ADDRESSING THE FORECLOSURE CRISIS

"We're just trying to stay in our home as long as we possibly can."

—Cathy Busby, CO

"Not one political campaign, not one ad, addresses this issue."

—Mark Roarty, OH

THE PROBLEM

Communities around the country have been devastated since the housing bubble burst: families cut back on spending when their life savings disappeared; the economy was thrust into recession; government tax revenue plummeted; crucial services were cut. No industry is more demonstrative of the nation's economic challenges than the housing market. As the market picks up for some, many parts of the nation's housing market remain in disrepair: more than 3.5 million homes have been lost to foreclosure and over 4.3 million homeowners are still "underwater," meaning they owe more on their mortgage than their house is worth. Although the major settlement announced by the federal government in early 2012 is benefited some homeowners, too many people still face huge delays and improper denials of mortgage modifications and there have been very few principal reductions.[1] Adding to the challenges, low housing cost set the stage for speculation in our communities and the displacement of long term working class residents of color. Some of this was aided by federal programs which shifted massive pools of distressed post-foreclosure crisis loans into the hands of Wall Street at a discount.

THE SOLUTION

The federal government has the power to ameliorate the crisis and states can rewrite their foreclosure laws. But what can cities do? Increasingly, local communities and elected officials are thinking creatively about how to protect homeowners, recover losses, and hold banks accountable for the crisis they created. Some emerging strategies are laid out below.

STEP 1. DEMAND TRANSPARENCY AND RECOVER THE COSTS OF FORECLOSURES: After banks take homes into foreclosure and evict the residents, the properties often sit vacant for months or years. Not only is this a waste of valuable housing, but empty property also becomes a neighbor-hood blight, dramatically reduces the value of neighborhood homes, reduces city tax revenue, and forces government to spend money on upkeep, code enforcement, and police services.[2]

To combat these costs, **Los Angeles** adopted a foreclosure registry program in 2010. It mandates that the owner of any foreclosed property: (1) immediately register the property with the city and pay a small fee; (2) conduct regular inspections of the property and ensure it is properly maintained; and (3) pay utilities on time and collect the rent if the property is occupied. If the property remains vacant for more than 30 days and is not being renovated or actively offered for rent or sale, the ordinance permits the city to impose a fee of up to $1000 per day, not to exceed $100,000. The first several years of implementation showed mixed results: although over 18,000 foreclosed properties had been listed in the Los Angeles registry, many of which were blighted, the City had not recovered even one dollar in fines through the summer of 2012.[3] Recently, the city amended the ordinance to include a requirement that foreclosing properties be registered earlier (upon the Notice of Trustee sale being filed) and much more aggressive inspections. It also includes giving local youth summer jobs in a "blight brigade" that inspects bank properties.

Riverside, CA investing heavily in enforcement from the beginning and collected $7 million in fines during 2009 and 2010.[4] Cities as small as **Murrieta, CA** and as big as **Atlanta, Las Vegas,** and **San Diego** have also adopted foreclosure registry ordinances. **Springfield, MA** has taken the most aggressive approach by mandating that lenders who foreclose on a property post a $10,000 bond with the city to ensure compliance with the law. A federal judge recently rejected banks' challenges to the law.[5]

STEP 2. MOVE OUR MONEY: Cities are major depositors with the very banks who have caused so much pain. Modeled after **Cleveland**'s 1991 law and the federal Community Reinvestment Act, at least seven cities – **Seattle, Pittsburgh, Portland, Kansas City, Los Angeles, New York,** and **San Diego** – have each recently passed a Responsible Banking Act to demand more transparency and accountability from banks.[6] The specifics of each law vary, but they generally require that any bank wishing to do business with the city disclose detailed data on its lending, foreclosure, and community redevelopment activities. In **Los Angeles**, banks that fail to comply are not eligible for city contracts; in **New York**, however, such failure is only one factor to be considered by the City in selecting banking partners. **Buffalo** has been bolder: in May, it moved all of its deposits out of Chase Bank and into First Niagara.[7] **Binghamton** and other upstate New York towns have also closed their accounts to protest Chase's failure to renegotiate mortgages.

STEP 3. INNOVATE: In 2013, the city of **Richmond, CA** began to advance strategies to get troubled mortgages out of the hands of Wall Street banks and investors and into the hands of "good actors" committed to working with homeowners and modifying mortgages with principal reduction. The city voted to use its power of eminent domain to gain control of troubled, underwater mortgages that threatened the viability of certain hard-hit neighborhoods. Wall Street strongly opposed this measure and after a 1 ½ year battle succeeded in beating back this strategy – at least for now. Not to be deterred, the city of Richmond, CA has helped to lead a national campaign to get HUD, Fannie Mae and Freddie Mac to sell pools of delinquent mortgages to non-profits as opposed to Wall Street speculators. Local Progress members in **New York, San Francisco, Seattle, Baltimore, Philadelphia** and **Minneapolis** have all joined in this effort. The federal agencies have already made some policy changes, in response to pressure, and additional improvements appear to be imminent.

Another approach is for legislators to instruct city attorneys to **open investigations**, backed by subpoenas, into the LIBOR interest rate manipulation that likely deprived municipalities of billions of dollars. Interest rate swaps still in effect on municipal bonds should be renegotiated on better terms.

LANDSCAPE AND RESOURCES

A host of organizations are pushing on these issues. Among them are the **National People's Action, Right to the City, Alliance for a Just Society** and the **Center for Popular Democracy.**

NOTES

1 Peter Goodman, *Foreclosure Settlement Fails to Force Mortgage Companies to Improve*, The Huffington Post. (Aug. 7, 2012).

2 Center for Policy Initiatives, Foreclosure: The Cost Communities Pay (2011).

3 Dana Bartholomew, *Banks letting blight take over L.A. foreclosures -- and they're getting away with it*, LA Daily News (Aug. 22, 2012).

4 How We Can Fix LA's Foreclosure Registry Program to Make Banks Pay for the Harm They Cause Our Communities, http://banksmakebadneigh-bors.files.wordpress.com/2012/06/how-to-fix-blight-enforcement.pdf.

5 Jim Kenney, *Springfield anti-foreclosure ordinances may stand, U.S. District Court judge Michael Ponsor rules*, The Republican (July 3, 2012).

6 Kate Berry, *Ninth U.S. City Adopts a Responsible Banking Law*, American Banker (Nov. 1, 2012).

7 John Washington, *Occupy Buffalo Chasing Chase Out of Buffalo*, Fire-DogLake (May 31, 2012).