



City of Long Beach
Working Together to Serve

Office of Gerrie Schipske, R.N.P., J.D.
Councilwoman, Fifth District
Memorandum

R-6

Date: May 8, 2012

Revised

To: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

From: Councilwoman Gerrie Schipske, Fifth District *GS*
Councilmember Rae Gabelich, Eighth District *RG*
Councilmember Steven Neal, Ninth District *SN*

Subject: **AGENDA ITEM: Supporting California Attorney General's "Homeowner Bill of Rights"**

Discussion: The City of Long Beach has experienced over 2,000 foreclosures of homes. The problems continue with homeowners not being able to obtain loan modifications and other arrangements so that they can keep their residences. California State Attorney General Kamala Harris recognizes that several changes need to be made in law that would make significant improvements in the way the state regulates mortgage lenders in order to protect homeowners. She is proposing a package of reforms that the State Assembly and State Senate are currently considering. These reforms would increase protections for mortgage borrowers by prohibiting lenders from foreclosing on a property while simultaneously negotiating a loan modification on that property and also simplify loan documentation by establishing a single, standardized contract for foreclosures and loan restructuring. Other specific reforms include:

- Basic standards of fairness in the mortgage process, including an end to dual-track foreclosures
- Transparency in the mortgage process, including a single point of contact for homeowners
- Community tools to prevent blight after banks foreclose upon homes
- Tenant protections after foreclosures
- Enhanced law enforcement to defend homeowner rights - paid for by fees imposed on banks
- A special grand jury to investigate financial and foreclosure crime

Conclusion: The City's Foreclosure Registry indicates that current foreclosures are particularly high in most Council Districts: 1 (113); 2 (192); 3 (96); 4 (135); 5 (128); 6 (108); 7 (195); 8 (156); 9 (208). Many homeowners in the City of Long Beach are fighting to keep their homes. In the past 12 months, the real estate data firm Zillow found that the value of 74 percent of all Long Beach homes has fallen and that 37 percent of Long Beach homes were underwater - with their homes selling for less than the amount originally paid and - severely impacting the stability of the local economy. Should the economy not improve there will be many more homes in foreclosure. Proposed legislation to protect homeowners will provide the fairness that has been lacking in this situation.

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Recommendations: By motion of the City Council, the following resolution is adopted supporting the "Homeowner Bill of Rights" and calling upon the City's banking partners and the Federal Housing and Finance Agency (FHFA) to suspend foreclosures and evictions until reforms to protect homeowners are put into place.

Fiscal Impact: The City of Long Beach receives over 17% of its revenues from property taxes. Without legal protections for Long Beach homeowners, the City will continue to experience a loss in property taxes due to falling real estate values and foreclosures.

Proposed Resolution:
Resolution supporting the California Homeowner Bill of Rights

WHEREAS, The United States Department of Justice (DOJ) recently entered into a \$26 billion settlement agreement with five major banks, over findings of misconduct in foreclosure activities serving as a first step towards ensuring broader investigation, due process, principal reduction, and more comprehensive restitution for borrowers who have lost their homes unjustly; and

WHEREAS, In light of mounting investigations into alleged malfeasance by banking institutions and mortgage and trustee companies, state legislators have introduced a package of bills known as the California Homeowner Bill of Rights, as encompassed in Senate Bills 1470, 1471, 1472, and 1473, to help protect homeowners from unlawful foreclosure actions and ensure due process and accountability from the mortgage industry; and

WHEREAS, Despite the DOJ settlement, and mounting evidence of banking and mortgage industry questionable practices, and filing of legislative measures to protect homeowners and tenants, there is still no immediate protection and relief for millions of homeowners whose struggling to pay their mortgage, homes are underwater, or currently facing foreclosure; and

WHEREAS, Many of these foreclosures can be attributed to predatory banking practices that disproportionately targeted racial and ethnic minority communities, especially working-class African-Americans and Latinos; and

WHEREAS, the City of Long Beach receives notice of homes with a "notice of default" on average of over 174 a month totaling approximately 2,091 homes in foreclosure; and

WHEREAS, In the past 12 months, the real estate data firm Zillow found that the value of 74 percent of all Long Beach homes has fallen and that 37 percent of Long Beach homes were underwater – with their homes selling for less than the amount originally paid and – severely impacting the stability of the local economy; and

WHEREAS, A recent survey of 260 consumer attorneys by the National Association of Consumer Advocates, the National Association of Consumer Bankruptcy Attorneys, and the National Consumer Law Center found that 90% of respondents report representing a homeowner

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placed in foreclosure while awaiting a Government Sponsored Enterprise (GSE) loan and/or Home Affordable Modification Program (HAMP) loan; and

WHEREAS, California State Attorney General Kamala Harris has been a leader on holding major banks accountable for unlawful foreclosure practices and on February 27, 2012, asked for a suspension of foreclosures on loans controlled by Fannie Mae and Freddie Mac and has made similar requests of the major banks pending an investigation and proposals for principal reduction;

now, therefore, be it

RESOLVED, That the City Council directs the City lobbyists in the California State Capitol to prioritize support for the California Homeowner Bill of Rights State Bills, as encompassed in Senate Bills 1470, 1471, 1472, 1473; to urge lawmakers to modify the effective dates so that they expeditiously take effect upon passage; and to proactively advocate for the following legislation to retain the following provisions:

- SB 1470: Foreclosure Reduction Act of 2012 – Allow for the translation of notices into the six most spoken languages in California and provide for adequate time for a borrower to evaluate loan modification offers and consult a housing counselor;
- SB 1471: Due Process Reform Legislation – Require creditors to provide a single point of contact to borrowers in the foreclosure process who will be responsible for providing an accurate account and other information related to the foreclosure and loss mitigation efforts, and also authorize borrowers to challenge the unlawful commencement of a foreclosure process in court;
- SB 1472: Blight Prevention Legislation – Ensure that receivership powers should be tied to enabling low income households to occupy the property, and partnerships with qualified nonprofits should be encouraged;
- SB 1473: Tenant Protection Legislation – Clarify that local ordinances may provide additional and greater protection against eviction; and, be it

FURTHER RESOLVED, That the City Council invests over \$649.4 million in both the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) and calls on our representatives in Washington DC to urge Edward DeMarco, Acting Director of the Federal Housing and Finance Agency (FHFA), to suspend all foreclosure activities until such time FHFA has in place policies to:

- Reduce Principal – Allow Fannie Mae and Freddie Mac to offer loan modifications containing principal reduction down to market value, at least where this passes the net present value test, which will often be the case;
- Stop Dual-Tracking – Prevent Fannie Mae and Freddie Mac servicers from continuing the foreclosure process while borrowers are negotiating for a loan modification;
- Offer Tenants Long-Term Leases – Require Fannie Mae and Freddie Mac to offer tenants residing in foreclosed properties the option of a two-year lease if they wish to remain in their homes; and, be it

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FURTHER RESOLVED, That the City of Long Beach urges all banks, especially our City banking partners Bank of America and Union Bank to immediately suspend foreclosure activities and evictions until a full investigation of irregularities and legal violations is conducted; and until state and federal reforms to protect homeowners from unfair and unlawful practices and a pathway to due process and principal reduction are in place.