

Statement for the Record on the Foreclosure Crisis
Financial Crisis Inquiry Commission
Congressman Michael R. Turner
3rd Congressional District of Ohio
April 22, 2010

I want to thank the members of the Financial Crisis Inquiry Commission for their leadership in examining the root causes of the current financial and economic crisis in the United States. I appreciate your efforts in undertaking a comprehensive analysis and review of this crisis, particularly how predatory lending practices and the increase in foreclosure rates have destabilized the foundation of our nation's economy. It is clear that the American people are seeking answers and want to fully understand how the foreclosure and mortgage lending crisis has contributed to the greater U.S. financial crisis.

That crisis is particularly acute in southwestern Ohio. For that reason, in coordination with the Northeast-Midwest Institute, I held a housing forum in my congressional district in August 2009. For this forum, we convened local and federal housing policy experts to examine the impact of the housing crisis on our local communities, and the federal response. That forum yielded a number of policy considerations that have been compiled into a housing report which I have included for the record. Thank you for the opportunity to submit that report as well as my testimony today expanding on the topic of the mortgage foreclosure crisis, its impact on Ohio, and the federal response.

As you know, the United States is experiencing a steady increase in foreclosures and mortgage lending problems that have impacted homeowners, families, communities, the United States economy and the global markets. On April 15, 2010, RealtyTrac released its U.S. Foreclosure Market Report for the first Quarter of 2010 stating that "foreclosure filings — default notices, scheduled auctions and bank repossessions — were reported on 932,234 properties in the first quarter, a 7 percent increase from the previous quarter and a 16 percent increase from the first quarter of 2009. One in every 138 U.S. housing units received a foreclosure filing during the quarter." The report also said that Ohio is ranked among the nation's 10 highest states in foreclosures, reporting 33,221 filings in the first quarter of 2010. Estimates suggest that this trend is likely to continue with millions more Americans potentially losing their homes to foreclosure in the next 4 years.¹

I appreciate the opportunity to share with you how the foreclosure and mortgage lending crisis has led to home abandonment and high foreclosure rates throughout the country. The influx of toxic mortgage loans, predatory lending practices, a lack of loan modification standards and concerns with certain federal housing policies have had a direct impact on millions of homeowners and communities across the country. Increasing home foreclosures and falling housing prices have led many property owners to walk away from their homes, leaving many communities with a large number of abandoned properties, rising crime rates, blight, and deteriorating neighborhoods.

¹ Realtytrac (April 15, 2010). "Foreclosure Activity Increases 7 percent in First Quarter". Press release.

As this Commission analyzes the causes of the current crisis and searches for solutions, I urge the members of the Commission to conduct a thorough investigation into the serious challenges in the housing sector and its impact on millions of homeowners across the country. I hope that the Commission will further assess the current legal and regulatory framework governing the housing and mortgage lending markets, and how it contributed to the challenges we now face including: refinancing practices; loan-to-value ratios; and the prevalence of fraudulent industry practices. I also hope that the Commission assesses the impact of mortgage backed securities and the role of Fannie Mae and Freddie Mac on the mortgage lending crisis. Lastly, during your investigation into the housing crisis I would welcome the opportunity to give any member of the Commission a tour of the communities in my district that were hit hardest by the foreclosure and mortgage lending crisis.

The toxic assets we commonly reference are mortgage-backed securities containing predatory and subprime mortgage loans which were later packaged, traded, and sold upstream to banks and investors. In the last decade, the number of unsound subprime loans have steadily increased and have now defaulted and contributed to the instability of our financial system.² It is evident that the issuance of inappropriate loan products for borrowers has contributed to the current foreclosure and to the greater financial crisis. These toxic assets are real-life foreclosures that have impacted our communities with a disproportionate amount of them due to predatory lending practices.

According to a Jim McCarthy, the President and CEO of the Miami Valley Fair Housing Center, the mortgage foreclosures associated with lenders who are identified as subprime lenders increased at an annual rate of 43 percent from 1994 to 2000. This number is more than double the annual 18 percent rate increase associated with lenders who are not identified as subprime lenders. This study also showed that foreclosure filings in Montgomery County, Ohio, nearly doubled from 1994 to 2000 and that subprime lenders were responsible for a disproportionately high share of that increase. McCarthy goes on by stating that “until 2008 there were literally no resources available from the federal government to do anything about predatory lending or its resulting foreclosures.” He also said that “in 2008 his organization provided assistance to 353 families in the region, despite the fact that there were 5,194 mortgage foreclosures filed during this same period.”³

During my two terms as mayor of the city of Dayton, I witnessed the impact of predatory lending in my community and our community asked how financial markets would be able to sustain the losses associated with these mortgage foreclosures. Beyond the individual impact of predatory lending and its contribution to increasing foreclosure rates, these practices resulted in the loss of capital in the market that cumulatively exacerbated the lack of liquidity in the U.S. economy.

Home foreclosures resulting from predatory lending has taken a toll on all American cities. Even in neighborhoods where only some homeowners were victim to predatory lending

² Ford Fessenden, “The American Dream Foreclosed,” New York Times, October 14, 2007.

³ Jim McCarthy (President/CEO, Miami Valley Fair Housing Center, Inc.). “Testimony on the Impact of the Housing Crisis on Local Communities and the Federal Response.” (Date: 8/26/09).

practices, the entire community suffers from an overall destabilized housing market and decreased property values. In communities like Dayton, where we have seen stagnation in property values and a lower demand for housing stock, banks have foreclosed on these properties and many have become abandoned. These foreclosed properties often sit vacant for long periods of time and not only become an eyesore, but a threat to public health and safety. Boarded-up neighborhoods, falling property values, and increased crime all lead to an eroded local tax base and impair a city's ability to provide important services to urban families.

Like in many communities across America, property values in Dayton, Ohio, and the surrounding counties, Warren, Clinton and Highland, that are in my district, are not areas which saw these large spikes in property values. We had very modest property appreciation. What happened in my community is that families became victims of predatory lending practices through refinancing into unsound loan products. In many cases, financial institutions would lend people more money than their house was worth. Structurally, it's impossible to maintain a system where lenders are able to issue loan mortgages with upside-down loan-to-value ratios. As a result, many financially-stressed homeowners decided to leverage their entire equity against their home mortgage loan.

In past economic downturns, many more homeowners had equity in their home to provide them with an incentive to either sell their home or seek assistance to make lower payments. But in the current economic crisis, many people found themselves with mortgage loans greater than the value of their home. In addition, there are many other homeowners who find themselves stuck and unable to sell their home because of the number of foreclosures that have occurred in the neighborhood. In the current housing crisis, people do not have the money to pay for the difference between the value of their home and the mortgage, and instead find themselves defaulting on their mortgage.

Unfortunately, many homeowners throughout the Miami Valley in Ohio have found themselves with these predatory loan products and are now facing foreclosure. While many organizations like the HomeOwnership Center and the Miami Valley Fair Housing Center continue to provide counseling, education, and legal intervention to victims of these predatory lending practices, additional resources are still needed to address the growing number of homeowners who need support. In addition, homeowners living near these foreclosed homes and who have made their payments on time are frustrated as they continue to see their property values drop. Americans need to know how lenders took advantage of these families how these lenders are going to be held accountable and stopped from performing these types of lending practices.

Many lenders responded to the current housing crisis by making it more difficult for homeowners to refinance or qualify for a loan. However, the TARP legislation that was originally intended to provide relief to the banking industry did nothing to preclude the issuance of these kinds of predatory loan products. Only through effective loan issuance regulations and financial product transparency will the housing sector fully recover from the current crisis.

On March 3, 2009, I introduced H.R. 1285, an act calling for the creation the Commission on the Foreclosure and Mortgage Lending Crisis so that we can undertake a

comprehensive review of the mortgage and foreclosure crisis as a means of preventing a future one. Specifically, my legislation would establish a bi-partisan commission to: (1) study and report to Congress on the current legal and regulatory framework governing the housing mortgage lending markets and how it contributed to the increased foreclosure rate; (2) recommend changes to the current framework to prohibit lending practices that have contributed to the mortgage lending crisis; (3) review the impact of subprime abuses and predatory lending practices; (4) assess the role of states in enacting policies to reduce predatory lending practices and abuses in the subprime markets; (5) assess the impact of mortgage-backed securities and the Federal National Mortgage Corporation (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) upon the mortgage lending crisis; and (6) assess the impact of the Community Reinvestment Act of 1977 on the crisis.

After I introduced HR 1285, in May 2009, the Senate passed S.386, the Fraud Enforcement and Recovery Act of 2009, which created this Financial Crisis Inquiry Commission. During consideration of this bill, members were successful in ensuring that the final bill instructed the Commission to fully address housing and mortgage lending issues and how it contributed to the larger financial crisis. These provisions instructed the Commission to investigate the legal and regulatory structure of the housing market, securitization, mortgage lending, and consumer protection. Finally, in August of 2009, I wrote Chairman Angelides outlining the provisions of HR 1285, and encouraging that the Commissions' review encompass its provisions. I would like to echo my prior correspondence, and hope that the commission will undertake its review in a manner that encompasses the items in HR 1285.

Last summer I hosted a forum to examine the impact of the housing crisis on our community, and to discuss the federal response. In partnership with the Northeast-Midwest Institute, we assembled two panels of experts. The first panel, composed of Miami Valley housing leaders, discussed the effects of the housing crisis on the region. The second panel, composed of federal policy housing experts, discussed the federal response to this crisis.

Both panels identified some of the serious challenges we face as we continue to determine the appropriate role of the federal government in addressing housing issues in our region. The panelists also provided policy considerations to Congress that address the current legal and regulatory framework governing the housing and mortgage lending markets; the prevalence of fraudulent industry practices; the effectiveness of certain housing tax credits, grants, and programs; as well as providing a reevaluation of federal housing policies and their impact on communities across the nation.

The purpose of this housing forum was to provide Congress, government officials, and the housing industry with a thorough understanding of the implications of federal housing policy on local communities like Dayton and provide creative solutions that address many of these challenges. This report brings together both local and federal policy perspectives on the current housing crisis and lays out clear and innovative strategies for how the federal government can assist these communities.

The Administration has made attempts to mitigate the foreclosure crisis through its Making Home Affordable Program announced on February 18, 2009. Part of this broader

recovery plan is the Home Affordable Modification Program (HAMP). HAMP is a voluntary loan modification program that offers incentives to servicers and borrowers to encourage successful loan modifications for troubled borrowers. HAMP is a \$75 billion dollar program that seeks to incentivize mortgage companies to lower mortgage payments and renegotiate rates for at-risk homeowners. \$25 billion is funded through the Housing and Economic Recovery Act of 2008 (HERA) and \$50 billion is being funded from Troubled Assets Relief Program (TARP).

Unfortunately, this federal program has not adequately addressed the growing numbers of foreclosures. At the end of February 2010, the HAMP program only produced about 170,207 permanent loan modifications, well under the nearly 3 to 4 million homeowners that the program's advocates promised. According to the Treasury's data, less than a 1/3 of all temporary modifications through HAMP are made permanent. In addition, a GAO report released in July 2009 questioned HAMP's ability to modify as many loans as it promised. These sources confirm that HAMP's effectiveness is questionable given current foreclosure numbers. With the Center for Responsible Lending predicting 9 million foreclosures in the next three years, the problems with the HAMP program will likely increase, while loan modification protections for homeowners decrease.

On February 19, 2010, President Obama announced the creation of a new Housing Finance Agency Innovation Fund from unused TARP funds to address the foreclosure crisis in the hardest hit housing markets. However, the Fund ignored Ohio, one of the states hardest hit by the foreclosure crisis. I joined many of my Ohio colleagues in calling on the President to reevaluate the criteria for this fund, in order to allow states like Ohio access to these critical dollars. Following that correspondence, on March 29, 2010, the President announced an additional \$600 million from TARP to target states like Ohio where the unemployment rate exceeded 12 percent in 2009. This fund is designed to help develop and implement innovative housing initiatives tailored to local conditions to help prevent foreclosures and stabilize housing markets. The funds are also meant to address unemployment, borrowers upside down on their mortgages, challenges arising from second mortgages, and programs that encourage affordable homeownership.

While Congress and this Administration continue to reevaluate our national housing policy to curb foreclosures, it is important that this Financial Crisis Inquiry Commission undergo an investigation into the current legal and regulatory framework governing the housing and mortgage lending markets and how it has caused record high foreclosure rates and home abandonment throughout our communities. It is my hope that by having a better understanding of the root causes of the foreclosure and mortgage lending crisis, Congress will be in a better position to better craft effective policy. In large part, the health of our nation's economy is largely tied to the stability of housing markets and the strength of our local economies. Only through the employment of effective housing policies will the nation be able to recover from the current recession and begin restoring the strong and vibrant communities which are essential to our nation's economic strength.