dailynews.com

Peter Dreier: Banks should pay for foreclosures

By Peter Dreier

Posted: 05/01/2011 01:00:00 AM PDT

THE epidemic of foreclosure that began in 2008 has been devastating California's families, communities and the state economy.

Since then, more than 1.2 million Californians have lost their homes, and the number is expected to exceed 2 million by the end of next year. About one in five U.S. foreclosures is in California. More than a third of California homeowners with a mortgage already owe more on their mortgages than their homes are worth.

As a result, home values in the state are estimated to plummet by $632 billion. That translates into a loss of more than $3.8 billion in property taxes. One foreclosed home in a neighborhood can reduce property values for the rest of the houses in the neighborhood, and a cluster of foreclosed houses compounds the physical, economic, and social devastation.

And just as local governments are starving for revenues, they are asked to deal with the increased costs - estimated at $17.4 billion over four years - caused by the foreclosure mess. These include public safety, maintenance of abandoned and blighted properties, inspections, trash removal, sheriff evictions, unpaid water and sewer charges, and the provision of emergency shelter.

We can't solve California's fiscal disaster without addressing the foreclosure crisis. It doesn't make sense to make severe cuts to state and local budgets only to allow Wall Street banks and their overpaid CEOs to drain billions more from our state. The banks created the

housing crisis with toxic lending practices and they need to be part of this solution.

A bill sponsored by San Fernando Valley Assemblyman Bob Blumenfield - the Foreclosure Mitigation Fee (AB 935) is currently going through legislative hearings - would require banks to pay their share of foreclosure costs. Backed by a broad coalition of consumer, community and labor groups, the bill would impose a $20,000 fine on banks for each foreclosure.

The $12 billion revenue over next two years would go entirely to local communities in order offset the multiple costs borne by our neighborhoods because of foreclosures and shared between public safety, public education, local governments, redevelopment activities and small businesses.

Los Angeles County alone will face an estimated 381,461 foreclosures through 2012, costing local governments $918 million in lost property taxes and $2.8 billion to pay for the problems. Riverside and San Bernardino counties have been particularly hard hit by the foreclosure earthquake. But no county, city, or small town in California has been spared the devastation.

Print Powered By FormatDynamics

dailynews.com

Indeed, the foreclosure tsunami and the housing market crash are the primary causes of the severe budget crisis facing California's municipalities and counties, forcing local officials to slash services and lay off tens of thousands of employees.

But many Californians are asking, why should taxpayers and communities have to pick up the tab, and face such hard times, for a crisis they didn't cause? They - and the families caught in the maelstrom - are the victims of this human-made disaster.

And let's be frank. Wall Street's reckless and predatory lending practices were responsible for the mess we're now in. Bankers pushed homeowners into high-cost loans they couldn't afford. They engaged in deceptive and often illegal activities, like not informing consumers that they qualified for conventional loans, tricking them into more costly and risky subprime mortgages.

Wall Street banks bundled these risky loans into "mortgage backed securities" that were given the seal-of-approval of ratings agencies (Moody's and Standard & Poor), and then sold them to foreign governments, pension funds and other unwitting investors.

When the scam imploded and Wall Street's bets went sour, the bankers were bailed out by the taxpayers. Goldman Sachs got $53 billion in bailout funds; Bank of America received $230 billion; Wells Fargo pocketed $43 billion. Meanwhile, the top executives got outrageous compensation packages. Last year, for example, Wells Fargo CEO John Stumpf received $17.1 million in salary and bonuses.

But California residents lost billions in savings in their homes, neighborhoods were devastated, businesses crashed and laid off employees, and local governments spiraled downward into fiscal hell.

The largest banks - the Bank of America, JP Morgan Chase, Wells Fargo, and Citigroup - are among the top lenders foreclosing on California families. Not surprisingly, these are among the banks that have been flooding Sacramento with political cash in order to thwart legislation designed to make them - the real culprits of the foreclosure massacre - pay for the suffering they've caused.

Since 2007, the financial industry has spent $70 million to buy political influence in the state Capitol - that's nearly $50,000 per day. Almost $46 million went for campaign contributions to candidates and elected officials, while more than $23 million went for lobbying expenses.

Six banks alone - BofA, JP Morgan Chase, Citgroup, Wells Fargo, Goldman Sachs and Morgan Stanley - have invested more than $9 million in political cash. Lobbyists and industry associations, like the California Bankers Association, the California Independent Bankers Association, and the California Mortgage Bankers Association, have doled out $4.5 million in what some call our system of legalized bribery.

The key organizations behind this pro-consumer bill include the Alliance of Californians for Community Empowerment, the Service Employees

Print Powered By FormatDynamics

dailynews.com

International Union, the California Reinvestment Coalition, the community organizing group PICO California as well as the California Council of Churches, California Association of Retired Americans, California Labor Federation, California Nurses Association, the Center for Responsible Lending, and the State Building and Construction Trades Council. They correctly believe that California's economy can't recover without addressing the cost of the foreclosure crisis.

AB 935 doesn't solve the entire foreclosure calamity. But it does have several very positive aspects. First, it may create an added incentive for banks to modify more loans so that families can remain in their houses. So far, most banks have pushed the pause button when it comes to renegotiating troubled mortgages with owners who could lose their homes through no fault of their own. Second, the revenues collected from the foreclosure fee will reimburse local governments for some (though certainly not all) of the costs our communities are now facing from foreclosures.

Until we make the banks pony up for the devastation they've caused, the taxpayers are left holding the bag, subsidizing the reckless behavior of excessively paid top bank officers, who threw a huge party for themselves and are making the rest of us clean up their mess.

Peter Dreier is E.P. Clapp Distinguished Professor of Politics and chair of the Urban & Environmental Policy Department at Occidental College.

Print Powered By FormatDynamics