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To:	The Members of the U.S. House Committee on Oversight and Government Reform
From:	Stephanie Rawlings-Blake, Mayor, Baltimore City
Date:	March 8, 2011
Re:	The Foreclosure Crisis in Baltimore City

Chairman Issa, Ranking Member Cummings and Members of the Committee:

I am pleased to be before the committee today, testifying about the current foreclosure crisis in Baltimore City. Since 2007 almost 18,000 properties in Baltimore City have had foreclosure filings made against them. Few neighborhoods have been immune from foreclosure and many have been significantly impacted. Over one-third have had more than 5% of their residential properties foreclosed against. Many of these neighborhoods are the bedrock of the city – row house communities with high occupancy rates and majority homeowners. The foreclosure crisis has imperiled many of these areas.

It is not only Baltimore homeowners who have been impacted by foreclosure. Over 40% of all properties that were foreclosed against are rentals. This has led to the extremely unfortunate situation where residents who have paid their rent are at risk of losing their housing.

The City's foreclosure rate would undoubtedly be significantly higher had Governor O'Malley's administration not taken legislative actions that have slowed the foreclosure process and improved opportunities for mediation with mortgage holders.

As foreclosures began to dramatically increase in 2007, City government, in concert with State and Federal agencies and the foundation community, began to increase financial and organizational support to non-profit entities providing foreclosure counseling. It is through the network of counselors that we became increasingly aware of the abysmal performance of the mortgage service industry in constructively addressing this crisis. Amongst the many troubling aspects of this performance the almost systematic loss of supporting documentation for loan modifications stands out.

The dedication and professionalism of so many of the housing counselors in the city is to be commended. This is difficult, exhausting work carried out in daunting circumstances. Their perseverance has helped many Baltimore households avoid foreclosure. Unfortunately, the ineptitude of the mortgage servicers has lessened their effectiveness in many cases.

The matters being considered by this Committee are of vital importance in addressing the foreclosure crisis in Baltimore and the nation. As far as the concerns regarding the regulatory issues affecting foreclosures in Baltimore the following should be noted:

- Baltimore has suffered from all of the servicer abuses delineated in Congressman Cummings' letter. We are a majority African-American city. As documented in our amended complaint against Wells Fargo (now pending in federal court), banks targeted AA borrowers and AA neighborhoods for predatory loans that caused high rates of default and foreclosure.

- The servicers have profited hugely from these abuses—as they streamlined their ability to collect late fees and to foreclosure on homes. They have not paid employees to locate the loan documentation that is required by law to be part of a foreclosure filing, but they routinely file "lost note affidavits." They have had robo signers instead of requiring a qualified employee to actually review the foreclosure and loan documents and to attest by affidavit that they conducted the review and determined that the foreclosure is justified.

- The lenders like Wells Fargo that steered African-American and other minority residents into loans they could not afford profited at the outset through initiation fees and points. They then bundled the loans into mortgage backed securities and sold them on the secondary market, selling off the risk of nonpayment. Often, they have profited again by becoming the servicers of the loans and capturing late fees and bonuses for foreclosing, once the predatory loans defaulted as they were likely to do.

- These predatory lending and servicing practices cause equity stripping, home loss and blighting vacancies. These practices not only devastate families, they cost the City millions of dollars in lost property tax and transfer tax revenue, increased expenditures for police, fire, and housing services, and in undermining taxpayer investments in community development. The damage to families and to the City are very real.

- The Maryland Court of Appeals has appropriately issued emergency rules changes to curb some of the worst abuses. Further reforms are required: a) the real party in interest should be the named plaintiff in any foreclosure action. Currently, only the Trustee or a Substitute Trustee must be named, usually the attorney hired by the servicer. This lack of transparency makes it difficult to understand and document the trends in lending and foreclosure practices in our City, thus handicapping our ability to protect our residents; b) the Home Mortgage Disclosure Act should be amended to require that borrowers' credit scores be reported as publicly available data in addition to the race and other data currently reported. This will enable federal, state and local law enforcement agencies to discover and document predatory practices without the burdensome need for instituting suit and obtaining discovery; c) Every document that a foreclosure plaintiff files should be served on the homeowner whose home is at risk. For example the report of sale is not served on the homeowner and it is not uncommon for a homeowner to answer the door to have a stranger tell them, "I just bought your house and you need to leave." Increased transparency will enable distressed homeowners to better defend their homes and to better plan for their futures.

- Federal reforms are in order, but it is important that federal regulations be established as the floor and not the ceiling for regulation. States, and to a lesser extent, municipalities must be free to protect their residents when federal authorities decline to act. The current housing crisis, precipitated in large part by the subprime predatory lending meltdown, could have been avoided had there not been lax enforcement of the Fair Housing Act, combined with federal relaxation of federal banking regulations, federal refusal to regulate derivatives, combined with federal preemption of states' ability to regulate lenders. Federal inaction concurrent with the tying of localities' hands created an environment in which racially discriminatory predatory lending flourished. Baltimore is currently contending with the devastating economic fallout.

Thank you, Mr. Chairman and Members of the Committee, for the opportunity to appear before you today. I hope you keep these issues in mind as you continue to take a look at this most important issue of the health of municipalities and their neighborhoods. I stand ready to answer any questions you might have.