

SEPTEMBER **2011**

The Wall Street **WRECKING BALL**

What Foreclosures
Are Costing San Francisco
Neighborhoods





Alliance of Californians for Community Empowerment (ACCE) is a multi-racial, democratic, non-profit community organization building power in low to moderate income neighborhoods to stand and fight for social, economic and racial justice. ACCE has chapters in eleven counties across the State of California.



The California Reinvestment Coalition (CRC) advocates for fair and equal access to banking and other financial services for California's low-income communities and communities of color. CRC is a membership organization of over 300 nonprofits and public agencies including housing counselors, consumer advocates, community organizations, legal service providers, and economic development practitioners. Founded in 1986, CRC advocates with policymakers and California's largest banks for increased financial access- particularly in lending, financial products and services, and investments- to California's low-income communities and communities of color.

As Wall Street Banks continue to foreclose on our neighborhoods, the costs to taxpayers add up

Wall Street banks shattered our economy and left our communities to pick up the pieces.

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

The Picture in California:

- There have been 1.2 million foreclosures in the state since 2008, with the number expected to exceed 2 million by the end of 2012.ⁱ
- California is the hardest hit of all fifty states, accounting for one in every five foreclosures in the US.ⁱⁱ
- The 2 million foreclosures expected through 2012 are estimated to cost homeowners, property taxes, and local governments \$650 billion statewide.ⁱⁱⁱ
- Almost a third of California homeowners with a mortgage owe more on their mortgages than their homes are worth.^{iv}

San Francisco by the Numbers:

- **Foreclosures harm all homeowners:** Overall, San Francisco homeowners are estimated to lose \$6.9 billion in home values as a direct result of the foreclosure crisis.
- **Foreclosures erode the property tax base and impact services for all:** Property tax revenue losses are estimated to be \$42 million in the wake of the foreclosure crisis.
- **Foreclosures cost local governments:** The typical foreclosure costs local governments more than \$19,229 for increased costs of safety inspections, police and fire calls, and trash removal, and maintenance. In San Francisco, these costs are estimated to be \$73.4 million.
- **Foreclosures undermine an economic recovery and cost jobs:** San Francisco has 16,355 homeowners underwater by \$1.5 billion. If banks wrote down those mortgages, it could pump \$158 million into local economy and spur 2,349 jobs.

Top Banks Foreclosing in California

- Bank of America
- Wells Fargo Bank
- JP Morgan Chase
- Citigroup

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

Foreclosures harm the value of all homes within a neighborhood.

When a home falls into foreclosure, it affects the property value of the foreclosed home as well as the values of other homes in the neighborhood. It is estimated that homes in foreclosure experience a 22% decline in value.^v That means the impact of the 12,410 foreclosures estimated for the period 2008 through 2012 will be more than \$2.2 billion in lost home value in communities across San Francisco.^{vi}

But the impact to foreclosed properties is just the tip of the iceberg. It is conservatively estimated that each foreclosed property will cause the value of neighboring homes within an eighth of a mile to drop 0.9%.^{vii} In San Francisco, impacted homeowners could experience property devaluation of \$4.6 billion.^{viii}

A July 2011 Pew Research analysis found the median wealth among Hispanic households fell by 66% and among African-American households fell by 53% after the bursting of the housing market bubble in 2006 and the recession that followed.

Overall, San Francisco homeowners are estimated to lose \$6.9 billion in home values as a direct result of the foreclosure crisis. With lower home values, families have less home equity to use to fund retirement, pay tuition, grow their small businesses, or pay medical bills. For the average pre-retiree, at least two-thirds of their total assets are tied up in their home.^{ix}

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

As housing values decline, state and local governments also feel the burden. As property values drop an estimated \$6.9 billion, San Francisco communities could lose as much as \$42 million in property tax revenue.^x The reduction in property values has decimated the tax bases that support state and local budgets.

Foreclosures require increased police and other services, further draining public budgets.

Foreclosure-related costs for San Francisco local governments are estimated to be \$73.4 million.^{xi} Local government agencies have to spend money and staff time on blighted foreclosed properties, providing maintenance, inspections, trash removal, increased public safety calls, and other code enforcement services. For example, violent crime increases 2.33% for every 1% increase in foreclosures.^{xii} Additional foreclosure costs include sheriff evictions, providing transitional assistance and shelters, and other safety net support to families.

Responding to these needs is a gargantuan task that involves multiple agencies and multiple levels of local government. The costs to taxpayers add up very quickly to \$19,229 per foreclosure and potentially much higher.^{xiii} That means at a time when local governments are contemplating slashing services, they are also being asked to pick up the tab for cleaning up the banks' foreclosure mess.

A National League of Cities survey found that foreclosures and the declining housing market are among the leading causes of fiscal budget crises. As a result, cities are hard-pressed to pay for services like libraries, parks, police and fire.^{xiv}

A breakdown by zip code can be found in attached chart.

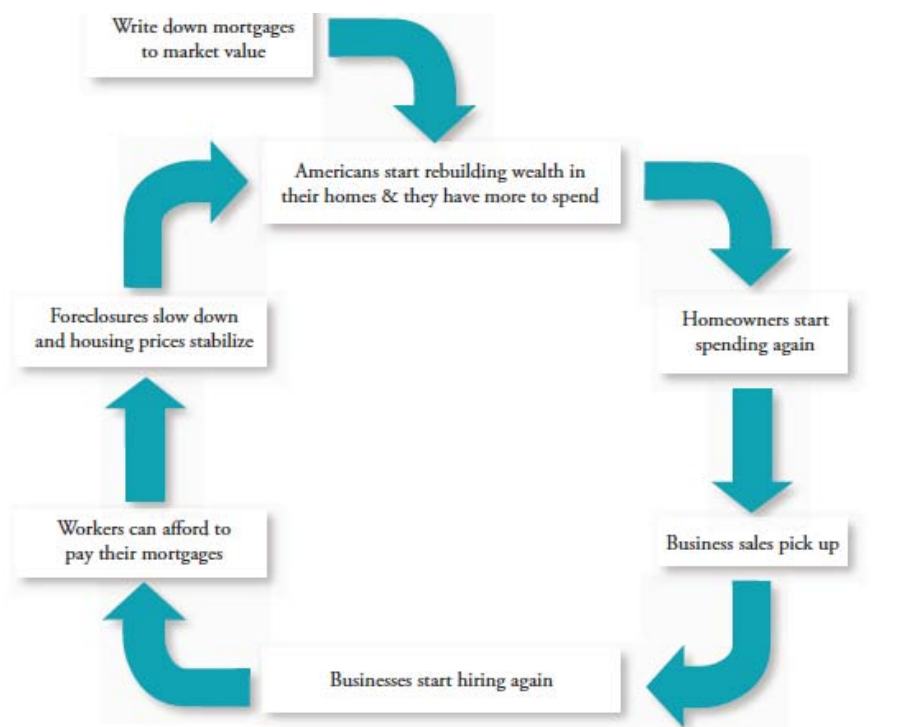
Foreclosures undermine an economic recovery and cost jobs.

Another alarming impact of the housing crisis is the overhang of underwater mortgage debt, which is now one of the primary drags on economic recovery. Negative equity, often referred to as “underwater” or “upside down,” means that borrowers owe more on their mortgages than their homes are worth. California’s negative equity share is 30% (compared to 23% nationally)-- that means almost a third of homeowners are underwater on their mortgages.

California homeowners are underwater by \$200 billion as a result of the Wall Street-created housing crisis. That means as homeowners overpay on their mortgages, Wall Street devours \$20 billion annually. This is money that would otherwise go into our economy in the form of consumer spending if banks wrote down mortgages to market value. “Mortgage write downs” or “principal reduction” means banks would write down mortgages to market value and refinance homeowners into 30-year fixed loans at current market interest rates.

- California has over 2 million homes underwater (30% of all mortgages) by \$200 billion.
- Fixing the underwater crisis by writing down mortgages would save California homeowners \$810 every month and pump \$20 billion annually into local economy.^{xv}
- With the extra \$810 per month, homeowners could start spending again, making purchases they have been putting off. The increase in consumer demand would in turn help spur 300,000 jobs in California.
- San Francisco has 16,355 homeowners underwater by \$1.5 billion. If banks wrote down those mortgages, it could pump \$158 million into local economy and spur 2,349 jobs.^{xvi}

Fixing Underwater Mortgages Would Spur Economic Recovery



The New Bottom Line, 2011 • The Win/Win Solution

It's Time for Solutions:

Wall Street Should Pay Their Fair Share: The banks collapsed the economy and created the housing crisis with their recklessness and predatory lending practices. Currently, taxpayers are being forced to absorb the losses to home values and the costs to local governments. California should institute a Foreclosure Fee, making the banks pay \$10,000 to \$20,000 per foreclosure to partially reimburse local and state governments for the costs of this crisis. This fee would raise roughly \$2 billion to \$4 billion over the next year.

California Needs a Strong AG Settlement. The current multi-state Attorneys General investigation into robo-signing and other servicing abuses needs to provide meaningful relief for California families and neighborhoods. Any agreement must include 1) a large settlement award that is commensurate with the harm caused by bank practices; 2) limited releases of liabilities so banks are not let off the hook for uninvestigated claims; 3) mandated principal reductions that are fairly distributed to communities hardest hit by predatory lending and foreclosure; and 4) restitution to homeowners who lost their properties due to bank's irresponsible and illegal foreclosure practices.

Wall Street Banks Must Stop Preventable Foreclosures: Reducing foreclosures is good for families, communities and the economy. Banks should be subject to court-based mandatory mediation programs to give homeowners a fair shot at getting a loan modification. Banks must also be forced to fully end the dual track process, a controversial practice whereby homeowners negotiating a loan modification in good faith find that the bank has nonetheless proceeded with foreclosure and taken their homes.

Wall Street Must Clean Up and Pay for Foreclosure-Related Blight: Vacant foreclosures unattended by banks have become a magnet for blight and illicit activity that further destabilizes neighborhoods already decimated by foreclosures. Banks must maintain and pay for the cleanup of blighted, vacant homes in neighborhoods.

Who is Responsible for this Mess?

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

Wall Street's recklessness is well-documented and continues to have devastating consequences as they use flawed-and, in some cases, fraudulent--procedures to flood the housing market with foreclosures that are throwing hundreds of thousands of California families out of their homes. The total disregard for mortgage laws and standards is the latest example of a predatory industry that continues to devastate families already hit hard by the economic crisis.

Currently, the five largest mortgage companies in the U.S. are under investigation by all 50 state Attorneys Generals for foreclosure fraud. They may be on the hook for more than \$20 billion in damages. However, this amount is not nearly enough to compensate communities for the harm that has been done, as this report documents.

Who is Responsible for this Mess?

Wall Street's reckless and predatory lending practices have devastated California. Lenders pushed homeowners into high-cost loans and investment banks turned mortgages into a casino. When Wall Street's bets went sour, the bankers were bailed out by taxpayers and got to keep their bonuses but Californians lost billions in savings in their homes.



BANK OF AMERICA

CEO Brian Moynihan

Federal taxpayer bailout funds received: ^{.xvii}	\$230.1 billion ^{xviii}
Profits since bailout (2009-2010):	\$4.0 billion
2010 CEO Brian Moynihan bonus:	\$9.05 million ^{xix}
2010 CEO Brian Moynihan total pay:	\$10 million ^{xx}
2010 bonuses and compensation:	\$35.1 billion



JP MORGAN CHASE

CEO Jamie Dimon

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



WELLS FARGO

CEO John Stumpf

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



CITIGROUP

CEO Vikram Pandit

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



GOLDMAN SACHS

CEO Lloyd Blankfein

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



MORGAN STANLEY

CEO James Gorman

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

The Cost of the Foreclosure Crisis in San Francisco by Zip Code (2008-2012)

Zip Code	Foreclosures 2008-12	Foreclosed Home Value Loss	Impacted Homes Value Loss	Total Home Value Loss	Property Tax Loss	Local Gov't Cost
94102	236	\$43,129,944	\$88,220,340	\$131,350,284	\$801,237	\$1,261,422
94103	569	\$104,060,128	\$212,850,261	\$316,910,389	\$1,933,153	\$3,026,645
94104	42	\$7,748,770	\$15,849,756	\$23,598,526	\$143,951	\$419,192
94105	440	\$80,411,760	\$164,478,600	\$244,890,360	\$1,493,831	\$3,188,168
94107	895	\$163,528,279	\$334,489,662	\$498,017,941	\$3,037,909	\$5,399,503
94108	103	\$18,787,111	\$38,428,182	\$57,215,293	\$349,013	\$576,870
94109	617	\$112,795,769	\$230,718,618	\$343,514,387	\$2,095,438	\$3,903,487
94110	979	\$178,916,166	\$365,964,885	\$544,881,051	\$3,323,774	\$4,972,619
94111	93	\$16,996,122	\$34,764,795	\$51,760,917	\$315,742	\$569,178
94112	1918	\$350,449,070	\$716,827,644	\$1,067,276,714	\$6,510,388	\$11,964,284
94114	334	\$61,076,387	\$124,928,973	\$186,005,360	\$1,134,633	\$1,638,311
94115	338	\$61,697,750	\$126,199,944	\$187,897,694	\$1,146,176	\$1,776,760
94116	365	\$66,668,659	\$136,367,712	\$203,036,371	\$1,238,522	\$1,972,895
94117	342	\$62,465,317	\$127,769,967	\$190,235,284	\$1,160,435	\$1,799,834
94118	265	\$48,393,259	\$98,986,212	\$147,379,471	\$899,015	\$969,142
94121	388	\$70,835,450	\$144,890,694	\$215,726,144	\$1,315,929	\$2,084,424
94122	469	\$85,748,177	\$175,393,998	\$261,142,175	\$1,592,967	\$2,599,761
94123	154	\$28,107,565	\$57,492,747	\$85,600,312	\$522,162	\$761,468
94124	1465	\$267,807,712	\$547,788,501	\$815,596,213	\$4,975,137	\$9,618,346
94127	229	\$41,850,666	\$85,603,635	\$127,454,301	\$777,471	\$1,265,268
94131	474	\$86,698,498	\$177,337,836	\$264,036,334	\$1,610,622	\$2,615,144
94132	530	\$96,932,722	\$198,271,476	\$295,204,198	\$1,800,746	\$3,684,276
94133	142	\$26,024,170	\$53,231,256	\$79,255,426	\$483,458	\$703,781
94134	1022	\$186,847,690	\$382,188,456	\$569,036,146	\$3,471,120	\$6,637,851
Total:	12,410	\$2,267,977,140	\$4,639,044,150	\$6,907,021,290	\$42,132,830	\$73,408,630

*Foreclosure data from RealtyTrac. Data is for zip codes fully or partially within city boundary. 2011 - 2012 numbers are projections based upon recent trends.

Methodology

Direct impact to foreclosed homes was calculated using methodology from the U.S. Joint Economic Committee Report (Sheltering Neighborhoods from the Subprime Foreclosure Storm) using median county home value from U.S. Census, decline estimate of 22%, and number of foreclosures from RealtyTrac. The 22% decline estimate is based on the most conservative property value decline ranging from 22% to 28% based on *The Value of Foreclosed Property*, Anthony Pennington-Cross, Marquette University and RealtyTrac 2010 sales report.

Neighboring homes value decline was calculated using methodology from the U.S. Joint Economic Committee Report (Sheltering Neighborhoods from the Subprime Foreclosure Storm) using median county home value from U.S. Census, decline in value of 0.9%, and number of foreclosures from RealtyTrac. The decline estimate is based on a conservative decline estimate of 0.9% on one-eighth mile radius (approximately 50 homes) based on *The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values*. Dan Immergluck, Georgia Institute of Technology and Geoff Smith, Woodstock Institute. Higher estimates are put the decline at 1.4% in low to moderate income communities and others double the impact radius to a quarter of a mile.

Property tax losses were estimated using lost home values (foreclosed and impacted homes as described in prior section) and California effective property tax rate of 0.61% from the U.S. Census and Tax Foundation.

Impact to local governments based on *The Municipal Cost of Foreclosures: A Chicago Case Study*. Many experts, including the U.S. Joint Economic Committee Report, use the \$19,229 cost from the Chicago study as an approximate cost of foreclosure. The Chicago study was published in 2005 and may not capture the full post-crisis level of impacts and level of costs in California. The cost is conservatively calculated using only REO's (bank-owned properties).

Endnotes:

ⁱ RealtyTrac

ⁱⁱ Ibid.

ⁱⁱⁱ Home Wreckers: How Wall St Foreclosures Are Devastating Communities. March 2011.

^{iv} CoreLogic press release.07 Jun 2011. http://www.corelogic.com/uploadedFiles/Pages/About_Us/ResearchTrends/CL_Q4_2010_Negative_Equity_FINAL.pdf

^v The Value of Foreclosed Property, Anthony Pennington-Cross, *Marquette University*.

^{vi} Direct impact to foreclosed homes was calculated using methodology from the U.S. Joint Economic Committee using median county home value from U.S. Census, decline estimate of 22%, and number of foreclosures from RealtyTrac. The 22% decline estimate is based on the most conservative decline ranging from 22% to 28% based on *The Value of Foreclosed Property*, Anthony Pennington-Cross, Marquette University and RealtyTrac 2010 sales report.

^{vii} The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values. Dan Immergluck, Georgia Institute of Technology and Geoff Smith, Woodstock Institute.

^{viii} Neighboring home value decline was calculated using methodology from the U.S. Joint Economic Committee using median county home value from U.S. Census, decline in value of 0.9%, and number of foreclosures from RealtyTrac. The decline estimate is based on a conservative decline estimate of 0.9% to one-eighth mile radius (approximately 50 homes) based on *The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values*. Dan Immergluck, Georgia Institute of Technology and Geoff Smith, Woodstock Institute. Higher estimates are a 1.4% decline in low to moderate income communities and others double the impact radius to a quarter of mile.

^{ix} Consumer Finance: Tapping Home Equity in Retirement. Amy Hoak, Wall St. Journal. March 17, 2011. <http://www.marketwatch.com/story/tapping-home-equity-in-retirement-2011-03-17>

^x Property tax losses were estimated using lost home values (foreclosed and impacted homes as described in prior section) and effective tax rate of 0.61% from the U.S. Census and Tax Foundation.

^{xi} Methodology based on *The Municipal Cost of Foreclosures: A Chicago Case Study*. Many experts, including the U.S. Joint Economic Committee, use the \$19,229 cost from the Chicago study as an approximate cost of foreclosure. Also, the Chicago study from 2005 likely does not capture the full post-crisis level of impacts and level of costs in California. We used a conservative method of only calculating those cost for REO's (bank-owned properties).

^{xiii} <http://www.nw.org/network/neighborworksprogs/foreclosuresolutions/reports/documents/7ForeclosureImpacts.pdf>

^{xiii} Cost per foreclosure of \$19,229 based on U.S. Joint Economic Committee report using estimates *The Municipal Cost of Foreclosures: A Chicago Case Study*.

^{xiv} CA Board of Equalization, CA Property Tax Overview. <http://www.boe.ca.gov/proptaxes/pdf/pub29.pdf>

^{xv} The New Bottom Line. The Win/Win Solution. Aug 2011.

^{xvi} CoreLogic underwater data and methodology from The Win/Win Solution. The New Bottom Line. Aug 2011.

^{xvii} Includes bailouts that BofA has paid back and federal guarantee programs it has exited.

^{xviii} <http://nomiprins.squarespace.com/storage/bailouttallyoct2010.pdf>

^{xix} <http://dealbook.nytimes.com/2011/01/31/bank-of-america-c-e-o-gets-9-05-million-stock-bonus/>

^{xx} <http://dealbook.nytimes.com/2011/01/31/bank-of-america-c-e-o-gets-9-05-million-stock-bonus/>

^{xxi} Includes bailouts that the bank has paid back.

^{xxii} <http://nomiprins.squarespace.com/storage/bailouttallyoct2010.pdf>

^{xxiii} 2010 not yet available

^{xxiv} <http://dealbook.nytimes.com/2011/01/28/blankfein-gets-13-2-million-for-2010/>

^{xxv} Includes bailouts that the bank has paid back.

^{xxvi} <http://nomiprins.squarespace.com/storage/bailouttallyoct2010.pdf>

^{xxvii} WFC DEF 14A, 21 Mar 2011, <http://www.sec.gov/Archives/edgar/data/72971/000119312511072275/ddef14a.htm>

^{xxviii} WFC DEF 14A, 21 Mar 2011, <http://www.sec.gov/Archives/edgar/data/72971/000119312511072275/ddef14a.htm>

^{xxix} Includes bailouts that the bank has paid back.

^{xxx} <http://nomiprins.squarespace.com/storage/bailouttallyoct2010.pdf>

^{xxxi} <http://online.wsj.com/article/SB10001424052748704115404576096473337115378.html>

^{xxxii} Includes bailouts that the bank has paid back.

^{xxxiii} <http://nomiprins.squarespace.com/storage/bailouttallyoct2010.pdf>

^{xxxiv} <http://dealbook.nytimes.com/2011/01/28/blankfein-gets-13-2-million-for-2010/>

^{xxxv} <http://dealbook.nytimes.com/2011/01/28/blankfein-gets-13-2-million-for-2010/>

^{xxxvi} Includes bailouts that the bank has paid back.

^{xxxvii} <http://nomiprins.squarespace.com/storage/bailouttallyoct2010.pdf>

^{xxxviii} Aaron Lucchetti and Randall Smith. "As Street Rebounds, So Does Top Pay." Jan 22, 2011.

<http://online.wsj.com/article/SB10001424052748704115404576096473337115378.html>



877-633-9251 • info@calorganize.org



California
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Coalition

415-864-3980 • crc@calreinvest.org

