TPM CAFE: OPINION

One California City Stands Up To Wall Street

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If you liked Occupy Wall Street -- or if you liked their message but not their disruptive tactics -- you'll love what's happening in Richmond, California. No, folks aren't pitching tents in the parks or marching in the streets to protest banks' predatory practices. Instead, in this blue-collar city of 103,000, local officials - with support from residents and community groups - are demanding that banks sell their portfolio of "underwater" mortgages to the city so it can make them more affordable for local homeowners. If Richmond succeeds, many other cities are likely to follow its example, which has Wall Street up in arms. In this David versus Goliath battle, odds-makers might just place their bets on the kid with the slingshot.

Since 2007, when the speculative housing bubble burst, home prices have plummeted across the country. Homeowners have lost more than $6 trillion in household wealth. Almost 10 million American families--about one fifth of all homeowners with mortgages -- are underwater. Often through no fault of their own, they owe more on their mortgages than their homes are worth. Many are at risk of joining the five million Americans who've lost their homes to foreclosure.

The blame for this predicament lies almost entirely with Wall Street's risky, reckless and sometimes illegal lending practices. Banks targeted working class and minority areas, often pushing borrowers into high-interest subprime loans, even when they were eligible for conventional mortgages. Not surprisingly, the nation's worst underwater "hot spots" are disproportionately black and Latino areas.

One of those places is Richmond, where home prices have plummeted by 58 percent since 2007. Thousands of homeowners have lost their homes. Nearly half of remaining homeowners are underwater. The city has lost millions in property tax revenues, leading to cuts to vital services and infrastructure repair.

Nationwide there are many cities like Richmond. Although housing prices are rising, this "recovery" has bypassed these places.
Most economists agree that the best solution is for banks to modify mortgages to their current market value, an approach called "principal reduction." If underwater mortgages were reset to fair-market values, it would help homeowners and communities alike, and pump about $102 billion into the economy annually, according to a Home Defenders League report.

But homeowners who have asked banks to modify their mortgages typically get a cold shoulder or a bureaucratic runaround. Some of the nation's biggest banks signed a settlement agreement with State Attorneys General to modify mortgages, but they've failed to comply, leaving millions of homeowners to fend for themselves. And so far, the Obama administration has been unwilling to require intransigent banks to reset loans.

Faced with this quagmire, cities began looking for ways to take matters into their own hands. Recently, Richmond sent notices to the holders of over 600 loans, asking them to sell their underwater mortgages at the fair market value as determined by a third party appraiser--in the same way that banks routinely buy and sell mortgages to each other. If they refuse, the city will purchase the mortgages using eminent domain, which they routinely use to purchase property for sidewalks, infrastructure, school construction and other projects. The city will repackage the mortgages to homeowners at reduced prices and mortgage payments.

Contrary to what Wall Street lobbyists and their allies claim, no city funds will be used to purchase the mortgages. This will be done with a private firm, Mortgage Resolution Partners, which has agreed to a set of principles established by community leaders and the city government.

Richmond may be first, but other cities - including Seattle, San Francisco, El Monte, CA, and Irvington, N.J. -- are preparing to follow Richmond's example. Wall Street is fighting back. Two large banks, Wells Fargo and

Deutsche Bank, filed a lawsuit to thwart the Richmond plan, but US District Court Judge Charles Breyer last month declined to grant an injunction. Bank lobbyists also warned local officials and residents that if they go through with the plan, banks will increase the cost of future borrowing or even shut down credit entirely, but the Richmond City Council called their bluff and voted to move ahead with the plan.

Wall Street lobby groups have tried to get Congress - so far, without success -- to block local cities from using eminent domain for this purpose. But they did manage to persuade the Federal Housing Finance Agency (FHFA)--run by Ed DeMarco, a Bush holdover who is in the job until Congress confirms Rep. Mel Watt (D-NC), whom Obama nominated for the post -- to threaten to sue and withhold credit from Richmond and other cities that adopt this approach.

But their ploy could backfire, because FHFA's threat not only exceeds its own authority (it lacks jurisdiction over cities), but violates federal anti-trust and anti-discrimination laws. Likewise, the banking industry's threats to cut credit would be another form of illegal "redlining" and abuse of market power.

"We're not going to be intimidated by these Wall Street folks," says Richmond Mayor Gayle McLaughlin. "They're the ones who caused this crisis in the first place. And they don't have a solution. We do. And we have every right to do this."

Mayor McLaughlin is right. Wall Street greed caused the housing crash and the epidemic of foreclosures. The federal government failed to stop this financial train wreck when it had the chance, and has subsequently failed to rescue the millions of Americans now drowning in their underwater homes. Right now, addressing this problem on a city-by-city basis is the only viable fix.

If enough cities adopt the Richmond plan, Washington might wake up and require banks to modify millions of mortgages. Meanwhile, Richmond - three thousand miles west of Zuccotti Park -- has found an innovative way to occupy Wall Street.

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