THE CITY OF SAN DIEGO
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Subcommittee on Housing and Community Opportunity: "Foreclosure Prevention and Intervention: The Importance of Loss Mitigation Strategies in Keeping Families in Their Homes"
November 30, 2007
Testimony

On behalf of the City of San Diego and the City/County Reinvestment Task Force, I would like to thank Chairwoman Maxine Waters for her invitation. We appreciate your interest in a topic, which for the City of San Diego, the state and the country is having profound impact on people's lives and our economy. The impact is being felt by all segments of the population including our military. In our combined efforts to effectively address this crisis, I would also like to thank Governor Schwarzenegger for the work of California's Interdepartmental Task Force on Non-Traditional Mortgages focusing on several issues including consumer education and outreach and regulation.

In the first nine months of this year 15,582 homes have received notices of default from their lenders in San Diego County. Forty percent of those end up in foreclosure. Between January of 2007 and September foreclosures increased by 100%. We project this rate to increase and continue unabated for the next two years based on the volume of sub prime loans dumped into the local market. I say dumped because the majority of those loans have come from mortgage brokers no longer in the business with over 70 firms in the region either going bankrupt or selling off over the past two years. We have been victimized by an industry that functions without regulation with minimal supervision that can appear and disappear without penalty and without responsibility for the damage that they inflict on people's lives and to the economy. It troubles me to think that our service men and women who are currently fighting and putting their lives on the line to protect our country are preyed upon and victimized.

Historically, in San Diego, crises in the housing market are caused by a combination of external economic factors. In this case the foreclosure epidemic has been caused by unregulated funds from new state licensed mortgage lenders, most of whom are no longer in business; home mortgage brokers being paid double and triple commissions for sub prime and predatory home loans targeted to low income and ethnic borrowers; lack of state supervision or authority to regulate interest rates and loan terms; absence of supervision over Fannie Mae and Freddie Mac and their policies related to securities purchase of sub prime and predatory home loan products; and lack of national regulations related to securities and leveraged finance obligations for Wall Street investments.

The City/County Reinvestment Task Force has been following this issue for two years. We have filed comment on pending legislation with federal bank regulators, the Banking and Finance Committee of Congress, the state and directly to a number of major regulated financial institutions, many of who serve on this task force.

Seeing little if any action at any level has resulted in our adoption of local strategies to attempt to manage this serious economic problem. For the last year, the City-County Reinvestment Task Force has held hearings in order to define the problem and engage in finding tangible solutions. We have created a list of recommendations that were presented and adopted by the City Council at the City of San Diego. Some of the recommended actions were to direct our City and County lobbyists to aggressively support federal and state legislation which provides increased funding of non profits for foreclosure counseling and that establishes rules and regulations for unregulated mortgage companies and brokers; that The Reinvestment Task Force will work in partnership with local non-profits and state coalitions to negotiate with major lenders for reasonable workout programs and loan products for customers experiencing foreclosure; we recommend that the city, county and state legal authorities develop an enforcement strategy for interdicting, reducing and removing predatory mortgage lending practices in the region including the review of potential securities violations; we also requested that the city and county establish an ordinance regarding inspection and monitoring of foreclosed properties for code violations and on going maintenance; that FNMA and the Veterans Administration modify loan limits to compensate for the cost of housing in the San Diego market; we encourage FNMA and the Veterans Administration to develop specific foreclosure alternative loan products, including refinancing and engage in aggressive marketing efforts.

Many of our communities are now sitting with vacant properties, five to six on a block, depressing the local market and inviting blight and criminal behavior to normally pleasant communities. Following the lead of the City of Chula Vista, which has been particularly hard hit, we have moved ordinances that require banks to maintain these empty, vacant properties under the threat of penalty. We want them off the market before they infect the vitality of communities that have had to struggle over the years to become.

We know that the more foreclosures there are the lower our property values go. As the amount of foreclosed properties increase, our property tax revenue will decrease as the tax collector begins to assess vacant and devalued homes. We need to stop the bleeding by either moving long vacant properties into a trust or by creating home ownership opportunities for new homebuyers.

One of the characteristics of the recent mortgage frenzy was the absence of traditional government guaranteed mortgages. People who had never had an opportunity to own a home got the chance but were hobbled by a mortgage product built on false perception of risk, priced higher and designed to explode in your hands in two, five or ten years.

It is essential that government home lending programs keep people in the homes they now have for the first time. It is vital that government home loan programs be redesigned to fit the Southern California market and to allow new buyers to gain access to home ownership. Loan limits are too low and qualifying can be designed to consider the realities of our economy versus old models where people work for thirty years for one company and have a steady, guaranteed income.

There is a general feeling of uneasiness and uncertainty by individuals just wondering what the reset will do to their homes and their lives. This not only affects individuals and their personal finances, but it has a domino effect on our local, state and national economy. I encourage our lenders to talk with their homeowners and bridge the gap. I support legislation that will encourage this conversation for the benefit of the homeowners and our economy.