

**JIM ROKAKIS TESTIMONY
SENATE COMMITTEE ON BANKING, HOUSING & URBAN
AFFAIRS
10/16/2008 – WASHINGTON, DC**

**MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE,
THANK YOU FOR THE OPPORTUNITY TO SPEAK BEFORE
YOU TODAY. MY NAME IS JIM ROKAKIS AND I AM THE
TREASURER OF CUYAHOGA COUNTY, OHIO, THE STATE'S
LARGEST COUNTY, REPRESENTING CLEVELAND AND 59
CITIES, VILLAGES AND TOWNSHIPS.**

**WHILE THE EVENTS OF THE PAST SEVERAL MONTHS
HAVE FOCUSED THE ATTENTION OF THE ENTIRE
FINANCIAL WORLD ON THE PRACTICES OF THE
SUBPRIME LENDING INDUSTRY, WE HAVE SUFFERED THE
CONSEQUENCES OF RECKLESS AND IRRESPONSIBLE
LENDING FOR MANY YEARS. SINCE THE LATE 1990'S,
OHIO AND CUYAHOGA COUNTY HAVE CONSISTENTLY
LED THE NATION IN THIS SAD STATISTIC OF
FORECLOSURE FILINGS.**

CONSIDER THESE NUMBERS, PLEASE. IN 1995, 3,345 PRIVATE MORTGAGE FORECLOSURES WERE FILED IN CUYAHOGA COUNTY AND 15,975 WERE FILED STATEWIDE. BY 2000, OVER 7,500 PRIVATE FORECLOSURES WERE FILED IN CUYAHOGA COUNTY AND OVER 35,000 IN OHIO – BETTER THAN DOUBLE THE NUMBER OF FILINGS FIVE YEARS EARLIER. IN 2006, 13,610 FORECLOSURES WERE FILED IN CUYAHOGA COUNTY AND OVER 79,000 STATEWIDE. OVER 15,000 WERE FILED IN CUYAHOGA COUNTY IN 2007. SADLY, WE ARE ON PACE TO FORECLOSE ON AN ADDITIONAL 15,000 PROPERTIES IN CUYAHOGA COUNTY IN 2008.

I AM ACCOMPANIED HERE TODAY BY PROFESSOR HOWARD KATZ, A PROFESSOR OF LAW FROM ELON COLLEGE WHO WAS OUR DIRECTOR OF STRATEGIC PLANNING IN 2000. PROFESSOR KATZ AND I APPROACHED THE FEDERAL RESERVE BANK OF CLEVELAND IN THE FALL OF 2000 TO ASK FOR THEIR HELP IN CONTROLLING

THE RECKLESS LENDING PRACTICES THAT WERE DOING REAL HARM TO CLEVELAND NEIGHBORHOODS, HARM I DESCRIBE IN DETAIL IN AN ARTICLE I WROTE FOR THE WASHINGTON POST ENTITLED "SHADOW OF DEBT." WE KNEW THE FED HAD THE AUTHORITY TO ACT UNDER THE HOME OWNERSHIP EQUITY PROTECTION ACT AND UNDER THE TRUTH IN LENDING LAWS. OUR HOPE WAS THAT THE FED WOULD STEP UP ONCE THEY KNEW THE EXTENT OF THE PROBLEM. THAT WAS OUR HOPE. THE FED CO-SPONSORED A ONE DAY CONFERENCE IN MARCH OF 2001 ENTITLED "PREDATORY LENDING IN OHIO" WHERE WE DISCUSSED POTENTIAL SOLUTIONS, FEDERAL AND LOCAL. OUR KEYNOTE SPEAKER WAS FED GOVERNOR ED GRAMLICH, WHO PASSED AWAY IN 2007. THE LATE GOVERNOR GRAMLICH UNDERSTOOD THE NATURE OF THIS PROBLEM AND AS WE ALL KNOW, WARNED FED CHAIRMAN GREENSPAN ABOUT THE NEED TO REGULATE THESE PRACTICES. NOTHING OF

SUBSTANCE CAME FROM THIS CONFERENCE. IN FRUSTRATION, LOCAL ORDINANCES WERE PASSED LATER THAT YEAR IN CLEVELAND, DAYTON AND TOLEDO TO TRY TO SLOW THE REAL ESTATE INDUSTRY DOWN. WITHIN 90 DAYS THE OHIO LEGISLATURE PASSED A LAW PRE-EMPTING THE RIGHT OF OHIO CITIES TO REGULATE IN THIS AREA.

IN EARLY 2005, I APPROACHED U.S. ATTORNEY GREG WHITE AND REQUESTED A MEETING OF FEDERAL AND LOCAL OFFICIALS TO DEAL WITH THESE PRACTICES FROM THE ENFORCEMENT SIDE AS WE KNEW THAT WE WERE THE VICTIMS OF FRAUD ON AN INDUSTRIAL SCALE. THIS MEETING INCLUDED U.S. ATTORNEY WHITE, OTHER ASSISTANT U.S. ATTORNEYS, FBI AGENTS AND POSTAL INSPECTORS WHERE WE BEGGED THAT FEDERAL AUTHORITIES MAKE THIS A HIGH PRIORITY.

I STILL REMEMBER ONE ASSISTANT U.S. ATTORNEY MAKING THE POINT THAT THEY HAD RECEIVED NOT A

SINGLE COMPLAINT FROM ANY OF THE MORTGAGE BANKS INVOLVED IN THESE LOANS. HE ASKED ME, “IF THEY AREN’T COMPLAINING, WHO ARE THE VICTIMS?” THE ANSWER TO THAT QUESTION IS OBVIOUS, MR. CHAIRMAN, THE VICTIMS? HOW ABOUT THE WHOLE WORLD. THIS WASN’T PEOPLE ROBBING BANKS, MR. CHAIRMAN – THIS WAS BANKS ROBBING PEOPLE.

FOR THE RECORD, A NEGLIGIBLE AMOUNT OF PROSECUTIONS CAME AS A RESULT OF THIS MEETING. THE ONLY SIGNIFICANT PROSECUTIONS HAVE BEEN BY OUR COUNTY PROSECUTORS OFFICE.

MR. CHAIRMAN, I WOULD LIKE TO USE REMAINING TIME TO DISCUSS THE ATTEMPTS TO PIN THIS CRISIS ON THE COMMUNITY REINVESTMENT ACT OF 1977. YOU ALL KNOW WHAT THE CRA IS, WHAT IT DOES AND WHAT IT DOESN’T DO.

MR. CHAIRMAN, IF YOU WANT TO UNDERSTAND HOW SILLY THIS ALLEGATION IS, YOU JUST NEED TO LOOK AT THE LENDING DATA FOR THE CITY OF CLEVELAND.

THE PEAK YEAR FOR HOME PURCHASE MORTGAGE ORIGINATION IN CLEVELAND WAS 2005. A LOCAL NON-PROFIT RESEARCH ORGANIZATION, THE HOUSING RESEARCH AND ADVOCACY CENTER, HAS ANALYZED THE HOME MORTGAGE DISCLOSURE ACT DATA FOR THAT YEAR. THEY FOUND THAT OF THE TOP TEN MORTGAGE ORIGINATORS IN THE CITY THAT YEAR, ONLY FOUR WERE AFFILIATED IN ANY WAY WITH LOCAL DEPOSITORY BANKS, AND THOSE FOUR ACCOUNTED FOR LESS THAN 15% OF THE TOTAL MORTGAGES ORIGINATED.

OF THE 7,128 CLEVELAND MORTGAGES REPORTED IN HMDA DATA THAT YEAR, 1,258 – ALMOST 18% -- WERE ORIGINATED BY THE NOW-DEFUNCT SUBPRIME LENDER

ARGENT MORTGAGE COMPANY. ARGENT WAS NEVER COVERED BY THE CRA.

THE SECOND BIGGEST CLEVELAND LENDER THAT YEAR WAS NEW CENTURY MORTGAGE, ALSO NOW DEFUNCT, WITH 375 HOME PURCHASE ORIGINATION, A LITTLE MORE THAN 5% OF THE TOTAL. NEW CENTURY WAS NEVER COVERED BY THE CRA.

THE THIRD BIGGEST LENDER, ALSO ACCOUNTING FOR ABOUT 5%, WAS THIRD FEDERAL SAVINGS, WHICH IS A LOCAL BANK COVERED BY THE CRA. THIRD FEDERAL IS FAMOUS IN CLEVELAND FOR BEING ONE OF THE FEW REALLY GOOD GUYS IN CUYAHOGA COUNTY'S HORRIBLE SUBPRIME FORECLOSURE STORY.

NUMBERS 4, 5 AND 6 ON CLEVELAND'S 2005 TOP TEN LENDERS LIST, EACH WITH BETWEEN 4 AND 5% OF THE ORIGINATIONS, WERE AEGIS FUNDING, COUNTRYWIDE, AND LONG BEACH MORTGAGE, WHICH AS YOU KNOW IS A SUBSIDIARY OF WASHINGTON MUTUAL. THE ONLY

INSTITUTION WITH ANY CRA OBLIGATIONS ON THIS LIST IS WaMu, AND CLEVELAND IS A LONG, LONG WAY FROM WaMu'S DEPOSITORY SERVICE AREA.

FINALLY, WAAAY DOWN THE TOP TEN LIST, WE GET TO CHARTER ONE BANK'S MORTGAGE SUBSIDIARY CCO MORTGAGE, NATIONAL CITY'S MORTGAGE SUBSIDIARY NATIONAL CITY OF INDIANA, AND FIFTH THIRD MORTGAGE ... EACH WITH ABOUT 3% OF THE MARKET, ADDING UP TO JUST 648 LOANS. DID THEY MAKE THESE LOANS TO EHLP THEIR PARENT INSTITUTIONS' CRA RATINGS LOOK BETTER? POSSIBLY. DID THESE 648 LOANS PLAY A MAJOR ROLE IN THE CITY'S DEFAULT AND FORECLOSURE CRISIS? HARDLY.

THE SAME HOUSING CENTER STUDY ALSO LISTS THE TOP TEN ORIGINATORS OF HOME REFINANCE MORTGAGES, OF WHICH THERE WERE ALMOST AS MANY IN 2005 AS HOME PURCHASE LOANS. ARGENT MORTGAGE ALSO DOMINATES THIS LIST WITH 17% OF THE TOTAL.

ONLY TWO LOCAL DEPOSITORY BANKS EVEN APPEAR ON IT – THIRD FEDERAL AND JP MORGAN CHASE. THIRD FEDERAL, AS I POINTED OUT EARLIER, WAS ONE OF THE FEW NON-PREDATORY, NON-SUBPRIME, LOCALLY SERVICED, LOW-FORECLOSURE LENDERS DOING A LOT OF BUSINESS IN THE CITY DURING THIS PERIOD. IN ANY EVENT, THESE TWO BANKS COMBINED TOTAL OF HMDA-REPORTED REFINANCING MORTGAGES IN CLEVELAND IN 2005 WAS 505 OUT OF ALMOST 7,000 – A WHOPPING 7%.

MR. CHAIRMAN, THE FORECLOSURE CRISIS IN CLEVELAND FOR THE LAST SIX YEARS HAS NOT BEEN DRIVEN BY OUR CRA-COVERED DEPOSITORY BANKS, EVEN THOUGH SOME OF THEM – NOTABLE NATIONAL CITY – WERE MINOR PLAYERS. THE PROBLEM HAS BEEN DRIVEN BY ARGENT, NEW CENTURY, AEGIS, COUNTRYWIDE, LONG BEACH, WELLS FARGO, AND DOZENS OF OTHER SUBPRIME AND HIGH-COST LOAN PEDDLERS WITH NO LOCAL DEPOSITORY SERVICES AND

**NO COMMUNITY REINVESTMENT ACT OBLIGATIONS IN
OUR COMMUNITY.**

**THANK YOU FOR THIS OPPORTUNITY. I WILL
ANSWER ANY QUESTIONS YOU MIGHT HAVE.**