TPM

New York City Progressives Challenge Wall Street Over Foreclosures

AP Photo / Ben Margot

PETER DREIER – JUNE 26, 2014, 5:50 PM EDT

The Occupy movement started on Wall Street and now its sibling, the grassroots movement to restore community wealth, has come to New York City.

On Wednesday, a broad coalition of community activists joined with four allies on the New York City Council to draw attention to the epidemic of foreclosures and to call for immediate action to help rescue homeowners who are drowning in debt.

At a press conference at City Hall, they released an eye-opening report, Thousands of Homeowners Still Drowning in Underwater Mortgages: How Toxic Loans Keep Fueling Foreclosures and the Need for Eminent Domain, designed to jump-start a campaign to address the problem.

The report, sponsored by New York Communities for Change and the Mutual Housing Association of New York, reveals that tens of thousands of New York City homeowners are still at risk of foreclosure, because their mortgages are underwater and the banks aren't providing any relief.

The politicians and activists specifically recommended using the city's eminent domain authority to wrest troubled "underwater" mortgages from obstructionist investors and lenders and reset them at current market values -- a strategy called "principal reduction."

Council member Donovan Richards, who represents parts of Queens that were hard-hit by the foreclosure crisis, went straight to the point.

"I'm here because I think the people need their bailout. Didn't the banks get their bailout? So why can't the people get a bailout?" Richards said. "Today I stand with New York Communities for Change to call on New York City to use eminent domain to really seize these mortgages and make a difference in the lives of New Yorkers."
The press event is the opening salvo in what could be a protracted battle between municipal officials and the titans of Wall Street.

Several cities, including Richmond, California and Newark, N.J., have already taken steps toward an eminent domain program. Officials in a growing number of cities have been discussing the idea. But the fact that major political and community leaders of the nation's largest city -- and the capital of the nation's financial industry -- are moving in this direction indicates that this approach is gaining momentum.

Like foreclosed homes, the underwater mortgages are disproportionately concentrated in lower- and moderate-income African-American and Latino neighborhoods. The report used ZIP code-level data for the five boroughs to show where the troubled mortgages are concentrated.

Some of these mortgages are held by banks. Others are held by groups of investors who purchased pools of mortgages before the housing bubble burst in 2007 and are now holding these toxic loans called Private Label Security (PLS) mortgages. A third group of underwater mortgages are held by Fannie Mae, the quasi-government agency that insures and purchases home loans made by private banks.

Across the country, about one-fifth of all mortgages homes are underwater, where families owe more on their mortgages than the market values of their homes. According to Underwater America, a report I co-authored that was released in May by the Haas Institute at the University of California — Berkeley, the total value of America's owner-occupied housing remains $3.2 trillion below 2006 levels, before the housing bubble burst. Without government intervention, many of these homeowners are at risk of joining the almost five million households that have already suffered through foreclosures.

The blame for this tragedy lies mostly with the financial industry, headquartered on Wall Street. The banks engaged in risky, reckless, and sometimes illegal lending practices. In the late 1990s and early 2000s, millions of Americans bought or refinanced homes in an overheated market. Mortgage brokers and lenders lied or misled borrowers about the terms of these mortgages, often pushing borrowers into high interest subprime loans, even when there were eligible for conventional mortgages.

They particularly targeted minority areas. In 2006, when subprime lending was at its peak, 54 percent of African Americans, 47 percent of Latinos, and 18 percent of whites received high-priced loans.

So, not surprisingly, the nation's worst underwater areas are disproportionately in black and Latino neighborhoods.

This is true in New York City, according to the new report. The report's close analysis uncovered these startling facts: seventeen out of 20 ZIP codes with the highest number of investor-owned (PLS) mortgages are more than 50 percent African American and/or Latino residents, while seven of the 10 ZIP codes with the highest number of PLS mortgages are more than 90 percent African American and/or Latino.

The banks' risky loans eventually came crashing down, devastating communities and causing financial havoc. The federal government rescued the banks, but nobody came to the rescue of the homeowners and the communities that the banks left behind.

According to economists Amir Sufi of the University of Chicago and Atif Mian of Princeton University, in their new book *House of Debt: How They (and You) Caused the Great Recession, and How to Prevent It from Happening Again*, the dramatic rise in household debt, in combination with the dramatic decline in housing values, not only triggered the Great Recession, but also now makes it more difficult to lift the nation out of its current economic hard times. As *House of Debt* explains, people who are burdened with extensive debt cannot afford to purchase goods and services, which is essential for a healthy economy.

They, along with economists like Joseph Stiglitz and Paul Krugman, believe that the solution is for lenders and borrowers to cooperate in reducing the debt by resetting mortgages to current market values. But so far few banks have been willing to participate in voluntary principal reduction. Neither have the private investors (who hold the PLS loans) or Fannie Mae, which owns the bulk of underwater mortgages.
The Obama administration created several initiatives to help troubled borrowers, but these programs do not require banks to reset mortgages as a condition of getting federal funds. Housing advocates are pushing Mel Watt, head of the Federal Housing Finance Agency (FHFA), which oversees Fannie Mae, to allow the agency to utilize principal reduction, but so far Watt (a former Congressmember from North Carolina) has not done so.

Faced with the reality of dramatic declines in housing values, loss of tax revenues, communities devastated by foreclosures, and the resistance of banks and investors to reset underwater loans, a growing number of cities have been taking matters into their own hands.

Late last year, Richmond, California was the first city to develop a plan to use its power of eminent domain to buy underwater mortgages at their current market value and to refinance them at current values. This approach will not only relieve families of a major financial burden, but will help improve local economies (since families will have more money to spend on non-housing expenses) and local fiscal conditions (since governments will have more property tax revenues and less blight to cope with).

The Newark (NJ) City Council recently voted to investigate this approach, and other cities are doing the same. The New York City report calls for the city government to step in and use eminent domain to seize these toxic mortgages in order to reduce the principal that is owed, protect homeowners, and strengthen communities. Local officials can expect an onslaught of Wall Street lobbyists trying to intimidate them from moving forward, as they've done elsewhere.

In cities around the country, Wall Street lobbyists have warned city officials that if they use eminent domain to rescue homeowners from foreclosure and underwater mortgages, their cities will have difficulty raising funds for municipal projects and that lenders won't make loans if cities take this bold action. But Richmond's experience reveals that the Wall Street lobbyists were "crying wolf." Last December 17, the Richmond City Council voted to move forward to implement the foreclosure prevention program called CARES (Community Action to Restore Equity and Stability) that includes the option of using eminent domain. On March 7 this year, Richmond's credit rating was upgraded to AA- (which is one notch ahead of A+) by Standard & Poors (S&P). In addition to being classified as "high grade," the AA- defines the City as: "obligor has very strong capacity to meet its financial commitments." On March 27, when Richmond refinanced its Successor Agency bonds, the city got more bids than usual and got a better interest rate than they had anticipated.

At Wednesday's press conference at New York City Hall, a who's who of municipal officials and community activists pledged to seriously consider this approach if the banks, investors, and Fannie Mae don't address the problem by resetting mortgages for families who are in jeopardy, typically through no fault of their own.

"As the City Council and de Blasio administration begin to combat the affordable housing crisis throughout the five boroughs, one thing is certain: we must act to end the foreclosure crisis, and the use of eminent domain should be explored as a tool to do that, before we run the risk of casting the neediest of New Yorkers into an uncertain future." said New York Council Member Jumaane D. Williams (D-Brooklyn), Deputy Leader and Chair of the Council's Housing and Buildings Committee. "I am happy to work with my colleagues and New York Communities for Change to effectively reduce the thousands properties in New York City that have gone into foreclosure within recent years."

"Many New Yorkers are still hurting from the housing crash. Those who have not yet lost their home are on the brink of losing it in the near future," said New York City Council Member Donovan Richards. "If we, as a city, can assist homeowners in anyway then we are obligated to do so. Eminent domain can remedy the failures of mortgage servicers and previous administrations which did not help the many New Yorkers who have faced or are facing the possibility of foreclosure."

"There are two kinds of cities that Wall Street can't frighten - those that have serious unwater loan and foreclosure problems, and those that have dedicated Mayors and City Councils," explained Robert Hockett, a professor at Cornell University's law school and a leading national expert on the use of eminent domain in foreclosure prevention." New York City is in both of those categories. Any serious measures taken in New York City to address underwater loans and foreclosure will be 'game-changing' nationwide."

"Thousands of NYC homeowners in court cases — through no fault of their own — are trapped with underwater mortgages with banks unwilling to work out reasonable accommodations. The City should explore every option to provide these homeowners relief including buying the properties for fair market value through eminent domain," said New York City Council Member Mark Levine.

"Like many families in Queens, I have been on the brink of foreclosure for too many years," said Jean Sassine, a board member of New York Communities for Change, a highly respected community organizing group. "These banks have failed the homeowners in my community and now is time for the city to step in and do everything in its power to save our neighborhoods, including using eminent domain for a REAL public good, to fix the mortgages the banks won't and continue to refuse to do!"

"This report lays out a critical and necessary framework for restoring stability to New York communities devastated by predatory lending," observed Jennifer Ching, director of Queens Legal Services, who has worked with many homeowners facing foreclosure. "The current foreclosure crisis at cannot be addressed by traditional policy responses — too many New Yorkers have already lost their homes, and thousands more are approaching foreclosure. Tools like large-scale principal reduction, eminent domain and land banks can lay the groundwork for stable, sustainable and affordable housing."

At the press conference, a Queens resident named Roxanne who did not wish her last name to be used, explained: "I am just one of the hundreds of residents of Queens, trapped in an underwater mortgage. For many of us underwater, the options are scarce. The banks won't help us even though we pay our mortgages. We have been suffering the consequences of predatory lending for far too long. That's why I support eminent domain, this is the best solution to save our homes and our neighborhoods."

"For years, banks pumped destructive mortgages into New York City neighborhoods of color, leading to huge waves of foreclosures and devastating families and entire neighborhoods in the process," said Sarah Ludwig, founder and co-director of New Economy Project, an economic justice organization in New York City. "Now, in 2014, thousands of New Yorkers who managed to keep their homes remain trapped by underwater mortgages. New York City has every right to step in — to use eminent domain to stabilize communities and the city's tax base — and ultimately restore dignity and justice for New York City families of color, systematically preyed on by the banks."

Said Council Member Daneek Miller: "The utilization of eminent domain to resuscitate properties burdened by underwater mortgages will have a positive impact on communities devastated by the foreclosure crisis — including my own in Southeast Queens. It will allow entire neighborhoods to move forward and help break the cycle of declining values that stems from foreclosures. Southeast Queens is a community which has some of the highest homeownership rates in our City and we have been disproportionately affected by the foreclosure crisis without any resolution."

"Across too many New York City neighborhoods, the foreclosure crisis continues to cause incredible harm and instability to vulnerable families. In six long years, neither the banks nor the federal government have come to the rescue," noted Andrew Friedman, co-executive director of the Center for Popular Democracy, a national advocacy organization. "It is high time for New York City to take leadership on this issue. We applaud the NYC Councilmembers for their pursuant of innovative policy solutions that can keep families in their home and help rebuild community wealth."

"Wall Street's bullying tactics have failed to stop more cities from exploring the idea of Local Principal Reduction programs that potentially use their constitutional power of eminent domain to refinance toxic mortgages," said Kevin Whelan, campaign director of the Home Defenders League, a national organization of underwater homeowners and community groups fighting the foreclosure crisis. "In Wall Street's backyard families and communities are still waiting for relief and the racial wealth gap continues to grow. City leaders are right to take bold action."

Peter Dreier teaches Politics and chairs 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 (Nation Books, 2012). A third edition of Place Matters: Metropolitics for the 21st Century (coauthored with John Mollenkopf and Todd Swanstrom) will be published in August by the University Press of Kansas.