appear before you today as the Treasurer and member of the Predatory Lending Action Committee of the Empowering & Strengthening Ohio's People (formerly known as the East Side Organizing Project) (ESOP), a community organization whose roots are in the southeast side of Cleveland, Ohio but whose growth has been fueled by abusive lending and now includes the entire Northeastern Ohio region as ESOP's work is widely recognized and requested.

I also serve as Treasurer of the Empowerment Center of Greater Cleveland, President of the Bring Back the 70's Street Club, I'm the Past President of Community Assessment and Treatment Services, and serve on the boards of Ohio State University Extension Program, Vision Advocacy Council of MetroHealth Center for Community Health, and Co-Chair the Slavic Village Development Abandoned and Vacant Housing Committee.

I have lived at 3435 E. 76th St. for more than 25 years. That address is in the Slavic Village neighborhood that is, today, widely seen as the epicenter of the foreclosure crisis facing Cleveland and the nation.

When my husband and I bought our home, we were the first African-American family to move to Slavic Village. As you know, Cleveland has a long history of racial tensions and we experienced them first hand. Within months of moving into our home, thugs began setting fires at our home. All told, we lost our garage twice, had fires at three of the entryways and a major fire on the back of our house. After the third fire, our insurance company dropped our coverage. Indeed, not only was I vicitimized by the thugs in my community, I was also hung out to dry by my insurance company.

For several years after, we tried to make the repairs on our own. By 1996, we were no longer able to do so and we sought to refinance our mortgage to get some of the equity in order to make the repairs. Several local banks turned us down; not because of our credit but, rather, because of the fire damage and the fact that no insurance company would cover us.

After being turned down, I was approached by a loan broker. He got us a loan at 8.5 percent through the now defunct Conti Mortgage. I didn't know that in the span of 4 years, that rate would jump to 14.5 percent causing my payments to increase by nearly 60 percent.

Between 1996 and 2001, my loan was then sold no less than fifteen times. Indeed, my "home" was a commodity for the market as the secondary market got greedy and sold these loans with the same carefree business model my grandchildren use when selling lemonade on a hot summer day.

I came to ESOP near the end of 2001. I was desperate as my loan was now being serviced by Fairbanks Capital and, despite the exorbitant rate of my loan, my issue when coming to ESOP was the servicing of that loan as my payments were not being applied.

I led a national fight against Fairbanks through ESOP's national affiliate, the National Training & Information Center (NTIC), headquartered in Chicago. We went on to win a national agreement that we have replicated with other lenders and servicers across the nation. For me, that agreement meant wiping out nearly $30,000 in bogus fees, accrued interest and over appraised loan principal and allowed me to refinance with the only bank in Cleveland that has remained true to its word with respect to meeting the credit needs of low-mod income census tracts: Third Federal Savings & Loan.

Like Audrey, I got lucky. I heard about ESOP from a friend. Ladies and Gentlemen, people should not be dependent on luck to get respite from a bad loan. Indeed, I call upon you to demand that the lending industry make the comprehensive resources that ESOP provides to all borrowers.

ESOP's model is different from most, if not all, other foreclosure prevention counseling agencies. Chief among those differences is that we combine direct action organizing in order to secure an agreement with our loan counseling efforts. Indeed, the secret to our success is direct action organizing to secure written agreements that, most importantly, designate one specific person empowered to negotiate and change the loan terms to keep a family in their home.

Since 2001 when we began keeping track, ESOP's agreements have kept more than 2500 people in their home. For 2007, to date, we have assisted more than 400 families and are bracing for the "October Surprise" that will actually hit in January, 2008.

I want to spend a few minutes and give you a sense of just how devastating the last decade has been due to the regulators abdicating their responsibility and abusive lenders entering the market place. The following statistics were put together by Paul Bellamy, a fair housing expert in Cleveland. They paint a very grim picture. Consider:

- Ohio's foreclosure rate is three times the national average and the highest of all states.[1]
- Data from 12 of the 13 largest Ohio counties indicate that 2006 foreclosure filings increased by an estimated 25 percent over 2005, with an estimated 80,000 foreclosure filings.[2]
- The volume of foreclosures is expected to grow much faster in 2007 and 2008 because of the number of subprime ARM loans that will be reset at much higher rates. In 2005, subprime loans accounted for about 13 percent of the mortgages issued nationally, compared to almost 28 percent (more than double) of the mortgages issued in Ohio. Subprime loans account for 18 percent of all outstanding Ohio mortgages currently held by the secondary market and other loan servicers. Despite representing less than one of five outstanding mortgages, subprime loans account for 70 percent of all foreclosures.[3]
- The most common type of Ohio subprime mortgage is a "2/28" loan. These loans are sold with low initial "teaser rates" that are fixed for the first 2 years. Beginning in year three, the interest rate increases as often as every 6 months, so the monthly payment grows dramatically. Often, these loans are not underwritten to anticipate the inevitable rate escalation. In 2007 and 2008, roughly $14 billion of these 2/28 subprime loans are going to reset in Ohio, impacting some 150,000 to 200,000 mortgages.[4]
- Many borrowers with 2/28s and other ARMs can't refinance or sell to avoid default because their property is not worth what is owed. All too often, their original mortgage was based on an inflated appraisal. In 2006, six of Ohio's eight major metropolitan areas experienced depreciating real estate values between 3.5 and 7.7 percent—well above the US average of 2.7 percent.[5]

While the above numbers are staggering, what I see in my neighborhood is even more tragic. There are ten houses on my street. Five of them are currently vacant and, in most cases, are owned by the lender who made an abusive loan that the homeowner could not afford. My street is not unusual. You can walk up and down virtually any street in my neighborhood and you will find a similar situation.

Obviously, the vacant houses have reduced the value of my home. While that is devastating by itself, what is more devastating is that I can't allow my grandchildren to play outside because squatters, usually high on drugs, are now occupying some of these homes as they sit wide open.

Today, organizations like ESOP are fighting an uphill battle to clean up their mess. We have written agreements with about a dozen lenders and servicers that allow us to serve as the middleperson between the homeowner and lender in order

[1] Mortgage Bankers Association, National Delinquency Survey, Third Quarter 2006

[2] Data for the last 10 years was originally obtained from the Ohio Supreme Court and are republished in Policy Matters Ohio reports over the past several years. See *http://www.policymattersohio.org/Foreclosure__Growth__2006.htm*

[3] The Subprime Market's Rough Road," Wall Street Journal, 2/17/07.

Home Mortgage Disclosure Act data—Reported subprime loans (generally considered an undercount) show that subprime increased from 16 percent of Ohio's mortgages in 2004, to just over 28 percent of the Ohio loan market in 2005.

Mortgage Bankers Association, National Delinquency Survey, Third Quarter 2006 (most recent available).

[4] "Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners," The Center for Responsible Lending, December 19, 2006. Figures from data bases maintained by lending industry trade groups actually suggest that over $20 billion 2–28 subprime loans will reset in Ohio during 2007 and 2008.

[5] First two sentences are based on reports of staff of foreclosure prevention projects around the state. Third sentence is from "National housing market declines," Cleveland Plain Dealer, 2/16/07 based on home price data for 2006 from the National Association of Realtors.

to help negotiate a workout to their problem loan. This year, ESOP is projected to assist about 700 families get out of foreclosure. While we are proud of our efforts, Cuyahoga County is expected to see upwards of 15,000 foreclosures in 2007. Frankly, our work is a "drop in the bucket".

ESOP's work, to date, has resulted in a number of partnerships that we are proud of, including: ACC Holdings (Ameriquest/Argent), JP Morgan Chase, Charter One, SPS, Ocwen, Litton, Third Federal Savings & Loan as well as some very effective relationships with Homecomings and Wilshire. Regrettably, however, Countrywide Home Loans, to date, has refused to enter into an agreement with ESOP to help their customers. Indeed, while ESOP has about an 85 percent success rate working through those lenders where we do have an agreement, our success rate with Countrywide is less than 50 percent.

Again, I thank you for the honor to be before you.

Prepared Statement of Kenneth D. Wade, CEO, Neighborhood Reinvestment Corporation

Chairman Schumer, and Members of the Committee, my name is Ken Wade, CEO of NeighborWorks® America, and I appreciate the opportunity to talk with you today about the efforts we and our partners are making to help stem the tide of foreclosures.

NeighborWorks® America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation and is the original / public/ private partnership model. Over the past 28 years, we have replicated this successful model in over 4,400 communities around the country. NeighborWorks® organizations operate in all 50 states, the District of Columbia and Puerto Rico; in America's urban, suburban and rural communities.

Over the past 5 years NeighborWorks® has:

- Assisted nearly 100,000 families of modest means to become homeowners (of which, 91 percent are low-income and 53 percent are ethnic/racial minorities)
- Own and manage more than 63,500 units of affordable rental housing
- Provided homeownership education and counseling to more than 317,000 families
- Trained and certified nearly 50,000 community development practitioners from over 5,000 organizations and municipalities nationwide; and
- Facilitated the investment of nearly $9 billion in distressed communities across the country.

Today, my testimony will focus on our response to the precipitous rise in foreclosures.

NeighborWorks® America has a 30-year history of supporting lending to non-conforming borrowers—including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage.

By providing quality pre-purchase housing counseling, financial fitness training and working with borrowers to improve their credit rating, local NeighborWorks® organizations are able to present mortgage-ready borrowers who qualify for reasonably priced traditional mortgage loans and achieve sustainable homeownership.

From our experience, we know that the best defense against delinquency and foreclosure is objective education and advice *before* the borrower begins shopping for a home and selecting a mortgage product. And the best home buyer counseling is provided through objective, well-trained non-profit agencies (including local NeighborWorks® organizations and other HUD-approved nonprofit housing counseling agencies) that put the consumers' and the communities' interest first.

> NeighborWorks® America has been tracking the loan performance of the many low-income families assisted by NeighborWorks® organizations over the years. These loans continue to perform significantly better than subprime loans.
>
> In fact, a comparison of the loan performance of borrowers counseled by NeighborWorks organizations (in the first quarter of 2007) indicates that their loans are:
>
> - 10 times less likely to go into foreclosure than subprime borrowers;
> - Nearly 4 times less likely to go into foreclosure than FHA borrowers; and
> - Slightly less likely to go into foreclosure than Prime borrowers.

NeighborWorks® America saw the problem of foreclosures coming over 4 years ago and, created the NeighborWorks® Center for Foreclosure Solutions, modeled on the successful trailblazing efforts of one of our local NeighborWorks® affiliates, Neighborhood Housing Services of Chicago.

Foreclosure reaches far beyond the individual tragedies confronting homeowners. Foreclosed homes can threaten entire communities. The value of surrounding homes goes down and other homeowners will have difficulty selling or refinancing their homes, leading to further disinvestment in communities. As a result, property taxes collected will be lower, affecting schools and government services, creating a downward spiral that is detrimental to the entire community.

A study by the Woodstock Institute found that a single foreclosure on a given block can directly lower property values of surrounding homes by $139,000. Other studies show that one foreclosed property can end up costing a municipality as much as $30,000.

And lenders report that each foreclosure can cost them from $30,000 to $50,000.

And, studies confirm that foreclosures are much more likely to occur in high minority neighborhoods, even when all other variables such as borrower credit and income are held steady.

NeighborWorks® America, in partnership with the Homeownership Preservation Foundation has established a national toll-free hotline for delinquent borrowers (*888–995–HOPE*) that is available 24/7 to provide callers with high quality telephone-based assistance (in English and in Spanish). Individuals needing more intense service than can be provided over the phone are referred to local HUD-approved housing counseling agencies.

The key to helping as many people as possible through the *888–995–HOPE* hotline is to get people who are experiencing problems in paying their mortgage to call as soon as possible. Therefore, NeighborWorks® America is also launching a public service advertising campaign supported by the Ad Council, to decrease foreclosures by directing struggling borrowers to call the 888–995–HOPE hotline. The campaign has just begun, specially targeting areas with high rates of foreclosure. We anticipate that this effort will go a long way toward increasing public awareness of the 888–999–HOPE hotline.

Once the call is made, service begins immediately. They are connected with a trained counselor at the outset and depending on the problems, homeowners can get budgeting help, assistance developing a written financial plan, assistance contacting their lender to discuss payment options and loan restructuring, and a referral for face-to-face counseling through local HUD-approved housing counseling agencies. Counselors are also trained to look for and respond to callers who have experienced fraud in the mortgage process with appropriate referrals to local agencies and resources.

As Federal, state and local legislators, regulators and others wrestle to identify proposed actions to respond to the surge in foreclosures, I want to stress that denying credit to the type of people NeighborWorks® has served for decades (lower-income, families, minorities, people with blemishes on their credit reports) is not the answer.

In my view, the real challenge continues to be how to create informed consumers and foreclosure-resistant borrowers.

OHIO FORECLOSURE PREVENTION EFFORTS

In April of 2006, NeighborWorks® America assisted in the creation of the *Ohio Foreclosure Prevention Initiative,* a statewide coalition of twelve organizations across the State of Ohio (10 being NeighborWorks® organizations). This statewide coalition joined forces with the NeighborWorks® Center for Foreclosure Solutions and the Homeownership Preservation Foundation to provide counseling to homeowners throughout the state, in danger of losing their homes to foreclosure. In the initiative's first 9 months, 4,470 Ohioans reached out for help by using the Homeownership Preservation Foundation's 888–995–HOPE toll-free hotline number.

The twelve organizations that participate in this initiative include: East Akron Neighborhood Development Corporation, The Home Ownership Center of Greater Cincinnati, Neighborhood Conservation Services of Barberton, Neighborhood Housing Partnership of Greater Springfield, Corporation for Ohio Appalachian Development, Rural Opportunities, Inc. Ohio, Neighborhood Housing Services of Greater Cleveland, Neighborhood Housing Services of Hamilton, Neighborhood Development Services, Neighborhood Housing Services of Toledo, and St. Mary Development Corporation.

CLOSING

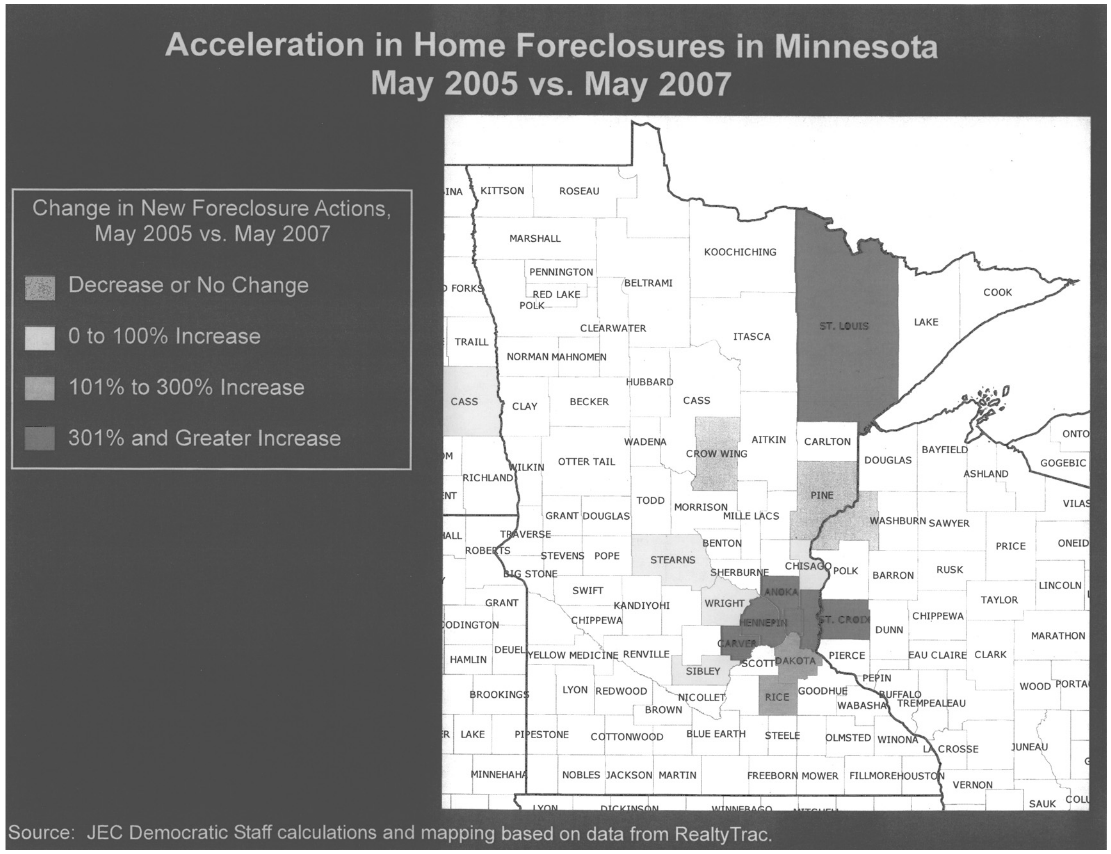
[*Please note that recommendations below are not necessarily the Administration's positions, and that NeighborWorks®* America is speaking as a public non-profit organization, as noted earlier—especially as NeighborWorks® America advocates for a national housing counseling fund.]

In closing, let me state that from our experience, the best way to create foreclosure-resistant homeowners is through quality pre-purchase housing counseling. We challenge the real estate and mortgage industry to help figure out how to make housing counseling universally available for every first time home buyer in America. Is there a homebuyer in America who should be denied a basic level of home-buyer education? Given the scale of the industry, one option is the addition of an extremely small amount to every mortgage originated to create a national housing counseling fund to compensate counseling agencies for this essential service.

An alternate approach would be to ensure that a meaningful level of housing counseling be provided to *any* borrower considering a nontraditional mortgage—such as an interest-only mortgage, a negative amortization mortgage, an option-ARM or a 2/28 or 3/27 mortgage. It is clear that borrowers who have opted for these nontraditional mortgage products are encountering foreclosure at significantly higher rates.

And finally, as credit for subprime borrowers has begun to tighten up in response to current challenges in the subprime market, there is a larger need than ever for a reasonably priced mortgage refinance product to assist families currently trapped in high-cost mortgages, as well as to assist additional families as more than 1.5 trillion dollars in adjustable-rate mortgages prepare to reset within the next 2 years.

I trust this testimony gives you a sense of some of the challenges we are facing and our response to families facing foreclosure. I stand ready to answer any questions you may have.


Acceleration in Home Foreclosures in Minnesota
May 2005 vs. May 2007
Change in New Foreclosure Actions, May 2005 vs. May 2007
Decrease or No Change
0 to 100% Increase
101% to 300% Increase
301% and Greater Increase
KITTSON
ROSEAU
MARSHALL
KOOCHICHING
PENNINGTON
BELTRAMI
RED LAKE
POLK
COOK
CLEARWATER
ITASCA
ST. LOUIS
LAKE
TRAILL
NORMAN
MAHNOMEN
HUBBARD
CASS
CLAY
BECKER
CASS
WADENA
AITKIN
CARLTON
CROW WING
BAYFIELD
DOUGLAS
ASHLAND
RICHLAND
WILKIN
OTTER TAIL
GOGEBIC
TODD
MORRISON
PINE
MILLE LACS
GRANT
DOUGLAS
WASHBURN
SAWYER
TRAVERSE
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PRICE
ROBERTS
STEVENS
POPE
STEARNS
BIG STONE
SHERBURNE
CHISAGO
POLK
BARRON
RUSK
SWIFT
ANOKA
TAYLOR
LINCOLN
GRANT
KANDIYOHI
WRIGHT
HENNEPIN
ST. CROIX
CHIPPEWA
CHIPPEWA
DUNN
MARATHON
CARVER
DEUEL
YELLOW MEDICINE
RENVILLE
SCOTT
DAKOTA
PIERCE
EAU CLAIRE
CLARK
HAMLIN
SIBLEY
PEPIN
BROOKINGS
LYON
REDWOOD
NICOLLET
RICE
GOODHUE
BUFFALO
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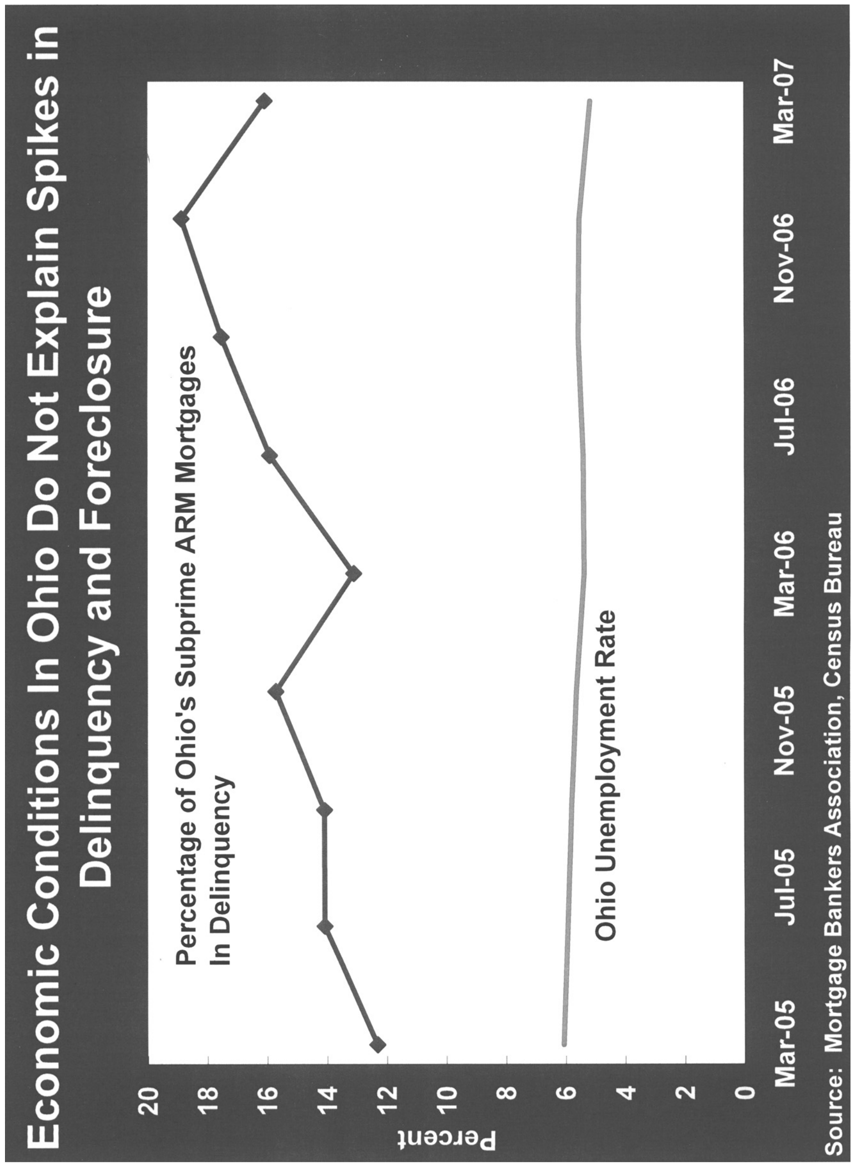
COTTONWOOD
BLUE EARTH
STEELE
OLMSTED
WINONA
LA CROSSE
JUNEAU
MINNEHAHA
NOBLES
JACKSON
MARTIN
FREEBORN
MOWER
FILLMORE
HOUSTON
VERNON
SAUK
Source: JEC Democratic Staff calculations and mapping based on data from RealtyTrac.


Economic Conditions In Ohio Do Not Explain Spikes in Delinquency and Foreclosure
Percent
20
18
16
14
12
10
8
6
4
2
0
Percentage of Ohio's Subprime ARM Mortgages In Delinquency
Ohio Unemployment Rate
Mar-05
Jul-05
Nov-05
Mar-06
Jul-06
Nov-06
Mar-07
Source: Mortgage Bankers Association, Census Bureau


Ohio Counties With Unemployment Rates Above 6% In May 2007
HILLSDALE
LENAWEE
MONROE
WILLIAMS
FULTON
LUCAS
•TOLEDO
OTTAWA
DEFIANCE
HENRY
WOOD
SANDUSKY
ERIE
LORAIN
•CLEVELAND
CUYAHOGA
LAKE
GEAUGA
ASHTABULA
TRUMBULL
PAULDING
PUTNAM
HANCOCK
•FINDLAY
SENECA
HURON
MEDINA
SUMMIT
•AKRON
PORTAGE
MAHONING
VAN WERT
•LIMA
CRAWFORD
ASHLAND
•MANSFIELD
WAYNE
•CANTON
COLUMBIANA
MERCER
AUGLAIZE
HARDIN
•MARION
MORROW
HOLMES
CARROLL
TUSCARAWAS
JEFFERSON
SHELBY
LOGAN
KNOX
HARRISON
O H I O
DARKE
MIAMI
CHAMPAIGN
•NEWARK
GUERNSEY
BELMONT
•COLUMBUS
MUSKINGUM
CLARK
MADISON
NOBLE
MONROE
PREBLE
•DAYTON
GREENE
•LANCASTER
MORGAN
FAYETTE
PICKAWAY
HOCKING
WASHINGTON
BUTLER
•HAMILTON
CLINTON
ROSS
VINTON
ATHENS
HAMILTON
•CINCINNATI
HIGHLAND
PIKE
JACKSON
MEIGS
BROWN
ADAMS
SCIOTO
GALLIA
LAWRENCE
KENTON
PENDLETON
GRANT
MASON
ROBERTSON
HARRISON
LEWIS
GREENUP
FLEMING
BOYD
•HUNTINGTON
PUTNAM
MASON
WETZEL
TYLER
PLEASANTS
•PARKERSBURG
WOOD
RITCHIE
WIRT
ROANE
GILMER
BRAXTON
CLAY
MARSHALL
Source: Ohio Department of Job and Family Services

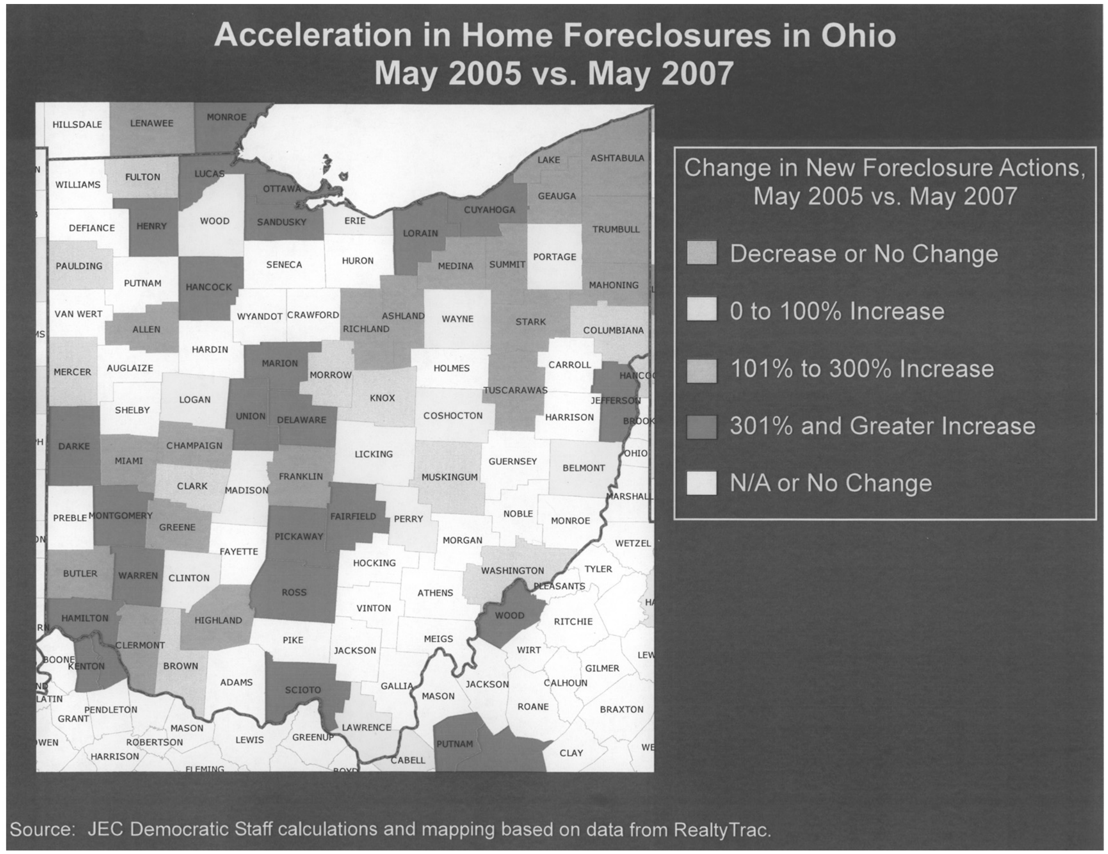

Acceleration in Home Foreclosures in Ohio
May 2005 vs. May 2007
Change in New Foreclosure Actions, May 2005 vs. May 2007
Decrease or No Change
0 to 100% Increase
101% to 300% Increase
301% and Greater Increase
N/A or No Change
Source: JEC Democratic Staff calculations and mapping based on data from RealtyTrac.

Exhibit 1

Total Vacancies Caused by Foreclosures in Cleveland and Eight Selected Suburbs in 2007

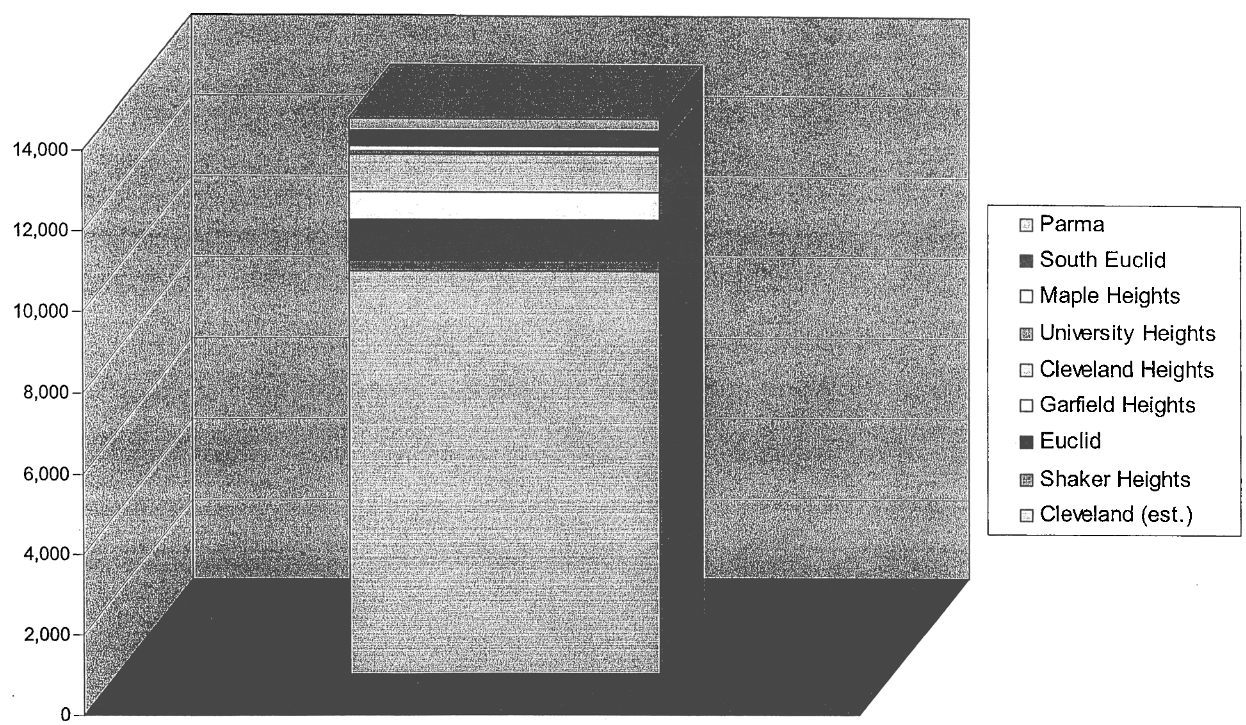


Exhibit 2

Argent Mortgages Ending in Foreclosure, 2003-2007(Apr. 30)

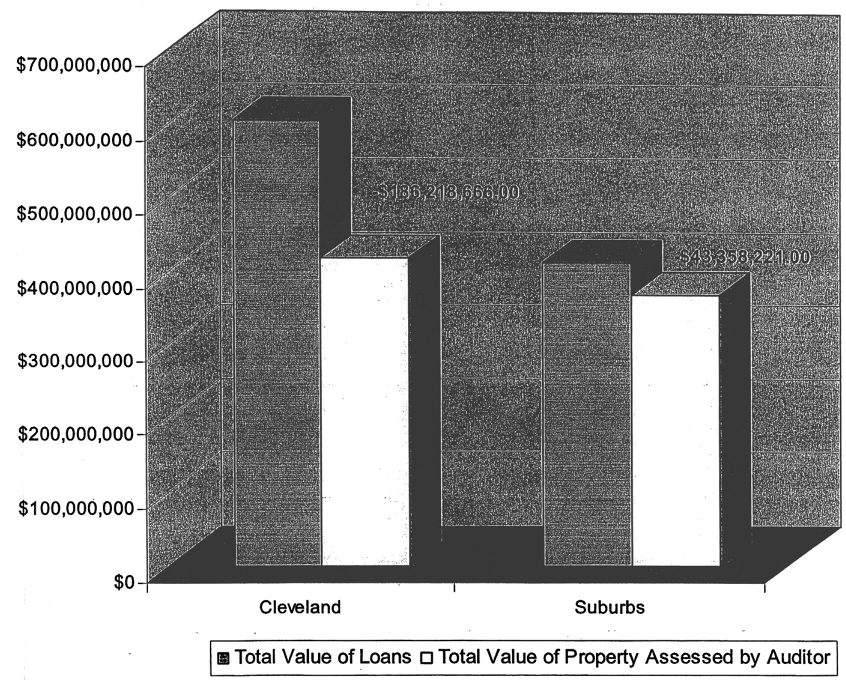
Foreclosure

Address	Zip	Area	Property	Date Filed	Defendant	Loan Date	Loan Amount(L)	Auditor Value(V)	Ratio L/V
1371 WEST 95TH STREET	44102	Edgewater	Two Family	5/30/06	CHRISTINA R. KERFONTA ETAL	6/10/04	$95,400	$50,100	190%
1348 WEST 91ST STREET	44102	Edgewater	Two Family	3/22/05	SHARON A. HUGHES, ET AL	8/16/04	$73,800	$46,200	160%
1353 WEST 93RD ST	44111	Edgewater	One Family	4/6/06	ALEXANDER MAGHERU ETAL	1/11/05	$92,700	$56,700	163%
1316 WEST 87TH	44102	Edgewater	Two Family	1/23/06	DONNA M. EMERY ETAL	9/1/04	$67,500	$55,500	122%
1282 WEST 89TH STREET	44102	Edgewater	One Family	4/20/07	GLENN HESTER ETAL	7/6/04	$73,800	$26,800	275%
9607 SILK AVENUE	44102	Edgewater	Two Family	3/9/06	LAURA E.KRINSKY ET.AL.	6/6/05	$81,600	$56,700	144%
9519 PRESTON AVENUE	44102	Edgewater	Two Family	4/18/06	JERMAINE JACKSON, ET AL	4/13/05	$76,800	$62,700	122%
10617 BALTIC AVENUE	44102	Edgewater	Two Family	5/15/06	MICHAEL E.FEDOR ET.AL.	9/9/04	$121,500	$113,300	107%
1471 WEST 114TH STREET	44102	Edgewater	One Family	1/3/07	TRAVIS CRAIG ET.AL.	4/1/05	$157,500	$74,400	212%
1563 WEST 102ND STREET	44102	Cudell	Two Family	5/16/06	MICHELE J. SIDWELL ET.AL.	8/9/04	$72,900	$37,600	194%
1358 W. 76TH ST.	44102	Detroit-Shoreway	Two Family	2/1/07	JERRY EDWARDS, ET AL	2/8/06	$81,000	$64,800	125%
1363 WEST 73RD STREET	44102	Detroit-Shoreway	Two Family	4/18/06	DARRELL MARTIN, ET AL	7/13/05	$71,100	$45,300	157%
1336 WEST 59TH STREET	44102	Detroit-Shoreway	Two Family	10/23/06	GERAL RODRIGUEZ ETAL	10/5/04	$67,150	$52,600	128%
1336 W 61ST ST.	44102	Detroit-Shoreway	One Family	2/7/06	MICHELLE MAYO, ET AL	4/29/05	$64,600	$48,600	133%
6710 FRANKLIN AVE	44102	Detroit-Shoreway	Two Family	1/9/07	GHEORGHITA TARLA, ET AL	4/14/04	$103,500	$68,700	151%
7212 WEST CLINTON AVENUE	44102	Detroit-Shoreway	One Family	10/3/06	RICHARD A. CIRKVENCIC ETAL	12/24/03	$129,600	$46,700	278%
1421 WEST 85TH ST.	44102	Detroit-Shoreway	One Family	12/29/06	ARDELL CLOUD ET.AL.	5/24/06	$83,700	$50,600	165%
1454 WEST 84TH STREET	44102	Detroit-Shoreway	Two Family	3/29/06	MIKE J DURBIN ET AL	7/29/04	$68,000	$48,900	139%
7906 MADISON AVENUE	44102	Detroit-Shoreway	One Family	8/4/06	NELSON ROCHE JR. ET AL	4/15/03	$64,000	$47,900	134%
6010 WAKEFIELD AVE	44102	Detroit-Shoreway	Two Family	5/18/04	KATHLEEN HAAS ETAL	2/10/03	$70,250	$35,600	197%
6014 WAKEFIELD AVENUE	44102	Detroit-Shoreway	One Family	4/4/06	CHRISTOPHER FOSTER ET.AL.	10/12/05	$64,800	$25,000	259%
6001 ELLEN AVENUE	44102	Detroit-Shoreway	One Family	12/9/05	ADAM COHEN ETAL	9/2/03	$79,200	$38,300	207%
1918 WEST 57TH STREET	44102	Detroit-Shoreway	Two Family	1/5/06	TERRANCE SHAMBLEY ET.AL.	1/31/05	$99,000	$67,400	147%
1812 WEST 57TH STREET	44102	Detroit-Shoreway	Two Family	7/25/06	MARVIN C. HUDSON, ET AL	9/13/04	$79,200	$48,200	164%
1978 WEST 50TH STREET	44102	Detroit-Shoreway	Three Family	2/16/06	FRANSISCO MENDIOLA JR AKA E	5/13/04	$51,937	$43,100	121%
01862 47 ST	44102	Detroit-Shoreway	Two Family	11/6/06	VERONICA G. HENRY - ET AL.	7/14/03	$126,000	$64,700	195%
1894 WEST 45TH STREET	44102	Detroit-Shoreway	Two Family	3/2/06	ROSCOE A RUNION, ET AL	12/20/04	$108,000	$36,500	296%
4108 CLINTON STREET	44113	Ohio City/N. W. S.	Two Family	12/20/06	JOAN WERMAN, ET AL	6/8/04	$185,850	$109,300	170%
4111 JOHN CT.	44113	Ohio City/N. W. S.	One Family	1/17/06	JACQUELYN WILLINGHAM, ET Al	3/29/05	$72,000	$28,500	253%
4219 BRIDGE AVENUE	44113	Detroit-Shoreway	Two Family	11/22/06	IRIS M. QUINONES, ET AL	11/18/03	$156,750	$52,500	299%
3275 WEST 115TH STREET	44111	Cudell	One Family	11/17/06	RONNIE L. JOHNSON ETAL	3/30/06	$84,000	$73,400	114%
3083 WEST 111TH ST	44111	Cudell	One Family	1/12/06	TOMMY L. ANDERSON, ET AL	9/14/04	$84,600	$57,600	147%
3236 WEST 112TH STREET	44111	Cudell	Two Family	6/9/06	JAMES R.POLZNER ET.AL.	3/5/04	$109,250	$83,200	131%
3170 WEST 104TH STREET	44111	Cudell	One Family	5/9/06	ROBERT WRIGHT, ET AL	9/9/05	$64,800	$32,500	199%
3159 W. 105TH ST.	44111	Cudell	One Family	2/26/07	LOUIS J. POHORENCE ETAL	9/10/04	$58,500	$50,200	117%
3068 WEST 105TH STREET	44111	Cudell	One Family	9/26/06	EVETTE FRANCE ETAL	3/10/05	$67,500	$30,000	225%
3081 WEST 105TH STREET	44118	Cudell	Two Family	11/1/06	FRED J. BURTON ETAL	2/14/06	$121,500	$83,600	145%
3069 WEST 103RD STREET	44111	Cudell	One Family	3/16/07	ELIZABETH ADKINS ETAL	6/6/06	$74,400	$57,500	129%
2211 WEST 103RD STREET	44102	Cudell	One Family	6/26/06	KELLY J. BARNETT ETAL	3/9/06	$79,200	$67,800	117%
2185 W 103RD STREET	44102	Cudell	One Family	3/30/06	JERRY A.SHANK ET.AL.	3/1/04	$81,000	$60,900	133%
2153 WEST 106TH STREET	44102	Cudell	One Family	4/19/06	JONATHAN E. GLOVER - ET AL.	3/24/05	$74,250	$48,700	152%
2111 WEST 105TH STREET	44102	Cudell	One Family	7/27/06	EUGENE P. BAKER, ET AL	12/22/04	$80,750	$61,000	132%
2145 WEST 104TH STREET	44102	Cudell	One Family	3/6/06	WESLEY W WHITCOMB JR.	5/5/04	$63,000	$36,100	175%
2028 WEST 105TH STREET		Cudell	Two Family	9/30/05	CARMEN ORTIZ, ET AL	11/10/03	$71,250	$46,800	152%
3123 WEST 99TH ST.	44102	Cudell	One Family	9/21/06	JERRY W. BRELSFORD ETAL	3/28/05	$50,000	$37,800	132%
2218 WEST 98TH ST.	44102	Cudell	One Family	7/11/06	JOSE T.HENRIQUEZ ET.AL.	5/26/04	$73,350	$36,100	203%
2195 W.95		Cudell	One Family	10/3/05	KAREN KNIGHT ET AL	2/2/05	$81,000	$55,800	145%
2097 WEST 98TH ST		Cudell	Two Family	6/21/05	BOBBY SHEPARD, ET AL	10/18/04	$103,500	$74,000	140%
2154 WEST 95TH ST.	44102	Cudell	One Family	6/29/06	JOSE T. HENRIQUEZ ETAL	11/16/04	$84,600	$52,200	162%
2020 W. 95TH ST.	44102	Cudell	One Family	2/16/07	CAROL MCFARLAND ET AL	8/31/05	$54,000	$66,200	82%
2206 WEST 85TH STREET	44102	Cudell	Two Family	8/24/06	OMEKA HOOD, ET AL	7/9/04	$79,800	$45,000	177%
2094 WEST 91ST STREET	44102	Cudell	Two Family	12/6/06	SHIRLEY HARRIS ETAL	5/26/06	$82,800	$80,500	103%
2108 W. 91ST STREET	44102	Cudell	One Family	1/18/06	DAVID A. BOURNE SR. ETAL	8/11/05	$89,600	$62,200	112%
2076 WEST 89TH STREET		Cudell	One Family	7/21/05	MARGARITA ALICEA, ET AL	12/8/03	$68,000	$62,300	109%
2100 WEST 85TH STREET	44102	Cudell	Two Family	11/22/06	ABRAHAM C. ANDERSON ETAL	9/19/05	$85,500	$52,500	163%
2110 W 85TH ST	44102	Cudell	One Family	12/15/06	STEPHEN L. MILLER	12/14/05	$72,400	$55,000	132%
2028 WEST 91ST STREET	44102	Cudell	One Family	12/15/06	RONALD W SMOLEN ET AL	4/1/05	$55,000	$67,900	81%
2153 WEST 85TH STREET	44102	Cudell	Two Family	3/21/05	MICHELLE L. DAVIS, ET AL	8/27/04	$76,500	$47,800	160%
2141 WEST 81ST STREET	44111	Detroit-Shoreway	One Family	4/20/06	HOYT EBERHARDT, III, ET AL	9/1/04	$52,000	$43,000	121%
2145 WEST 81ST STREET	44102	Detroit-Shoreway	Two Family	4/3/06	DERWIN TODD HARRIS, ET AL	2/1/05	$71,250	$50,800	140%
2080 WEST 81ST STREET	44102	Detroit-Shoreway	Two Family	9/13/06	RODGER JONES ETAL	10/4/05	$85,500	$51,900	165%
2023 WEST 83RD STREET	44102	Detroit-Shoreway	One Family	5/2/06	CHRISTINA R. KERFONTA, ET AL	4/7/05	$90,000	$45,200	199%
2007 WEST 83RD STREET	44102	Detroit-Shoreway	Two Family	11/15/06	ISMAEL FERNANDEZ ETAL	11/12/04	$78,750	$52,300	151%
2045 WEST 83RD ST	44102	Detroit-Shoreway	One Family	2/8/06	SHANTAL M WILMINIK ET AL	7/27/04	$67,450	$56,000	120%
7707 GUTHRIE AVE.	44102	Detroit-Shoreway	One Family	9/28/06	WILLIAM F. BENNETT ETAL	8/8/05	$77,350	$35,100	220%
7804 DUDLEY AVE	44102	Detroit-Shoreway	Two Family	3/16/07	FRED J. BURTON ETAL	2/13/06	$90,000	$65,200	138%
7704 ELTON AVENUE	44102	Detroit-Shoreway	Two Family	10/31/05	SHANDA DAVIS, ET AL	12/20/04	$53,200	$51,100	104%
7314 LAWN AVE		Detroit-Shoreway	One Family	11/10/05	LKEVY WILLIAMS, ET AL	10/1/04	$85,500	$38,600	222%
7415 LAWN AVENUE	44102	Detroit-Shoreway	Two Family	6/6/06	HERBERT HARTLEY ET AL	2/15/05	$90,000	$34,000	265%
7319 LAWN AVE	44102	Detroit-Shoreway	Two Family	10/31/06	GERAL RODRIGUEZ ET.AL.	9/1/05	$80,100	$39,200	204%
6514 COLGATE AVENUE	44102	Detroit-Shoreway	Two Family	11/17/05	RONNIE WASHINGTON ETAL	6/20/05	$69,300	$28,900	240%
7216 ELTON AVENUE	44102	Detroit-Shoreway	One Family	12/1/06	BRENDA M. DILLINGHAM ETAL	3/31/05	$55,400	$31,500	176%
7205 LAWN AVENUE	44102	Detroit-Shoreway	One Family	11/30/06	RICHARD ALVAREZ, ET AL	8/8/05	$79,200	$31,700	250%
6611 LAWN AVE	44102	Detroit-Shoreway	Two Family	2/26/07	RANDEY JOHNSON ETAL	1/6/06	$68,000	$51,300	133%
6812 LAWN AVENUE	44102	Detroit-Shoreway	One Family	7/10/06	MARGARET M. SCHULTZ, ET AL	11/24/04	$76,950	$26,700	288%
6912 HAGUE AVE	44102	Detroit-Shoreway	One Family	11/9/05	NIAZI ALKHODOUR ET.AL.	9/17/04	$76,000	$32,400	235%

Prepared by: Center for Housing Research and Policy, CSU (5-30-07).
Information deemed reliable, but accuracy is not guaranteed.

Exhibit 3

Argent Mortgages Negative Equity in Cleveland and Eight Suburbs 2003-2007



Source: Cleveland State University, Maxine Goodman Levin College of Urban Affairs, *Argent Mortgage Company Lending and Foreclosure Activity, Cuyahoga County, Ohio*, Thomas Bier and Ivan Maric, June 3, 2007