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The Shadow of Debt

Slavic Village Is Fast Becoming a Ghost Town. It's Not Alone.

By Jim Rokakis
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CLEVELAND - Let me tell you about a place called Slavic Village and the death of a girl named Cookie Thomas. You've never heard this story before -- talk of housing markets and hedge funds, interest rates and the Federal Reserve has drowned it out.

Twenty years ago, the Slavic Village neighborhood of Cleveland was a tightly knit community of first- and second-generation Polish and Czech immigrants. Today, it's in danger of becoming a ghost town, largely because a swarm of speculators, real estate agents, mortgage brokers and lenders saw an opportunity to make a buck there.

You could say it was because of them that 12-year-old Asteve' "Cookie" Thomas lost her life on Sept. 1, shot in Slavic Village when she stumbled into the crossfire of suspected drug dealers. The neighborhood wasn't always a haven for criminals -- not until hundreds of foreclosures destabilized the community. Houses (800 at last count) and then entire streets were abandoned. Crime increased as vacant properties offered shelter to people who had a reason to hide.

Another victim was Joe Krasucki. On the night of March 15, his 78th birthday, he thought he heard vandals prying the aluminum siding off his house, where he had lived for 40 years. Looters had already ransacked his neighbor's abandoned property -- a fate that awaits the majority of foreclosed houses in cities such as Cleveland. When Joe went outside to investigate, a gang of teenagers beat him so severely that he died a week and a half later.

Cookie Thomas and Joe Krasucki haunt me because they didn't have to die. In a sense, their deaths were foreshadowed in the late 1990s, when the dark side of the real estate industry -- the predatory lenders -- came to Ohio, including Cleveland's Cuyahoga County, where I serve as treasurer. They knew that the state's lax regulatory structure would give them virtually free rein. This is when we first heard terms such as "securitization," "mortgage-backed securities," "3-28s" and "risk modeling." These are code words for Wall Street strategies that made the cycle of no-money-down, no-questions-asked lending possible -- the strategies that have sucked the life out of my city.

Cleveland isn't alone. In Stockton, Calif., lenders filed for foreclosure on one in 27 households in the first half of 2007, according to RealtyTrac.com, a marketer of foreclosed properties. The Detroit area watched as foreclosure proceedings started on one in 29 households. One in 122 households in the metropolitan area of Bridgeport, Conn., had a foreclosure filing, an increase of 552 percent from 2006.

The national outlook isn't good, either. RealtyTrac.com reports that there could be more than 2 million foreclosures in 2007. Home builders haven't struggled so much since the 1991 recession.

Last month, the sale of new homes fell to its lowest rate in more than seven years. And the Federal Reserve's Sept. 18 decision to cut interest rates by half a percentage point tells you that we're all in trouble: homeowners, who stand to lose their biggest investment; lenders, who are going bust at a record rate; citizens, who return home each night to dangerous neighborhoods; and city governments, which simply don't have the resources to solve their communities' problems.

Funny thing, the mortgage business. For years, buyers, sellers and lenders operated under the arcane notion that if you wanted to own a home, you needed a down payment and some semblance of a good credit history. Along with other consumer advocates and community leaders, I once battled the evils of redlining, a practice that denied loans to people -- largely minorities -- who lived in neighborhoods that banks considered too risky for investments. At that time, we fought for fair but sensible lending.

That's why we couldn't comprehend the new rules that predatory lenders brought to town. They offered "creative" loans to people with weak credit and, later, to others with no credit history at all. The practice defied logic. It was as if Wall Street brokers came to places such as Slavic Village and said, "Okay, you want money? We'll give you money. We'll give you more money than you dreamed possible."

They did, and predictably, the loans went bad. Borrowers managed to pay the deceptively low initial payments but fell into foreclosure when the monthly payments ballooned -- a hallmark of the predatory loan. The sad truth is that for many of these buyers, responsible home ownership was simply out of their economic reach.

In June, the Mortgage Bankers Association blamed the nation's high foreclosure rate in part on the hemorrhaging of manufacturing jobs in Ohio, Michigan and Indiana. This shouldn't have come as news to anyone; the whole country realized the scope of those losses years ago. So I'd like to ask mortgage bankers why they continued making loans to people who would never be able to pay them off. Foreclosures in my own Cuyahoga County doubled from 3,500 in 1995 to more than 7,000 in 2000, and houses all over Cleveland began emptying out -- houses like the one next door to Joe Krasucki.

Don't think we didn't try to halt the trend. In 2001 and 2002, the city councils of Dayton, Cleveland and Toledo all passed anti-predatory lending laws. (In 2002, there were 8,987 private mortgage foreclosures in Cuyahoga County alone, the worst of any county in the country.) But lobbyists for the real estate industry would have none of it. In February 2002, an army assembled in Columbus, the state capital, to overturn the cities' efforts -- dozens of lobbyists representing mainstream banks, mortgage banks, brokers, real estate agents, title companies, appraisers and Wall Street firms. They overwhelmed consumer advocates, and the Ohio legislature passed a bill preempting the right of municipalities to enact predatory lending legislation.

Lawmakers promised to address the problem that the city ordinances had sought to correct, but they sat tight for four years. The tsunami of foreclosures forced the legislature's hand in 2006, when lawmakers passed a bill that reined in brokers and appraisers. But by then, the crisis had engulfed Ohio's cities and even its suburbs. More than 13,600 private mortgage foreclosures were filed in Cuyahoga County in 2006 -- again, the worst in the nation.

The Federal Reserve's recent decision to cut interest rates may calm the nerves of Wall Street bankers, but it won't bring back Cookie Thomas or Joe Krasucki. Nor will it help the thousands of innocent people in Cleveland who live on streets with vacant houses. These hard-working citizens have watched their single most valuable asset, their home, plummet in value. According to a study by Dan Immergluck at the Georgia Institute of Technology, living within 150 feet of a vacant house reduces your property value by at least \$7,000. But for too many people, that disconcerting news is beside the point: Even if they wanted to sell their homes, they wouldn't be able to find buyers. Who wants to live in a sea of foreclosures where drug dealers roam the streets and vandals covet the aluminum siding on your house?

In my county, more than 74,000 homeowners have filed for property tax reductions this year -- people like the elderly woman on Berry Avenue on Cleveland's west side who brought me a beautiful photo montage of her well-maintained home, sitting in the midst of abandoned houses. She sobbed quietly as she explained that she had spent thousands of dollars on upkeep and on improving the property. That's money she will never get back. We've all read about the losses at investment-banking firms like Bear Stearns, but we don't read about that woman on Berry Avenue.

The interest-rate cut won't help city governments, either. It does nothing for the 10,000 vacant structures in Cleveland, almost all of them abandoned since the late 1990s. Nor will it cover the \$100 million demolition bill facing this city. You see, most of these vacant structures will never be restored; all you can do is pull them down. They've been stripped of anything of value -- copper piping, furnaces, windows, doors, you name it. Cleveland City Councilman Michael Polensek recently described to me the scavengers' efficiency: They arrive at a house less than a day after it has been vacated and strip it clean within hours.

A flurry of legislative proposals has come before Congress, including bills by Rep. Keith Ellison (D-Minn.) and Sens. Charles E. Schumer (D-N.Y.), Robert P. Casey Jr. (D-Pa.) and Sherrod Brown (D-Ohio). These bills prohibit brokers from steering home buyers into higher-priced loans and require borrowers to prove that they can make their monthly payments, not only at the low teaser rate but also at the higher rate that follows. Helpful steps, but too late.

Unfortunately, none of these bills addresses the costs to cities associated with maintaining, policing and, in the most dire case, demolishing neighborhoods such as Slavic Village. One bill introduced in Congress would allocate \$100 million over the next three years to help with demolition costs -- a number that met with peals of laughter at a conference on vacant properties that I attended in Pittsburgh last week. "Add a zero," one participant suggested.

Cities aren't asking for a bailout; they're asking for emergency funds to address the huge costs they've incurred because a private-sector industry was out of control. Congress needs to help the cities that helped make this country great -- cities like Detroit and Cleveland. And they need to do it for Cookie Thomas and Joe Krasucki.

Jim Rokakis is treasurer of Cuyahoga County, Ohio.