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ESOP

East Side Organizing Project

a member of COMMUNITY SHARES

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Introduction

Good afternoon. My name is Inez Killingsworth. I appear before you today as the President of 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 have been involved with community organizing and development for more than 30 years. I am the co-founder of the Union-Miles Development Corporation and served as its president for many years. I am also President of the Trustees Board for Mt. Olive Missionary Baptist Church.

I am especially honored to tell you that I was at the side of Gale Cincotta, the "Mother of CRA", during that fight and the fight over the last decade to make CRA a law all banks must follow and one that all regulators are held accountable to. When Gale passed, I stepped up to her challenge to "get the crooks" and, today, serve as the Co-Chair of National People's Action (NPA) and I am on the Board of the National Training & Information Center (NTIC).

I want to thank Congressman Dennis Kucinich for holding this hearing. As you may know, ESOP is a convening partner of the Ohio Fair Lending Coalition. We sent Congressman Kucinich a letter several weeks ago about our concerns with respect to the proposed merger of Huntington/Sky Bank and the much larger issue as it relates to depository institutions meeting the credit needs of their service area. Congressman Kucinich's office, in conjunction with fair housing experts Charles Bromley, Paul Bellamy and ESOP, worked very hard to make this hearing possible.

The Perfect Storm: How his happened

This hearing was scheduled before the news broke about “sub-prime worries on Wall Street” and before the New Century melt down. It was scheduled before Ohio’s AG Marc Dann won an injunction that stops New Century in its tracks from abusing any more Ohio residents. While the above is good news, I fear it may be too late as, until recently, the Ohio Legislature has done everything in its power to make sure predatory lenders knew Ohio was open for business.

ESOP predicted what is happening today more than seven years ago. Indeed, we saw our neighbors losing their home before the term “predatory lending” was even coined. We were dismissed by all as some crazy community organization who doesn’t understand lending.

I live in a community that has been destroyed because all levels of government failed to respond to this issue sooner because they dismissed the voice of groups like ESOP.

Without question, cities like Cleveland, were “ripe for the picking”. The steel industry was leaving, their secondary industries went belly up and we continue to have a brain drain. Indeed, the banking industry would like you to believe they pulled out of the Cleveland communities because of the economy.

Ladies and Gentlemen, they pulled out because they could make MORE money vis a vis their sub-prime affiliates. And make no mistake: THEY DID. Consider National City Bank whose headquarters is in Cleveland. Until very recently, National City Bank owned First Franklin Financial. I encourage you to read the Plain Dealer article that was published on March 15, 2007 (http://www.cleveland.com/business/plaindealer/index.ssf?/base/business/117394899598200.xml&coll=2) where NCB has put $50 million in reserves because it foolishly invested in First Franklin Financial but now has to foot the bill for that company’s abusive practices as they are stuck with those loans.

National City is not alone. Consider Key Bank who also sensed the party is over when they sold their sub-prime affiliate, Champion Mortgage, late last year.

Had NCB, Key and Cleveland’s other banks not chosen to cut off lending in low to moderate income communities over the last ten years, we would not be here today. Of course, had the banking regulators done their job, we wouldn’t be here either.

I have lived in the Union-Miles neighborhood for more than 30 years. I remember having banks in my neighborhood. One by one, however, they disappeared.

As they left, others set up shop. A visit the corner of E. 93rd St. and Union makes my point. Twenty years ago, that intersection had three bank branches. Today, it has three check cashing stores. My neighborhood does not have ONE bank in our community.

The sub-prime industry will tell you that they acted based on the economics of supply and demand. That is probably the only thing they and I agree on. The fact is, as the banks abandoned low to moderate income neighborhoods, the sub-prime industry moved in and moved in fast.

For example, in 2002, Argent Mortgage Company (the wholesale lending arm of ACC Holdings which also owns Ameriquest Mortgage company) had no presence in the city of Cleveland. Since 2003, however, despite only offering a sub-prime loan product, they have been the largest lender in Cleveland. I guess we are supposed to believe that, almost overnight, the credit rating of Cleveland residents tanked and they no longer qualified for a prime rate mortgage.

I would suggest to you that Argent's surge in Cleveland is the result of years of local banks turning their back on low to moderate income, often minority, residents.

The Aftermath Of The Storm

My good friend, Dr. Calvin Bradford, will shared with you how the banks, with the full support of the federal regulators, were allowed to leave places like my neighborhood.

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

[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

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]

- 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]

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[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.*

[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.*

While the above numbers are staggering, what I see in my neighborhood is even more tragic. I can't walk down any street in my neighborhood without seeing a vacant, often un-boarded, home. Many of these homes used to belong to my friends. I remember visiting them not that many years ago to celebrate the holidays or have a cook out during the summer. Today, those fond memories have been replaced by the stark reality that the lending industry ripped off my friends and me. As I peek inside some of these homes, I see the remnants of what was once a stable family. I can see where the kitchen sink used to be and remember helping Ms. McCoy wash the dishes there after a neighborhood cook out. Today, the sink has been ripped from the wall and sold for scrap.

Today, I notice more sirens from firefighters going to put out yet another fire caused by squatters trying to keep warm in a vacant house and am reminded to tell my grandchildren, once again, to stay out of vacant houses lest they step on a needle or encounter a molester.

That is my reality. While I don't wish ill on anyone, I must tell you that the losses investors on Wall Street are facing today pales in comparison to the losses I have faced on E. 93rd Street for the last 5-7 years because of their abusive greed.

Cleaning Up The Mess: ESOP's Model

ESOP has a well earned reputation for loading up buses with ripped off homeowners and armed with 2500 plastic sharks and traveling to the home of CEO's and managers of local predatory lenders and throwing sharks at these loansharks until they agree to meet with us to negotiate a written agreement to fix their bad loans. Some tell us that doing this isn't nice. I suppose they are correct but we don't think what these lenders have done to our neighborhood is very nice either.

Each of ESOP's agreements contain two sections. The first is "prohibited practices" going forward and the second part of all of our agreements is the "review and repair process."

ESOP, working with National People's Action (NPA) and our national affiliate, National Training &Information Center (NTIC) helped lead a national campaign against Citifinancial about six years ago when they acquired the Associates. It was a long and, sometimes bitter, campaign that eventually led to a national agreement and is where we first introduced the Hot Spot Card (HSC) which we have gone on to use with other agreements. It is a complaint form that the homeowner completes and ESOP then sends to a designated person at Citifinancial who is empowered to make decisions about changing the terms of the loan.

The agreement with Citifinancial also immediately stops any foreclosure efforts until both sides have had an opportunity to review the loan and find a better alternative. To date, hundreds of homes have been saved as a result of this agreement.

It is also important to note the impact these agreements can have on changing industry practices. For example, when negotiating our agreement with Citifinancial, we pushed them to drop single premium credit life insurance. At first, they refused to budge. Finally about six months into the negotiating process and hearing dozens of horror stories about how this product was packed into loans and often never paid off, they began to listen. Finally, they relented and agreed to drop the product. <u>Within a year, every major lender that I am aware of did the same thing</u>.

At about the same time we were concluding our agreement with Citifinancial, ESOP members began reporting concerns about a company called Fairbanks Capital Corp. At first we dismissed their concerns as that of some older people who didn't really know what they were talking about. After all, we mistakenly thought, what would a company from Alaska be doing in Cleveland?

The complaints kept pouring in, however, and we finally decided there must be something to the stories people were telling us. After some research, we quickly learned that Fairbanks (now called Select Portfolio Servicing) was among the nation's largest sub-prime loan servicers just a few years ago. Their problems were well chronicled in papers throughout the nation. ESOP spearheaded what started as local fight that became national in the course of a few months. It resulted in an agreement that not only kept them in business, but it made it taboo to do things like not apply payments properly, force placing insurance on accounts without first determining if the homeowner had their own policy…all things that were common in the industry.

While it took some time, Fairbanks' CEO finally came to the table and met with us after being barraged with bad press and a lawsuit by the FTC. We went on to meet several more times to hammer out an historic agreement that immediately stops a foreclosure when a Hot Spot Card is submitted, <u>creates a list of prohibited practices going forward</u> and has saved hundreds of families from foreclosure. <u>Today, a number of the reforms contained in that agreement are now standard operating procedure for sub-prime loan servicers across the nation with respect to applying payments, forced placed insurance, company ombudspersons, etc.</u> Equally important, while SPS openly admits it still "has a problem in Cleveland," their foreclosure filings dropped by about 43% between 2003 and 2005. That is because ESOP is working with them to keep folks in their home AND because they banned the practices we called them out on that were putting people in foreclosure in the first place. Indeed, while we didn't start off on the best foot, ESOP is proud to be in partnership with SPS today as we work together to keep our residents and their customers in their home.

Three days after signing the SPS agreement, Ocwen Financial called our national affiliate, NTIC, and indicated they wanted to talk. I and key ESOP members and leaders from organizations around the country began meeting with my friend next to me, Bill Rinehart and the CEO of Ocwen, Ron Faris. In just a few months, we put together an agreement without a single plastic shark ever being lobbed! We just celebrated the two year anniversary of this agreement a couple weeks ago. To date, well over 100 homeowners in the Cleveland area have been assisted by this agreement.

While we are proud of all of our agreements, we consider this agreement to be one of, if not, the best agreements we have simply because Bill and Ron are not afraid to think outside the box and think with us about new ways to keep people in their home. For example, I mentioned earlier that resetting ARM's over the next year or so will result in, according to the experts, an unprecedented wave of new foreclosure filings.

We are working with Ocwen to try to get out ahead of this issue. Ocwen provided us with a list of about 500 Cleveland area homeowners who will see their rate adjust in the coming months. We sent a mailing to those homeowners whose rate will reset in the next two months, many of whom may not even have a clue that they are about to see their payments increase significantly, and invited them to a meeting where Ocwen will have a representative present to discuss their options and, where it is clear they will not be able to meet their mortgage obligation, begin the process to see if there is a way their loan can be modified.

Finally, on the national level, working with NPA and NTIC, we also have a national agreement with JP Morgan Chase. It is not quite the same as the other agreements we have but it has allowed us to employ the Hot Spot Card with great success.

The above are examples of ESOP's involvement to secure national agreements. Over the last few years, we have been pretty busy locally as we have negotiated written agreements with Charter One Bank, Ameriquest (includes Argent and AMC Servicing) and we just signed an agreement with Litton Loan Servicing on February 28, 2007 that has already assisted more than two dozen families who were facing foreclosure. During the signing of this agreement, Larry B. Litton, Jr., the CEO of Litton, commented that ESOP's Hot Spot Card program and our commitment to preserving homeownership is a "model" that he wants to replicate across the country.

While we don't have a written agreement (yet) we also have a very good relationship with Third Federal Savings & Loan (as an aside: I wish to amend my earlier remarks to note that Third Federal is the ONLY bank in Cleveland that has really stepped up to the plate to take people out of bad loans and put them in good loans), Homecomings and Wilshire Credit Corporation.

All combined these agreements resulted in rescuing about 400 families from foreclosure in 2006. Based on numbers YTD, ESOP expects that we will assist more than 700 families by the end of this year.

The secrets to these agreements and our success is:

1) They are based on mutual respect and an understanding that everyone loses when a home goes into foreclosure.
2) An understanding that a group like ESOP can often be less threatening for the borrower to speak with than someone who is calling them from a thousand miles away.
3) We have one and only one point person for each of our lender partners who is empowered to make decisions about reworking the loan or some other resolution to keep the homeowner in their home.
4) We have regular face to face dialogue with top officials (usually the CEO) at least twice a year and conference calls when needed.

Hopefully, you are asking yourself 'why, if this is so successful, aren't more lenders and servicers reaching out to partner with local organizations?' I wish I had a good answer but I don't. It is beginning to change but many lenders and servicers, even despite the last few weeks, don't really believe we have a crisis on our hands.

That, ladies and gentlemen, is where you come in. If left to correct itself, I have no doubts that the lending industry will continue to tighten up on its lending standards. That is fine going forward. But what about yesterday and today. The industry would like you to think that they have learned their lesson and are cutting off the really bad guys. And that is happening to some extent. The problem is they don't want to be held accountable for the abuse and damage they caused over the last decade. Congress has a chance to hold them accountable going forward AND for their past abuses and I implore you to do so.

I thank you again for the opportunity to speak before you today and welcome any questions.