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Peter Dreier

Democrats Challenge GOP on Mortgage Mess

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The first battle in what is shaping up to be a general-election war over the mortgage crisis occurred last week. On Thursday, the House voted 266-154 in favor of a bill, sponsored by Representative Barney Frank (D-MA), chair of the House Financial Services Committee, that would help homeowners at risk of foreclosure. President Bush threatened to veto the bill and Frank practically dared him to do so, saying that a veto would mean Bush has "stopped trying to govern" and was providing Democrats with talking point to use against McCain and Republican congressional incumbents.

Indeed, with some exceptions, the issue has become an example of the nation's partisan and ideological divide. The Democrats, including Senators Barack Obama and Hillary Clinton, want to provide a lifeline to troubled homeowners -- those who have already lost their homes and those on the brink of foreclosure -- and to toughen regulations on banks, lenders, brokers and investors who participated in the subprime rip-offs.

Most Republicans in Congress, however, including Senator John McCain, balk at using tax dollars to rescue homeowners and gasp at the idea of holding businesses accountable. They prefer to blame borrowers who got snookered by predatory lenders and brokers and to bail out Wall Street banks like Bear Stearns. (For an explanation of the origins of and solutions to the foreclosure crisis, see my article in the current issue of Shelterforce.)

Democrats will certainly use the topic to make their case that McCain and Congressional Republicans are woefully out-of-touch with the daily lives of ordinary Americans, hanging the foreclosure crisis around Republican necks-- the gravity of the expanding crisis giving some staunch Republicans in hard-hit districts pause and leading them to side with their ideological rivals.

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In 2007, 405,000 households lost their homes, an increase of 51 percent over the more than 268,000 that were repossessed in 2006. The Center for Responsible Lending projects that 2 million families are likely to lose their homes in the next few years due to the current subprime lending crisis. More than 80 mostly subprime mortgage lenders went bankrupt by the end of last year.

But it is not just borrowers and lenders who are losing. Standard and Poor's reported that home prices dropped by more than 12 percent over a one-year period beginning in February 2007. As a result, property values and property tax revenues have declined. The U.S. Joint Economic Committee has projected a loss of $71 billion in housing wealth as a result of the mortgage meltdown. The U.S. Conference of Mayors projected that 10 states alone would lose $6.6 billion in local tax revenue.

The bill introduced by Frank would allow homeowners to shift from subprime mortgages they can no longer afford to federally backed mortgages. It would provide $300 billion in federal loan guarantees to lenders who agree to reduce the outstanding principal on loans. In exchange for a new mortgage, backed by the Federal Housing Administration (FHA), homeowners must share profits on a subsequent sale of their home with the government. The Frank bill also includes a one-time $7,500 tax credit for new homeowners to be paid back over 15 years, and $15 billion for states and localities to buy and rehabilitate foreclosed properties

Although the vote went mostly along partisan lines-- all 227 Democrats voted "yes" and 154 Republicans voted "no"-- 39 Republicans bucked enormous pressure from their party leaders and from the White House and voted "yes" on bill. (Thirteen members didn't vote.)

Indeed, most of the 39 Republicans who supported the Frank bill represent districts that have been particularly hard-hit by the mortgage meltdown. Seven of them are from Florida, five from Michigan, four from Pennsylvania, three each from New York and Ohio, and two each from Illinois, North Carolina, and Nevada.

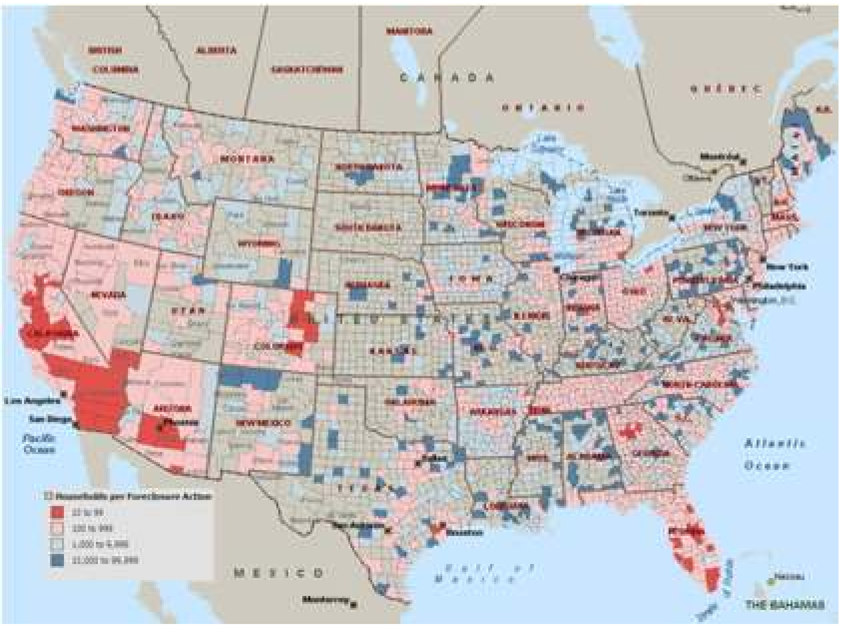
One of Republicans who voted "yes" was Gary Miller, an arch conservative from the 42nd Congressional district that covers parts of Los Angeles, Orange, and San Bernardino counties in Southern California. According to RealtyTrac, the sprawling suburbs east and south of Los Angeles rank second among the nation's metro areas in the rate of foreclosures.

Miller told the Los Angeles Times "I really wish I could support my Republican colleagues. But I'm very concerned about the marketplace. A lot of people are losing their homes. That not only hurts them, but the neighbors around them because of foreclosure. Their home value drops."

The very ideological Miller, a developer, was being politically pragmatic. He faces a potentially tough challenge in November -- he is already politically vulnerable because of several pending scandals -- and he could not afford to toe the party line on the foreclosure issue.

Nationwide, one in every 194 households received a foreclosure filing -- default notices, auction sale notices and bank repossessions -- during the first quarter of this year, according to RealtyTrac. This is more than double the figure from a year earlier. But some states and metropolitan areas have been harder hit than others. In Nevada, one out of every 54 households faced a foreclosure filing. California ranked second (one out of 78), Arizona third (one out of 95), and Florida fourth (one out of 97). Of the 30 hardest hit metro areas, 11 are in California and 7 are in Florida.

The RealtyTrac list and map of metro areas with the highest foreclosure rates could be a roadmap for Democratic strategists. Overlay that map with Congressional districts where Republicans voted "no" on the Frank bill, and you have a list of GOP incumbents who could be vulnerable to the charge that they put party loyalty or close ties to powerful banking interests over the needs of their constituents.



Click the map to go to RealtyTrac's larger version.

For example, in Ohio -- hard hit by economic troubles and mounting foreclosures and where George Bush beat John Kerry by a slim 51 percent to 49 percent margin in 2004 -- six of the state's 18 Congressional seats are considered up for grabs. Five of them are currently held by Republicans. Republican incumbent Steve LaTourette, facing a tough challenge from Democrat Bill O'Neill, voted in favor of the Frank bill. (In fact, his vote for the bill and the funds it will bring to Ohio is the centerpiece of his Congressional webpage). In contrast, Republicans Steve Chabot and Jean Schmidt, who also face strong Democratic challengers and represent districts with many foreclosed homes, voted "nay." (In 2006, Schmidt beat Victoria Wulsin, who is running against her again this year, by only 2,500 votes.)

In Ohio's 15th district, Democrat Mary Jo Kilroy, a Franklin County Commissioner, is running against Republican state Sen. Steve Stivers, an Iraqi war veteran, to replace the retiring Deborah Pryce, a Republican. Two years ago Kilroy -- who helped create the county's Affordable Housing Trust Corporation -- lost to Pryce by only 1,062 votes. The district is centered in Columbus, where the foreclosure rate (one out of 144 households -- a 55 percent increase in one year) ranked 34th in the country. In the state's 16th congressional district -- based in the Canton area, which has been rocked by the mortgage meltdown -- Democratic state Sen John Boccieri, an Iraq veteran, is facing another state senator, Republican Kirk Schuring, to fill the seat vacated by Ralph Regula, a retiring Republican.

ACORN, the community organizing group, is targeting Minnesota Republican Senator Norm Coleman, who faces a tough challenge from author and humorist Al Franken. Last February, Coleman joined his fellow Senate Republicans in voting to block the Foreclosure Prevention Act of 2008. The bill, sponsored by Sen. Chris Dodd (D-Conn), chair of the Senate Banking Committee, was an early effort to address the mounting foreclosure crisis by providing federal funds for homeowner counseling programs and allowed bankruptcy judges to reduce the terms of a mortgage for people about to lose their houses through foreclosure. The vote went strictly along party lines, with only one Republican (Gordon Smith of Oregon) and one Democrat (Harry Reid of Nevada) voting against their party.

ACORN, which has been at the forefront of the fight against predatory lending for many years, sponsored a recent report, "Senator Coleman in the Pockets of Mortgage Bankers," (pdf) documenting Coleman's campaign contributions from the banking and real estate industry and his several votes against bills that would help homeowners facing foreclosure and strengthen regulations on these industries.

Minnesota's foreclosure problem is not among the nation's most severe, but the number of foreclosures is steadily growing. A recent study commissioned by the Greater Minnesota Housing Fund predicts that 28,000 homes will be foreclosed on in 2008, a 39 percent increase from last year. "If those projections are accurate," the Minneapolis Star-Tribune reported, " that means that one in every 31 households statewide will have gone through the foreclosure process from 2005 to the end of 2008." (The Housing Fund report, based on actual Sheriffs' sales occurring in Minnesota, is more than 50 percent higher than the number of foreclosures reported by RealtyTrac).

According to ACORN and other consumer advocacy groups -- including the National Community Reinvestment Coalition, the Center for Responsible Lending, the Greenlining Institute, the Consumer Federation of America, and the National Low-Income Housing Coalition -- both the Frank bill in the House and the Dodd bill in Senate had flaws, the result of efforts by the two sponsors to forge compromises that could garner some Republican votes.

Frank was more successful in winning over some Republicans, in large measure because House members are typically more sensitive than Senators to constituent concerns. To gain some Republican support, Frank -- a brilliant legislative strategist -- did not include some provisions that housing advocates wanted. One would have protected renters from immediate eviction when their landlords are foreclosed on. The other would have provided $300 million to prevent families from becoming homeless due to foreclosure. The advocates are concerned that few banks will voluntarily agree to refinance mortgages for imperiled homeowners, even with the carrot of FHA backing. And some advocates, such as the National Low Income Housing Coalition and the Center for Economic and Policy Research, worry that the Democrats' efforts to stem the decline in home values, a key goal of the FHA refinancing provision, may simply be propping up housing prices that were already inflated. (See pdfs here and here.)

Despite these caveats, the housing advocates, along with Frank and Dodd, recognize that as the foreclosure crisis worsens -- families are currently slipping into foreclosure at a rate of 7,000 to 8,000 a day, according to the Pew Center on the States -- it will become a clear symbol of the ideological and partisan divide that separates most Democrats and most Republicans and, thus, a major election-year issue.