File No. 120086

Committee Item No. 4
Board Item No. 16

COMMITTEE/BOARD OF SUPERVISORS

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Committee: Budget and Finance Committee **Date:** February 8, 2012

Board of Supervisors Meeting **Date** Feb. 14, 2012

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Completed by: Victor Young **Date:** February 3, 2012
Completed by: Victor Young **Date:**

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

FILE NO. 120086 RESOLUTION NO.

[Request for Proposal - City's Cash Management Banking Services]

Resolution supporting the City's Office of the Treasurer-Tax Collector's efforts to integrate community reinvestment measures and social responsibility language into the City's Cash Management Banking Services Request for Proposal.

WHEREAS, It has been over nine years since San Francisco has released a Request for Proposal(RFP) for Banking services; and

WHEREAS, The City's Office of the Treasurer-Tax Collector is currently drafting a Cash Management Banking Services RFP to be released in February 2012; and,

WHEREAS, Collecting data and information on the lending practices of the financial institutions that the City contracts with is vital in order to make the most informed decisions that best serve the City and residents of San Francisco; and,

WHEREAS, The 2008 financial crisis was a consequence of inadequately regulated financial practices with little accountability; and,

WHEREAS, Institutional predatory lending including bundled high risk mortgages will result in an estimated 12,410 foreclosures in San Francisco by the end of 2012; and,

WHEREAS, In 2008 the Board of Supervisors established the Fair Lending Working Group(FLWG), whose official recommendations are hereby declared to be a part of this resolution, and are on file with the Clerk of the Board of Supervisors in File No. 120086, FLWG proposed several recommendations that included; the city use its influence to demand more responsiveness by lenders/servicers to assist more homeowners, and urges the Office of the Treasurer-Tax Collector to modify its investment policy to consider bank foreclosure and lending practices; and, WHEREAS, In October of 2010, the Office of the Treasurer-Tax Collector modified its investment policy to consider bank foreclosure practices; and,

WHEREAS, In July of 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed by Congress which implemented changes to the financial regulatory system including transparency and accountability; and,

WHEREAS, According to the 2011 Wall Street Wrecking Ball report, which is on file with the Clerk of the Board of Supervisors in File No. 120086, and is hereby declared to be a part of this resolution as if set forth fully herein, as a direct result of the foreclosure crises since 2008 there have been 1.2 million foreclosures in California and in San Francisco homeowners are estimated to lose $6.9 billion in home values and an estimated $42 million in property tax revenue; and,

WHEREAS, Other cities including Philadelphia and Los Angeles have passed legislation supporting transparent banking requirements and community reinvestment standards and expectations of their contracted financial institutions; and,

WHEREAS, The City of Cleveland's current Banking Designation and Banking Services RFP included Community Reinvestment inquiries into financial lending practices to residents and businesses including those in Low and Moderate Income (LMI) census tracts as well as minority and women owned residences and businesses; and,

WHEREAS, in October of 2011 Supervisor Avalos held a hearing in City Operations and Neighborhood Services Committee that highlighted the need for the City to responsibly invest in financial institutions that are responsive to San Francisco; and,

WHEREAS, The Office of the Treasurer-Tax Collector has been working in partnership with Supervisor Avalos' office and with community groups to include into the upcoming RFP specific questions regarding lending practices and the track record of banks in providing loans and modifications to homeowners and local businesses; now, therefore, be it

RESOLVED That the Board of Supervisors commends the Office of the Treasurer-Tax Collector's collaborative efforts during the drafting process for the City's Cash Management Banking Services RFP; and,

FURTHER RESOLVED, That the Board of Supervisors supports the Treasurer-Tax Collector plans to include during the RFP selection process a strong consideration of the empirical data collected from the community reinvestment measures on the lending practices from the submitted proposals; and,

FURTHER RESOLVED, That pursuant to all federal and state legal requirements that socially responsible lending language and other social accountability measures be incorporated into future contracts that are up for bid within the City and County of San Francisco.

San Francisco Fair Lending Working Group (FLWG)
FINAL RECOMMENDATIONS

Introduction

In January 2008, under the leadership of Supervisor Sophie Maxwell, Assessor-Recorder Phil Ting and Treasurer Jose Cisneros, the San Francisco Board of Supervisors established the SF Fair Lending Working Group. The Working Group's charge was to facilitate a dialogue among community-based organizations, financial service institutions and City agencies around remedies to the current and potentially deepening mortgage foreclosure crisis.

The eleven public appointees and four City agency representatives making up the Working Group spent the last ten months assessing the impact of the mortgage foreclosure crisis on San Francisco's residents, reviewing the best practices of other jurisdictions, and tracking pertinent legislation at the state and federal levels.

The members of the SF Fair Lending Working Group are as follows:

Jon Ballesteros (Wells Fargo Bank)
Maeve Elise Brown (Housing and Economic Rights Advocates)
Ed Donaldson (San Francisco Housing Development Corporation)
Jane Duong (Co-Chair) (Mission Economic Development Agency)
Amanda Feinstein (Walter and Elise Haas Fund)
Leon Huntting (California Association of Mortgage Brokers)
Grace Mejia (Wells Fargo Bank)
Heidi Mueller (Co-Chair) (Realtor)
Kevin Stein (California Reinvestment Coalition)
Chris Oldag (Patelco Credit Union)
Jan Lynn Owen (Washington Mutual)

Additionally, the Working Group has received staff support from City Staff Katie Muehlenkamp (Assessor-Recorder Phil Ting), Myrna Melgar (Mayor's Office of Housing), David Augustine (Treasurer Jose Cisneros), Gabe Cabrera and Rachel Force (Office of the Legislative Analyst).

Methodology

The Working Group met twelve times over the course of six months. It worked with the Office of the Legislative Analyst (OLA) to study and discuss best practices from other jurisdictions and track pertinent legislation at the State and Federal levels. Further, the Group studied existing San Francisco departments, programs and mechanisms that could best be leveraged to address the current mortgage crisis. This also included input from staff at the Mayor's Office of Housing, the Assessor-Recorder's Office and the Treasurer's Office. Formal presentations were also made to the Group on alternative rescue loan products by Salvador Menjivar of One California Bank Foundation in Oakland and on foreclosure's impact on tenants from Sara Shortt of Housing Rights Committee and Maria Jose Lopez of St. Peter's Housing Committee. Brief summaries of those findings are provided below to provide context for the corresponding recommendations.

San Francisco Fair Lending Working Group (FLWG)
FINAL RECOMMENDATIONS

Understanding the Magnitude of the Foreclosure Crisis

The magnitude of the mortgage foreclosure crisis is well documented. For example, in a 2006 study based on the performance of more than 6 million subprime mortgages, the Center for Responsible Lending (CRL) estimated that one in five homeowners who obtained subprime mortgages in 2005 and 2006 have lost or will lose their home to foreclosure nationally. More recently, analysis by Credit Suisse estimates that 6.5 million homes will enter the foreclosure process between now and 2012, resulting in a home loss for as many as 13% of all people who hold a mortgage on their primary home.

Not only do individual homeowners suffer when faced with foreclosure, but entire communities feel the spillover effects as property values depreciate, tax revenues decline, public services wane, and social fabrics fray. According to CRL, more than 40 million families who happen to live in the vicinity of one or more subprime foreclosures will see the collective equity in their homes decline by $365 billion over the next two years.

Impact of the Foreclosure Crisis on San Francisco Residents

The mortgage foreclosure crisis may be less severe in San Francisco than other jurisdictions, but it is equally compelling. In San Francisco, research conducted by the Mission Economic Development Agency found that three out of four San Francisco homebuyers received an adjustable rate mortgage in the period between 2005 and 2006. Further, one in four homebuyers borrowed more than 95% of the value of their home and one in ten received a high cost loan according to the standards set by the Home Mortgage Disclosure Act (HMDA). All of these factors exacerbated homeowners' susceptibility to foreclosure. This is confirmed by data from the San Francisco Assessor-Recorder's Office: **The number of *Notices of Default* filed by San Francisco homeowners rose from 817 in 2006 to 1,804 in 2008 (calendar year) – an increase of 121%. More importantly, the number of foreclosures increased even more dramatically by 723%-- from 81 in 2006 to 667 in 2008 (calendar year).**

Foreclosures have disproportionately impacted low- and moderate-income families, communities of color, and seniors. In the same study by MEDA, it was found that the typical Latino, Asian, or African American homebuyer received a riskier and more expensive loan than the typical white homebuyer. Further, high cost loans were disproportionately originated in the southeast sector of San Francisco, neighborhoods where the typical homebuyer has a 15% lower income than the typical San Francisco home buyer. In these neighborhoods, 78% of new borrowers (2005-06) are people of color (4% are African American, 33% are Latino, and 38% are Asian). Although, more difficult to track, anecdotal evidence from housing counseling agencies in San Francisco indicates that the elderly population has also been especially hard-hit by the mortgage crisis.

Less documented in the national media, has been the consequences of foreclosure on the tenants of foreclosed properties. In San Francisco, rental tenants outnumber homeowners 2:1. It is therefore, no surprise that a large number of San Francisco tenants have also become the victims of the mortgage crisis. Between the three major tenant counseling groups in San Francisco (SF

Tenant's Union, St. Peter's Housing Committee, Housing Rights Committee of SF) at least 100 tenant cases have been documented in the last year. Challenges and abuses experienced by tenants include: harassment by realtors, landlord, and other agents to illegally evict tenants from their homes; loss of homes through eviction; unfit living conditions as a result of utility shut-offs; loss of assets as landlords walk away with security deposits and rent.

Current Responses to the Mortgage Crisis

During the last year, there have been many efforts at the federal and state level to stem the tide of foreclosure and subsequent aftershocks on the economy. Beginning in December 2007, Congress passed and signed into law several pieces of legislation to support homeowners. These include reducing the tax burden on homeowners facing foreclosure, expanding homeownership counseling efforts throughout the country, funding local governments to purchase foreclosed homes, and stronger regulation of government sponsored entities such as Fannie Mae and Freddie Mac. Further, Congress expanded the Federal Housing Administration (FHA) to play a larger role in refinancing mortgages at high-risk of foreclosure. And the Federal Reserve recently enacted regulations through the Truth and Lending Act to curb underwriting abuses by requiring lenders to consider ability to repay, requiring income verification, and requiring escrow of property taxes and insurance.

Most recently Congress passed a $700 billion bailout of financial markets. However, as it currently stands, no provisions have been made with these funds to address the impact of foreclosures on individual homeowners. While federal efforts represent a positive step, they continue to rely on voluntary industry efforts to modify loans – few of which have actually been realized by San Francisco homeowners. Further, San Francisco received no funds through the Federal Housing and Recovery Act of 2008 to infuse $4 billion through CDBG to support the purchase and rehabilitation of foreclosed properties.

Progress is slow at the state level to reform to banking practices or provide assistance to homeowners facing foreclosure in California. A notable exception is the passage of SB 1137. This bill implements important foreclosure process reforms to protect the hundreds of thousands of Californians who are in danger of losing their homes due to the mortgage crisis. The bill requires lenders to contact borrowers to provide loan restructuring options prior to the filing of the Notice of Default (NOD). Homeowners have a 30-day grace period after the contact is made (or a sufficient effort to contact the homeowner is made) before the formal filing of the NOD. The bill also requires that tenants in foreclosed properties be given 60-days notice before the tenant can be evicted. The bill allows for civil penalties of $1000 per day to be assessed on properties that are not properly maintained and contributing to neighborhood blight.

Recognizing the language barriers that often exist in communication during the home purchase transaction, the State of California acknowledged the importance of translation of loan documents in its recent expansion of State Civil Code 1632 (in 1976). The law provides, in part, that: "Any person engaged in a trade or business who negotiates primarily in Spanish, Chinese, Tagalog, Vietnamese, or Korean, orally or in writing, in the course of entering into any of the following, shall deliver to the other party to the contract or agreement and prior to the execution thereof, a translation of the contract or agreement in the language in which the contract or agreement was negotiated, which includes a translation of every term and condition in that contract or agreement…" CC§1632(b)

In order to facilitate compliance, the California Department of Real Estate has several of the key disclosure documents, already translated into the five required languages, posted on its website to ease the burden placed upon the industry to provide translated documents. However, it is important to note that community advocates report that translation of documents almost never occurs.

Existing SF Capacity to Address Foreclosure Crisis

Since the onset of the mortgage crisis, several efforts have been underway in San Francisco that span across the non-profit, public, and private sectors. Each reflects San Francisco's existing capacity to address the mortgage crisis and potential opportunity to broaden its influence to mitigate the negative impacts of foreclosure. They include the following:

- **Existing foreclosure counseling infrastructure**: There are currently five housing counseling agencies in San Francisco providing foreclosure counseling: Mission Economic Development Agency, San Francisco Housing Development Corporation, Consumer Credit Counseling Service of San Francisco, Asian, Inc., and SF Urban CHC. Housing Education Rights Advocates (HERA) is located in Oakland, but offers legal assistance to San Francisco homeowners at risk of foreclosure. Several of these agencies are also involved in the Don't Borrow Trouble Campaign, a public education and service coordination initiative led by MEDA. These agencies have the language capacity on staff to serve the Spanish-speaking and Cantonese/Mandarin-speaking communities in San Francisco. While these agencies have collectively assisted over 200 distressed homeowners to date in 2008. Too few of their clients are able to keep their homes. Many clients go into foreclosure or short sale their properties. Few homeowners are able to secure a modification while most homeowners remain in limbo as they wait for a response from their servicer regarding a loan modification or short sale. The greatest challenge faced by housing counseling agencies are clients with incomes too low to pay for the homes they purchased and lenders unwilling to write down the value or modify the terms of their loans.

- **Systematic outreach to homeowners receiving a Notice of Default:** The Assessor-Recorder's Office currently works with the housing counseling agencies to send letters to homeowners that have received a Notice of Default to encourage them to contact a housing counseling agency and to warn homeowners of foreclosure rescue scams. Letters are sent in English, Spanish, and Chinese. Similar efforts are underway to also send letters to tenants in homes at-risk of foreclosure.

- **Existing Real Estate Fraud Prosecution Recordation Fee:** The Real Estate Fraud Prosecution Recordation Fee requires $2 fee paid for every real estate transaction. The fee goes to the Real Estate Fraud Prosecution Trust Fund comprised of the District Attorney, City Attorney, and city Administrative representatives to investigate and prosecute real estate fraud crimes. Currently, most cases involve the elderly. As of FY2007, there was a balance of $200,000 in unused funds.

- **Strong tenant protections**: It is important to note that foreclosure is not a "just cause" for eviction under the City's Rent Ordinance (Chapter 37 of the Administrative Code) and provides no basis to force a tenant to leave. While the Rent Ordinance does not apply to post-1979 buildings, the number of excluded buildings is relatively small, according to the San Francisco Residential Rent Stabilization and Arbitration Board.

- **Existing tenant counseling infrastructure**: There are three non-profit organizations providing assistance to tenants in San Francisco: San Francisco Tenant's Union, Housing Rights Committee of SF, and St. Peter's Housing Committee. All provide counseling and education regarding tenant's rights and advocacy on behalf of clients. These agencies are also limited by staffing capacity.

- **Loans for first time home-buyers:** The Mayor's Office of Housing (MOH) currently through a number of down payment assistance programs has the capacity to extend loans to first-time homebuyers. This capacity can potentially be broadened to assist homeowners in distress.

- **Small Sites Fund Legislation**: Legislation introduced by Supervisor Daly that would required the Mayor's Office of Housing (MOH) to divert 10% of all in-lieu fees paid under the City's inclusionary housing program, up to $15 million, into a "Small Sites Fund" for the purpose of buying and rehabilitating properties consisting of less than 25 units. This includes "properties that have been the subject of foreclosure." The legislation is currently pending action in the Land Use and Economic Development Committee.

Policy Recommendations

The goal of this report is to identify the issues that must be addressed to remedy the mortgage foreclosure crisis, as well as to propose solutions and tools that the City can use to address those issues. There is no "panacea" for the crisis so the Working Group has developed a variety of policy recommendations (listed below) along with the strategies and mechanisms to implement them.

- Policy 1.1: Whenever possible, homeownership should be preserved and foreclosure should be prevented.

- Policy 1.2: Steps should be taken to prevent predatory lending practices and avoid foreclosure crisis in the future.

- Policy 2.1: Tenant's rights should be protected during and after foreclosure.

- Policy 3.1: Affordable housing opportunities should continue to be a priority in the face of increased numbers of displaced former homeowners in order to prevent displacement outside of San Francisco.

Policy 1.1: *Whenever possible, homeownership should be preserved and foreclosure should be prevented.*

Implementation:

a. **City should enforce compliance with the recently enacted anti-foreclosure bill SB 1137:** Specifically, 1) The Recorder's Office should forward cases of noncompliance to SB1137 to the City Attorney and the state Department of Corporations; 2) Lenders should file an affidavit with the Recorder's Office proving they complied with SB1137 for each defaulted home, especially the provision requiring them to notify homeowners of the 30-day grace period before they file a notice of default; 3) Relevant City agencies should work with tenant rights groups as well as industry associations to ensure tenants and loan servicers are educated about SB 1137 and other similar anti-foreclosure laws; 4) The Department of Building Inspection and other appropriate City departments should monitor foreclosed properties and impose fines on those property owners who do not maintain foreclosed properties in accordance with local ordinances.

b. **City should use its influence to demand more responsiveness by lenders/servicers to assist more homeowners.** Specifically, the City should request that lenders/servicers 1) contribute more funds to outreach, counseling, and legal services for homeowners in trouble; 2) negotiate more loan modifications and participate in distressed homeowner programs, like Hope for Homeowners which officially began on October 1, 2008; 3) designate and provide a specific San Francisco contact for loan modifications, REOs and short sales, and provide reasonable timing quotes for workouts; 4) report loss mitigation outcomes in SF so that the City can hold lenders and servicers accountable; and 5) ensure adequate servicing capacity to address the volume of homeowners.

c. **Increase capacity at Mayor's Office of Housing to coordinate city-wide foreclosure efforts:** A full-time staff person should be hired through the Mayor's Office of Housing to coordinate and implement any programming related to the foreclosure issue.

d. **City should impose a 6-month foreclosure moratorium on owner-occupied homes and use its lobbying capacity to advocate and support statewide legislation on a foreclosure moratorium and accompanying loan workout programs.** Many homeowners continue to slip through the cracks into foreclosure because they have been unable to reach their servicer and appropriately modify their loans. As such, the City should support local and statewide efforts to impose a foreclosure moratorium.

e. **Increase number of homeowners accessing foreclosure counseling.** 311 Operators should be trained to forward callers appropriately in order to provide resources to distressed homeowners and connect them with assistance

f. **The Treasurer's Office should modify its socially responsible investment index.** They can do this by adding a screen to its socially responsible index related to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. The screen should be comprised of publicly available, verifiable, and administrable information by the Treasurer's Office.

Policy 1.2: Steps should be taken to prevent predatory lending practices and avoid a foreclosure crisis in the future.

Implementation:

a. **The City Attorney should enforce State Civil Code Section 1632:** Loan documents should be provided both in English and the primary language of the borrower, or translation services should be provided for purchases and refinances. Borrowers who are buying or refinancing their home should be afforded the opportunity to understand the terms of the transaction they are getting into. Translation of loan documents into the primary language of the borrower – presumably the language used to convince the borrower to take out that particular loan in the first place- is a bare minimum that a lender/broker should provide.

b. **City should encourage the District Attorney/City Attorney to prosecute real estate fraud in San Francisco:** The Board of Supervisors should request a report on the use of the funds through the Real Estate Fraud Prosecution Fund including any obstacles or challenges of using the funds as soon as possible. Upon receipt of the report, the City should explore within a 3-6 month time period the possibility of amending Section 8.24.5(c) of the Administrative Code to reflect the State's new fee schedule increasing the Real Estate Fraud Prosecution Fee from $2 to $3. This revenue would be used to increase the capacity of the District Attorney's and City Attorney's Offices to prosecute real estate fraud.

c. **District Attorney's Office should educate mortgage industry regarding foreclosure rescue scams and other predatory practices:** Specifically, the DA's Office should post warnings on its web site and send email alerts about the scams they uncover. Associations of realtors, mortgage brokers, bankers, title companies, apartment management companies, housing groups, etc. should subscribe to the DA's postings and disseminate them to their members. The DA should attend meetings of associations and housing groups to disseminate information.

d. **City should increase public awareness of predatory lending and mortgage rescue scams.** Public awareness can occur through the following strategies: 1) Enlist the media to participate in a public awareness campaign about the scams; 2) Lenders can participate in media alerts when a new scam surfaces; and 3) City can develop PSAs to educate about rescue scams.

e. **311 Operators should be trained to forward callers appropriately**

Policy 2.1: Tenants' rights should be protected during and after foreclosure.

Implementation:

a. **Strengthen Rent Ordinance's Just Cause Provision:** Legislation should be pursued to include an eviction amendment to Just Cause law requiring that proof of ownership, including all investors, must be provided before evicting the former owner/tenant to ensure that proper noticing occurs and tenants are not wrongfully evicted.

b. **Educate tenants about their rights and resources:** The City should reach out to tenants in properties facing foreclosure with information about their rights and ways to get help. The Assessor-Recorder's ability to identify properties receiving a Notice of Default should be expanded to include notifying tenants.

c. **Educate lenders and their agents about SF's eviction laws:** The City should educate lenders and their vendor companies that manage or sell foreclosed properties about landlord and eviction laws in San Francisco in order to prevent illegal practices. Under the City's Rent Ordinance (Chapter 37 of the Administrative Code) foreclosure provides no basis to force a tenant to leave. While the Rent Ordinance does not apply to post-1979 buildings, the number of affected buildings is relatively small, according to the San Francisco Residential Rent Stabilization and Arbitration Board.

d. **Encourage "No shut-off" utility agreement:** The City will encourage and facilitate meetings with PG&E, SFPUC, and tenant organizations to ensure that power and water are not disconnected in tenant-occupied buildings during or after foreclosure.

e. **Increase resources to support tenants:** Resources should be used to fund tenant counseling services and relocation assistance for renters in foreclosed properties.

f. **311 Operators should be trained to forward callers appropriately.**

Policy 3.1: Affordable housing opportunities should continue to be a priority in the face of increasing numbers of displaced former homeowners in order to prevent displacement outside of San Francisco.

Implementation:

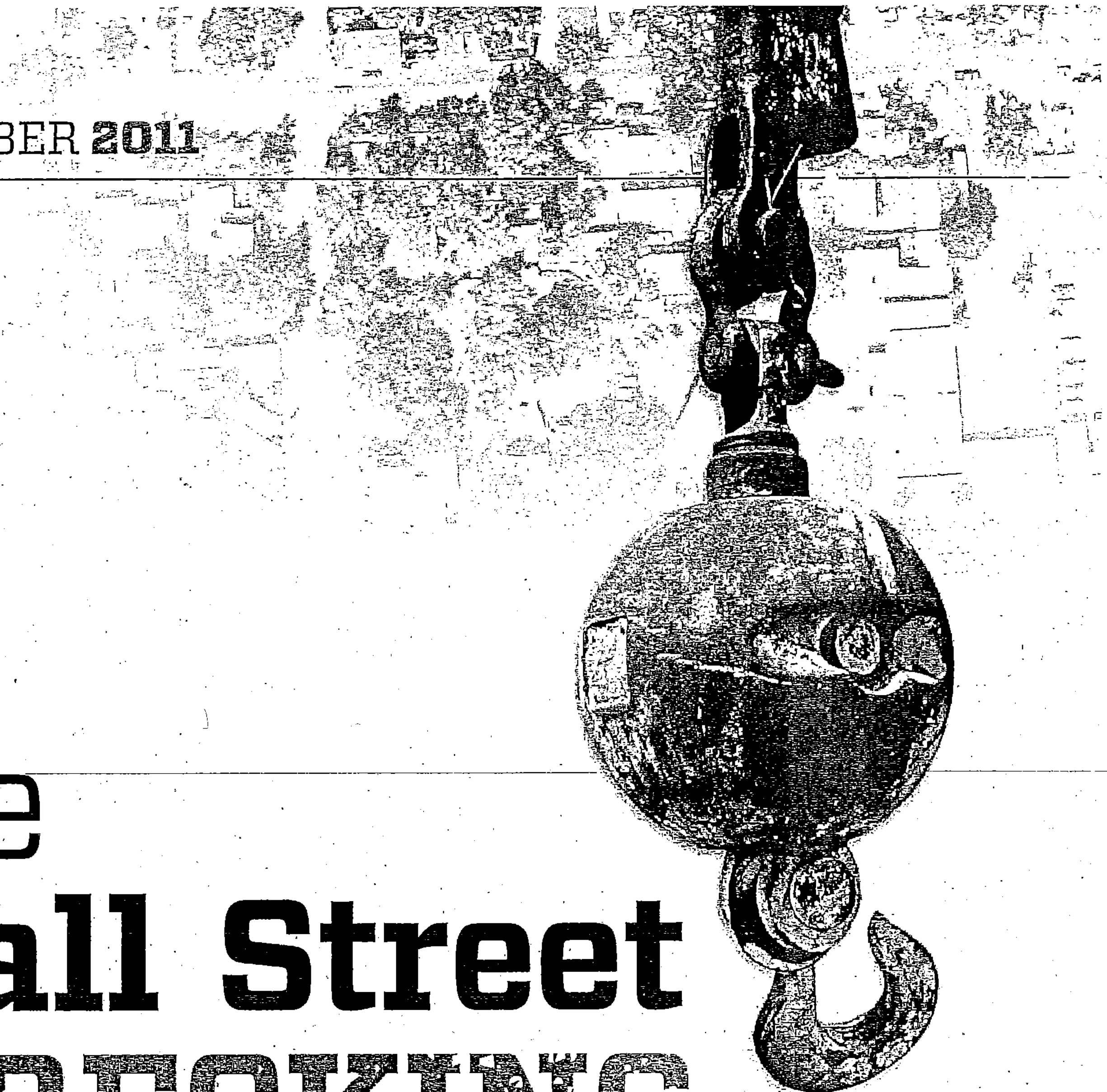
a. **The City should support the Mayor's Office of Housing to secure state bond allowances for affordable housing and financing:** City should attempt to secure state bond allowances to help people refinance out of unaffordable loans or purchase properties in foreclosure for use as affordable housing. The City should monitor additional grant opportunities as appropriate.

b. **311 Operators should be trained to forward callers appropriately in order to connect displaced former homeowners with assistance.**

Next Steps

The SF Fair Lending Working Group respectfully submits these recommendations to the San Francisco Board of Supervisors for its consideration. We encourage the Board to endorse these recommendations, set priorities among them and allocate the resources (staff and otherwise) needed to implement them. We recommend that regular progress reports be made to the Board of Supervisors from those responsible for implementation to monitor the progress and effectiveness of the strategies.

SEPTEMBER 2011



The Wall Street WRECKING BALL

What Foreclosures Are Costing San Francisco Neighborhoods

ACCE Alliance of Californians for Community Empowerment

crc California Reinvestment Coalition

ACCE

Alliance of Californians for Community Empowerment

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.

crc California Reinvestment Coalition

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, theses 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
- JP Morgan Chase
- Wells Fargo Bank
- 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]

> *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.*

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]

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.

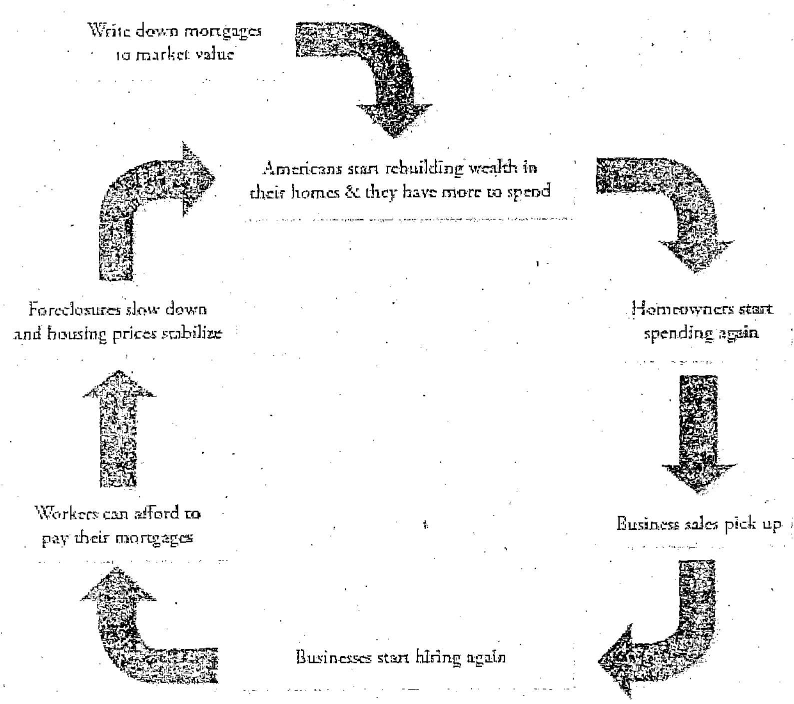
Foreclosures undermine an economic recovery and cost jobs.

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).
[xii] 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 Oveview. 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 Luccheti and Randall Smith. "As Street Rebounds, So Does Top Pay." Jan 22, 2011. http://online.wsj.com/article/SB10001424052748704115404576096473337115378.html

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