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ESOP

Empowering and Strengthening Ohio's People

a member of COMMUNITY SHARES

Testimony of Barbara Anderson
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SUBMITTED TO:
THE JOINT ECONOMIC COMMITTEE
THE HONORABLE CHARLES SCHUMER,
CHARIMAN,

July 25, 2007

Good morning Senator Schumer and ladies and gentlemen of the Joint Economic Committee. I appreciate the opportunity to appear before you and want to thank Senator Sherrod Brown for his intense interest in this issue. I ask that my comments today, both written and oral, be made part of the record for this hearing.

My name is Barbara Anderson. I appear before you today as the Treasurer and member of the Predatory Lending Action Committee of the Empowering & Strengthening Ohio's People (formerly known as the East Side Organizing Project) (ESOP), a community organization whose roots are in the southeast side of Cleveland, Ohio but whose growth has been fueled by abusive lending and now includes the entire Northeastern Ohio region as ESOP's work is widely recognized and requested.

I also serve as Treasurer of the Empowerment Center of Greater Cleveland, President of the Bring Back the 70's Street Club, I'm the Past President of Community Assessment and Treatment Services, and serve on the boards of Ohio State University Extension Program, Vision Advocacy Council of MetroHealth Center for Community Health, and Co-Chair the Slavic Village Development Abandoned and Vacant Housing Committee.

I have lived at 3435 E. 76th St. for more than 25 years. That address is in the Slavic Village neighborhood that is, today, widely seen as the epicenter of the foreclosure crisis facing Cleveland and the nation.

When my husband and I bought our home, we were the first African-American family to move to Slavic Village. As you know, Cleveland has a long history of racial tensions and we experienced them first hand. Within months of moving into our home, thugs began setting fires at our home. All told, we lost our garage twice, had fires at three of the entryways and a major fire on the back of our house. After the third fire, our insurance company dropped our coverage. Indeed, not only was I vicitimized by the thugs in my community, I was also hung out to dry by my insurance company.

For several years after, we tried to make the repairs on our own. By 1996, we were no longer able to do so and we sought to refinance our mortgage to get some of the equity in order to make the repairs. Several local banks turned us down; not because of our credit but, rather, because of the fire damage and the fact that no insurance company would cover us.

After being turned down, I was approached by a loan broker. He got us a loan at 8.5% through the now defunct Conti Mortgage. I didn't know that in the span of four years, that rate would jump to 14.5% causing my payments to increase by nearly 60%.

Between 1996 and 2001, my loan was then sold no less than fifteen times. Indeed, my "home" was a commodity for the market as the secondary market got greedy and sold these loans with the same carefree business model my grandchildren use when selling lemonade on a hot summer day.

I came to ESOP near the end of 2001. I was desperate as my loan was now being serviced by Fairbanks Capital and, despite the exorbitant rate of my loan, my issue when coming to ESOP was the servicing of that loan as my payments were not being applied.

I led a national fight against Fairbanks through ESOP's national affiliate, the National Training & Information Center (NTIC), headquartered in Chicago. We went on to win a national agreement that we have replicated with other lenders and servicers across the nation. For me, that agreement meant wiping out nearly $30,000 in bogus fees, accrued interest and over appraised loan principal and allowed me to refinance with the only bank in Cleveland that has remained true to its word with respect to meeting the credit needs of low-mod income census tracts: Third Federal Savings & Loan.

Like Audrey, I got lucky. I heard about ESOP from a friend. Ladies and Gentlemen, people should not be dependent on luck to get respite from a bad loan. Indeed, I call upon you to demand that the lending industry make the comprehensive resources that ESOP provides to all borrowers.

ESOP’s model is different from most, if not all, other foreclosure prevention counseling agencies. Chief among those differences is that we combine direct action organizing in order to secure an agreement with our loan counseling efforts. Indeed, the secret to our success is direct action organizing to secure written agreements that, most importantly, designate one specific person empowered to negotiate and change the loan terms to keep a family in their home.

Since 2001 when we began keeping track, ESOP’s agreements have kept more than 2500 people in their home. For 2007, to date, we have assisted more than 400 families and are bracing for the “October Surprise” that will actually hit in January, 2008.

I want to spend a few minutes and give you a sense of just how devastating the last decade has been due to the regulators abdicating their responsibility and abusive lenders entering the market place. The following statistics were put together by Paul Bellamy, a fair housing expert in Cleveland. They paint a very grim picture. Consider:

- Ohio's foreclosure rate is three times the national average and the highest of all states.[1]

- Data from 12 of the 13 largest Ohio counties indicate that 2006 foreclosure filings increased by an estimated 25 percent over 2005, with an estimated 80,000 foreclosure filings.[2]

- The volume of foreclosures is expected to grow much faster in 2007 and 2008 because of the number of subprime ARM loans that will be reset at much higher rates. In 2005, subprime loans accounted for about 13 percent of the mortgages issued nationally, compared to almost 28 percent (more than double) of the mortgages issued in Ohio. Subprime loans account for 18 percent of all outstanding Ohio mortgages currently held by the secondary market and other loan servicers. Despite representing less than one of five outstanding mortgages, subprime loans account for 70 percent of all foreclosures.[3]

- The most common type of Ohio subprime mortgage is a "2/28" loan. These loans are sold with low initial "teaser rates" that are fixed for the first two years. Beginning in year three, the interest rate increases as often as every six months, so the monthly payment grows dramatically. Often, these loans are not underwritten to anticipate the inevitable rate escalation. In 2007 and 2008, roughly $14 *billion* of these 2/28 subprime loans are going to reset in Ohio, impacting some 150,000 to 200,000 mortgages.[4]

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[1] *Mortgage Bankers Association, National Delinquency Survey, Third Quarter 2006*

[2] *Data for the last 10 years was originally obtained from the Ohio Supreme Court and are republished in Policy Matters Ohio reports over the past several years. See*:
http://www.policymattersohio.org/Foreclosure_Growth_2006.htm

[3] *The Subprime Market's Rough Road," Wall Street Journal, 2/17/07.*

Home Mortgage Disclosure Act data - Reported subprime loans (generally considered an undercount) show that subprime increased from 16% of Ohio's mortgages in 2004, to just over 28% of the Ohio loan market in 2005.

Mortgage Bankers Association, National Delinquency Survey, Third Quarter 2006 (most recent available).

[4] ***"Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners," The Center for Responsible Lending, December 19, 2006. Figures from databases maintained by lending industry trade groups actually suggest that over $20 billion 2-28 subprime loans will reset in Ohio during 2007 and 2008.***

- Many borrowers with 2/28s and other ARMs can’t refinance or sell to avoid default because their property is not worth what is owed. All too often, their original mortgage was based on an inflated appraisal. In 2006, six of Ohio’s eight major metropolitan areas experienced depreciating real estate values between 3.5 and 7.7 percent - well above the US average of 2.7 percent.[5]

While the above numbers are staggering, what I see in my neighborhood is even more tragic. There are ten houses on my street. Five of them are currently vacant and, in most cases, are owned by the lender who made an abusive loan that the homeowner could not afford. My street is not unusual. You can walk up and down virtually any street in my neighborhood and you will find a similar situation.

Obviously, the vacant houses have reduced the value of my home. While that is devastating by itself, what is more devastating is that I can’t allow my grandchildren to play outside because squatters, usually high on drugs, are now occupying some of these homes as they sit wide open.

Today, organizations like ESOP are fighting an uphill battle to clean up their mess. We have written agreements with about a dozen lenders and servicers that allow us to serve as the middleperson between the homeowner and lender in order to help negotiate a workout to their problem loan. This year, ESOP is projected to assist about 700 families get out of foreclosure. While we are proud of our efforts, Cuyahoga County

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[5] *First two sentences are based on reports of staff of foreclosure prevention projects around the state. Third sentence is from “National housing market declines,” Cleveland Plain Dealer, 2/16/07 based on home price data for 2006 from the National Association of Realtors.*

is expected to see upwards of 15,000 foreclosures in 2007. Frankly, our work is a “drop in the bucket”.

ESOP’s work, to date, has resulted in a number of partnerships that we are proud of, including: ACC Holdings (Ameriquest/Argent), JP Morgan Chase, Charter One, SPS, Ocwen, Litton, Third Federal Savings & Loan as well as some very effective relationships with Homecomings and Wilshire. Regrettably, however, Countrywide Home Loans, to date, has refused to enter into an agreement with ESOP to help their customers. Indeed, while ESOP has about an 85% success rate working through those lenders where we do have an agreement, our success rate with Countrywide is less than 50%.

Again, I thank you for the honor to be before you.