



HOME WRECKERS

How Wall Street Foreclosures Are
Devastating Ohio Communities



September 2011





The Ohio Organizing Collaborative is a dues-based membership organization that currently consists of 11 organizations including faith based organizing groups, labor unions, neighborhood based organizing, and progressive policy organizations. OOC members have an organized base in six major metropolitan areas in Ohio, 18 full-time professional community organizers, 20 labor organizers, and a membership base of neighborhood residents, congregational members, and union members of more than 150,000 people.



The Service Employees International Union is the fastest-growing union in North America, uniting workers and improving quality of life in the workplace. SEIU's commitment to building a fair economy, providing workers a voice on the job, fighting for equality and ensuring that all working people can live with dignity spans the union's proud 90-year history.

The Wall Street-created economic crisis has wreaked havoc upon communities across Ohio.

While it was Wall Street's toxic lending practices and recklessness that created the housing crisis, it is Ohio homeowners and taxpayers that are paying the price. The housing market is where the economic crisis began and without immediate action, we are facing a multi-billion dollar hit to our neighborhoods that is undermining the economic recovery we desperately need.

In the fourth quarter of 2009, nearly 16 percent of mortgages in Ohio were either in foreclosure or more than 30 days past due.¹

Ohio ranks sixth in the nation for the number of loans that have negative or near-negative equity, with more than 578,000 mortgages "under water."²

Between 2008 and 2010, nearly 265,000 homes in Ohio have been foreclosed upon, or nearly six percent of the households in the state.³ These foreclosures have devastated communities across the state, undermined economic recovery, and imposed significant costs upon homeowners and local governments.

Foreclosures harm all homeowners. Over \$9.8 billion in home value lost on foreclosed homes in Ohio, with \$16.3 billion in home value lost in homes neighboring foreclosed homes.

Foreclosures erode the property tax base and impact services for all Ohioans. Nearly \$486 million in property taxes has been lost by local governments in Ohio.

Foreclosures cost Ohio's local governments in increased safety inspections, police and fire calls, trash removal and maintenance. Local governments have lost over \$4.3 billion just in dealing with foreclosed homes.

To get a sense of the size of the loss, this is more money than the state's budgeted General Revenue Fund spending in 2012.⁴ When this much money is taken out of Ohio's economy, it makes the state's road to economic recovery that much longer and more difficult.

Over \$30 billion has been lost in Ohio due to foreclosures.

Foreclosures have a clear impact on the families losing homes, but the costs hit all of us.

Foreclosures harm the value of all homes within a neighborhood.

When a home falls into foreclosure, it affects the property value of the foreclosed home as well as the values of other homes in the neighborhood. It is estimated that homes in foreclosure experience a 27 percent decline in value.⁵ That means the impact of the 264,000 foreclosures estimated for the period 2008 through 2010 was more than \$9.8 billion⁶ in lost home value for communities across Ohio.⁷

But the impact to foreclosed properties is just the tip of the iceberg. It is estimated that each foreclosed property will cause the value of neighboring homes within an eighth of a mile to drop 0.9 percent. In Ohio, impacted homeowners could experience property devaluation of \$16.3 billion.⁸

Overall, homeowners in Ohio are estimated to lose over \$26 billion in home values as a direct result of the foreclosure crisis. With lower home values, families have less home equity to use to fund retirement, pay tuition, grow their small businesses, or pay medical bills. For the average pre-retiree, at least two-thirds of their total assets are tied up in their home.

Foreclosures erode local tax bases and revenues, impacting services for everyone.

As housing values decline, state and local governments also feel the burden. As property values drop an estimated \$26 billion, Ohio communities could lose as much as \$486 million in tax revenue.⁹ This reduction in property values has decimated the tax bases that support state and local budgets.

Loss in property taxes means less money for local governments to pay for vital services like police and fire. Roughly half of funding for K-12 public schools in Ohio comes from local property taxes.¹⁰

Foreclosures require increased services, further draining public budgets.

Added to the loss of property value and property taxes are direct costs to local governments in dealing with foreclosures. It is estimated that a single foreclosure costs nearly \$20,000 for local governments. This means over \$4.3 billion in costs to local governments in Ohio.¹¹

When homes are foreclosed, local governments must bear the cost of increased police and fire services, maintenance of blighted property, inspections, trash removal, court costs of foreclosures, sheriff evictions and safety net services for families. These costs are borne by taxpayers, and not the Wall Street banks that created the foreclosure crisis.



Top Wall Street Banks Foreclosing on Ohio's Families¹²

1. Bank of America
2. US Bank
3. Wells Fargo
4. Citi
5. JP Morgan Chase

Ohio is Drowning in an Underwater Crisis

The economic crisis designed by Wall Street's big banks has devastated Ohio. More than 315,000 Ohioans lost their jobs since the start of 2008,¹³ and 282,000 are expected to lose their homes by the end of 2012.¹⁴ This avalanche of foreclosures has generated a ripple effect throughout the state, driving down home values across entire neighborhoods. Through the end of next year, Ohioans are projected to lose \$17.2 billion in homeowner wealth as a direct result of the foreclosure crisis.¹⁵ Nearly four million homes will be impacted.¹⁶

Already, 22 percent of all mortgage holders in the state owe more than their homes are worth. This underwater mortgage debt is a significant barrier to economic recovery in Ohio. When homeowners see the equity in their homes disappear, they feel less financially secure and cut back on spending. Instead, they spend a larger and larger share of their paychecks on an inflated mortgage just to stay in their home. Further, because the economy is depressed and sales are down, businesses cut hours and lay off workers, making it even harder for those workers to pay their bills. As families are forced to make decisions about which bills to pay with their shrinking paychecks, those with no equity left in their homes are increasingly likely to make the difficult decision to stop paying their mortgage in order to put food on the table.

Ohio's biggest cities have been hit the hardest: in places like Cleveland and Cincinnati, more than one third of all mortgages are under water. And because cities are more densely populated than suburban communities, the impacts of foreclosure on the surrounding neighborhoods are magnified. When a home goes into foreclosure, all of the other houses on the block take a hit to their property values. The underwater crisis compounds the fragility of these interconnected city neighborhoods.

The monthly mortgage payment for the average underwater Ohio family is \$284 higher than fair market value. That adds up to \$3,406 in overpayments each year, for every family. If banks were willing to write down the principal and interest rates on underwater mortgages to market value alone, it would save Ohioans \$1.6 billion annually. As families across Ohio spent these savings, it would stimulate our economy and create more than 24,000 jobs. But instead of this \$1.6 billion flowing back into local economies and stabilizing Ohio's cities, it goes to the very banks that are responsible for the economic crisis. Wall Street's big banks need to fix what they broke.

UNDERWATER MORTGAGES IN OHIO BY CITY

City	Underwater Mortgages	Percent of all Mortgages Underwater	Amount Under Water	Annual Overpayment	Local Jobs That Could Be Created
Akron	28,722	35 %	\$890,382,000	\$97,825,919	1,446
Canton	16,805	36 %	\$520,955,000	\$57,237,120	846
Cincinnati	75,150	35 %	\$2,329,650,000	\$255,957,726	3,783
Cleveland	52,995	37 %	\$1,642,845,000	\$180,498,732	2,668
Columbus	63,470	33 %	\$1,967,570,000	\$216,176,139	3,195
Dayton	41,329	31 %	\$1,281,199,000	\$140,764,828	2,081
Toledo	32,692	35 %	\$1,013,452,000	\$111,347,571	1,646
Youngstown	10,834	21 %	\$335,854,000	\$36,900,146	545
STATEWIDE	482,048	22 %	\$14,943,488,000	\$1,641,835,128	24,267

Who is responsible for this mess?

Wall Street's reckless and predatory lending practices have devastated Ohio. Bankers pushed homeowners into high-cost loans they couldn't afford and then promptly cashed out by selling the loans to investment banks that turned them into mortgage-backed securities. This widespread practice, which started among subprime lenders but was quickly adopted by the big banks, created and inflated the housing bubble. Bankers and brokers raked in mega-bonus checks making homeowners vulnerable. When Wall Street's bets went sour, the bankers were bailed out by taxpayers and got to keep their bonuses but Ohioans lost billions in savings in their homes.



BANK OF AMERICA, CEO Brian Moynihan

Federal taxpayer bailout funds received:	\$230.1 billion
Profits since bailout (2009-2010):	\$4.0 billion
2010 CEO Brian Moynihan bonus:	\$9.05 million
2010 CEO Brian Moynihan total pay:	\$10 million
2010 bonuses and compensation:	\$35.1 billion



J.P. MORGAN CHASE, CEO Jamie Dimon

Federal taxpayer bailout funds received:	\$100.7 billion
Profits since bailout (2009-2010):	\$29.1 billion
2009 CEO Jamie Dimon pay:	\$17.5 million
2010 bonuses and compensation:	\$28.4 billion



WELLS FARGO, CEO John Stumpf

Federal taxpayer bailout funds received:	\$43.7 billion
Profits since bailout (2009-2010):	\$24.6 billion
2010 CEO John Stumpf bonus:	\$14.3 million
2010 CEO John Stumpf total pay:	\$17.1 million
2010 bonuses and compensation:	\$27.2 billion



CITIGROUP, CEO Vikram Pandit

Federal taxpayer bailout funds received:	\$414.9 billion
Profits since bailout (2009-2010):	\$9.0 billion
2008-2010 CEO Vikram Pandit pay:	10.8 million
2010 bonuses and compensation:	\$24.4 billion



GOLDMAN SACHS, CEO Lloyd Blankfein

Federal taxpayer bailout funds received:	\$53.4 billion
Profits since bailout (2009-2010):	\$21.7 billion
2010 CEO Lloyd Blankfein bonus:	\$12.6 million
2010 CEO Lloyd Blankfein total pay:	\$13.2 million
2010 bonuses and compensation:	\$15.4 billion



MORGAN STANLEY, CEO James Gorman

Federal taxpayer bailout funds received:	\$36.3 billion
Profits since bailout (2009-2010):	\$6.0 billion
2009 CEO James Gorman pay:	\$15.0 million
2010 bonuses and compensation:	\$16.0 billion

The Time for Solutions is now.

If Ohio is going to make an economic comeback, the costs of the foreclosure crisis must be addressed. Ohio's cities must use their authority to enforce codes preventing the careless abuse of foreclosed homes by their new owners: big banks. This abuse allows bank-owned properties to fall into disrepair and drastically reduce the value of the home, its surrounding homes and neighborhood, while leaving a very large bill – and the task of cleaning up the mess – to Ohio taxpayers.

Wall Street Should Pay Their Fair Share.

The big banks collapsed the economy and created the housing crisis with their recklessness and predatory lending practices. Currently, taxpayers are being forced to absorb the losses to home values and the costs to local governments. New city ordinances passed in places like Los Angeles CA and Springfield MA aim to address this foreclosure crisis specifically and effectively by creating a citywide registry of foreclosures and increasing penalties for vacant properties that become a public nuisance or threat to the health and safety of a neighborhood. If Wall Street's big banks refuse to take care of their properties, then they must pay the cost for services provided by taxpayers.

Ohio Needs a Strong AG Settlement.

Ohio Attorney General DeWine needs to take his job as the state's top law enforcement officer seriously and hold Wall Street's big banks accountable for their rampant unlawful behavior in how they made, packaged, sold and service the loans made to Ohio homeowners. Additionally, Governor Kasich should be demanding solutions to the root problems causing the state's economic problems and start showing real leadership around this issue.

AG DeWine must investigate and prosecute the fraud that was committed, bringing back to Ohio the restitution required to bring justice to homeowners and start repairing our economy. It's the justice we demand and the fix we need.

Wall Street Big Banks Must Stop Preventable Foreclosures.

Reducing foreclosures is good for families, communities and the economy. Wall Street's big banks should be subject to court-based mandatory mediation programs to give homeowners a fair shot at getting a loan modification.

Wall Street Must Clean Up and Pay for Foreclosure-Related Blight

Vacant foreclosures unattended by banks have become a magnet for blight and illicit activity that further destabilizes neighborhoods already decimated by foreclosures. Banks must maintain and pay for the cleanup of blighted, vacant homes in neighborhoods.

Wall Street's recklessness is well documented and continues to have devastating consequences as big banks use flawed – and, in some cases, fraudulent – procedures to flood the housing market with foreclosures that are throwing hundreds of thousands of Ohio families out of their homes.

The total disregard for mortgage laws and standards is the latest example of a predatory industry that continues to devastate families already hit hard by the economic crisis. It is imperative that Wall Street's big banks compensate Ohio's communities for the grievous harm that they have caused.

Notes

¹ Policy Matters Ohio, *Home Insecurity: Foreclosure Growth in Ohio* 2010, 5.

² Policy Matters, 6.

³ This figure is for all households in Ohio. According to the Census Bureau, 49 percent of Ohio households rent. US Census Bureau, Ohio Population and Housing Narrative Profile: 2005-09

⁴ Total GRF Spending, FY 2012 is approximately \$27.1 Billion. Legislative Service Commission, *Budget in Brief: HB 153, As Enacted*

⁵ John Y. Campbell, Stefano Giglio and Parag Pathak, "Forced Sales and House Prices." *American Economic Review* 101 (August 2011): 2108-2131.

⁶ Direct impact was calculated using median county home value from 2007 from the American Community Survey, a 27 percent decline estimate, and Foreclosure Data from 2008 to 2010 obtained from RealtyTrac.

⁷ These figures exclude Harrison, Monroe, Morgan, Noble, Paulding, and Vinton Counties. The American Community Survey median house price data does not include counties with populations under 20,000, so no data was available for these counties, and they have thus been excluded from the analysis in this report.

⁸ Neighboring home value decline was calculated using methodology from the U.S. Joint Economic Committee using median county home value from U.S. Census, decline in value of 0.9 percent, and number of foreclosures from RealtyTrac. The decline estimate is based on a conservative decline estimate of 0.9 percent to one-eighth mile ra-dius (approximately 50 homes) based on *The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values*. Dan Immergluck, Georgia Institute of Technology and Geoff Smith, Woodstock Institute. Higher estimates are a 1.4 percent decline in low to moderate income communities and others double the impact radius to a quarter of mile. Furthermore, the conservative estimate of 0.9 percent value decline doesn't account for the common scenario of communities with multiple foreclosures on one block that would further depress property values.

⁹ Property tax losses were estimated using lost home values and the effective average property tax rate from each county, obtained from The Ohio Department of Taxation, and then summed to find the statewide impact

¹⁰ Ohio Department of Taxation, *Property Taxes and School Funding* (Tax Research Series, Number One: February 2010)

¹¹ Methodology based on *The Municipal Cost of Foreclosures: A Chicago Case Study*. Many experts, including the U.S. Joint Economic Committee, use the \$19,229 cost from the Chicago study as an approximate cost of foreclosure. Also, the Chicago study from 2005 likely does not capture the full post-crisis level of impacts and level of costs in Ohio . We used a conservative method of only calculating those cost for REO's (bank-owned properties)--however, when any home goes into foreclosure we have to be prepared for worst case scenario, which is that it will end up an REO.

¹² National People's Action, *Foreclosing on Ohio: Big Bank Foreclosures in Cincinnati, Cleveland and Columbus* (May 2011) with confirmation provided from Policy Matters Ohio.

¹³ Based on seasonally adjusted employment data from the Bureau of Labor Statistics, Jan 2008-Jul 2011.

¹⁴ <http://www.responsiblelending.org/mortgage-lending/tools-resources/factsheets/ohio.html>

¹⁵ <http://www.responsiblelending.org/mortgage-lending/tools-resources/factsheets/ohio.html>

¹⁶ <http://www.responsiblelending.org/mortgage-lending/tools-resources/factsheets/ohio.html>