

Senate Hearing on Crisis: 'Cleveland Under Siege'

Excerpted here is the opening statement of Sen. Charles Schumer (D-N.Y.) at the Senate Joint Economic Committee Hearing, July 25, 2007, which was titled "A Local Look at the National Foreclosure Crisis," with the subtitle "Cleveland Families, Neighborhoods, Economy Under Siege from the Subprime Mortgage Fallout."

Subheads have been added.

I would like to welcome my fellow Committee Members, Sen. 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 decision making 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 the headlines of investor woes, collapsing hedge funds, and lower-than-expected earnings from 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.

Learning the Lessons of the Present

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 foreclosures.

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% 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.

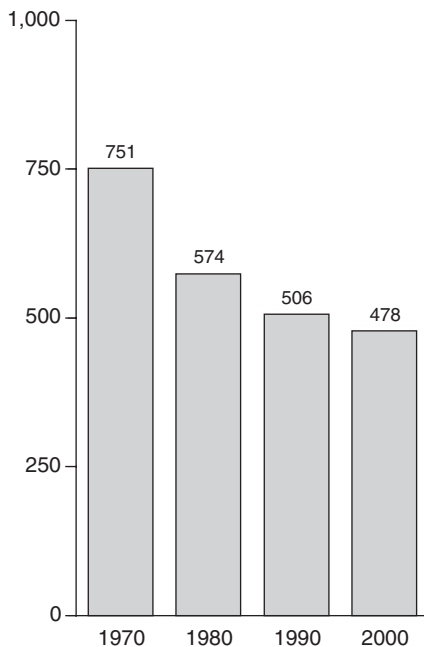
Our witnesses will also inform us about an important side of this issue that is rarely discussed—the ways foreclosure impacts not only the families that own the homes, but their neighbors, their communities, and their local governments.

We never hear, for example, that one foreclosure on your city block can bring down your home's value by 1.5%, 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

FIGURE 1
Cleveland: Population Falls by 36%

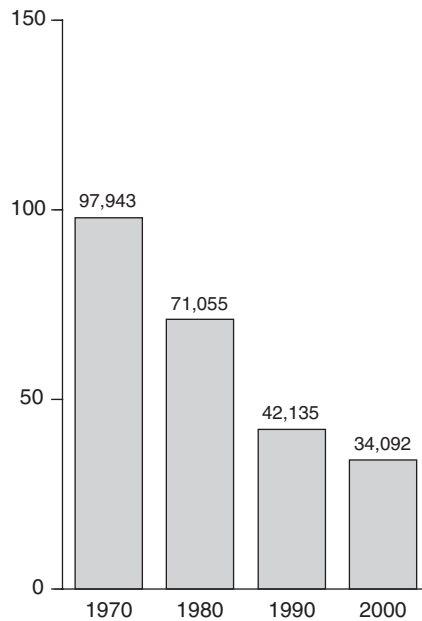
(Thousands)



Source: Dept. of Housing and Urban Development; EIR.

FIGURE 2
Cleveland: Manufacturing Workforce Falls by 65%

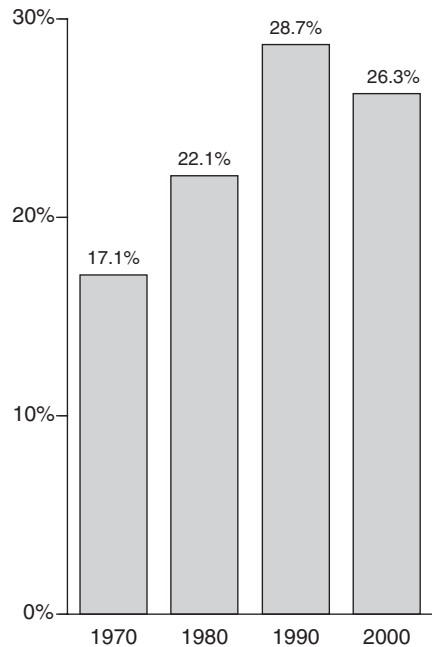
(Thousands)



Source: Dept. of Housing and Urban Development; EIR.

FIGURE 3
Cleveland: Poverty Rate

(Percent)



Source: Dept. of Housing and Urban Development; EIR.

The collapse of the city of Cleveland as a major industrial urban center, shown here, has helped create the conditions for the current housing disaster, in which an impoverished population cannot afford to maintain their mortgages, and fall victim to predatory lenders.

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’

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 agencies.

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....