THE BROOKINGS INSTITUTION

FAIR LENDING AND THE REBUILDING OF COMMUNITIES

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P R O C E E D I N G S

MR. KATZ: Good morning, everyone. I'm Bruce Katz and I'm director of the Metropolitan Policy Program at The Brookings Institution. And this is, you know, this is the group of true believers. We've got a U.S.-Algeria soccer match at 9:30, you know; we've got the President meeting with General McChrystal at 9:45; but we're here, and we're here to focus. And I think this is an excellent forum, and I think the focus is actually quite clear and succinct.

We're here to talk about the continued impact of this housing crisis on people of color and the communities where they live, and we're here to talk about the role of fair lending and really a civil rights perspective on mitigating the harm of this crisis, providing relief to affected families, and beginning what is clear to be the long process of rebuilding and repairing the damage of this housing downturn. The housing crisis and the foreclosure tsunami have obviously not been uniform in its impact. If you look at the Center for Responsible Lending, if you look at many of the academic research that has been done over the past several years, there really has been a disproportionate impact on African American and Hispanic homeowners with statistics that I think many of the people in the room are quite familiar, and I know Tom is going to talk about that. From the perspective of our program at Brookings, it's really sort of a logical progression from talking about the impact and the disproportionate impact on people to talking about the impact on communities where people live. There's a very close relationship -- well documented -- between housing foreclosures, particularly the concentration of housing foreclosures, disinvestment, increased vacancies, and the impact that has on neighborhood vitality and, frankly, ultimately on urban vitality and metropolitan vitality.

The outcome is most likely to occur in communities that were already vulnerable such as struggling lower income and minority communities, particularly in

cities and older suburbs. The effects are widespread, loss of value on other properties in the neighborhood, a general destabilization on economic and social conditions, the fiscal impacts on cities and older suburban communities that were already reeling from the economic downturn. CRL and others have put forward estimates of the loss of value from a variety of sources of upwards of $370 billion. So you may have seen this *New York Times* article, front page, about Memphis -- I think it was maybe about six weeks ago -- heavily segregated city, rising unemployment, surge of foreclosures in particularly Black neighborhoods. They've wiped out African American family wealth and income. They've basically erased two decades of economic progress. Maryland's foreclosure capital is Prince Georges, one of the nation's largest African American majority counties, has twice the foreclosure rate of the entire state. In places like Cleveland and Detroit -- and Jim Rokakis is here from Cuyahoga County outside of Detroit -- widespread market collapse has resulted in parts of each city turning into virtual wastelands with home values declining 75 percent just since 2007. And then you can take a look at cities like Boston and Baltimore and other cities around the country in urban counties where once viable neighborhoods are now destabilized or at risk of future destabilization.

I mean the bottom line is this housing downturn and this economic recession are going to be with us for a while, and in some respects the worst is not over because there are still millions of families who are at risk of foreclosure. And the constraints on their credit and the constraints on their ability to move forward in the future are quite real. Now Brookings put out a report about six weeks ago on the state of metropolitan America, and we talked about how the United States is a demographically blessed nation -- about 83-85 percent of the growth this decade is from racial and ethnic minorities. We are on target to becoming a majority-minority nation. About 40 percent of our workforce in the foreseeable future will be racial and ethnic minorities. So we are a

diversifying nation; it's actually what makes us unique and strong in the global marketplace. But this effect of this downturn ultimately is going to impact this emerging workforce in the United States. It's going to impact their ability to thrive and prosper in our economy. It's going to have reverberating impacts on other people in their communities and, frankly, on the places where they live.

So we're here to have a serious conversation, but a very focused conversation because the issue before us really is how do we take fair lending laws, fair lending action, a civil rights perspective, to this particular crisis and apply it both to the urgent to repair the damage that's been done and to the perspective -- how do we begin to think in a creative way of using these tools and remedies to rebuild?

To do this I think we've got a great forum and we're going to start with the Assistant Attorney General for Civil Rights, Tom Perez, and then we'll move to a panel to respond to Tom's comments. I think, you know, just in introducing Tom, I think what's so important about his background -- and everyone's got the bio and you can see the work that he's done at the federal level, at the state level, and at the local level. You know, from my perspective, what's needed now is someone with sort of a 360 degree perspective on civil rights and fair lending. You know, who not only has sort of the traditional skills that we think about in this arena, the litigation skills, but someone who understands the broader goals and outcomes that these laws and these tools were originally enacted to pursue. And I think, you know, Tom's had such a varied career. But I think it's prepared him in a way that he probably could not have foresaw, to be ready to sort of respond to an unprecedented crisis, and a crisis, again, that's not going to end easily. It's going to be with us for a while. And we're going to look back in ten or 15 years and we're going to look at some very significant trends, both within households and

within communities, and trace it back to this moment and what happened at the end of this decade.

So Tom Perez, the right person at the right time to head up one of the most important challenges in the federal government. Assistant Attorney General?

MR. PEREZ: Good morning. It's great to be here. I'm very envious of Bruce for many reasons, not the least of which is he's not wearing a tie, because I walked two blocks from the Metro, and I was still sweating.

I also want to -- it's really remarkable to sit here and look around. And I'd like to convene the meeting afterward of the HUD Transition Team because I see my good friend, Roberta Achtenberg, in the audience, and Bruce Katz who co-chaired the Transition Team for the Obama Administration, and Ken Zimmerman, and so many others. There was this person who was participating in the Transition Team pre-election -- I forgot his name, it was Shaun Donovan -- and then he mysteriously disappeared at one point. And we wondered what happened to that person? And then he re-emerged as the Secretary, and we can't be happier.

And so I want to say thank you to Bruce and thank you to Brookings for your longstanding leadership in making these conversations so relevant to our lives. And I want to thank everybody in this audience because I'm looking around here, and I'm seeing a group of committed people in the front lines -- some are in government, some are in the private sector, some are elsewhere. And everyone here -- I see a number of private attorneys general as well as my colleagues, Vicki Schultz and Eric Halperin, from the Civil Rights Division. You mentioned Memphis, and I see Relman and Dane well represented. I see my colleagues from the Civil Rights Division, the remarkable career staff who are very well present here as well. And so I'm just thrilled to be here. Thank you for your kind words, Bruce. Another way of saying my varied experience is I couldn't

hold a job for more than a couple of years, but you framed it much nicer than that and so I'm going to go with what you said.

You know, as we do emerge from this housing crisis, which was fueled in no small measure by risky and irresponsible lending practices that allowed all too many people to get unsustainable and unaffordable home loans, we are faced, as Bruce correctly pointed out, with an epic set of challenges, of cleaning up the mess, repairing families, making people whole, and also addressing the community impact and ensuring that this never happens again. More than 2.5 million foreclosures have been completed since 2007 and another 10 to 13 million are projected in the four years ahead. About one in four borrowers are under water which means that their mortgage is more than the value of their home. Spent all too much time with so many people, and they are oftentimes 48 hours away from losing their home and the devastation in their eyes is just absolutely tear-your-heart-out stuff. And all of you have seen that in this room.

And the crisis has devastated just about every community across this country, but as Bruce correctly points out, the crisis has disproportionately touched communities of color. The CRL study released last week found that 17 percent of all Latino homeowners and 11 percent of all African American homeowners either have lost their home or are at imminent risk of losing their home. These foreclosures will drain $273 billion, billion with a "b," from Latino and African American communities across the country. A study by the *New York Times* noted that an African American household in New York City making more than $68 thousand a year was almost five times more likely to have a subprime loan than Whites with similar incomes. We had similar data in my home county of Montgomery County when I served on the Montgomery County Council. We found that upper-income African Americans were significantly more likely to be in a subprime loan as similarly situated upper-income non-minorities. Studies that have taken

into account creditworthiness and other relevant factors have found that African American and Latino borrowers were far more likely to be in the subprime market.

Persistent segregation and resegregation of neighborhoods played a key role in magnifying the harm to African American and Latino communities. The more segregated a community of color is, the more likely it is that homeowners who live there will face foreclosure. The Reinvestment Fund in a series of studies found that as a community's percentage of African American and Latino residents increases, so does the community's overall share of foreclosures. This is in part because some of the lenders who peddled the most toxic products targeted these very communities. The result as we all know is a large number of foreclosures in close proximity to each other with devastating consequences not only for the families but for the communities. Many of these very same communities in which substantial investments have been made and that have had the effect of revitalizing but now were in serious danger of backsliding.

The crisis began as you know as a subprime lending crisis predicated on predatory and discriminatory loans made with little or no regulatory oversight and enforcement. It was the "Wild, Wild West" for all too many years. Common sense, consumer protection, regulation and enforcement, and a sound business climate go hand in hand. We all too frequently live in the world of false choices, where we either have national security and safe communities, or we have protections of civil rights and civil liberties. We either have commonsense consumer protection or we have a sound lending climate. Those are all false choices. We can have both. We can have security in our communities and at our borders, and we can protect and safeguard the Constitution. We can have commonsense consumer protection and we can have a sound business climate, and that is one of the many lessons that we have seen.

And I've had the privilege of looking at this crisis from the perspective of a local elected official for four years, from the perspective of a state cabinet official who was overseeing the banking industry in Maryland, and now from my perspective as Assistant Attorney General for Civil Rights. I'm glad that I wasn't able to hold a job for very long because it did have the ancillary benefit of allowing me to see these perspectives. And I'm thrilled at the panel that you've assembled here today because we have people who can look at it from the perspective of a frontline individual in the Rust Belt of Cleveland -- and I grew up in Buffalo so I'm a big fan of the Rust Belt -- and I look forward to your presentations. We have the state perspective. We have the federal and the national perspective. So you've assembled a great array of panelists today.

The President has made foreclosure prevention a linchpin of his program of revitalization, and there is an array of programs in place as you know to assist distressed homeowners and communities. And you'll hear more from Helen Kanovsky at HUD, my good friend and the General Counsel and a remarkable leader in this effort. And HUD has been a very critical player in putting forth a number of programs that are at the frontlines of assisting people in need.

The President has also sent a very, very strong message to all federal agencies that mortgage fraud and homeownership preservation are top priorities through the establishment of the Financial Fraud Enforcement Task Force. This Task Force has catalyzed unprecedented collaboration between federal agencies, between federal and state agencies, and between federal, state, and local governments. One of the things I learned during transition, one of the principles that President-elect Obama was attempting to inculcate from the day of the election, was that some of the most vexing problems in our nation require for their effective resolution unprecedented levels of interagency collaboration, unprecedented levels of partnership with nonprofits, with state

and local governments. And this Task Force is doing just that. Just in the last three months, through an operation that has been called “Operation Stolen Dreams,” this was an unprecedented collaboration of the various members of the Financial Fraud Task Force. And let me tell you what happened in these three short months with this Task Force in place. There were 391 convictions involving 1517 defendants on the criminal side. On the civil side, there were 191 civil enforcement actions involving 395 defendants and almost $200 million recovered. One example of a case in the civil setting was a case against Countrywide which was an action by the Federal Trade Commission for charging fraudulent and abusive fees in the servicing context. So we’re recognizing that we have to fight this battle on two fronts. We have to deal with the present-day consequences of abusive practices in the origination and the underwriting context, but we also have to deal with the fact that many of those unscrupulous brokers and lenders who have left the origination context because it has contracted so much have found a beachhead in the servicing and loss mitigation context. And so we’re fighting that battle on both fronts.

Fair lending is a top priority of the Attorney General, and it’s been a privilege and a pleasure to work with Attorney General Holder and other partners in the Department of Justice. And we have created remarkable new infrastructure with the leadership of our Housing and Civil Enforcement Section to support and expand our fair lending work. We’ve created a dedicated unit to address fair lending cases, and we have a number of cases. We have about 50 investigations underway. We have remarkable leadership. My friend, Jon Seward, is here and he’s leading, helping to lead, the unit, and he is doing remarkable work. And let me tell you what our operating philosophy is in the fair lending context -- they really are commonsense operating philosophy from my mind -- vigorous enforcement, commonsense regulation, prevention that includes outreach and education, forging of critical partnerships. Government must be a credible

deterrent. Government was not a credible deterrent for all too many years, and this was a major contributor to the crisis that we saw. It was indeed the "Wild, Wild, West."

Lenders must develop credible internal mechanisms. I spent the morning last week with one of the largest banks in the country, one of the largest financial institutions in the country. I had an opportunity to speak to their senior leadership, and I wanted to do that because I wanted to talk about what can be done to avoid problems. I've done a lot of work in the policing context, and I'm a big believer that the best policing is the policing that comes from within. And that holds true in financial contexts as well, and that's why it was very exciting for me to talk to the senior leadership of this large financial institution and to discuss how we can put in place -- how they can put in place -- internal mechanisms to prevent problems from occurring. And we talked about how you get in a situation like Memphis that Bruce described, and how you want to avoid those situations. And it was a very, very productive conversation.

Our fair lending unit will continue to vigorously and independently and aggressively enforce the law, and we will use every tool in our arsenal including but not limited to disparate impact theory. Disparate impact theory was a four-letter word for a number of years. Disparate impact theory, if the facts can support it, will be a theory that we will use to support the prosecutions of our fair lending cases. And it is a theory, I will note parenthetically, that virtually every circuit in the United States has upheld. There is not a circuit that has said that disparate impact theory is not viable. So there is overwhelming unanimity that disparate impact theory is indeed viable, it is a very important tool in our law enforcement arsenal, and it is a tool that we will use when the facts support it. And let me tell you about a case in which the facts supported just that. There's a small company called AIG that some of you may have heard of, and we had a law suit against two subsidiaries of AIG that one -- and the case is really about the

relationship between lenders and brokers. And in this particular case, there were two operating subsidiaries of AIG, one subsidiary would be the entity that was attracting borrowers to come in, and the other subsidiary was the bank. And so when you got the customer in, you then took the customer and took that person to the bank. And this case involved the issue of African American borrowers, and our lawsuit alleged that African American borrowers were charged higher fees on wholesale loans made by lenders through the contracted borrowers. The $6.1 million settlement marked the largest fair lending settlement ever secured by the Department. The case marked the first time that the Department has held a lender accountable for failing to monitor broker fees to ensure that they are not charging discriminatory fees based on race. What we learned in this case is that the lender knew how to regulate the activities of the brokers. They did it in the context of yield spread premiums. They had very rigorous oversight of yield spread premiums, but when it came to the notion of fees, they had their head in the sand. They were “Sergeant Schultz.” They heard nothing, they saw nothing, they wanted to do nothing. And this case stands for the proposition that when you have a policy or practice in place of putting your head in the sand, even though those brokers are not employees per se, that is a policy or practice that has a disproportionate adverse impact on the basis of race and therefore violates the Fair Housing Act and the Equal Credit Opportunity Act. And we will continue to look for those cases, and we will work with our partners in states, in local governments, and elsewhere to identify and root out similar violations.

As part of our agenda of restoration and transformation, we’re also fundamentally reshaping our relationships with other federal agencies including the banking regulatory agencies from which we receive referrals when there is a possible paradigm practice of discrimination. We have an obligation every year under the Equal Credit Opportunity Act to report the number of referrals. And frankly, the number of

referrals has room for improvement, and we're looking, we're working there -- stop laughing Roberta -- we're working in close collaboration with our partners to discuss this issue and to ensure that there are aggressive and core competencies in place so that the issues of fair lending are given the attention that they need across the alphabet soup of federal regulators. HUD has been a critical partner for us, and it has been an unmitigated pleasure to work with Secretary Donovan, with Helen Kanovsky, with the Fair Housing colleagues -- and I see Brian here this morning. It has been an unmitigated pleasure. We're working in close collaboration with HUD. We are doing -- we had a conference there last week as part of our Financial Fraud Task Force, and Helen and I co-chaired the nondiscrimination working group along with one of our other partners. And that working group of the Financial Fraud Task Force is working very hard to ensure that fair lending enforcement is given the priority that it needs.

We are invigorating our relationships with state partners. I spent a day in Illinois with Attorney General Lisa Madigan who's been a national leader in the area of foreclosure prevention. And states can play a critically important role. I saw that from my perspective in the state of Maryland, and so we're working very, very closely with states. We're reaching out to private attorneys general. I see many in this room, and they play a critical role in holding unscrupulous lenders accountable and that role will continue to grow as we move forward. And so we will continue to have those critical conversations as well.

While the current crisis necessitates that much of our focus is on mortgage lending, our unit is also focusing on other areas of lending including unsecured consumer lending, auto lending, credit cards, and so we will continue to have that wide focus. But we are also aware -- and Bruce pointed this out implicitly -- that while litigation is a critical tool in our law enforcement arsenal, it cannot be the only tool. When I've

spoken about the restoration and transformation of the Civil Rights Division, I have spoken frequently about the need for us to be not simply the nation's preeminent civil rights litigator, but we need to be the nation's preeminent civil rights problem solver. Litigation is a critical tool in that problem-solving arsenal, but we must also use other tools. We have many other tools. We have technical assistance. We have education and outreach. We have the bully pulpit. We have regulation and guidance authorities. And we need to use all of those. We have the ability to convene, the ability to identify problems, the ability again to use that bully pulpit as I just mentioned to flag issues, to talk about the need for reform, to shine a light on problems that all too frequently have been in the shadows of our communities.

And what I've learned from my outreach, from sitting with families in crisis, is that the foreclosure crisis is about those families, but it's about that much more. It's about not only how it affects the families' wealth, but it's also about how a foreclosure crisis affects a neighborhood's stability and safety and a community's health and wellbeing. It's about how it affects mobility rates in schools because all too many kids were going to one school in September and then another school in November. They were living in a house that was built for six people in September and now they've had to bunch up with relatives in there living with 12 or 13 people. It's hard to study for your exams when you can't even have a safe place to live or a roof under your head. We saw a study in North Carolina -- by the University of North Carolina and the National Council of La Raza -- that found that Latino families that experienced foreclosure faced significant harm beyond simply the loss of their home. The study found that foreclosure and the resulting multiple moves and cramped living conditions led to significant emotional distress, high levels of conflict, problems with academic performance, curtailing of long-

term investments, so that you can feed the family and buy the groceries and get your medicines that you need. And that is what is so tragic as we look at this.

Given what we know about the personal toll of foreclosure, it's not surprising that these foreclosures have destabilized communities. In addition to the loss of property values, studies have documented a host of other problems. The Urban Institute released a report that noted a series of studies that have found that neighborhoods with higher foreclosure rates experience an increase in violent crime. Local governments experience direct costs. I saw that firsthand including lost property values, tax revenues, et cetera. And according to the Urban Institute, an analysis done by a guy named Bill Apgar, a friend of many of ours, each foreclosure will cost a local government about $19 thousand. So we have to look as we reflect and as move forward, and one of the really critical concepts here for discussion is, what does it mean to make someone whole? When you are a victim of discrimination, the goal in the proceedings is to make someone whole. Well, what does it mean to make someone whole when the devastation has been to the family, to the community, to the government? That is a question that we are asking. What are the appropriate remedies? Litigation can be transformative, and we are trying to make it transformative. And we are addressing this question head on right now. How do we ensure that we are doing our level best when somebody has not only lost their home, but they've lost their credit rating and so they're not going to get into a home. They can't even rent because a credit check is done and their credit score has been undermined. So this is what we are asking, and we are asking this in the context of the work of the fair lending unit.

And let me tell you a couple of the things that we've done already in the cases that we have reached. We had a settlement in a case involving a bank in Alabama to resolve allegations of a pattern in practice of discrimination. It was basically a redlining

case. And as part of the settlement, the bank agreed to open up a new branch in an African American neighborhood, to invest $500 thousand in a special financing program for African American borrowers and businesses, and to spend more than $100 thousand on outreach to potential customers and consumer financial education. Not the first time we've done this. You recall the Chevy Chase case from the '90s; other cases to cater federal savings and loan in Atlanta. Those are the types of remedies we're looking at. The fund in the AIG case also includes investments of upwards of $1 million for similar activities.

We also need to require greater transparency and accountability. The HMDA was not really powerful until the "sunshine" provisions were enacted so that nonprofits and others could get access to the HMDA data and tell a story about a lender's noncompliance. And we need similar transparency and accountability, and we are building transparency and accountability into our agreements by requiring data collection and recordkeeping. And we're now focusing on benchmarks to measure progress in requiring that transparency. And so we're doing things of this nature, but frankly, we welcome your input about how we can do more, and what does it mean to make a community whole? And we recognize that not every case is going to present a set of facts wherein the defendant is responsible for a wider array of these consequences, but in many of the cases they are undeniably responsible for not only the direct consequences on the family, but the ancillary and equally destructive consequences on communities.

And so that's why I'm so excited about hearing from people like Jim about the enterprising and remarkably groundbreaking work you've done in Cuyahoga County. And I hope to learn more from you today, Jim, about what you're doing. And I hope as we emerge from this recession that we'll look not only for ways to hold those

who discriminated in the past accountable, we must look for ways to repair some of the damage done to these communities. And look to the power of the law -- the power of the Department of Justice, the power of HUD, the power of all of the alphabet soup of federal regulators -- to help in this rebuilding process because it is tragic that people have spent so much time making so much progress only to see that progress undone in such a short period of time. It tears my heart out to see this. It gets me out of bed in the morning, to motivate myself to get out there, to ensure that all the people who have been victims of discrimination, all the communities who have been victims of discrimination and the ancillary effects of that discrimination, can indeed be made whole.

And I look forward to working with you on these solutions. They will require litigation undoubtedly. They will require new regulation, commonsense regulation that doesn't undermine the business climate that indeed enhances the business climate. They will require the full exercise of our bully pulpit. They will require unprecedented partnerships and new ways of thinking, and I think we can do all that. Notwithstanding these challenges, I have a chronic -- and I underscore chronic -- optimism that we can do this because we are a nation of doers. We have a President who is a doer. We have a President who is a uniter. We have an Attorney General, a HUD Secretary, Treasury Secretary, who get that. We have good listeners in government. We recognize that some of the programs we operate can be improved. We want to listen to you about how they can be improved so that we're in this continuous quality-improvement mode that we must be in. And I'm confident that working together, with conferences and meetings like we have here today, that we can find that roadmap forward, and we can indeed rebuild our communities and be a model for the world because this is a global crisis and let's set the example as we recover.

Thank you so much, Bruce, for hosting this and I look forward to any questions you might have.

MR. KATZ: I think we've got 20 minutes or so for questions before we move to the panel. So who wants to start? And we probably have microphones somewhere, right over here, and here comes a microphone. Perfect.

QUESTIONER: I'm Greg Squires, George Washington University, and I have a question for you. About 15 years ago I was working with Roberta, and we were working on a draft of the disparate impact regulation at HUD -- Bruce, you were involved in this as well -- and I was advised to be patient; that things will work their way out. And I know there are discussions right now on this, and I was wondering if you had any insight or the folks from HUD could say anything about when we'll see a draft of the disparate impact reg?

MR. PEREZ: Yes, the -- that's a great question and we have, Helen and I -- I thought I saw Michelle Rono, there's Michelle. Michelle is a Deputy General Counsel at HUD. And again, I talked about the various tools we have in our arsenal and one is effective regulation. And that, the disparate impact reg, is clearly on the table and there are people working feverishly. It is obviously -- it's a HUD regulation, but I know there are people working feverishly. We've had many, many conversations about that, and I don't want to speak for Helen because it is indeed an effort that we're involved very, very collaboratively with HUD on, but it is an effort that originated at HUD. So the answer is it's absolutely on the radar screen. It's absolutely consuming a large amount of time. We've actually met with external stakeholders to get their perspective on that, and the wheel has been invented previously and so I think we have a good starting point from which to work.

MR. SQUIRES: I know before there was a Congressional regulation to put an end to a lot of these discussions. I'm wondering if there's any thought of doing this before --

MR. PEREZ: Well, Helen is going to be speaking soon, and I have long ago -- whenever I'm doing a criminal investigation and I'm meeting with community members, the first question they ask is, "When are you going to be done?" And when I was an entry-level prosecutor, I made the mistake of saying, "I'm going to done by the end of July." And then the end of July rolled around and I opened up one door and there were four more doors. And then I opened up those four doors and then there were 16 doors, and I realized that I couldn't predict when I would get that done. And as you know, there's a fairly rigorous -- and appropriately so -- internal clearance process, not simply within HUD, but within the federal government. I know that we're neck deep right now in a number of regulations on the disability rights front and that has been a monumental undertaking and a very important undertaking. I can give you my assurance that it is absolutely on the front burner and there are many, many people in this room and elsewhere who are working on it. And I also was working in the government in 1994, and I do have an acute appreciation for history.

MR. KATZ: We've got one back here.

QUESTIONER: Hi, Mr. Perez. You brought up the case about -- I'm from the University of the District Columbia, Rodney Gill -- you brought up the case in Alabama about redlining. What's the status of the Community Reinvestment Act of 1977 because that was supposed to eradicate those kinds of behaviors?

MR. PEREZ: It was and it has played an important role in eradicating behaviors, but we also need aggressive fair lending enforcement because we see notwithstanding the presence of the Community Reinvestment Act that there continues to

be redlining. There continues to be reverse redlining. And that is why we need to be a credible deterrent in the Civil Rights Division. That's why FATO at HUD needs to continue to be a credible deterrent. There are some who argue -- and I've heard this a lot, that the meltdown that we see was caused by the Community Reinvestment Act and that is -- the evidence belies that. Let me -- I'm trying to be charitable -- the evidence belies that. And let me just simply make an observation that if the Community Reinvestment Act had forced lenders to make loans that were inconsistent with principles of safety and soundness, then this crisis would have begun 25 years ago because we've had a Community Reinvestment Act for 30 years. And there have been a number of studies that have debunked the myth that the Community Reinvestment Act is at the root of the problem. So if you hear that, I hope you will raise your hand and flail and ask them to look at the evidence because the evidence is absolutely overwhelming that the Community Reinvestment Act is not a part of the problem; it's been a huge part of the solution. And regrettably, many of the most unscrupulous players in the subprime meltdown were actually not subject to the Community Reinvestment Act. And so it's the quintessential red herring at a minimum, and I always shake my head in disgust when I hear that contention made.

MR. KATZ: Right over here.

QUESTIONER: Good morning and thank you for your presentation. My name is Janice Mitchell. I'm with D.C.'s Department of Housing and Community Development. One question that I have addresses your statement about ancillary impacts of discrimination. And as I'm sure you're aware, homeownership is a primary foundation for wealth building for minorities. With the impact of foreclosure, the whole usage of homeownership/home equity has been diminished. Can you address that?

MR. PEREZ: You're absolutely right, and I'll add what I often call the "double whammy" for many communities of color. If you look at some of the data that's been produced by Ariel Capital Investment -- they're a company, they're an entity, out of Chicago -- they have documented that similarly situated African Americans and non-minorities -- let's say you make $60 thousand a year; there is far less investment in African American communities in retirement accounts. And so homes were the principle source of wealth building for many communities of color. So when you have the "double whammy" of underinvestment in a 401k -- which may have been a solid thing in recent years, but I think in the long term we're going to get out of that -- when you have that "double whammy," you really have a perfect storm. And so that is really what we're attempting to address. I mean the law suits that have been filed by Brad Blower and, you know, the Relman firm in Baltimore and in Memphis get at your precise issue which is the community impact of foreclosure, and how do you quantify that? And those are critically important aspects of this conversation. And that's what we're working on now. And those are difficult questions, but those are the questions that we have to put on the table. The multifaceted nature of the victimization in this context is really the $64 billion question, it's not the $64 thousand question, it's the $64 billion question that we have to address moving forward. Because I can give you -- I mean, the good news is in AIG, we recovered -- there'll be about 2500 victims who will get recoveries and that's a good thing. We can't solve, you know, the entire problem of foreclosure in one case. You know, the bad news is that there are other challenges that those families are undoubtedly confronting, and so for some of them a check will be helpful but somewhat purist.

QUESTIONER: Good morning. Tino Calabia, a constituent of yours when you were an elected official in Montgomery County. I'm also with HUD. You mentioned the Baltimore case and the Memphis case. Baltimore's was partially undercut.

Could you give a prognosis on what you think will happen with the Baltimore case and Memphis case?

MR. PEREZ: I will not because I will get in big trouble. I mean we have -- we're obviously monitoring those cases very closely, and we will continue to do so. I've met with the Mayor of Memphis, and we have met with officials in the city of Baltimore as well, and we will continue to keep a careful eye on those cases. I think those cases raise very, very important issues about the impact of foreclosures in communities. And that's why it's important not only to have an effective deterrent in the federal government, but also those private attorneys general, the state attorneys general, city attorneys, and I applaud -- I know the City Solicitor in Baltimore very well, a guy named George Nilson. He's a topflight lawyer. And I applaud them for taking this on. I am not in the business of predicting, but I would simply observe that the role of private attorneys general and local governments is critically important. And I would not be surprised to see other cities with similar demographics and similar profiles come forward and file suit. Because a picture tells a thousand words and all you need to do is look at some of the geo-mapping in Memphis and the geo-mapping in Baltimore and, frankly, you can geo-map places probably in Nevada and elsewhere and you'll see a similar profile. And it wouldn't surprise me to see other cities follow suit -- no pun intended.

MR. KATZ: I've got that one, but right over here.

QUESTIONER: Hi, Mr. Perez. It's good to see you again. I'm Solomon Greene from the Open Society Institute. So, we've -- I manage a grant-making program at OSI that funds work to help communities of color come out of this crisis as quickly as possible and to help rebuild communities that have been devastated by it. And we've been -- we've long recognized that the crisis both at the outset and its stubbornness and persistence is driven by two factors, structural inequalities within the mortgage markets

but also opacity within those markets that prevent us from effectively remedying some of those inequalities. And I wanted to see if you could talk a little bit more about DOJ's efforts around data and disclosure? We have some basic tools as you know with HMDA to help us get at some of the inequalities with origination, but the action has really shifted to loan modifications and post-foreclosure outcomes and effects those are having on communities. And I just wonder if you could talk a little bit more about what DOJ is doing to make sure that the rich community of private attorneys general has access to that information?

MR. PEREZ: Oh, that's a great question. It's good to see you again, Solomon, and it was a privilege to be able to spend a little time with you and Mr. Soros in my prior life talking about this precise issue. And before I get into your specific question about data, I do want to put in an applaud for the important -- I'm so happy to see philanthropy represented here because philanthropy can play such a critical role. And we had some really good brainstorming sessions with OSI and others, and one of the issues that we talked about a lot was the need for additional capacity building because the local nonprofits who are doing housing counseling are just absolutely seeing the phone ring off the hook. And there's -- you know, when you're in the soup, you need four or five things. You need time. You need money. You need an advocate. You need a government that is working for you and enforcing commonsense regulation. And building that capacity is critical and philanthropy has played a critical role as well as the federal government in some of the programs that we've funded.

As it relates to your question about data, it's a really important question. The HAMP program provides opportunities for us to collect that data. And I know that there are people in this room -- I'm looking at one who worked very, very hard during the design of the HAMP program to ensure data collection disaggregated by race and

ethnicity. We're expecting that data imminently -- and by imminently I'm talking about in a matter of days or weeks -- so that we can look at that data. And I have an acute appreciation for the history of HMDA and the relative ineffectualness of it prior to the "sunshine" amendments that enabled all of you in this room to get access to that data. And so we're working hard to make sure that we first of all have good data and then can analyze it. And not only the race data, but also looking at data on the age of the temporary mods and understanding why some temporary mods are not becoming permanent mods. That's a very complex picture, and it's a picture that I don't have the answer to.

There's another side, though, in addition to HAMP that we have to understand which is HAMP represents only a fraction -- it's an important fraction -- but there's the other side of private modifications. And we need to get a better handle -- and I will readily concede to you that we don't currently have a sufficiently robust handle on the world of private modifications and what's happening there. And so there's an understandable and appropriate focus on HAMP and how that program is working, and we will get that data and we will scrub that data and we will figure out what that data says and we will do our best to make that data readily accessible. But let's not lose sight of all the private modifications that aren't subject to HAMP. And we are working feverishly to identify strategies for enabling us to recognize what is going on there and what trends we can observe. Because again, my concern and my hypothesis -- and I'm prepared to concede it is a hypothesis -- is if you have discrimination in the origination context and discrimination is oftentimes a function of the fact that there's substantial discretion, and discretion in and of itself is not a bad thing, but discretion needs to be overseen rigorously because discretion whether it's prosecutors exercising prosecutorial discretion or a loan officer exercising discretion, oftentimes leads to discrimination and so you've

got to be an aggressive monitor of that. And my hypothesis is that if there is similar discretion in the modification context, we need to have similar internal mechanisms in place and similar oversight mechanisms in place, whether it's a HAMP modification or whether it's a non-HAMP modification, to ensure that fair lending concepts and principles are being adhered to.

MR. KATZ: Any other questions? Let me end with this question, Tom, because we're going to hear from Jim. And obviously Cleveland, we've got Detroit, maybe we'll get Buffalo, I don't know. But, you know, my sense, going back to some of the original remarks, is this is going to be with us for a while. It's almost like what we have in a subset of the affected communities is the equivalent of a natural disaster. I mean, we wiped out basically two decades of progress. So that's why it was so heartening to hear you talk about at the beginning the sort of separation of here are tools that can respond to where discrimination has occurred, here are signals to the marketplace, but then we have to talk about broader tools and remedies. I'm beginning to think about -- let's, you know, put political reality aside for a second -- two kinds of questions. One, do you think because like many Administration officials, you have been around the country. Do you think the extent of the devastation is fully understood? We occasionally will get an article about a Memphis. We'll occasionally get an article about another affected community, but do you think that there's a broad understanding of not just how individual lives have been disrupted, but how whole communities have been devastated? That's A, and then B, do you get a sense of, as we sort of move to the perspective and we move to the rebuild, whether there are several either programmatic responses that are government led, or perhaps different kinds of public/private partnerships that are being offered up both to help credit-constrained individuals and families begin to move forward in a constructive way or the harder issue about whole

neighborhoods and communities beginning to find economic function and purpose again? So I do think, though, that the programmatic probably follows the para-programmatic. Is there recognition that what we have here is a persistent challenge that requires a different kind of set of tools going forward?

MR. PEREZ: I think it probably depends on what part of the country you're in and where you have a more acute effect, you have recognition that there is indeed a problem. When I first started with Governor O'Malley in 2007, we were doing a lot of cases involving what was known as "equity stripping," unscrupulous people who come to your home. You've got $90 thousand in equity and they tell you that they're going to refinance and you're going to all of a sudden be rich and they zap your equity. Well, we're not doing any of those cases anymore because all of the equity has been stripped and everybody's underwater, or one quarter of the people are underwater -- I shouldn't overstate it -- but you see that evolution. And in those communities -- if you go to Prince Georges County, Maryland, where I have spent a lot of time; I've done a number of town hall meetings there with the Governor and with leadership in that community. There is an absolutely acute recognition. What we have to do a better job of it seems to me is to educate homeowners who are not in the soup that this problem affects them because I do hear somewhat frequently this notion that, "Well, they were stupid," and that sort of blame-the-victim thing. And, you know, in many cases -- this is really a crisis about bad things happening to good people that didn't have to happen to good people. And it's really -- I spent a lot of time as a local elected official explaining to people that, "Your property values are going to go down if we don't address this. So this is why it's in your enlightened self interest to care, you know, put aside the humanity and, you know, we are all one and all that stuff. Put it aside. This is about your economic bottom line." And the studies overwhelmingly document the effect of even one

foreclosure. There's a study in Chicago that documents, you know, one house that's in foreclosure in a neighborhood can decrease the value of all houses about 1 percent. So if you have 20 houses in foreclosure in that neighborhood, do the math. And so we do have to do a better job of educating people who are not in imminent risk, and we said there were one in four who were. Well, there are three in four who are not. But there are four in four who should care about the problem. And you can't solve a problem until there's a mutual recognition that this is a problem that affects me. That's the world of politics and that's the world of the political process. And so that is -- that's I think the first part of your question.

I am firmly of the belief that we're going to need to move forward on multiple and parallel and unprecedented coordination tracks to really solve this problem. This is not a problem that government alone can solve, but this is a problem that government, the private sector, philanthropy, everybody coming together can solve. And I think -- and again, I go back to this meeting I had a week ago with a large lending institution. There is again a recognition now that wasn't there five years ago, that we're all in this together, that regulation is no longer a four-letter word. Because what happened was, you know, the bad money, the bad actors forced on some levels some of the good actors to do bad things because their shareholders were saying, "Hey, you know, these folks are making a ton of money on these 228s. Why aren't you doing that?" And so you get into them, and some institutions got into them kind of at the end and it was the worst of all worlds because they got tarred with that. They shouldn't have done it, but, you know when you see such easy money being made, you sometimes get short term in your focus. So there is no way that government alone can solve this problem, and that's why I get back to what I learned in transition and what the President said in transition which was, "We need a new era of absolutely unprecedented partnership and

collaboration." And it's hard work. I mean, just getting one department to work together is often a challenge. And getting multiple departments to work together and multiple departments to work together with states and with private attorneys general and with Fortune 100 companies, it's very challenging. But I'm seeing evidence of progress, and that's why, again, I'm chronically optimistic that we can do this.

But we have -- it's easy for me to say that this is a long-term venture and we have to be patient. It is of no moment for the family that's 72 hours away from losing their home. That's not what they want to hear, and I don't blame them in the least. And so we have an unrelenting sense of urgency in the work that we do. And the good news is that we've helped more people than ever before. I mean, we've helped about 1 million people in the HAMP program. That's good news. The bad news is there's more people than ever before that need our help and that's the challenge that lies ahead.

MR. KATZ: Well, I want to thank you for coming here today. And just to go back to the prior remarks, you are the right person for this job. And, you know, and so, you know, there may be someone out there who says, "Was he able to hold a job?" Thank God you had all these different jobs because it's that kind of multidimensional thinking and the ability to understand in a federalist way national government, states, localities, private sector, how to really make this work. So, thank you for coming today.

We're now going to shift to the panel. I'm going to ask the panel to move up, and as we're moving up, I'm going to introduce Ken Zimmerman who's going to moderate the panel. And so to continue the conspiracy, Ken was part of the transition team during the Obama Administration. And then after the Inauguration, also went into the Department of Housing and Urban Development to serve as a senior advisor to Secretary Donovan. As you can see in the biography, a long history of expertise in the fair housing and fair lending arena, but also his most prior position before returning to his

law firm was to be the Counsel to Governor Corzine in New Jersey. Anyone who can survive New Jersey can basically tackle the problems of this nation. With that I'll leave it to Ken.

MR. ZIMMERMAN: Thanks, Bruce, thanks, Tom, and thanks to Brookings for this opportunity to have an exceedingly important and exceedingly timely conversation.

I want to just frame what we're going to be doing before I introduce the panelists. I think all of us have been at a number of sessions that are titled A Crisis is a Terrible Thing to Waste. In some respects, this provides another iteration of that conversation, but with, I think, two exceedingly important dimensions to it.

And the first is there's an immediate crisis whose scale and scope Tom laid out and that we'll expand upon at greater depth. And the sets of issues around fair lending, around the significance of the concentration in communities of color are critically important to keep in mind both in fact of what the consequences are and what the response can be, but equally so in terms of ensuring that there's not further victimization in the way in which programs that are intended to provide relief actually play out in practice.

The second part of the conversation though that we also want to have is talking about the remarkable point of time we're at when we're thinking about a remarking of the housing finance system. And as we do that, the sets of issues going forward about fair lending which writ large are how do we ensure that consistent, as Tom laid out, with safety and soundness, we're also ensuring that there's no either inadvertent or unintentional actions that place certain people particularly at risk? How do we think about those sets of issues when we're talking about at a time with reg reform on the Hill, the Consumer Financial Protection Agency about to emerge, that we are cognizant that there is a new day and age in which the same set of concerns need to be translated into the current period.

This is a tall order. I'm certainly glad we have experts who are going to answer both of those questions succinctly and immediately, and I expect in 45 to 50 minutes, everybody will come out with complete and total answers to those questions. Right, panel?

MR. PAYTON: Absolutely. Absolutely.

MR. ZIMMERMAN: We're all--

SPEAKER: Absolutely.

MR. ZIMMERMAN: With that, let me say that we're going to spend about 45 minutes with the discussion among these experts here and then open it up to questions for another 10 or 15 minutes before we all get out to find out what the score of the U.S.-Algeria soccer game was.

But, as I said, I mean, I'm absolutely delighted with the expertise that we have here on the panel. I'm not going to repeat everything that is in the bios that everybody received, but let me just briefly introduce folks.

Immediately next to me is John Payton, who's the sixth director of the NAACP Legal Defense Fund, preeminent civil rights lawyer and leader, but I'm not sure I would ever term his background or experience as somebody who was unable to hold a job, but, nonetheless, the array of experiences he's had from serving as corp counsel here in Washington, D.C., to being a partner at Covington and Burling (sic) --

MR. PAYTON: Wilmer, Wilmer.

MR. ZIMMERMAN: I'm sorry, Wilmer. Oh, my goodness.

(Laughter)

MR. ZIMMERMAN: I just committed a sin that will not be forgiven.

MR. PAYTON: That's all right.

MR. ZIMMERMAN: To actually litigating the University of Michigan affirmative action case including to the Supreme Court makes his preeminently qualified to participate and comment.

Next to John is Helen Kanovsky, who is Xav Briggs for those of you who were confused. Xav, I do want to say, was called away to the Gulf Coast, and had originally and very much hoped to participate. We're exceedingly fortunate and pleased that Helen is able to participate as the general counsel of the United States Department of Housing and Urban Development.

She oversees 600 employees and innumerable headaches that she is responsible for resolving. But her lengthy career in housing stemming from sitting on Capitol Hill to 13 years with the AFL-CIO Housing Investment Trust provides her not just with a specific post, but with in depth experience in the sets of issues we'll be discussing.

Next to Helen is Jim Rokakis, who is the treasurer for Cuyahoga County. I was amazed to find that he was elected to the city council in Cleveland when he was only 22, and has become from a somewhat unlikely post, a real leader and innovator in what the responses at the local level need to be, and we'll hear more from him.

Appropriately termed a passionate reformer, he's also clearly resilient, as indicated by the fact that he's a lifelong Cleveland Indians fan.

(Laughter)

MR. ZIMMERMAN: And then, finally, we have Mark Willis. Mark is currently at the Furman Center at NYU, and spent 19 years at J.P. Morgan Chase overseeing their community development activities. And, therefore, has a keen understanding both from inside a lending institution as well as from the distance that his academic post currently provides.

The significance of on the ground, how does one try to leverage appropriate policy change and ensure that one helps both in the rebuilding process without inadvertent and negative consequences.

With that, I'd actually like to open up the conversation by asking Jim to comment from your perspective on the ground. I'm really building on Bruce's question to Tom. How you would describe the crisis and the extent to which from what in many respects is ground zero of Cleveland how it should be appropriately conceived at this point in time.

MR. ROKAKIS: Well, I'll tell you the view from the ground when we hit the ground because we're still falling, and people keep asking when is this over, and in weak market cities like Cleveland, nobody really knows. The impact on Cleveland has been probably more devastating than other communities in the country. I know we're no longer even in the top 25, but Cleveland lead the country in foreclosures between 2000 and 2006.

In fact, we went to the Federal Reserve Bank of Cleveland in December of 2000, asking for help because we lead the country at that point. We realized there was something going on that we felt had potentially disastrous consequences. Our last year when we lead the country in foreclosures was 2006. We had about 13,500 foreclosures, and, as you know, the bubble burst in the fourth quarter, but we continued to go up.

We had about 14,000 foreclosures each of the past 3 years, and the impact has been -- let's start with Cleveland's population, 473,000 in the 2000 census. There's a big debate as to how low Cleveland can go, but there is some demographers who think Cleveland will be at 325,000 people in the 2010 census, which I think will be the largest percentage decline of any urban area in the 220-year history of the census. There are about 40,000 vacant properties in the county. Twenty thousand probably should have been torn down yesterday morning.

As the tax collector, see this thing from a whole thing from another perspective because I also chair something called the Board of Revision, where people come in and appeal their property values. Property values have plummeted not only in the city, where, by the way, half of all sales last year were sheriff sales in the City of Cleveland, but they've now plummeted in the inner ring suburbs, and there's kind of a chaos in the real estate picture that it's unlike anything anybody has ever seen. Houses are selling for a fraction of what the auditor says they are not just in Cleveland, but in the inner ring suburbs.

I have a secretary who inherited a home in Cleveland Heights, a very nice suburb. Struggling with over 1,000 vacant properties now to the east of Cleveland. It was on the books for $120,000. She's had it on the market for seven months. It's down to 50, and the only offer she's received is $20,000, and it's a couple blocks from a very nice area called Cedar Lee, a nice area of Cleveland Heights. So, my point is that it's been cataclysmic on this city, but it's now moved from the city to the inner ring suburbs. It's unsettled it, and we'll have the full impact won't be felt on the governmental revenue side until we do what they call the septennial reappraisal in 2012, where the auditor is going to be faced with the unpleasant task of really coming up with realistic real estate values in Cuyahoga County.

So, I have to tell you that I was intrigued by today's panel because geez, I haven't been thinking about civil rights much lately; I've been thinking about other issues like how we try to dig ourselves out of what appears to be really an impossible situation.

MR. ZIMMERMAN: John, did you want to add?

MR. PAYTON: I guess I think that I want to add sort of how we got here and describe where we are in talking about African-American and other ethnic communities in this situation and what Tom was talking about earlier because it didn't start with the

subprime and the lending crisis, and that has been exacerbated by what happened before, but if we don't take account of what happened, and I'm talking about race.

Decades ago, we had segregated housing markets that were not about voluntary associations like moving to P.G. County, we had laws that required people to live there or over there that were enforced by the Federal Government and by state and by local customs that were quite rigid, and the effect of that was to have completely different housing markets, and when you do that, it has an impact on what the value of the property is, and it creates communities that are just there to be preyed upon. And we've seen communities just get preyed upon.

This had another consequence, which I think is reflected in the Cleveland story. We make progress, and 50 years ago, 60 years ago, we say housing discrimination (inaudible) *Shelley v. Kraemer*. We say a school segregation's unlawful, *Brown v. Board of Education*, and I think at the time, people thought that was going to lead to a time right now when we'd be talking about a completely different set of problems.

And what we then saw was essentially an evacuation of the cities. An evacuation of the cities. So, the flight from Cleveland happens decades ago beginning, and it's every city has seen flight from the cities. We saw white people simply move out of the cities.

That has had unbelievable consequences in the property values and in the health of the community. You can't just fix the housing problem and think you have a healthy community because when you have the flight from the cities, you have the jobs go, you have the tax base go, you have the schools collapse, and now you have an unhealthy city.

So, part of this is we have to think about how we make these healthier cities. On top of this, we know have a subprime crisis and a lending crisis. But it preyed on

what I just described. This is the American ideal; everybody ought to own a home. There's now a lot of pushback about whether that was or wasn't a good idea, whether it is or isn't a good idea. Set that aside. That was the American ideal, and it was marketed as the American ideal.

We have institutions in place. Fannie Mae exists to actually make that come about. So, we then subsidize the interest payments because you can deduct them, we then subsidize the mortgage costs; that's what Fannie and Freddie do, and then in the middle of all that, it turns out that maybe a majority of the black and Latino families that ought to have prime loans have subprime loans. Right? That means they have to pay more, so, the cost of their home went up dramatically and unfairly. Okay.

We now have an economic crisis; they now are now in trouble of being able to meet any of those payments, and we get this desolation that you've heard, and it's desolation. This is a catastrophe.

Here is my larger question, I guess. I've described a problem that is our society's problem. Tom says all homeowners ought to worry about that. The whole country ought to worry about this. It's created unhealthy communities. If what I described is even close to being the model that fits all over the country, then part of this solution has to be more structural; why are we still talking about loans that should not have been subprime, remaining subprime? Why are we having that discussion? Why aren't we saying we want Treasury here, FDIC here, bring them up on the stage? Why aren't we saying we want to put in place something that converts those loans back to prime loans?

We still have to figure out how people can make those payments, but if we've concluded that, in fact, those shouldn't have been subprime loans, if the majority of the people who got the subprime loans were preyed upon or even a significant percentage, we need a structural solution, and the structural solution can't come out of just the cities and

even out of the civil rights division or out of civil rights out of human rights law firms or out of the private sector; we need other major players in this because one thing we have learned, this problem is incredibly complex. Where's the paper? Who owns it? What's the servicing agent? What is the bank's role in this? Treasury, FDIC have to play some role in this because we need a structural solution going forward to bring back some health to the communities.

This isn't a crisis; these are catastrophic conditions that will plague us going forward for decades if we don't put in place something that I would say is structural right now, and we have to imagine the structural solution. We have to have fair lending, all of that, we have to do all of those things. Absolutely right, but to solve this, we have to see a solution that is bigger than sort of one by one by one.

We need to rollback the sub-primes, we have to figure out how you make people to be able to make those payments; we've got to have some relief when people are suffering because they're out of jobs. If we think we want those communities to come back to some health, this is not a little problem; it does affect the entire country because we all know, two years ago, it took the entire country down or right on the edge here. We've got to figure out a structural solution that brings this back to the possibility of seeing help going forward.

MR. ZIMMERMAN: Mark, can you pick up on this? You knew I was going to be asking you about it. Both in terms of talking about the significance of what John is really raising about this being a pivot point in terms of looking at housing finance structure, I think, both going forward and going back, but, also, Jim was talking about from the perspective of Cleveland, and John laid out a dynamic that certainly applies to Cleveland, but, obviously, different communities across the country, there are different ways in which

they are affected by this. Fresno and Cleveland are probably than L.A. and New York, where you're from.

MR. WILLIS: Right. I was smiling not because I thought that I would be asked the question, because we're now into such a broad discussion here and appropriately so. It may be appropriate to break this up into some pieces here.

So, let me just try to start down that road. So, one of which is whatever happened here in terms of people being preyed upon and toxic products, because I would divide sub-prime into -- I use a narrower term here, toxic products, the ones that have exploding rates and when people signed up at one rate and then found out they were going to pay another, et cetera. That needs to be dealt with going forward.

We don't need any more people in that, and I think the Consumer Financial Protection Bureau could go a long way to that. I think there obviously is a role, and thank you for your remarks, John. Obviously a role in terms of the fair lending laws, et cetera, but basically, we need to make sure there are not bad products out there; we need to make sure there isn't a whole segment of the mortgage business that is loosely regulated if not non-regulated, as we had before.

I think this race to the bottom that Tom referred to obviously lent more to this bubble that we might otherwise have had. I don't think fair lending alone would have prevented the bubble. Hopefully, some of these others will delay the next one. I mean, our economy is prone to this, to having bubbles, but we don't need to have them every couple of years, and certainly not in the way this one was devastated.

I would just point out because I am from New York, in New York we always talk about it being exceptional, and the point here only to make is that in the 1970s, people thought New York was gone, and they talked about shutting down whole neighborhoods and stuff, and the city has been basically rebuilt, its population is growing. We don't have the

same problems that some other cities do, and I think it's worth thinking about this problem as a little different than Cleveland and Detroit, where the basic economy has structural problems, needs to somehow stabilize itself, and then, in the middle of this, to throw this housing crisis on top of it; it's just incredibly devastating. Because what we found is the sub-prime was bad enough and people were overpaying and maybe some people were victimized. As I often say, there were lots of blame to go around here.

And, so, the issue is how do we fix that? But when that created a recession that is truly devastating because a lot of people cannot pay their mortgages. If you're in the counseling business, as I know some people in the audience are, most of the calls now are from people who don't have the resources to even pay whatever mortgage, even if they had a fixed rate prime mortgage. And, so, and we, as a society, haven't sort of come around to helping that group in the same way and starting to talk about some ideas in the Pennsylvania Program and some others, but they are pretty limited. If somebody can't pay their mortgage, what should we be doing as a society?

So, there's a lot more to go on here, but those are just some of the pieces, as --

MR. ZIMMERMAN: I mean, you mentioned in New York that it's come back.

MR. WILLIS: Right.

MR. ZIMMERMAN: Can you expand a little bit about the difference, in your view, between what's occurring in weak market communities and stronger market or mixed market communities and what the significance is for the potential --

MR. WILLIS: You talked about my role in community development, so, I have watched for a long time, and, in fact, I worked for the City of New York in the mid-80s when we started to rebuild neighborhoods.

It's very hard to rebuild neighborhoods against the backdrop where the economy is weak. So, in New York, a lot of harm to individual people, the neighborhoods, many of them. Some of them, relatively few, have such a high level of turnover, so, it's hurting the neighborhood, but in other cases, there are actually more people want to buy. Ironically here, the housing is now cheaper, interest rates are now very affordable, but these neighborhoods are probably going to do all right. Individuals have been very hurt, they are hurt, and getting them help is obviously a part of what the legal system should be focusing on.

But it's very different than it is in Cleveland or Detroit, where that building will become abandoned, could be vandalized. You need to do something. Land banking. I know no city has tried more and harder than Cleveland over a long period of time to help deal with the economic decline. So, the problems in New York are very different. I mean, really for first-time home buyer counseling sessions, they're booming.

So, it's in terms of the impact on the neighborhood and the community, it's going to be very different or is already very different than it is in other communities. For individuals who got mortgages they couldn't afford or have lost their job, and there are plenty of those, it still is devastating. But that's the difference between the two communities.

MR. PAYTON: But, look, don't miss this point, I think New York is quite unique. It's an island, it has fixed real estate, and go around the country, you will see what I described. It's not just Cleveland, it's Baltimore, it's Washington, D.C., it's Atlanta, it's Los Angeles, you see what I described, and you see devastated communities. They have stronger and weaker economies, which gives them different possibilities about how to deal with this, but they are dealing with this problem that is really extraordinary.

New York has a very high number of renters, and in a terrible market, actually, renters come out looking really good because the rents go down. So, actually, New York

has some unique features that don't actually track to other places. New York did have the demographic shift that I described. It happened in the same timeframe. New York used to be overwhelmingly a white city. It is not anymore. It's going through some of those changes, and its schools are suffering from the same problems I described. Exactly the same problems I described.

So, I'm just saying take a look at what is driving this. There is race in some of this. we don't like talking about it, but we have to talk about it, and it presents differently in some of our localities, but in most of the localities, it creates a catastrophic situation that has structural roots that go deep into what we're doing, and we have to look at those roots or we will do something that doesn't actually have lasting value here. We've got to deal with the root problem here.

MR. ZIMMERMAN: Helen, Tom, obviously, in his remarks, did talk about the role of HUD in terms of the response. I wonder if you want to pick up on some of Tom's comments and give some of your thoughts about both what the strengths of the response are to date, but to the extent that you can identify areas that you think need to be made more robust, keeping in mind John's point about the concern as to the need for scale of response that's equivalent to both the problem and its history.

MS. KANOVSKY: Well, and that's true, and it is always a problem of scale and a problem of cost. I mean, we have addressed this in a variety of different ways. We have our Neighborhood Stabilization Program, our Neighborhood Stabilization II Program, and a whole variety of efforts using Recovery Act money and other funds. But that's to deal with the immediate issue as best we can, the immediate issue of people losing their homes, the immediate issue of neighborhoods being under tremendous stress due to foreclosure, and I think you have to separate out what we can do right now with the funds we have, with the programs that we have, to try to address the immediate needs of as many individuals as

we can with the structural issues that John is talking about, which is a very, very different task, and I don't think you can mix the two up because, otherwise, you really don't make progress either way.

I think what he's talking about is what do you do when basically the issue that you're dealing with was created many decades ago? I mean, to be fair, FHA was a major player in helping create this exact problem. Many, many decades ago, but still. And, so, the question is: How do we take where we are now with respect to race and where people live, where they have been put in terms of being the victims of predatory lending, and how do we take that and bring it to a different place, to a better place at the same time that we're dealing with this huge housing crisis, which affects people quite independent of race?

And maybe this is another crisis which presents an opportunity that we shouldn't miss because we are actually now in the process of figuring out what the role of the Federal Government and housing finance should be, what the role of Fannie and Freddie or the successors to Fannie and Freddie ought to look like. We think very hard about what the role of FHA should be. FHA now went from 3 percent of the market on the single family side to more than 30 percent of the market, and Fannie, Freddie, and FHA are now over 90 percent of the single family market. So, if you're talking about single family mortgage finance, you're talking about either a government program or a program from those that are in the custody of the government.

So, this is the time now to think about this and really figure out what we want to do in housing finance, what we want to do respect to what we have all collectively as a society inherited in terms of where we are with respect to race and housing finance, and how we can structure it going forward?

Now, the one thing that we need to be very, very aware of, and I think probably everybody on this panel is, is that there is a huge role for the private sector, and,

ultimately, the government will recede with respect to its role in housing finance. FHA will not be 30 percent of the market indefinitely, and that's not really where it belongs. How much of the single family mortgage market will be Fannie-Freddie-like remains to be seen, but the private sector will come back and be a huge part of it, and how we regulate that, how we control that not just in terms of predatory lending and other financial issues, but how we ensure that all of it is viewed with the principles of fair lending and fair housing is critical, and, fortunately, with Tom and his team and other people, we've got the right people thinking about hit, we just need to come to some conclusions and begin to implement it.

MR. ZIMMERMAN: Ken, you had talked earlier -- in our cheat sheet, you put together for us some of the things you might talk about. We talked about long, short-term solutions. Short-term, we have to stop the foreclosures. I know that sounds really simplistic, but, I mean, trying to clean up a mess in cities like Cleveland, Detroit, and other cities around the country when we don't -- I guess it reminds me of the Gulf. Horrible metaphor, but you can talk about cleanup, but until you stop that pipe from spewing what it's spewing, you're wasting your time.

And we have a foreclosure (inaudible) program we started in our office in April of 2006. We've done about 6,000 loan mods. For every loan mod we do, there are 8 more new foreclosures filed.

We have to find a way, and, for me, the one tool that we don't have -- I speak to my housing counselors on a weekly basis. We've got to find a way to bring the principle balance of these mortgages down. I know the Durbin bill has stalled on bankruptcy, and I know there have been attempts to address it, but in weak-market cities, I am telling you that mortgages are underwater by a lot. I'm not talking 15, 20 percent.

We're about to release a study we did in conjunction with Cleveland State that will show that in many neighborhoods in Cleveland, mortgages are underwater by at

least 200 percent. It's very difficult to tell somebody to stay and work out a loan mod when the reality is that that loan mod means they're going to be paying on a house that's not worth anywhere near what -- so, what do we do? And don't talk about moral hazards with me. I've heard a lot of those discussions.

So, do we tell those folks pay the mortgage? They're not going to listen to me. They leave. But if we're about to work out a principle loan reduction breakdown of the mortgage, chances are they'd stay, at least for some period of time and stabilize the neighborhood. But we don't do that. So, we end up evicting, they end up being forced out of the home, and some really enterprising criminals in Cleveland follow the eviction list because they're online, and every day, they see who's being evicted in the morning, and, by the next day, 24 hours later, anything of value in the house is gone.

So, we have to find a way to stop the foreclosures, and I think if we could find a way to deal with this issue of principle balance breakdowns, it would be a huge tool in our arsenal, but we don't have it, so, we continue to struggle, and I'm sad to say HAMP has not worked well in Ohio. I think we rank 46th or 47th in terms of work outs. I find that when you go to the lending industry and you try to do things that are voluntary, we struggle.

And, so, short-term, we have to find a way to shut this pipe off, and, until then, we're just going to continue to see the problems exacerbate.

MR. ROKAKIS: Well, unfortunately, there is a way in which the Gulf analogy makes sense, that we're required to do multiple things at the same time. I mean, the CRL study that came out to 2.5 million foreclosures already; another 5.7 million at risk. The idea that we haven't seen the bottom, as you've started out, I think is a very salient point, as we think about what the response needs to be. And the issue of principle write down in terms of making HAMP effective is obviously --

SPEAKER: Their losses are going to be realized sooner or later anyway.

MR. ZIMMERMAN: One of the questions, and, Mark, if you'd comment on it, I mean, papers that have been written suggest that foreclosure is not an economically rational response by the lending industry at the end of the day, and, yet, we're obviously seeing foreclosures at a rate that is unprecedented in significant respects.

Can you comment a little as to why that is and your thoughts as to what should be done, building on Jim's point about principle write down as a key element?

MR. WILLIS: Yes, well, he doesn't want to talk about moral hazard. I'm happy not to, but that's a big issue here, and we should just at least admit that it exists out there, and a lot of people feel I pay $200, I'll just pick a number, $200,000, but $200 for my house. So did my neighbor. Their mortgage is in trouble. Now they're going to get their mortgage reduced from the 150 we both took out as a mortgage down to 100 or 50. What does that do? And I don't have the answer to that, but I think we have to admit that that's been a problem, and it's nice to say we're all in this together, but a lot of people feel it's their problem. And I didn't take out that mortgage. So, we could have this conversation.

The other problem is there was this whole private, unregulated part of the market. We often refer to those, private label securities, these sub-prime, as was pointed out here, some of them focused on certain neighborhoods and certain communities, and then they securitize, that is they sold these mortgages and that were put into securities with a whole variety of rules, right? And, yet, we have only a few companies dominate the servicing of these mortgages for these pools.

And, so, what were the rules? We just spent months on that, right? And I think there's still a lot of uncertainty and threats of lawsuits, et cetera. The government was very helpful here. I think particularly in getting Fannie and Freddie to say here's what these things means, and, hopefully, that will be a defense when these court cases come down, and, so, services were a little bit free.

The other services, historically what you do if you have a loan that's somebody's not paying, the property is still worth a lot. So, you say look, you want to stay in here, you got to still pay me back. So, they come up with a repayment schedule or we'll forbear for a couple of months. All those ways of doing it don't really make sense in this. There's a totally different event happening, and I think it's still taking the service companies a very long time to staff up. I'm not making excuses, but the staff had to change this whole culture about what "loss mitigation" is really about.

SPEAKER: And --

MR. WILLIS: I'm sorry, just one more piece. In these securities, the payments are scheduled into traunches. People have different priorities. So, some people would actually prefer that the mortgage be foreclosed, others in there do not want it foreclosed, so, you have all these varying interests because of how complicated these securities are as to how they'd like the problem solved because it'll affect their income stream of their particular traunch.

So, we've done ourselves a lot of damage. Hopefully, going forward, we will get away from a lot of this.

MR. ZIMMERMAN: Helen, did you want to --

MS. KANOVSKY: Well, I wanted to agree in part with what you said, but also add some additional factors because the people who actually now are responsible for doing loss mitigation are the servicers. This is a highly-concentrated industry right now. But it also was for many, many years a highly-profitable industry because these are people who took a little bit of money every month and all they did was take your mortgage check --

SPEAKER: (Inaudible.)

MS. KANOVSKY: Right. Put in (inaudible) right.

SPEAKER: Absolutely right.

MS. KANOVSKY: And then send it out to the investors. Consequently, that was all they were staffed to do.

MR. PAYTON: Correct.

MS. KANOVSKY: And they made lots and lots of money. I used to work for one when I worked for GE Capital, so, I do know the business world.

MR. PAYTON: Yes. Yes.

MS. KANOVSKY: And now, all of a sudden, not only are they not profitable, but we, the Federal Government, are telling them you need to go out and hire all these people, do this loss mitigation, figure out how to redo all of these loans, and they're looking at us like and with what money?

MR. PAYTON: And advance payments, the way this works.

MS. KANOVSKY: Right.

MR. WILLIS: While the mortgage is being modified --

MS. KANOVSKY: So, I mean, I wish I had an answer. Certainly, the answer going forward is this is not a continuing, sustainable structure.

MR. WILLIS: Right.

MS. KANOVSKY: And the structure of the mortgage industry has got to be very different as it begins to be put back together again, not just in the security side and all the traunching that went on and the fact that some people actually got the late payment so that early on when we were talking about how to get loans out of these securities and be able to work with people, those servicers wouldn't even waive the late payment because that belonged to a different investor who owned the actual mortgage payment.

That's not a structure that we can permit to be replicated.

MR. ZIMMERMAN: I do want to open it up in a moment to questions from the audience, but what I'd like to do is give each of the panelists one final thought before we

open it up to questions. Keeping in mind that the questions that we're asking today are obviously not ones that are susceptible to simple answers, but to some extent, Tom's address, I think, opened the opportunity to say what is the most critical area both in terms of addressing what the housing finance market might be or what the need for the immediate response should be, and the particular thought that you have about what either the question should be or if you have a thought as to what the answer should be, that's welcome, as well. And then we'll open it up to questions from the audience.

John?

MR. PAYTON: Well, I think, going forward, it's easier to think through what mechanisms you'd want to put in place so that this doesn't happen again. I think we can all see how that would work. More effective enforcement, more accountability, but I think the problem we're facing is where we are right now, and we've got to fix this problem. It's too late for the 10s of millions of people who are in catastrophic circumstances to fix lending rules going forward. I hear the moral hazard. We've all been, I'd say, inundated with the discussion about moral hazard.

And to take the example of Cleveland, the hazard for the person who has paid off their mortgage and feels some resentment about someone across the street or next-door who's about to get a break, the alternative is that there's either no one there or the person who's there paid $10,000 for the house. Who do you want to be your neighbor? And there's another hazard here. I hear the point about what do you do about renegotiating principle? That's why the suggestion I made modest is why not convert the sub-primes to prime? There's no moral hazard in that suggestion. There's just no moral hazard in there. No one's going to say why, how dare you; you ought to be sub-prime.

(Laughter)

MR. PAYTON: But I think the other point that I think comes out of this, I'm a human rights law firm. We bring lawsuits. We've involved in one right now which we're trying to resolve about housing. And we all want to think beyond litigation because I don't think anyone thinks litigation is the way you can resolve all of this, not that there can't be litigation; that's important, but my point about who's not on this panel, I think, was a big point.

I've been in meetings with Treasury and FDIC. I've been in meetings where the discussion about the servicers comes up when we're talking to the banks and we say could the banks get the servicers around this table, and the answer is yes. If we could get the right people -- I've left some out, but if we can get the right people around the table, we need to have, I'd say, that group of interested and powerful parties to sit around so that we can think out what the structural possibilities are here. If we don't think this out, it won't happen. We've got to think out the structural possibilities. We are in precipice here.

You say Cleveland is still falling. This is much more catastrophic than where we are right now. We're running the risk of cities that have enormous vacancy rates in their housing stock. That is a nightmare scenario out there, and we've got to figure out how we get ourselves organized to deal with that.

MR. ZIMMERMAN: Helen?

MS. KANOVSKY: I think it probably is worth saying that this is the very first recession we have had that housing has led us into it. And that since the Great Depression, this is the first nationwide housing recession that the country has experienced. So, that tells us that there's something very special going on here with respect to housing and housing finance, and we need to deal with all of the problems and all of the pain that that has created, and we will attempt to do that as best we can through enforcement, through the targeting of resources, and then we have to face the fact that our greater impact is going to

be how we ensure that we don't come here again and how we deal with the problems of structuring the housing finance market so that we can avoid not just this catastrophic problem, but so that we can avoid replicating all of the fair housing and fair lending issues that we have calcified into that current situation.

And, so, we have really two tracks to go on, and they're both very, very hard to do. But that's where we are, and that's what we're going to do.

MR. ZIMMERMAN: Jim?

MR. ROKAKIS: I never got to it, but yesterday was the one-year anniversary of the creation of the most aggressive land bank in the country, which is the land bank in Cuyahoga County. The government's going to have to play a role in so many areas. I agree with you. We need structure. We know how we got into this mess. Shame on us if we don't make sure this never happens again. Shame on us.

And I felt badly for this president, who seems to be unable to catch a break, and I hate to keep looking to you and saying there's more thing you have to do. One more impossible task you have to take on.

But I think that in rustbelt cities like Cleveland, I know you've heard the phrase before, it's kind of urban marshal plan for cities that are so distressed, you have no idea what we're facing. So, the land bank is one effort. We've had some great progress, have had a great groundbreaking agreement with Fannie Mae, who is transferring all of their low-value properties to us instead of dumping them off to the investors with a check for demolition, I might add. We'll see how long that lasts. But we're in the process of crafting a deal with Wells Fargo.

There are a lot of things we're doing, but there is a role for government in helping to rebuild some of these weaker rustbelt, weak-market cities, and I think we're just

going to have to assume that we can't do it (inaudible) we'll continue to need help from places like Washington.

MR. ZIMMERMAN: Mark?

MR. WILLIS: So, I'll make a couple of quick observations. One is there isn't one solution here, and New York's an exception, I'll agree (inaudible) spectrum, but principle reduction may make sense in Cleveland with properties of little value, and that's a very different world, and maybe even mix in those sand states, as we refer to them. It may not make sense elsewhere, and I think that's part of the reason we have so much trouble with this, because we're trying to come up with one solution and say this is going to be everyplace.

And just as a footnote here, as I recall, when originally the sub-prime crisis started over these, as I describe them, toxic products, a number of the services did fix the rates at the initial level, they did turn them into prime loans, and people still had trouble in large part as the recession developed.

So, there is no magic bullet there. I wish there were, and I certainly would agree there's more that can be done.

I want to come back to one really important point. Tom mentioned this case about AIG, and you may recall Long Beach many years ago on a similar sort of issue here. And here, I'll just wear my hat as being in a bank. If the rules are not uniform for everyone, it's very hard for you to go out and enforce what your agents do. So, brokers are out there. If you want to tell them you can only give us loans under certain circumstances, they're just going to go to somebody else, right? And that is the kind of competition we had about brokers.

So, I won't say can't do anything, but the more you do, the less they're going to be treated as agents, the more likely you're going to be sued, and if there are no

rules about this, then it's going to be very hard to expect the private sector to take the initiative, one bank going out there and saying we'll do something.

Some people will remember and I'm not remembering Citibank was asked, and they went and tried something. I can remember. Capping fees or something, and within three months, everybody agreed it hadn't worked because they were just losing business. They weren't changing the market out there.

So, regulation and there are certain basic principles that probably need to be established out there. CFPB I think can help do that. I assume litigation can also (inaudible). I mean, we can sit here and talk about disparity impact. Until it's real, it's going to be very hard for a bank to go oh, well, what institution, whether it's a bank or others, to go and be the leader in that case.

MR. ZIMMERMAN: Well, let me open it up to questions and comments. Tom, I'm giving you (inaudible). I don't know if there's a specific question you want to start off with or wait until you hear the folks in the audience.

If you can just identify yourself first, that'd be great.

MR. AITCHESON: Yes, my name's Eddie Aitcheson. I'm president of the AFG Unit at HUD, representing 100 employees.

But when you talk about the right people, the U.S. social forum is now taking place in Detroit, and it's really over 10,000 people, and it's really interesting how many of the panels concern fair lending the rebuilding of communities, and I would hope that when we talk about right people, we include the real community people who have incredible ideas, and these are non-foundation-based, the participants are paying their own way. There's not philanthropy paying for this over 10,000 people working on this movement, and I hope we include the real grassroots in developing plans that will affect the grassroots.

SPEAKER: I agree.

MR. ZIMMERMAN: Marge?

MS. TURNER: I'm Marge Turner from the Urban Institute. Thank you.

And I just wanted to refocus the conversation a little bit on the civil rights dimension of the problem. That a big part of the reason that people of color are suffering disproportionately now is because of our history, as John said, not just of discrimination and dual housing markets, but segregation. So, I'm really interested in the willingness, the readiness of federal agencies to take on residential segregation as part of the going forward rebuilding communities' process.

MR. PAYTON: Obviously, I agree.

(Laughter)

MR. PAYTON: And it is sort of one of the systemic problems that we have to face up to as a country. The case that I said Helen and I are involved in, I think, is trying to grapple with responsibilities and solutions to exactly that kind of problem going forward, and I think we both hope that it turns into a model that can be used in other places. But it is clearly on all of our radar screens about how we come up with ongoing answers to the problem of race and segregated housing and how to make sure we come up with much healthier communities that aren't just about housing solutions, but more than housing solutions because that's how you get a lasting solution that has employment and opportunities involved in how you do that. So, I completely agree, and it's how we framed cases we bring.

MR. ZIMMERMAN: Mark?

MR. WILLIS: A footnote on that, obviously, extremely important, and I think highlighting the legacy, the history of America or in where we are, it is important. There was a study by the Federal Reserve Bank a couple years ago that looked at FICO scores, which are one of the major determinants of whether you are deemed to be a prime borrower or not.

And there are significant differences across race, even within the middle class. You take the middle class, African-American community of middle class, white community; there are differences in terms of the FICO scores. They are, on average, less, the distribution has less at the top, and that clearly has something to do with society and where we are today, and if we don't face up to that, I think it's going to be, again, very hard to expect changes to take place. So, I just think that's just another sort of fact to underline why that's so important (off mike.)

MR. ROKAKIS: There is one positive thing coming out of this mess in Cleveland, and that is good for Cleveland, but as the city empties and as real estate values plummet, we are finding communities previously segregated that are desegregating because buyers who have choice in the City of Cleveland can choose to spend a little bit of money and stay in the city or a little bit more and move to a suburb that previously had been unattainable because of price. So, it's interesting how that's the one -- there's something positive that's come out of this is the desegregation of some suburbs that previously had resisted.

MS. KANOVSKY: Well, and let me say in terms of what we're doing at HUD and what we're doing with Justice, there really isn't anything more important, and it (inaudible) everything that we do, whether we're talking about public housing or single-family housing or multi-family housing or community development, I mean, it is a preeminent value both as a moral value, but as a legal obligation as the secretary has already announced, actually finally got out the regulations with respect to furthering fair housing, and there, I think, you will see in writing what our commitment means. So, that's where we are.

MR. ZIMMERMAN: Janis?

Hi, my name is Janis Bowdler from National Council of La Raza.

So, Marge, thank you for your question because I had a very similar question, and I just want to drill down on this a little bit because it's not just the legacy of segregation that we have to worry about, but ongoing issues of re-segregation post foreclosure crisis.

So, Jim, I was actually going to ask you since you kicked off your conversation talking about Cleveland Heights and Shaker Heights, which ones had reputations of being two of the most integrated communities in the country, had very progressive policies to promote integration and prevent white flight. I mean, I was shocked. I know (inaudible) neighborhood. I actually used to live very close to there. The thought that some of those houses are going for $20,000, my jaw is still on the floor.

Is that destabilizing? Like are you seeing what was once a very integrated, middle-class community falling apart? What's happening there?

And then, for Helen, for the NSP Program, in particular, I'm wondering what HUD is doing to look for and make sure that as NSP money is being implemented, that it's not actually contributing to the re-segregation of communities because, while I'm not sure about the specifics of Cleveland, certainly in other areas, we're seeing that people's moves to ownership were their chance to move to opportunity, and, as they lose that, communities are starting to re-segregate a little bit.

MR. ROKAKIS: In the case of Cleveland and Shaker Heights, both communities, as you know, are very progressive, have had progressive leadership. They're struggling. And there's no doubt about it, there's over 1,000 vacant homes in Cleveland Heights. There are about 700 in Shaker Heights, which was once one of the finest suburbs in America. But we've been working very closely with both communities through our land bank.

Shaker has had some especially creative ideas in how to deal with some of these vacant properties. A lot of it is demotion, quite frankly. They're calling the housing stock, but I think both communities are holding on, and I'm optimistic for both communities. I think they will weather the storm, value will return to those neighborhoods, but, again, just a general real estate picture, it's so chaotic. It's going to take some time.

I saw the study in *Moody's* last year that said it would take 22 years for real estate values -- I don't know how they came up with that number -- to recapture their value in California, and I thought to myself how can somebody say that? But upon retrospection and looking at it a lot more closely, I think a generation, 20 years is about right.

MR. ZIMMERMAN: Helen, answer?

MS. KANOVSKY: Yes, I'm not aware of any data with respect to NSP that would show that. Certainly, those are things that we monitor pretty closely. And there are standards, there are rules, there are pre-existing structures that are supposed to ensure that, as the money flows through that program, that doesn't happen. So, if you're aware of some specific instances, let us know, and we'll look into it.

MR. PAYTON: I actually think we ought to look at what happens to the people, too. The houses, the homes, someone new may occupy them, but one of the impacts here is that the people that were occupying them who couldn't make their payments, who were foreclosed get swept away, and the point about wealth in Latino and African-American communities, it's not just that the wealth is concentrated in their homes; it's that it's very small. So, the relative wealth numbers are truly shocking. It is less than $10,000 of wealth versus give me the number, $40,000 of wealth.

SPEAKER: Forty, fifty, right?

MR. PAYTON: Right. And that means that people are on razor-thin edges, and when it goes below water, it means they have no wealth at all. And, therefore, when

they get swept away, they get literally just swept away. They can't take that nest egg and go somewhere else. They got swept out of their homes. Someone's going to be in the homes. Someone's going to be in the homes. Not them.

And the catastrophe I'm talking about is we have seen some modest gains in homeownership, middle-class lifestyles that are at risk here, extraordinary risk. When you go out and talk to communities, some people tell you how nervous they are; some people are lying because it's too scary.

I think we all saw a group of kids in California where they asked the kids if they knew when the mortgage payments were due, and every kid knew, and the parents thought they had kept that from them. Okay, this is really extraordinarily stressful and catastrophic, and we don't want people to get swept away. Someone's going to be in the housing stock. We'd rather keep as many of the people who are presently there as we can in the housing stock. That's what we'd like to do.

MR. ZIMMERMAN: Oh, I'm sorry, ma'am. Go ahead. Since the mike was already with you.

SPEAKER: Right, thank you.

Mr. Payton, you touched on this situation a couple of times in some of the statements that you've made, but I'm hoping the whole panel can address the impact and the role of investors in these communities that are being impacted by foreclosure.

MR. PAYTON: That was for the rest of you.

(Laughter)

MR. ZIMMERMAN: Jim?

MR. ROKAKIS: The investors in our community have been the biggest part of the problem. I open up all the e-mails in my office, and I get a lot of e-mails twice a year

when the tax bill goes out in December and when the tax bill goes out in June. I get all kinds of love letters.

(Laughter)

MR. ROKAKIS: What I have found just amazing, at the number of letters I have received from Europe, people who have purchased homes in Cleveland on eBay writing to complain about the property taxes.

MR. PAYTON: Wow.

SPEAKER: There's a new twist.

MR. ROKAKIS: I got an e-mail from a doctor in December, complaining about his property taxes, and he complained in particular about one of the homes because he had just learned that the home he purchased on eBay from a women in South Carolina for $12,000 had been demolished the week before. I called him. It was worth the long-distance charge to me.

(Laughter)

MR. ROKAKIS: He's a retired doctor outside of London, England, who said this was part of his retirement strategy. I just hope the rest of it wasn't (inaudible). I mean, think about that.

So, one of the things that I thought it was important the land bank do is get between us and the next round of predators, because we've really moved now into the second and third round. If there's any meat left on the bones, the vultures will come in.

Getting Fannie Mae to agree with us, to work with us has been important. We're working on this deal with Wells Fargo, working on one with -- we have to get between these communities and the next round. I'd much rather the land bank take possession, demolish the home, mothball it, whatever, but investors almost across the board have been a disaster.

In fact, I can't think of a good investor story, which is too bad, because if we could find a way to de-stigmatize tenancy, and I'm to blame. When I was a councilman in Cleveland, I always said we have to create more homeowners. We're all to blame. Right? I mean, we are, we are. But if we could find a way to create responsible class of investors and tenants who feel less of the stigma because they're not -- we could do that. I think there are wonderful opportunities. There are some marvelous old housing stock in our town that's going to waste.

MR. ZIMMERMAN: Last comment, and then I think we'll have to wrap-up.

MR. WILLIS: Investors sometimes are landlords, and sometimes have been responsible, and I just wanted to make that point, that if we can encourage the responsible ones, that would be a good thing here because we're always lambasting investor-owned properties as if everybody is a --

MR. ZIMMERMAN: Well, I do think, unfortunately, I have to wrap-up. I mean, what's clear is that we've only scratched the surface of something that is well wroth substantial attention.

There are three things that strike me that emerge as sort of overall themes, questions, topics for future discussion. I mean, one that was put on the table very bluntly is what is the role of race and ethnicity in the current crisis and what needs to be done to address it? Certainly, John's point about differentials, wealth, and what that means in terms of who can recover from foreclosure and who can't is a piece of that with the sets of issues around data collection about the ability to access that impact and going forward, ensures, as Helen pointed out, that our systems in housing finance in the future, especially with the Consumer Financial Protection Agency, provide a robust means of identifying with the future fair lending challenges are going to be and address that in advance, it seems to me, one set of issues.

And the second, as Jim very eloquently put it, the response of the immediate crisis needs to be first and foremost going forward. I mean, I was struck, I think it was Bruce's question that many times we have rhetoric that outpaces reality.

In some respect, it's the opposite right now. We have reality that's outstripping rhetoric, and the issue of how -- I mean, for those of us who have been in the housing field which never gathers national attention, how do we say the importance of housing has now been illustrated and the crisis that's emerged from housing affects everybody on a comprehensive level.

Clearly, we haven't done that, at least not as successfully as necessary, to indicate that the common interest enlightened or otherwise requires that kind of response. I mean, there's a whole set of programmatic responses. Jim's at the forefront of many of them. How one distinguishes between responsible investors and encourages responsible investment strategies as a means of rebuilding communities is worthy of a panel in and of itself.

And then the third set of issues I think is really in terms of looking to the future, given what the housing finance system is going to be matters still in evolution, obviously, but what is it going to take to anticipate the set of issues? How do the multiple actors work together? How do the incentives that exist in the system that have led to abuse in some circumstances be overcome without, at the same time, lessening some of the innovation and some of the expansion of credit that has also existed?

There's a lot to talk about here. I really want to ask you to join me in thanking Brookings and the panelists.

(Applause)

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

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