

**Testimony of:
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City of Lorain, Ohio**

**Before the Domestic Policy Subcommittee of the House Committee on Oversight and
Government Reform
Cleveland, Ohio**

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Honorable Members:

Everyone present here today is passionate about and committed to the cause of preventing the autopilot future of this region's housing stock, and its severe blighting effect on our older urban communities. Without serious intervention and a coordinated effort by all stakeholders for the next decade to stabilize our urban neighborhoods every existing malady will only dramatically increase. The tax base of our schools will continue to diminish and our children will run from this region to find greener pastures. We know that Ohio suffered from some of the worst mortgage origination in the country from 2002 to 2006. This portfolio of loans has yet to reach its peak of defaults. The number of vacant homes will continue to increase.

In Lorain, Ohio, we have expended, designated, or committed almost seventy per cent (70%) of acquisition, rehabilitation, and demolition Neighborhood Stabilization Program (NSP) funds. We will run out of funding very soon and as an urban community that will enter 2010 with no new funding sources, unless we receive NSP II Funds, we are faced with the frustration of fighting this challenge in the trenches house by house against wall street and lending institutions that cannot possibly cut through the red tape fast enough and lack the manpower at its call centers, with its asset disposition personnel, to even try and dispose of the "normal" foreclosed homes let alone the problem properties that I now respectfully ask for more help from the lenders and Congress.

In my community, there are vacant homes everywhere, where the owner had filed bankruptcy, abandoned the home (does not want a modification), they are beyond repair, have no value except to landlords and speculators, and typically, the lender through their foreclosure law firm has dismissed the foreclosure action, or they have failed to ever initiate one. I have personally called foreclosure law firms about dismissed cases and the attorney typically provided me with the "1-800" customer service number for their client. In the meantime, the property sits vacant, we lack funds for demolition, and I have no cooperation from the lender.

The first request is a change in requirements placed on lenders as follows:
If a vacant property has no value and the condition of it is such that its renovation cannot be justified, that the lender offer the local community or a designated local non-profit with demonstrated capacity the option of an assignment of its mortgage. Let us perfect the foreclosure, the money you will save in legal fees, file management, and staff time alone will make you a more profitable lender. I have a case right now; the owner filed bankruptcy, and would gladly quit claim deed the home to us. He abandoned it two years ago. I have called, emailed, and begged the lender. I obtained a written release from the owner, authorizing my entering the property, permitting me to contact the lender, permitting the lender to discuss the loan, the property, and the conditions of the house with me. I had the property appraised, inspected by our health department, and literally begged the lender, to do something about their mortgage. The bankruptcy and loan default is three years old. I begged them to assign the

mortgage to the city, and that we would foreclose, clear title, and then demolish the property. I could save the legal fees, the costs of securing the property, and the wasted staff time they cannot afford to allocate. Instead, now that they have received a notice of intent to declare it a health nuisance, they have hired an outside servicing company which will run up the costs of this lender and only prolong this problem.

Please find a way to compel lenders on properties that are valueless to assign us the mortgage, let us perfect a foreclosure, and wash their hands of the problem the same way cities solve the problem, **HOUSE BY HOUSE**. I have had some limited success doing this, but it shouldn't take months of calls and emails. Cities are financially strapped and have less staff to solve these problems than the lenders.

My second request is that Fannie Mae and all other lenders (except HUD that does give cities preferential treatment) contact the cities before home are marketed, and allow us to prove with evidence that a home cannot be renovated for a basic quality of living for home ownership, and that if it is classified for demolition that it be sold to the city for \$1.00 Dollar (like HUD does in some cases) taking into account the cost of demolition. Typically we are competing with landlords that will do the bare minimum to a home who will out bid the city. We are expending precious NSP funds in bidding wars to acquire properties for demolition and land banking. In the last 22 homes that I have acquired that will be demolished; my average cost of acquisition is \$9,000.00. The cost of demolition will at least \$8,000.00 (The average loan default was \$80,000.00. I am sorry that the lenders made such loans. However, cities will run out of money to solve this problem unless lenders (and Fannie Mae) recognize that maximizing their short term gains will only allow landlords and speculators to continue to plague our neighborhoods. I look at every repossessed home that goes on the market in our city that is under the price of \$70,000.00. Whether it is a demolition priced between \$9,900.00 and \$20,900.00 or a home that is still salvageable priced between \$20,000.00 and \$70,000, We are competing with landlords from in the city and from out of state, We are thrown into multiple offer situations, and the lender and their asset manager does not care what it will do to the neighborhood. It requires me to spend precious federal dollars just to keep these homes out of the hands of landlords and speculators. When we run out of NSP I funds, and I pray that our NSP II application is funded, we will have little ammunition to fight this war in the trenches. When unemployment is above 10% and local tax dollars cannot sustain basic city services we need the lenders help.

In conclusions, I respectfully request consideration of four items.

- 1) Compel Lenders to take the stagnant properties off their accounts by assigning the mortgage to local cities and non profits. Let us foreclose and secure title.
- 2) Compel Lenders and Fannie Mae to not make cities compete for properties that need to be demolished. The cities should be aloud a sixty day review period before the home is placed on the market to prove that it needs to be demolished. We should not have to be in bidding wars on these houses.
- 3) If restructuring loans and supporting mortgage modifications. Compel lenders to give the homeowner an incentive not to walk away from the home. The total mortgage amount needs to be lowered so that there is at least 5% equity to the homeowner. If the loan amount isn't reduced to a current market value and the payment isn't affordable on a permanent basis, the lender will only get the home back, and lose more money foreclosing and reselling later.
- 4) Please fund our multi community consortium NSP II application.

To quote a famous phrase from the Talmud:

“The day is short, the work is much ... the reward is great.” (Avot 2:15-16)