

FACES OF FORECLOSURE

SOUTHEASTERN WISCONSIN COMMON GROUND

RESEARCH & ACTION REPORT

REPORT REGARDING THE FORECLOSURE
CRISIS IN SOUTHEASTERN WISCONSIN

PREPARED BY THE HOUSING FORECLOSURE TEAM
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SOUTHEASTERN WISCONSIN



COMMON
GROUND

Transforming lives.
Strengthening communities.





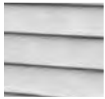
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SOUTHEASTERN WISCONSIN



Transforming lives.
Strengthening communities.

Southeastern Wisconsin Common Ground (CG) is an organization of congregations, religious groups, small businesses, non-profits, schools, unions and neighborhood associations whose mission is non-partisan political power to promote the common good in our communities. CG's 50+ member organizations represent more than 40,000 people in Milwaukee, Ozaukee, Washington and Waukesha Counties. Since its founding in April 2008, CG has conducted issue campaigns focused on summer youth jobs, the formation of a Health Insurance Cooperative for small businesses and non-profits, neighborhood improvements and affordable housing.



THE CAMPAIGN



Common Ground (CG) is launching a campaign to require DEUTSCHE BANK, US BANK and WELLS FARGO BANK to comply with CG's three demands for the reasonable disposition of the hundreds of foreclosed homes they own in Southeastern Wisconsin.

1

RESPONSIBLE/ACCESSIBLE FORECLOSURE SALES - Stop selling the homes to "speculators" through auctions or mass sales and work with us to develop a plan to sell these properties to responsible owners.

2

DEMOLITION - Pay for the demolition of the properties beyond rehabilitation and donate the land to a community land trust for future residential construction.

3

REHABILITATION FUND - Each bank contribute \$25 million towards a \$75 million fund which will be used to rehabilitate and sell these properties.



THE BACKGROUND



For the past year and a half, over 250 CG leaders have studied the foreclosure crisis. We have conducted neighborhood walks, done photograph surveys and interviewed a variety of housing foreclosure experts.

We have learned that national banks own hundreds of foreclosed properties, many vacant and abandoned throughout the four counties. These properties cause tremendous problems in our communities: safety issues for citizens and public servants, neighborhood deterioration, increased taxes and declining property values.

Our research leads us to conclude that the foreclosure crisis in Southeastern Wisconsin was caused by large, national, out-of-state banks that marketed and invested in subprime mortgages primarily to the poor and the elderly. These banks are now the owners of these properties.

Our outrage increased as we learned that these banks used our money (as depositors and shareholders) to make these speculative investments. When the financial crisis developed, our federal tax dollars were used to bail out these large, national banks. Now our local tax dollars are being used to service, monitor and demolish many of these properties.

This must stop. Deutsche Bank, Wells Fargo Bank and US Bank, the three largest owners of foreclosed properties in the state, must be held accountable for their actions. Collectively, these three banks just recorded third quarter profits of \$5.8 billion.

We are demanding that they invest some of these funds back into the communities they have been destroying.



COMMON GROUND INVOLVEMENT IN FORECLOSURES



Common Ground's interest in foreclosures came from the members and staff of Greater New Birth Church (GNBC) at 2207 W. Center Street in Milwaukee who regularly deal with the growing number of foreclosed and abandoned homes in the area surrounding the church. Youth Pastor Willie Davis, and members of GNBC have witnessed the crime, vandalism and safety hazards that empty houses create. They brought their concerns to CG for investigation and action.

In July 2008, GNBC and other CG members conducted a neighborhood walk in the area surrounding the church. The objectives of the walk were to **(1)** talk with the residents and **(2)** document specific issues block by block. The 60 volunteer participants met at Greater New Birth Church, received some direction and then fanned out into the neighborhood to ask residents about their concerns and record problem areas.

CG leaders counted approximately 60 abandoned, vacant homes in a 10-block area. The number of empty houses was troubling, but even more so, the ownership of these homes was by many national banks, including six by Deutsche Bank — a bank with no offices in the Milwaukee area. This needed an explanation and the group decided that the situation merited a closer look, thus marking the beginning of the Faces of Foreclosure campaign.



AS COMMON GROUND STAFF AND VOLUNTEERS BEGAN EXAMINING THE FORECLOSURE SITUATION IN METROPOLITAN MILWAUKEE, A RESEARCH TEAM OF THIRTY LEADERS BEGAN TO MEET WITH:

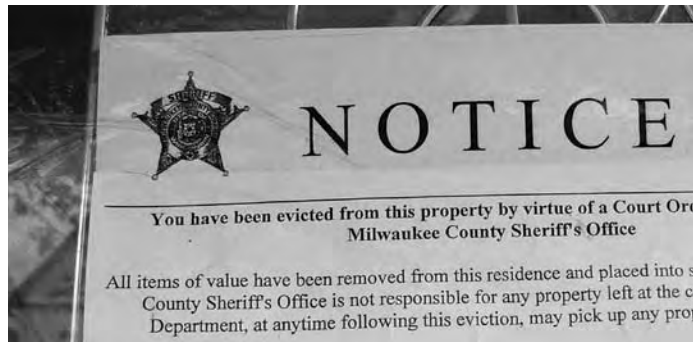
- COMMUNITY BANKERS
- HOUSING COUNSELORS
- HOUSING DEVELOPERS
- GOVERNMENT OFFICIALS
- MORTGAGE INSURERS
- JUDGES
- LAWYERS
- BUILDING INSPECTORS
- REAL ESTATE AGENTS
- HOUSING ADVOCATES
- VENTURE CAPITALISTS
- ELECTED OFFICIALS

BACKGROUND ON THE FORECLOSURE CRISIS IN AMERICA

Experts cite numerous causes for the current foreclosure crisis. Many can be traced to changes to laws and policies in the late '90s. In 1999, the Glass/Steagall Act was repealed. That legislation, enacted in 1933 as a reaction to the Great Depression, had prohibited banks from engaging in the investment business. It was replaced with the Gramm-Leach-Bliley Act which allowed banks to create lending, investment and insurance subsidiaries, activities that had previously been prohibited.

At the same time, the Federal Reserve, the organization that oversees the operation of the federal banking network, refused to accept responsibility for supervising the new subsidiaries, leaving them without regulatory oversight.¹

With no oversight, these new bank subsidiaries and the growing mortgage broker industry developed new lending instruments to take advantage of the explosive growth in the housing industry that had developed in the aftermath of the Y2K recession. Others believe the Community Reinvestment Act in the 1990s created pressure on banks to make loans as part of an effort to increase home ownership.





SUBPRIME MORTGAGES



With new unregulated power, banks using the money of depositors and shareholders invested in subprime mortgages. Subprime mortgages usually refer to those given to people who are a greater credit risk, often with a credit score less than 640. These loans possess significantly higher interest rates, often with “teaser” rates, then adjustable rates that often escalate dramatically. Many mortgage brokers and banks aggressively marketed these subprime mortgages in poor and minority communities, often to the elderly and female heads of households. Quite often, these more expensive loans were sold to people who qualified for mortgages at lower overall interest rates. The Wall Street Journal reported in 2007 that 61% of all borrowers of subprime mortgages had credit scores high enough to qualify for prime conventional loans.²

According to Catey Doyle of the Legal Aid Society of Milwaukee, unscrupulous lenders sold these higher cost mortgages door-to-door and often misrepresented their terms. Ms. Doyle said at the November 19th CG Foreclosure Hearing, that 80% of the foreclosures in the state are from subprime loans. Many of the new mortgages were actually refinances, especially among the elderly.

The Milwaukee Foreclosure Partnership Initiative was a City of Milwaukee organized group that examined the foreclosure issue in Milwaukee. Their February 2009 report concluded: “The rise in foreclosure filings can be linked to high levels of subprime and predatory lending that occurred from 2000 to 2006. Subprime lending peaked in 2005 when 10,451 loans totaling \$1 billion were issued.”³

ON NOVEMBER 19, 2009, CITY OF MILWAUKEE OFFICIALS STATED THAT ONE-HALF OF FORECLOSED PROPERTIES HAVE OPEN BUILDING CODE VIOLATIONS.⁴

FORECLOSURES IN THE REGION



In 2007-08, mortgage holders filed over 10,000 foreclosure petitions in the City of Milwaukee. In 2009, an additional 5,300 were in process.⁵ This is more than double the historical averages. Hundreds more of these filings have and will occur in the Milwaukee suburban counties.

When Common Ground began this research in the summer of 2009, banks owned over 1,800 foreclosed homes in Milwaukee alone. Three banks owned approximately 600 of these:

- **DEUTSCHE BANK**
FRANKFURT, GERMANY
- **WELLS FARGO BANK**
SAN FRANCISCO, CA
- **US BANK**
MINNEAPOLIS, MN





IMPACT OF FORECLOSURES



In September and October of 2009, 160 Common Ground volunteers photographed 450 of the 600 homes owned, according to City of Milwaukee records, by Deutsche Bank, Wells Fargo Bank and US Bank. Volunteers also interviewed neighbors living near these homes. On November 19, 250 Common Ground leaders conducted a public hearing. Participants listened to testimony from experts and residents about the impact of foreclosures. Here is a sample of what we heard through both events:

DETERIORATION

Many of the bank-owned foreclosed properties are dilapidated, vacant and abandoned. They are causing the City of Milwaukee to spend millions of our tax dollars on additional building inspections, as well as fire and police services.

— *Milwaukee Alderman Michael Murphy, Finance Committee Chair, City of Milwaukee*

SAFETY FOR PUBLIC SERVANTS

Vacant properties have been used to hold dog fights and house methamphetamine labs. Some have been set on fire and exploded creating injuries to firefighters. The incident of fires in vacant houses has doubled since 2005.

— *Lt. Al Jansen- Milwaukee Firefighters Local 215*

MARQUETTE STUDENTS MET A WOMAN WHO WAS ASSAULTED BY SQUATTERS LIVING IN A FORECLOSED PROPERTY BEHIND HER HOME.

SAFETY FOR CITIZENS

Marquette students, while taking photos of foreclosed homes, met a woman who was assaulted by squatters living in a foreclosed property behind her home. The squatters locked her in her garage for several hours before the police arrived. She recently bought a gun and dog to protect herself.

— *Kathleen Scott, Marquette University*

Common Ground leaders talked with other residents who shared stories of drug houses on their block. In one incident, CG leaders witnessed a police operation targeting “residents” of an abandoned Deutsche Bank home.

— *Frank Finch III, Mt. Calvary Lutheran*

Thugs and drug dealers who work from vacant properties intimidate and harass church members.

— *Rev. Willie Davis, Greater New Birth Church*

SPECULATORS

According to State and City officials, as well as Realtors and developers, many of these foreclosed properties are being purchased by speculators (in state and out of state). Many are not repairing properties but “flip them” or intend to sell them to unsuspecting buyers through “rent-to-own” operations. We talked to several residents caught in these traps.

— *Mary Leach-Sumlin, Community Baptist Church of Greater Milwaukee*



DIFFICULT TO PURCHASE

Realtors and residents shared difficult experiences when attempting to purchase a foreclosed home in order to rehabilitate it. These are responsible owners who were told that the bank owners would rather sell these properties in larger packages of ten to twelve homes to people with cash. This selling strategy precludes many individual, responsible owners.

— *Shar Borg, Shorewest Realty*

TEAR DOWNS

Many of the properties CG leaders inspected throughout the city and suburbs are in such bad condition they need to be demolished. The cost of demolition is \$10,000 to \$20,000 per property and usually falls upon the local municipality and ultimately us, the taxpayers.

— *Rosemary Muller, Wauwatosa Presbyterian*

PROPERTY VALUES

Foreclosed properties are selling at about 38% of assessed value, diminishing the values of all of the surrounding properties, no matter how well maintained.⁶ Home equity is the largest source of wealth for most low and moderate income families.

— *Margaret Henningsen, Legacy Bank*

RENTERS SUFFER

Renters are also being evicted from foreclosed homes. Evictions are up 37% over the past two years. Many of those being evicted are unable to protect their rights. One 80-year-old woman called the pastor from a CG member church when the sheriff unexpectedly showed up at her door one day.

— *Mt. Calvary Lutheran Church*



WHO IS RESPONSIBLE?



Large national banks had a direct hand in creating the mortgage broker subsidiaries that developed the subprime mortgage machine. They invested in subprime mortgages. That investment crashed and now they are the owners of hundreds of foreclosed properties in Greater Milwaukee and the entire state.

In July 2009, the Community Bankers Association of Wisconsin released the following foreclosure information. There are no community banks on this top 12 list of foreclosed property owners. Community banks as a rule stay closer to their customers and did not speculate in subprime mortgages and predatory lending.

BANKS WITH MOST FORECLOSURE FILINGS IN WISCONSIN⁷

BANKS	NUMBER OF FORECLOSURES
Wells Fargo Bank, NA	1772
US Bank National Assn	1173
Deutsche Bank National Trust	1104
Citibank NA	979
Countrywide Home Loans, Inc	929
JP Morgan Chase Bank	904
BAC Home Loans Servicing	583
HSBC Bank USA	414
Bank of America NA	401
Bank of New York	379
Ocwen Loan Servicing	310
GMAC LLC	288

These same banks also received federal TARP money and “bailout” funds from the Treasury Department and the Federal Reserve. US taxpayers funded TARP (Troubled Asset Relief Program), which “bailed out”

and stabilized the major banks in this recent time of financial crisis. Here are the amounts of bailout funds these banks received:

BANKS WITH MOST FORECLOSURES IN WISCONSIN⁸

BANKS	AMOUNT OF BAILOUT MONEY
Citibank NA	\$45 Billion
Wells Fargo Bank, NA	\$25 Billion
JP Morgan Chase Bank	\$25 Billion
Countrywide / Bank of America	\$15 Billion
US Bank National Assn	\$11 Billion
Deutsche Bank National Trust	\$6.599 Billion
GMAC LLC	\$5 Billion
Ocwen Loan Servicing	\$3 Billion
Bank of New York	\$2-3 Billion



THE OUTRAGE OF IT ALL



At the CG Foreclosure Hearing, Margaret Henningsen, the founder and senior vice-president of Legacy Bank, a community bank, expressed outrage at the foreclosure crisis situation.

Ms. Henningsen explained that the same kind of foreclosure problems occurred in the late '60s and early '70s when "practically anyone" could get an FHA-backed loan. In the aftermath, Milwaukee alone had more than 8,000 boarded up homes in a four ZIP code area. It took thirty years to recover and she is upset that we are now in a similar situation.

In her analysis of the current foreclosure crisis, many of the mortgage brokers and lenders pushing the subprime mortgages were subsidiaries of the national banks who now own the foreclosed properties.

The TARP money, according to Ms. Henningsen, was supposed to be used by banks to stabilize themselves and then to lend money out to responsible borrowers. This is what Legacy Bank has done with the small amount (\$5.5 million) of TARP money they have received. Legacy did not speculate in subprime mortgages and used TARP funding to lend to small businesses and commercial borrowers in the community.

Many of the national banks did not lend their TARP money but instead invested it to earn money. Some are paying the TARP money back – but keeping the profits they made from it.

Recent third quarter reports from these banks verify Ms. Henningsen's analysis. The three largest owners of foreclosed properties in Wisconsin just reported their third quarter profits:

BANKS	PROFIT
Wells Fargo Bank	\$ 3.2 Billion (record profit)
Deutsche Bank	\$ 2.1 Billion
US Bank	\$ 583 Million

**"IT DOESN'T MATTER WHERE YOU LIVE, THIS PROBLEM IMPACTS YOU."
— MARGARET HENNINGSEN**





THE IRONY OF IT ALL



TO SUMMARIZE THIS CRISIS IN ITS SIMPLEST TERMS WE HAVE CONCLUDED:

- LARGE, NATIONAL, OUT-OF-STATE BANKS USED OUR MONEY – CUSTOMERS AND SHAREHOLDERS
- THE LARGE, NATIONAL BANKS SPECULATED IN BAD MORTGAGES (SUBPRIME)
- THE LARGE, NATIONAL BANKS GOT INTO FINANCIAL TROUBLE AND WE THE TAXPAYERS BAILED THEM OUT (TARP MONEY)
- THE LARGE, NATIONAL BANKS NOW OWN HUNDREDS OF FORECLOSED HOMES – MANY VACANT AND ABANDONED IN OUR COMMUNITIES
- THESE DETERIORATING PROPERTIES ARE COSTING US (CITIZENS, TAXPAYERS) MONEY THROUGH OUR TAXES AND LOST PROPERTY VALUE
- COMMUNITY SAFETY IS IN JEOPARDY DUE TO INCREASED CRIME HAPPENING IN AND AROUND THESE DETERIORATING PROPERTIES

THE BOTTOM LINE - In an effort to maximize profits, large national banks used our money (deposits, shares, mortgages, federal “bailout”) to destroy our neighborhoods and communities.



ACTION PLAN



Common Ground demands that these banks be accountable for their actions: what they have done and are doing to our communities.

According to City of Milwaukee records for the summer of 2009, these are the three banks which own over 600 foreclosed homes in Greater Milwaukee and over 4,000 in the State of Wisconsin:

- **DEUTSCHE BANK**
- **US BANK**
- **WELLS FARGO BANK**

We demand that these banks do three things:

RESPONSIBLE/ACCESSIBLE FORECLOSURE SALES - Stop selling the foreclosed properties to “speculators” through auctions or mass sales and work with Common Ground and its partners to develop a plan to sell these to responsible owners.

DEMOLITION - Pay for the demolition of the properties beyond rehabilitation and donate the land to a community land trust for future residential construction.

REHABILITATION FUND - Each bank contribute \$25 million towards a \$75 million fund which will be used to rehabilitate and sell these properties

RATIONALE FOR THESE REQUESTS



IRRESPONSIBLE SALES – Over 70% of the foreclosed homes are being bought by investors and speculators, many from out-of-state (CG hearing testimony). These speculators buy the properties in large groups. Some are unscrupulous owners with no intention of fixing the properties. Some are trying to resell the properties in rent-to-own schemes.

Through the auction process or “service companies,” these banks make it difficult for responsible individual owners to purchase and rehabilitate a property. Common Ground has heard numerous stories on the difficulty of these purchases.

DEMOLITION – If a bank “walks away” from a property – see the Milwaukee Journal Sentinel article of July 11, 2009 – then the city or municipality will eventually bear the cost of demolishing the property. The demolition cost is \$10,000 – \$20,000 per property. Already the City of Milwaukee has a \$3 million fund from federal stimulus dollars to do these demolitions and/or rehabilitations.

Common Ground believes that the banks should pay for the demolition of these properties, not the taxpayers, not us – the customers and shareholders of these banks. The banks need to be responsible for the consequences of their activities, not leave the problem for the government to solve.

A community land trust is a non-profit entity that can hold and maintain vacant land until sold to a developer and/or homeowner for use as an adjoining yard or for new construction.

REHABILITATION – In numerous research conversations with housing experts, Common Ground leaders have learned that a pool of revolving capital is needed to bring these vacant and abandoned properties back to life.

These funds will purchase, rehabilitate and resell properties in concentrated areas in order to have a significant impact in area revitalization. Construction of new “in-fill” housing could also be undertaken through this fund. With average rehabilitation costs of \$35,000 per home, some 2,000 – 3,000 homes could be brought back to life in a 3-5 year period through this revolving fund.

NEXT STEPS



Each of the three banks identified in this report proclaims its significant investment in and strong commitment to social responsibility and community development. Yet their behavior is contributing to Greater Milwaukee’s staggering foreclosure crisis and represents a flagrant violation and contradiction of their stated commitment.

Over the coming months, Common Ground will establish contact with these three banks to determine whether they will become the good neighbors and responsible citizens they proclaim to be. We will learn whether these banks are worthy recipients of our deposits and investments and give them the opportunity to **“DO THE RIGHT THING.”** We will see if they choose to take advantage of it.

BANK PROFILES

DEUTSCHE BANK

- Founded in 1870; headquarters in Frankfurt, Germany; employs 81,000+ in 76 countries
- 1981 branches worldwide; 1000 in Germany; 981 branches in 76 countries
- Key officers: Josef Ackermann, CEO (since 2002) and Chair of Group Executive Committee; Clemens Borsig, Chair of the Supervisory Board; Seth H. Waugh, CEO of Deutsche Bank Americas based in NYC
- 2nd largest bank in the world by total assets; Total Assets: \$3.23 trillion (2008)
- Revenue: \$19.8 billion (2008)
- Profits: \$9.5 billion for first three quarters (2009)
- Local foreclosures are in the name of Deutsche Bank National Trust Company; headquartered in Santa Ana, CA; managed by David Co.
- 16-member Americas Advisory Board; no one from Wisconsin
- Local attorney representation:
 - Hersch Law Offices, 10555 N. Port Washington Rd., Mequon, WI 53097; 262-241-9339; 2 attorneys
 - O'Dess & Associates; Wauwatosa, WI
 - Gray & Associates, Milwaukee, 600 N. Broadway #300, Milwaukee, WI 53202; 414-278-8404; 15 attorneys; www.gray-law.com

US BANK

- 6th largest bank in US; 122 of Fortune 500; Headquarters in Minneapolis, MN; 2,850 banking offices in 24 states; 5,173 ATMs; regulated by Comptroller of Currency (CRA credits), Department of Treasury and Board of Federal Reserve (must approve acquisitions)
- Core businesses: banking, credit cards, ATMs, mortgage banking, insurance, brokerage and leasing; one of the largest VISA card distributors
- Total Assets: \$266 billion (2008)
- Revenue: \$20 billion (2008)
- Profit: \$2.9 billion (2008)
- 2009 3rd quarter profit of \$583 million
- CEO: Richard K. Davis (51); annual income \$5.8 million in 2007; annual income \$6.7 million in 2008; bonuses restored 11/1/09
- President of Wisconsin Market for US Bank: William R. Bertha
- 58,000 employees; 4,800 in Wisconsin; 3,300 in Southeastern Wisconsin; #17 employer in Milwaukee
- City of Milwaukee banks with US Bank (along with Wells Fargo Bank)
- Bought Firststar in Milwaukee in 1999
- #2 bank in Milwaukee; 22.36% market share; \$12 billion in local deposits; 27 branch offices in Greater Milwaukee Area; 2,850 banking offices in 24 states; 5,173 ATMs
- 13 Board of Directors members; annual income \$300,000 per year as a Board member; no Wisconsin member of the Board of Directors



WELLS FARGO BANK

- 4th largest US bank; \$42 billion annual revenue; headquarters in San Francisco, CA
- President and CEO: John G. Stumpf; 420 Montgomery Street, San Francisco, CA 94163; 866-878-5865; invited to 11/19/09 hearing
- 276,000 employees; 6,600 branches in 46 states
- Key shareholder (9th largest); Warren Buffett, Berkshire Hathaway
- Chief of the Western Division: Petros G. (Perry) Pelos; Wells Fargo Center, 90 S. 7th Street, Minneapolis, MN 55402
- Richard Kerbis works for Pelos; in charge of the Midwest including Wisconsin; 230 W. Monroe St., Suite 2800, Chicago, IL 60606-4969
- #7 bank in Milwaukee; \$923 million in local deposits; 1.63% of market share
- 2,400 Wisconsin employees; #24 employer in Milwaukee; Fred Bertoldo, Regional President
- Local address: 100 E. Wisconsin Avenue
- Manages the State of Wisconsin's 529 College Savings Fund - Ed Vest Plan; approximately \$1 billion
- City of Milwaukee banks with Wells Fargo Bank (along with US Bank)
- Sued by the City of Baltimore for its subprime mortgage practices. They are charged with systematically singling out Blacks in Baltimore for high interest subprime mortgages they called "ghetto loans"
- Sued on July 31, 2009, by Illinois Attorney General Lisa Madigan; alleged that the bank steers African-Americans and Hispanics into high cost subprime loans
- Shareholder resolution filed by NorthStar Asset Management on behalf of the Interfaith Center on Corporate Responsibility asking for a report on the company's home preservation rates from 2003 to 2008; disaggregated for African-American, Hispanic and Caucasian mortgage borrows. Investigating the numbers on subprime mortgages being steered to minorities


FOOTNOTES

- 1 An excellent summary of how the lack of federal oversight impacted the subprime mortgage machine can be found in the September 27, 2009, Washington Post in an article by Binyamin Appelbaum entitled "A Subprime Lending Crisis Unfolded, Watchdog Fed Didn't Bother Barking."
 - 2 Rick Brooks and Ruth Simon, "Subprime Debacle Traps Even Very Credit-Worthy," Wall Street Journal, December 3, 2007 at A1.
 - 3 "Report of Final Recommendations," Milwaukee Foreclosure Partnership Initiative, February 2009, page 3.
 - 4 Interviews with City of Milwaukee Department of Neighborhood Services officials.
 - 5 Foreclosure Partnership Initiative, page 3; Milwaukee Foreclosure Mediation Program at Marquette University.
 - 6 Wisconsin Department of Commerce Presentation.
 - 7 Report of the Community Bankers of Wisconsin, July 20, 2009.
 - 8 Reports from the Wall Street Journal, The New York Times and Washington Post, January through October 2009.
 - 9 Estimate of rehabilitation costs for City of Milwaukee homes based on conversations with developers who have restored dozens of homes.
- Note:** Exact quotes summarized in this report can be found in the videotape of the November 19, 2009, Common Ground Foreclosure Hearing. Common Ground can make this tape available to those seeking further documentation of the conclusions found in this report.


APPENDICES

- Milwaukee Journal Sentinel, November 23, 2009, Battling Foreclosure's Blight, Georgia Pabst
- Profiles of Deutsche Bank, Wells Fargo Bank and US Bank
- The New York Times, June 7, 2009, Bank accused of Pushing Mortgages on Blacks, Michael Powell
- The New York Times, November 3, 2009, States are Pondering Fraud Suits against Banks, David Streitfeld and John Collins Rudolf



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 Milwaukee County

Battling foreclosure's blight



Benny Sieu

Willie Davis is the youth pastor at Greater New Birth Church and has seen the toll that foreclosures have taken on the neighborhood.

When homes are boarded up and taken over by the bank, the

neighbors know well the decay, crime and danger that can follow

By Georgia Pabst of the Journal Sentinel

Posted: Nov. 23, 2009

Seven years ago the Greater New Birth Church built a new house of worship that's a bright and sturdy structure on the corner of N. 22nd and W. Center streets.

The needs for food, jobs and counseling have remained the same for the church, which was designed to serve the low-income Amani neighborhood, youth pastor Willie Davis said.

What has changed, he said, is the growing foreclosure crisis that's cast a shadow over the neighborhood. More and more homes have been boarded up and abandoned, left to decay and serve as magnets for crime, vandalism and growing fears for those who remain.

An estimated 80 homes within a six-block radius of the church have been boarded up or abandoned, he and others who walked and surveyed the neighborhood said.

"The foreclosures combined with job layoffs have been devastating," said Bishop R.J. Burt, the leader of the church.

The crisis takes its toll on families, especially young people, who have come to him scared and feeling helpless, Davis said. He recalls a young man who told him tearfully that his mother said he should keep his toothbrush and clothes in his locker at school because she couldn't be sure where they would be staying that night.

Or the 8-year-old girl who was shaking and terrified when she asked him if he could take her and her mom to their car because of the drunks and crack heads who were lurking around abandoned houses near them.

Davis, along with bankers, Realtors, city officials and others discussed the impact of foreclosed and boarded-up homes on residents, neighborhoods and the city at a hearing last week held by Common Ground and attended by nearly 250.

Common Ground is a four-county, diverse organization of more than 50 religious and community groups that organized last year to work on political, nonpartisan issues.

With 160 volunteers, Common Ground did several neighborhood walks around Amani and other areas, knocked on 400 doors and spoke to more than 100 residents who voiced their concerns about the problems foreclosed and abandoned homes cause, said the Rev. Jean Down, associate pastor of Immanuel Presbyterian Church.

The group then did research on foreclosed homes and their ownership, which rests with large, national banks, she said.

While there were 2,000 foreclosures in Milwaukee County in 2001, there were 6,300 in 2008, and that number is expected to rise to 7,000 in 2009, said Catherine Doyle, chief staff attorney with the Legal Aid Society.

Low-income people, the elderly and women are those who have been hardest hit by foreclosures, she said.

"It's a huge problem," said Ald. Michael Murphy, chairman of the Common Council's Finance and Personnel Committee, in describing the impact on the city. "We're facing a \$1 billion impact, which is significant in driving down values and more requests for services on foreclosed properties."

Al Jansen, a Milwaukee firefighter, said empty homes "become treacherous and dangerous places." Dog-fighting rings and meth labs have been found, along with squatters who light fires that can affect neighboring properties, he said.

There have been gas and electric fires in vacant houses, and often the homes are stripped of wire and mechanical devices, he said.

"There's a huge (financial) cost to bear on the city and on the mentality of the city," Jansen said.

Margaret Henningsen, the founder of Legacy Bank in 1999, said that in the late 1960s and 1970s Milwaukee underwent a similar housing crisis when FHA loans were made "to anyone who could breathe."

"There were more than 8,000 board-ups in four ZIP codes," she said. "I feel like it's déjà vu. It took 30 years to get the community back, and I'm stunned that this is happening again."

She urged the group to "put your money where your mouth is" and to pay attention to where they do their banking because national banks located around the country bought the bundled-up mortgages that helped cause the current situation.

While the problems are dire, the city and others, like Greater New Birth Church, are offering counseling and trying to assist individuals, said Britt and Suzanne Dennik, project manager for the Milwaukee Foreclosure Project Initiative.

To date there have been 313 requests for mediation and 97% have worked out modifications to their loans, she said.



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June 7, 2009

Bank Accused of Pushing Mortgage Deals on Blacks

By MICHAEL POWELL

As she describes it, Beth Jacobson and her fellow loan officers at Wells Fargo Bank “rode the stagecoach from hell” for a decade, systematically singling out blacks in Baltimore and suburban Maryland for high-interest subprime mortgages.

These loans, Baltimore officials have claimed in a federal lawsuit against Wells Fargo, tipped hundreds of homeowners into foreclosure and cost the city tens of millions of dollars in taxes and city services.

Wells Fargo, Ms. Jacobson said in an interview, saw the black community as fertile ground for subprime mortgages, as working-class blacks were hungry to be a part of the nation’s home-owning mania. Loan officers, she said, pushed customers who could have qualified for prime loans into subprime mortgages. Another loan officer stated in an affidavit filed last week that employees had referred to blacks as “mud people” and to subprime lending as “ghetto loans.”

“We just went right after them,” said Ms. Jacobson, who is white and said she was once the bank’s top-producing subprime loan officer nationally. “Wells Fargo mortgage had an emerging-markets unit that specifically targeted black churches, because it figured church leaders had a lot of influence and could convince congregants to take out subprime loans.”

Ms. Jacobson’s account and that of the other loan officer who gave an affidavit, Tony Paschal, both of whom have left Wells Fargo, provide the first detailed accusations of deliberate racial steering into subprimes by one of the nation’s top banks.

The toll taken by such policies, Baltimore officials argue, is terrible. Data released by the city as part of the suit last week show that more than half the properties subject to foreclosure on a Wells Fargo loan from 2005 to 2008 now stand vacant. And 71 percent of those are in predominantly black neighborhoods.

Judge Benson E. Legg of Federal District Court had asked the city to file the additional paperwork and has not decided whether the lawsuit can go forward.

Wells Fargo officials have declined detailed interviews since Baltimore filed suit in January 2008. In an e-mail statement on Friday, a spokesman said that only 1 percent of the city’s 33,000 foreclosures have come on Wells Fargo mortgages.

“We have worked extremely hard to make homeownership possible for more African-American

borrowers," wrote Kevin Waetke, a spokesman for Wells Fargo Home Mortgage. "We absolutely do not tolerate team members treating our customers or others disrespectfully or unfairly, or who violate our ethics and lending practices."

City and state officials across the nation have investigated and sometimes sued Wells Fargo over its practices. The Illinois attorney general has investigated whether Wells Fargo Financial violated fair lending and civil rights laws by steering black and Latino homeowners into high-interest loans. New York's attorney general, [Andrew M. Cuomo](#), raised similar questions about the lending practices of Wells Fargo, [JPMorgan Chase](#) and [Citigroup](#), among other banks.

The [N.A.A.C.P.](#) has filed a class-action lawsuit charging systematic racial discrimination by more than a dozen banks, including Wells Fargo.

At the heart of such charges is reverse redlining, specifically marketing the most expensive and onerous loan products to black customers.

The New York Times, in a recent analysis of mortgage lending in New York City, found that black households making more than \$68,000 a year were nearly five times as likely to hold high-interest subprime mortgages as whites of similar or even lower incomes. (The disparity was greater for Wells Fargo borrowers, as 2 percent of whites in that income group hold subprime loans and 16.1 percent of blacks.)

"We've known that African-Americans and Latinos are getting subprime loans while whites of the same credit profile are getting the lower-cost loans," said Eric Halperin, director of the Washington office of the Center for Responsible Lending. "The question has been why, and the gory details of this complaint may provide an answer."

The affidavits of the two loan officers seem to bolster Baltimore's lawsuit. Mr. Paschal, who is black and worked as a loan officer in Wells Fargo's office in Annandale, Va., from 1997 to 2007, offers a sort of primer on Wells Fargo's subprime marketing strategy by race.

In 2001, he states in his affidavit, Wells Fargo created a unit in the mid-Atlantic region to push expensive refinancing loans on black customers, particularly those living in Baltimore, southeast Washington and Prince George's County, Md.

"They referred to subprime loans made in minority communities as ghetto loans and minority customers as 'those people have bad credit', 'those people don't pay their bills' and 'mud people,'" Mr. Paschal said in his affidavit.

He said a bank office in Silver Spring, Md., had an "affinity group marketing" section, which hired blacks to call on African-American churches.

"The company put 'bounties' on minority borrowers," Mr. Paschal said. "By this I mean that loan officers received cash incentives to aggressively market subprime loans in minority communities."

Both loan officers said the bank had given bonuses to loan officers who referred borrowers who

should have qualified for a prime loan to the subprime division. Ms. Jacobson said that she made \$700,000 one year and that the company flew her and other subprime officers to resorts across the country.

"I used to joke that 'I'll pay for your kids to go to private school if you give me clients,' " Ms. Jacobson said in the interview.

Loan officers employed other methods to steer clients into subprime loans, according to the affidavits. Some officers told the underwriting department that their clients, even those with good credit scores, had not wanted to provide income documentation.

"By doing this, the loan flipped from prime to subprime," Ms. Jacobson said. "But there was no need for that; many of these clients had W2 forms."

Other times, she said, loan officers cut and pasted credit reports from one applicant onto the application of another customer.

These practices took a great toll on customers. For a homeowner taking out a \$165,000 mortgage, a difference of three percentage points in the loan rate — a typical spread between conventional and subprime loans — adds more than \$100,000 in interest payments.

The accusations contained in the affidavits, which were given to Relman & Dane, a civil rights law firm working with the City of Baltimore, have not drawn a specific response from Wells Fargo. But city officials say the conclusion is clear.

"They confirm our worst fears: that this is not just a case based on a review of numbers and a statistical analysis," said the city solicitor, George Nilson. "You don't have to scratch your head and wonder if maybe this was just an accident. The behavior is pretty explicit."

Both sides expect to appear in court at a hearing in the case in late June.

Janet Roberts contributed reporting.

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States Are Pondering Fraud Suits Against Banks

By [DAVID STREITFELD](#) and [JOHN COLLINS RUDOLF](#)

PHOENIX — Newly empowered by the [Supreme Court](#), the attorneys general of several states hit hard by the housing collapse are exploring consumer fraud suits against major mortgage lenders.

Frustrated by the banks' inability or unwillingness to stop an avalanche of foreclosures, the states are considering lawsuits over the creation and marketing of millions of bad loans as well as the dismal pace of mortgage modifications.

Such cases would have been impossible until recently, because federal regulators had exclusive oversight of national banks. But a 5-to-4 Supreme Court decision in June allowed the states to exercise their own supervision, giving them significant leverage.

"We tried to use the tool to be persuasive with the banks," Arizona's attorney general, Terry Goddard, said in an interview. "But their waterfall of excuses, the abysmal numbers of modifications, tells us persuasion is not working."

As a result, he said, "we're moving much closer to litigation."

While statutes vary, those of every state prohibit fraud in consumer lending. The attorneys general are considering the theory that the banks essentially perpetrated a vast fraud on consumers by marketing exotic loans that would prove impossible to pay back.

During the boom, the banks earned short-term fee income from generating the loans, then quickly resold most of them to investors or to [Fannie Mae](#) and [Freddie Mac](#), two government-sponsored housing agencies that eventually required costly taxpayer bailouts.

The Mortgage Bankers Association, a trade group, declined to comment on the possibility of state fraud lawsuits. A spokesman, John Mechem, warned that consumers would end up paying for any campaign of stepped-up legal activity.

"Lawsuits add to the patchwork of regulations that increases compliance costs for lenders, which in turn increases the cost of credit for borrowers," Mr. Mechem said.

The states' new power to sue banks arose from an effort in 2005 by Eliot Spitzer, then the New York attorney general, to discover whether several banks had violated the state's fair-lending laws.

The banks balked at surrendering any information. The Clearing House Association, a consortium of national banks, and the federal Office of the Comptroller of the Currency filed suit, asserting the states had no authority over national lenders.

Mr. Spitzer's successor, Andrew M. Cuomo, took up the battle. Lower courts agreed with the banks, but the Supreme Court, narrowly, did not.

Already, the states' victory in *Cuomo v. Clearing House* is beginning to affect the legal landscape. "The handcuffs are off," said Ann Graham, a professor of banking law at Texas Tech University. "The states can pursue justice now."

In July, the Illinois attorney general, Lisa Madigan, filed a civil rights case accusing Wells Fargo of predatory lending. While the case was in the works for 18 months, Ms. Madigan said "it would have been much more difficult to bring" without the favorable Clearing House ruling.

The impact goes beyond housing issues. In West Virginia, a case brought by the state against Capital One, charging deceptive marketing of credit cards, was blocked by a judge in June 2008. The judge said the state did not have authority to pursue the case. After the Clearing House decision, West Virginia filed a request to reinstate the case.

Other states say they are just beginning to explore their new powers.

"We're back on the field," said Iowa's attorney general, Tom Miller. "That's really important. Certainly there will be some litigation."

In Arizona, the number of state lawyers working on mortgage issues went from one to eight after Clearing House. "Before the court's decision, we wouldn't waste our time looking at national banks," said Robert Zumoff, senior litigation counsel for Mr. Goddard.

The Clearing House ruling rolled back an expansion of federal authority that began more than five years ago. In January 2004, the Comptroller of the Currency, the agency responsible for regulating national banks, issued two rule changes that had a far-reaching effect on the ability of state banking regulators and law enforcement to pursue violations of state law by large banks and their subsidiaries.

The rule changes broadened the protections afforded to national banks against prosecution for violations of state civil rights and predatory lending laws and other banking statutes. In a statement announcing the regulations, then-comptroller John D. Hawke Jr. said that his agency would take the lead on preventing lending abuses by the banks.

“Predatory lending is a very significant problem in many American communities, but there is scant evidence that regulated banks are engaged in abusive or predatory practices,” Mr. Hawke said then. “Our regulation will ensure that predatory lending does not gain a foothold in the national banking system.”

In the years that followed, as the housing market roared to a peak and then began to plunge, national banks repeatedly and successfully cited the new regulations to turn back lawsuits alleging violations of predatory lending statutes and other laws by state attorneys general and banking regulators.

At other times, they merely switched their charters. When Illinois first started investigating the branches of Wells Fargo Financial Illinois for predatory lending in the spring of 2008, the branches operated under a state charter.

Initially, Wells responded to the state’s subpoena. But on July 26, 2008, the branches were put under the control of Wells Fargo Bank, which is nationally chartered. Wells promptly informed the state of this new situation and ceased cooperation.

With such maneuvers, Ms. Madigan said, “it was much easier for people in the banking industry or any other industry to hide their misconduct.”

While the attorneys general do not say they could have prevented all the shady deals that characterized the housing market at its worst, they believe they might have been able to stop enough of them to limit the scale of the crash.

“For the better part of eight years, the federal regulators were not being aggressive, and at the same time we were disabled,” said the Ohio attorney general, Richard Cordray. “There was nothing holding back irrational and irresponsible practices.”

The Clearing House decision was not a full-fledged victory for the states. The decision limits their subpoena power. While it is now easier to bring cases in court, it might be harder to develop them in the first place.

If the banking industry has its way, the victory will not be a permanent one.

In Washington, the banks are lobbying hard to try to block the states from becoming more aggressive. Lobbyists have urged lawmakers to pre-empt state rules that are more restrictive than federal laws. The Obama administration has opposed those changes.

Two weeks ago, the House Financial Services Committee voted to give the federal government the power to block states from regulating large national banks in some circumstances. Under the

compromise, the Comptroller of the Currency would be able to override the states, but only after finding that the state law significantly interfered with federal regulatory policies.

In an interview in his offices here, Mr. Goddard and his top aides spoke repeatedly of their frustrations in dealing with the banks.

After the Clearing House decision, he said, there was "a virtual parade of national officers of national banks" coming through, ostensibly eager to find a common ground to help stanch foreclosures that are running as high as 7,000 a month in Arizona.

But Mr. Goddard, a former mayor of Phoenix, said the lenders were often unable or unwilling to provide him with elementary information, including how many and what kind of loans they have in the state.

The banks have been imploring Mr. Goddard to tell homeowners in default to get in touch with them, opening a dialogue. So he has. But the homeowners say they call and get no response.

"People call and get a runaround," Mr. Goddard said. "The paperwork gets lost. It's time to stop this absurd dance."

He would rather have a solution to the foreclosure problem today than a court victory in three years. But since he is not getting a prompt solution, that leaves only the hope of legal action, in his view. Any case will most likely be a major effort involving multiple states.

"Maybe the banks think we don't have the gumption to pull the trigger," Mr. Goddard said.

Stephen Labaton contributed reporting.

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