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POST BUSINESS

# Richmond, California Defies Wall Street to Help Homeowners

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Despite enormous pressure from Wall Street and real estate lobby groups, the Richmond, California City Council voted Tuesday night (actually, after 1 a.m. on Wednesday morning) to take the next step to advance the city's plan to help financially-strapped homeowners, called Richmond CARES.

About 300 residents packed the six hour long meeting -- held at the Richmond Memorial Auditorium instead of the City Council chambers -- to discuss the city's plan to help families whose home values have plummeted through no fault of their own.



About half of the homeowners in Richmond -- a Bay Area working class city of 103,000 people -- are "underwater," their homes worth less than their mortgages. Through Richmond CARES, the city will help purchase the mortgages, held by Wall Street banks and investors, reduce the principal and re-sell them at the lower price in order to keep homeowners in their homes and avoid foreclosure.

"Richmond and its residents have been badly harmed by this housing crisis," said Mayor Gayle McLaughlin, one of the plan's key supporters. "The banks have been unwilling or unable to fix this situation so the city is stepping in to provide a fix."

Three weeks ago the city sent letters to the holders of over 600 mortgages, offering to buy them at fair market value. If the mortgage-holders refuse to sell, the letter indicated, the city would consider purchasing them through eminent domain at the fair market value determined by a neutral appraisal firm. The goal is not only to stem the tide of foreclosures that has undermined Richmond's economy, but also to keep wealth in the community. Under Richmond CARES, many homeowners will see their mortgage payments cut in half, allowing them to spend more money in local businesses, and providing the city with more revenues to pay for local services.

During the past several months, Wall Street lobbyists had tried to persuade City Council members to drop the eminent domain proposal. In meetings with and letters to city officials, the lobbyists threatened to sue the city and to deny the city government and local businesses and homeowners credit if they went forward with their bold plan. Following through on their threats, two giant banks, Wells Fargo and Deutsche Bank, have filed suit in U.S. District Court seeking an injunction to stop Richmond from proceeding. The lawsuit will be heard in court on Thursday.

Some city officials and community activists suspect that in addition to the California Association of Realtors, Wall Street banks and the Securities Industry and Financial Markets Association (SIFMA), an industry lobby group, are behind a misleading propaganda effort aimed at persuading Richmond voters to block the plan. Local activists are savoring the irony that the business groups are masquerading as opponents of Wall Street.

In the past week, Richmond homeowners received phone calls and a leaflet entitled "Stop Investor Greed," sponsored by the West Contra Costa Association of Realtors, urging residents to attend Tuesday's City Council meeting in order to speak out against the Richmond CARES plan. According to sources, the business group hired Barnes Mosher Whitehurst Lauter & Partners (BMWLP), a San Francisco political consulting firm, to design the propaganda campaign. As of Tuesday morning, only 45 people had signed the group's petition asking elected officials to abandon the eminent domain plan. Some of those signatures came from employees at BMWLP.

It is a sign of how much Richmond residents distrust the banking industry that the real estate-funded leaflet misleadingly asked people to "stand up against Wall Street Bankers." The plan, according to the leaflet, "will destroy our city housing market, sink Richmond home prices and drown our city in debt and legal bills." It referred people to a [website](#) through which they could contact Richmond's Mayor and City Council, and urged voters: "Lets all say NO to another bad deal for Richmond."

Despite the fact that the leaflet came from the real estate industry (and may have been funded by Wall Street lobby groups), its backers sought to portray the effort as a grassroots movement. The leaflet asked people to

show up at Casper's Hot Dogs across from City Hall, where they promised to give out tee-shirts and then march to the City Council meeting.

The meeting was filled with hundreds of residents sporting tee-shirts, but the red ones handed out by the real estate group were greatly outnumbered by yellow ones worn by supporters of the Richmond CARES plan.

Those wearing yellow shirts Tuesday night were part of an active grassroots campaign by Richmond homeowners and organizations led by the Alliance of Californians for Community Empowerment (ACCE), which has been mobilizing support for Richmond CARES for many months. Their coalition, which has support from the Service Employees International Union, the Home Defenders League, and a number of local religious groups, has spent months meeting with homeowners to explain how the program will work and rallying them to win support from the city council.

Before Tuesday's Council meeting, the coalition held a press conference to call on the City Council to move forward with the next step on local principal reduction, the formation of a Joint Powers Authority which will administer the program and provide relief for struggling homeowners. At the meeting, 64 speakers addressed the council, most of whom urged them to defy Wall Street and move forward with Richmond CARES.

At the meeting, City Council member Nat Bates, who opposed the Richmond CARES plan, asked rhetorically "Is it worth 110,000 people fighting Wall Street?" The crowd responded with a loud "YES".

It wasn't until after 1 a.m. that the council voted -- by a 4 to 3 margin -- to form the Joint Powers Authority.

"This is a great victory for my family and the City of Richmond, said ACCE member Morris LeGrande, one of the leaders of the community organizing effort whose own Richmond home loan is deeply underwater. "Being first in anything is a painful experience. Fighting for civil rights was a painful experience, but the end result was equal rights for all American citizens. The same type of sacrifice is being made by taking on Wall Street."

"I've seen the housing crisis devastate Richmond's neighborhoods. I've felt the heartache of families who were evicted from their homes," said Mayor McLaughlin. "We're saying enough is enough. We are determined to work to save our communities, and Richmond CARES can begin to fix what Wall Street broke."

Wall Street lobby groups are spending an extraordinary amount of money and effort trying to thwart the Richmond plan because they worry that if it succeeds, many other cities -- also facing the epidemic of "underwater" homes and fiscal crisis -- will follow Richmond's lead. A number of cities -- including Seattle, San Francisco, and El Monte, CA -- are already discussing the idea and many others are likely to do so if the Richmond plan is successful.

To circumvent local actions, SIFMA and other industry lobby groups -- including the American Bankers Association, American Securitization Forum, Credit Union National Association, National Association of Realtors and the Mortgage Bankers Association of America -- have been lobbying Congress to ban the eminent domain strategy, so far to no avail.

Richmond is partnering with Mortgage Resolution Partners (MRP), which will recruit investors to buy the underwater mortgages. Working with city officials and ACCE, MRP agreed to a set of principles to guide the plan. Under that agreement, no homeowner will be required to participate in the program, the plan won't cost the city any money, and MRP will pay for any legal bills if -- as has already occurred -- banks and Wall Street lobby groups sue. For its services, MRP -- whose partners include people who have worked in the financial services industry -- will receive a small fee for each home that benefits from the program. The real estate industry-backed campaign opposed to Richmond CARES tried to misleadingly stigmatize MRP as a rapacious Wall Street lender to frighten local residents.

Richmond residents have already been traumatized by the housing crisis caused by Wall Street's risky and often illegal practices, including an epidemic of predatory loans targeted primarily to working class Black and Latino communities, often pushing borrowers into high-interest subprime loans, even when they were eligible for conventional mortgages.

Median home prices in Richmond plummeted from \$456,000 in 2006 to \$140,000, stripping many homeowners of their major source of wealth. In a city dominated by a huge Chevron oil refinery, about half of Richmond homeowners are underwater and thousands have already lost their homes to foreclosure, forcing the city to deal with abandoned buildings, crime, blight, and loss of property tax revenues.

Many [economists](#) agree that the best solution to this problem is for banks to modify the loans -- to reduce the principal -- to reflect current housing market values. But homeowners who have asked banks to reset their mortgages typically get a cold shoulder or a bureaucratic runaround. So far, the Obama administration and Congress have been unwilling to require intransigent banks to reset loans.

The first wave of mortgages under the Richmond CARES plan are those held by pools of investors -- called private label securities -- who hire banks to collect mortgage payments. These homeowners have been steadily making their monthly mortgage payments, but they are stretching their budgets to do so. Studies show that homeowners who are significantly underwater are at risk of foreclosure.

"We're not going to be intimidated by these Wall Street folks," said McLaughlin, a former teacher who has been Richmond's mayor since 2006. "It is pretty outrageous to hear them opposing this. They're the ones who caused this crisis in the first place. And they don't have a solution. We do. The city has every right to do this."

As word got out about Richmond's stand against Wall Street predators, a growing number of organizations began demonstrating their support. Mary Kay Henry, SEIU's international president, issued a [statement](#) expressing solidarity with the Richmond officials and homeowners. On Monday, San Francisco Supervisor David Campos announced that he will propose a resolution before the County Board of Supervisors expressing support for Richmond CARES and calling on San Francisco to examine a similar local principal reduction strategy.

National fair housing groups filed an [amicus brief](#) in support of Richmond CARES in advance of Thursday's federal court hearing to dismiss the request for a preliminary injunction filed by Wall Street banks against the city. In that brief, the housing groups argued that the banks' threats to withhold credit to city residents amounted to illegal discrimination against Richmond homeowners, particularly communities of color. Other legal experts have said that these threats may also violate federal anti-trust laws.

The Wall Street and real estate lobby groups apparently persuaded Richmond Vice Mayor Courtland Boozé and Councilmember Nat Bates, who voted to halt the plan. Councilmember Jim Rogers also voted "no," expressing concerns about the city's legal liability, even though MRP agreed to cover all the city's legal expenses. Joining Mayor McLaughlin to move forward with Richmond CARES were Councilmembers Jovanka Beckles, Tom Butt, and Jael Myrick.

*Peter Dreier is the E.P. Clapp Distinguished Professor of Politics and chair of the Urban & Environmental Policy Department at Occidental College. His most recent book is [The 100 Greatest Americans of the 20th Century: A Social Justice Hall of Fame](#). Among his earlier books are *Place Matters: Metropolitcs for the 21st Century* and *The Next Los Angeles: The Struggle for a Livable City*.*

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