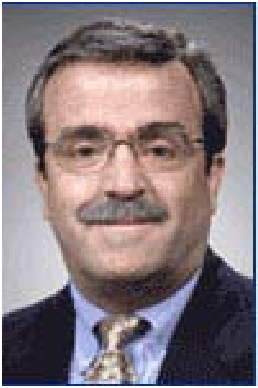
Interview: Jim Rokakis

Home Foreclosures Slam Formerly Industrial Cleveland

Mr. Rokakis is treasurer of Cuyahoga County, Ohio. Marcia Merry Baker interviewed him on July 26.



EIR: What you testified to the Joint Economic Committee of the Senate yesterday, was about the situation in Cuyahoga County, in Cleveland, which is in the forefront of the national home foreclosure crisis. Would you summarize some of the dimensions which you have been pointing out?

Rokakis: Let me give you some benchmarks. In 1995, there were 3,300-plus private mortgage foreclosures filed in Cuyahoga County. By 2000, the number had doubled to over 7,000 private mortgage foreclosures. Last year, in 2006, there were over 13,600. This year we're on pace to do 17,000.

EIR: Mr. Brancatelli, the Cleveland city councilman who testified yesterday, said that in his particular neighborhood, it is running something like two per day.
Rokakis: Look, there are 300 to 350 auctions every Monday here in the Sheriff's office. I don't know what his particular statistics are, but it's not surprising, since his is one of the hardest-hit districts in town.

EIR: What happens? What are you seeing in terms of evictions, people out on the street, vacant lots? You're seeing scrambling for housing. Some of the properties were bought for rental, some are where people were still trying to live?
Rokakis: I would say that half of them—and it's anecdotal, we're not really sure, it could be a little more—but, roughly half of these are purchased by people who thought they could get rich in real estate. They saw giant loopholes in the system that allowed them to buy property without downpayment; that allowed them to buy property in spite of the fact that they had no credit; that allowed them to buy property without documenting their income.

It not only did all of that, but it even gave them cash back at the close. So it was like manna from heaven!

"I'm poor. I have nothing. You'll let me buy a house? With no credit check, with no proof of income? And you'll give me money back at the sale? At the closing?"

Big surprise that people did it by the thousands. You could blame them. We could blame the poor. We could talk about the fact that they need to make better economic decisions. But we've got to stop blaming the poor, and we've got to look at the system that enabled Wall Street to pour hundreds of billions of dollars into this market. Money that didn't belong to them. Hedge fund money. Money that came from pensions, or whatever the source. And look at the damage it caused.

EIR: In your written testimony yesterday, you advised the Senators, "Don't buy the argument of the Federal Reserve Bank that the market will correct itself. . . ." This goes along with what you are saying now.
Rokakis: That's been the thing all along. Look, they had the authority of the Ohio Homeowner Protection Act of 1984. They had authority under the Truth in Lending Act, Regulation Z. The Fed has had authority for a long time to do something about this, and they've looked the other way.

What they did do, is keep interest rates low for a long, long time. They created all this liquidity, and then stood by and watched these banks make these incredibly bad decisions. And Wall Street, you know, was part of the game: "How do we securitize this, and spread the risk out?" With these investment trusts and residential mortgage back securities—they thought they'd created the perfect model. They could democratize credit, give everybody a loan, and nobody would lose.

A huge mistake.

EIR: And now the bubble is popping.
Rokakis: That market's down today, what—300 points or more?

I hope Bernanke is right and that it's *only* $100 billion. I think it's wishful thinking. I think the losses will be a multiple of that number.

It's not just subprime lending. It's also the fact that we have, in this country, encouraged people to strip equity from their homes. You might argue that in the last four or five years, we have been living on borrowed money. It's been equity that people have taken out of their properties, always believing that the property and the real estate value would appreciate, and if worse came to worst, they could always sell the property and get out.

Well, now that the market is falling, and now that values are dropping—in some cases, into the basement—the combination of their first mortgage debt, and their home equity loans, well exceeds the value of their property.

EIR: You have quantified that some for Cuyahoga County, right? It's multi-millions.
Rokakis: We know that just in terms of the amount of money they loaned Argent Mortgage—we estimated that it's roughly $30 million of negative equity—this is money loaned in excess of the value of the property.

What kind of company would make loans that go bad at the rate of one in four, in the first three years? Who would do that kind of business?

EIR: That characterizes the whole country in the bubble.

In your multi-county area, is there discussion among lawmakers, county treasurers, and others, of emergency policy? The Federal response so far—and it's often bipartisan, like Senators Stabenow and Voinovich—has been to ask for tax relief, and this and that. But we have a systemic crisis here.
Rokakis: Actually, this is only helping us to resolve one of the problems. The reality is that you have to rein in this industry. They've proven they can't be trusted. They've proven they're not going to play by the rules. They can talk around this, and over this, and through this, but at the end of the day, you are going to have to codify some of these reforms, because otherwise, they'll continue to make no-document loans; they'll continue to make loans that look the other way on issues involving value; they are going to continue to make loans to people with poor credit. I just think they'll continue to make loans with no regard to whether the person they're making the

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loan to has the ability to make good on the loan—not just at the initial teaser rate, but at the fully indexed rate. We could talk about this until we're blue in the face, but they'll continue to make loans where the broker claims to be the borrower's friend and trusted ally, where in reality, the broker is trying to make the very best deal he can to hurt the borrower, by putting him into a loan that is more than he can pay. Because there's a reward for them at the other end.

EIR: If you reined these practices in, what about dealing with the situation of housing and the need for Federal emergency action to help? There is the precedent from the 1930s. Frankin Roosevelt had the Home Owners Loan Corporation?
Rokakis: There's a role for government to play in this, and they're not playing it. I think that what we have to recognize is that the democratization of credit—by making money available to everybody—has been a failure. It hasn't worked.

So, let's be honest. Not everybody can be a homeowner. We sure think it's a great idea. Everybody should own a home some day; but not everybody is ready. To continue to perpetuate this myth is going to be cruel and costly and devastating to our country.

So let's clean this mess up, and then focus in on things like quality rental housing and creating programs that give people a fighting chance at making that monthly mortgage payment. And not putting them into a payment they can't afford, into a loan that they're likely to fail on.

EIR: You've been treasuer in Cuyahoga County for ten years, what about the context—
Rokakis: The context is that nobody was home in Ohio on the regulation side. Because nobody was home, they did what they could get away with.

EIR: Your area has had such an outflow of people, such a loss of steel and other industry—on a belt running from Buffalo to St. Louis, with Cleveland and your county right in the middle, so that you have been hit hard. Your city functions, your tax base has taken a tremendous hit.
Rokakis: Yes it does impact the tax base. At one time, for example, Cleveland was a big, booming city. Half of the property taxes collected in this county in 1965 came from the City of Cleveland. The city has declined so drastically, that last year, the city's share of my total tax collections for the county dropped to 17%.

EIR: So here is the reflection of the dramatic de-industrialization of the economic base.
Rokakis: It's the decline of the cities. The decline of cities is not an Ohio-only phenomenon.

EIR: No. You're representative. Cleveland probably had the most generalized high living standard, 40 years ago, of all the industrial belt.