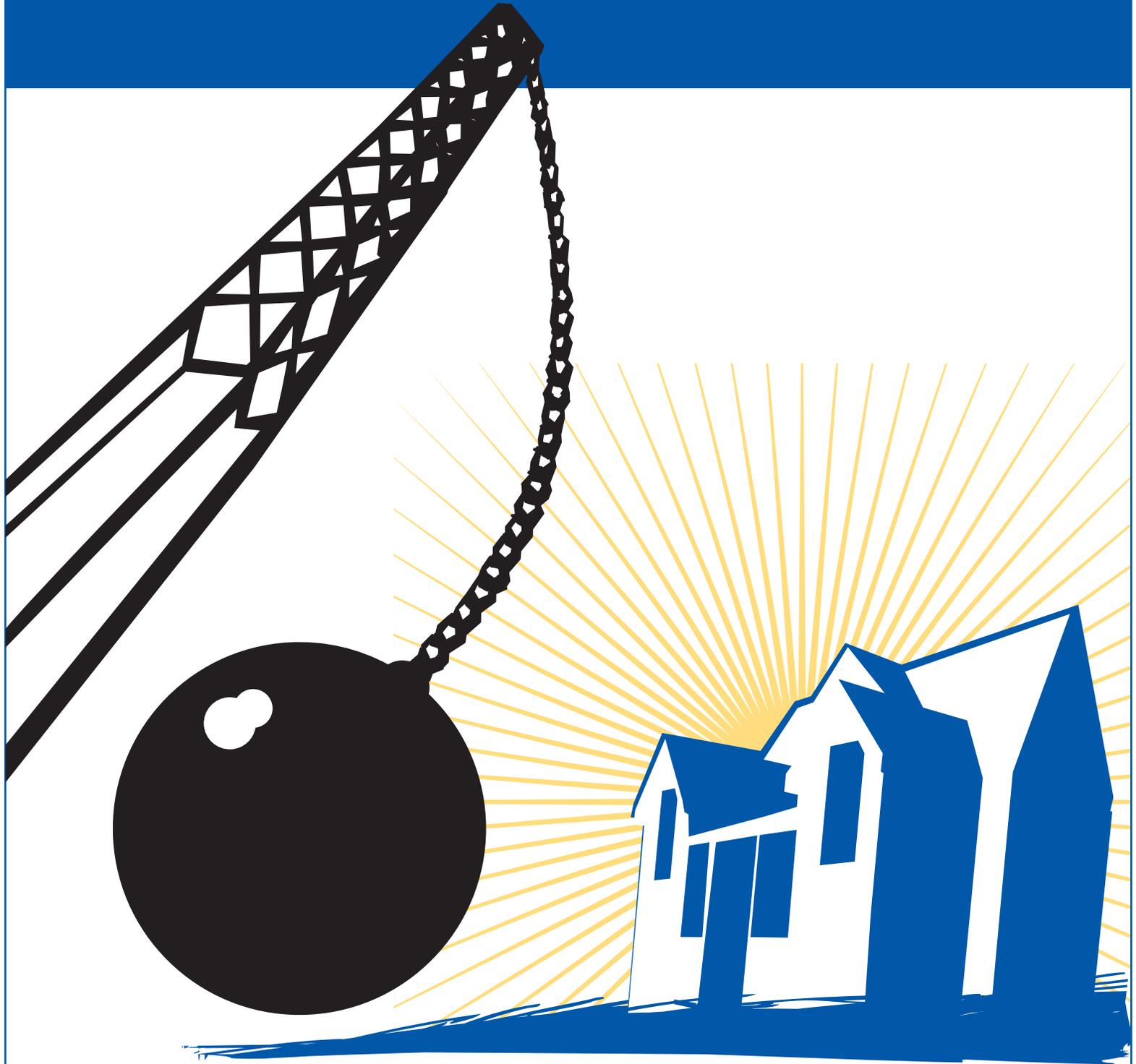


Home Wreckers

How Wall Street Foreclosures Are Devastating Communities



PICO California
Unlocking the Power of People™



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 kept inflating the housing bubble so they could get their mega-bonus checks. 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.

TOP BANKS FORECLOSING ON CALIFORNIANS:^{vi}

- Bank of America
- JP Morgan Chase
- Wells Fargo Bank
- Citigroup

As the foreclosure crisis continues, the costs to homeowners, the property tax base, and local governments adds up to \$650 billion to as much as \$1 trillion.

Wall Street banks shattered our economy and left our communities to clean up the pieces. The housing market is where the economic crisis began and without immediate action, we are facing a multi-billion dollar hit to homeowners and communities across California that would undermine the economic recovery our state desperately needs. Without a remedy, the damage to our communities will be staggering and long-lasting.

The Costs of the Foreclosure Crisis in California (2008-2012):

1. **Homeowner Cost:** Home value losses to foreclosed homes and neighboring homes total minimum **\$632 billion and up to \$1 trillion – at least a \$337,379** value loss per foreclosure to the surrounding community.
 - Decline in value of foreclosed homes – \$207 billion value loss
 - Decline in value of neighboring homes – \$424 billion value loss
2. **Property Tax Cost:** As housing values decline, property tax revenue losses are estimated to be **\$3.8 billion – \$2,058 property tax loss for every foreclosure.**
3. **Local Government Cost:** Foreclosure-related costs for multiple agencies and multiple levels of government for maintenance of blighted properties, sheriff evictions, inspections, public safety, trash removal, and other costs are estimated to be **\$17.4 billion – \$19,229 cost for every foreclosure.**

The Foreclosure Crisis Continues:

- One in five U.S. foreclosures is in California.ⁱ
- California is the hardest hit of all states with the highest number of foreclosures.ⁱⁱ
- There have been 1.2 million foreclosures since 2008 in California and that number is expected to climb to 2 million through 2012.ⁱⁱⁱ
- Foreclosures in 2011 are expected to exceed 2010 levels.^{iv}
- More than a third of California homeowners with a mortgage already owe more on their mortgages than their homes are worth.^v

Insult to Injury: Bank Fees Forced on Families in Foreclosure

Mortgage servicers, who are often the Big Banks like Bank of America, JP Morgan Chase, Wells Fargo, make profits from foreclosure fees from families in foreclosure. One estimate showed that an average foreclosure results in \$7,200 in charges to the borrower.^{viii} Fees to struggling homeowners include foreclosure processing fees, late payment fees, inspections and valuations fees, and other charges.^{ix}

What's Negative Equity?

Often referred to as “underwater” or “upside down,” it means that borrowers owe more on their mortgages than their homes are worth. California’s negative equity share is 31.8% (compared to 23% nationally)- that means almost a third of homeowners are underwater on their mortgages.

“Negative equity holds millions of borrowers captive in their homes, unable to move or sell their properties.”

– Mark Fleming, chief economist,
CoreLogic.^{xii}



“ Families in my community have lost either their homes or their life savings that were invested in their homes. ”

– Peggy Mears, Homeowner in Fontana,
San Bernardino County

California Homeowner Losses: \$632 billion+

The foreclosure crisis will have a significant impact on California homeowners and their communities with an estimated \$632 billion in home value losses to foreclosed homes and neighboring homes.

Decline in Value of Foreclosed Homes: \$207 billion.

It is estimated that homes in foreclosure experience a 22% decline in value.^{vii} That means that the impact of the 2 million foreclosures estimated for the period 2008 through 2012 will be over \$207 billion in lost home value in communities across California.¹

Decline in Value to Neighboring Homes: \$424 billion.

The impact to foreclosed properties is just the tip of the iceberg. It is conservatively estimated that each foreclosed property will depress the value of neighboring homes within an eighth of a mile to drop 0.9%.^x Statewide, California homeowners could experience property devaluation of \$424 billion.²

“ What will happen to the US economy in 2011? It's great news for executives and Wall Street traders, whose pay is linked to stock prices... But a bad omen for home prices and sales, and everyone whose savings are mainly in their homes. ”

– Robert Reich, Fmr. Secretary of Labor^{xi}

Property Taxes Tumble with Property Values: \$3.8 billion

As property values drop an estimated \$632 billion, California communities could lose as much as \$3.8 billion in property tax revenue.³ California's County Assessors started to report record losses in 2009 and 2010- for many counties, the first time losses have been reported since the Great Depression. With the continued foreclosure crisis and property value declines coupled with the lag in the new lower property assessments, the property tax losses being reported are just the beginning.

California communities have been struggling with a dysfunctional fiscal system that has limited property tax revenue and over-relies on residential taxes. The foreclosure disaster has exacerbated this revenue crisis. California's communities depend on property tax as a primary source of revenue for vital services provided through their counties, cities, school districts and community colleges, and special districts.^{xiii}

Property Tax Revenue Allocation:

- Counties: 17%
- Cities: 11%
- School districts and community colleges: 53%
- Special districts: 19%

Furthermore, Proposition 8 which allows an unlimited reduction in down-assessments to market values could further drive down tax revenue, and because Proposition 13 caps annual property value increases at 2 percent, there will only be incremental revenue growth following any recovery.

The impact is already being felt with huge losses in property tax revenue:

According to California county tax assessors, in only 12 of 65 California counties for 2009-2010, the tax roll was down about \$62.7 billion as a result of the foreclosure-fueled market decline, translating to an estimated \$627 million loss in property taxes just for the 2009-2010 fiscal year.^{xiv}

- Los Angeles County: \$190 million lost in property tax revenue^{xv}
- Riverside County: \$90 million lost in property tax revenue^{xvi}
- San Bernardino County: \$70 million lost in property tax revenue^{xvii}
- Santa Clara County: \$70 million lost in property tax revenue^{xviii}
- Contra Costa County: \$45 million lost in property tax revenue^{xix}



“The foreclosure crisis in California has amounted to large losses for homeowners as well as draining local and state revenues depleting our schools, police and fire stations, and county hospitals.”

- Phil Ting,
San Francisco Assessor-Recorder

Drain on Public Safety:

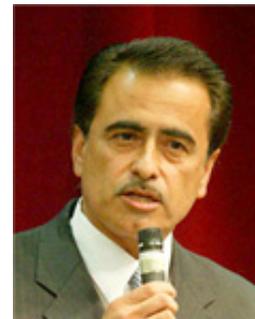
Vacant foreclosures unattended by banks become a magnet for blight and illicit activity that destabilize neighborhoods. According to one study, when the foreclosure rate increases one percentage point, neighborhood violent crime rises 2.33 percent.^{xxii}

“In the Franklin Reserve neighborhood of Elk Grove, Calif., full of subdivisions with half-million-dollar homes, homeowners are fighting inner-city problems like gangs, drugs, theft, and graffiti.” – AP^{xxiii}

Cost to Local Governments: \$17.4 billion

“Abandoned properties are draining the City’s dollars at a time when we can least afford it. A single foreclosure can cost up to \$34,000 for local government agencies in the form of costs such as inspections, court actions, unpaid water and sewage charges, trash removal and LAPD intervention.”^{xx}

– Richard Alarcon, Los Angeles City Councilmember



When banks foreclose on homes, they lower property value and property tax revenue but they also drain public resources at the local level. In fact, a single foreclosure can cost nearly \$20,000, and as much as \$34,000.^{xxi} Local government foreclosure-related costs are estimated at \$17.4 billion.⁴

Local government agencies have to spend time and money to absorb the cost of increased public safety, the maintenance of blighted properties, inspections, trash removal, foreclosure processing, 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 \$20,000 and potentially much higher.

The National League of Cities (NLC) conducted a survey that found that foreclosures and the declining housing market ranked prominently as causes for local budget crises. That means at a time when cities are contemplating slashing services, they are also being asked to pick up the tab for cleaning up the banks’ foreclosure mess.

It's Time for Solutions to Help California Recover:

We can't have an economic recovery in our state without addressing the costs of the foreclosure crisis. The Homeowner Protection Package is a comprehensive policy solution to remedy the costs of foreclosure, provide homeowner protections, and help stabilize the California housing market:

- **Wall Street Foreclosure Fee to Recoup Losses – AB 935 (Blumenfield):** This bill would impose a fee of \$20,000 on a foreclosing banks in order to mitigate the economic impact of foreclosures on cities, counties, schools districts and the state.
- **Fair and Legal Modification – SB 729 (Leno/Steinberg):** This bill would require loan servicers to give homeowners a yes or no decision on their loan modification application before beginning the foreclosure process. It also allows homeowners to bring legal action with specified remedies when serious violations occur.
- **Title Transparency – AB 1321 (Wieckowski):** This bill would mandate recording of all mortgage deeds/trusts and assignments, and payment of the requisite fees. It would also require that the mortgage note be filed prior to issuing a Notice of Default to ensure that the foreclosing party has the right to foreclose.

¹ 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.

² 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. Furthermore, the conservative estimate of 0.9% value decline doesn't account for the common scenario of communities with multiple foreclosures on one block that would further depress property values.

³ 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.

⁴ 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)--however, when any home goes into foreclosure we have to be prepared for worst case scenario, which is that it will end up an REO.

The Cost of the Foreclosure Crisis in California (2008-2012)

County	Total Foreclosures	Home Value Loss	Property Taxes Loss	Cost to Local Government
California	1,874,219	\$632,321,429,854	\$3,857,160,722	\$17,431,934,576
Los Angeles	381,461	\$150,561,591,256	\$918,425,707	\$2,849,872,403
San Diego	144,134	\$53,741,082,570	\$327,820,604	\$1,249,654,252
Orange	107,805	\$48,437,181,831	\$295,466,809	\$742,600,905
Riverside	207,098	\$56,376,479,102	\$343,896,523	\$2,036,097,277
San Bernardino	167,114	\$43,330,885,344	\$264,318,401	\$1,663,527,711
Santa Clara	51,867	\$26,344,446,538	\$160,701,124	\$411,039,104
Alameda	63,351	\$27,665,936,488	\$168,762,213	\$581,919,535
Sacramento	110,150	\$27,350,514,960	\$166,838,141	\$1,221,979,875
Contra Costa	70,775	\$29,504,173,975	\$179,975,461	\$736,301,485
San Francisco	10,606	\$5,902,970,814	\$36,008,122	\$74,489,300
Fresno	46,204	\$9,172,503,988	\$55,952,274	\$495,465,951
Ventura	33,430	\$14,363,815,596	\$87,619,275	\$278,043,648
Kern	58,233	\$10,019,337,048	\$61,117,956	\$658,285,586
San Mateo	15,723	\$8,881,561,071	\$54,177,523	\$116,766,180
San Joaquin	62,821	\$16,815,090,031	\$102,572,049	\$710,242,344
Sonoma	20,495	\$8,429,777,672	\$51,421,644	\$208,650,033
Stanislaus	48,161	\$11,568,031,395	\$70,564,992	\$551,583,865
Solano	33,288	\$10,694,397,826	\$65,235,827	\$355,251,929
Santa Barbara	13,470	\$5,792,352,822	\$35,333,352	\$123,884,755
Placer	24,191	\$7,839,730,273	\$47,822,355	\$214,299,513
Monterey	20,380	\$8,994,285,020	\$54,865,139	\$209,588,408
Tulare	19,609	\$3,088,782,356	\$18,841,572	\$207,088,638
San Luis Obispo	8,917	\$3,458,496,798	\$21,096,830	\$87,203,515
Santa Cruz	8,441	\$4,280,161,107	\$26,108,983	\$74,289,319
Marin	5,647	\$3,475,892,263	\$21,202,943	\$46,072,684
Butte	8,080	\$1,559,619,555	\$9,513,679	\$87,149,674
Merced	24,651	\$5,346,370,981	\$32,612,863	\$281,866,374
El Dorado	10,821	\$3,672,092,584	\$22,399,765	\$106,555,581
Shasta	7,919	\$1,355,682,489	\$8,269,663	\$92,972,215
Yolo	7,885	\$2,346,277,114	\$14,312,290	\$78,823,517
Humboldt	1,944	\$418,053,066	\$2,550,124	\$16,625,393
Imperial	9,366	\$1,549,946,242	\$9,454,672	\$96,825,707
Nevada	5,053	\$1,617,935,229	\$9,869,405	\$47,461,018
Napa	5,637	\$2,430,072,902	\$14,823,445	\$54,821,879
Madera	10,768	\$2,396,676,832	\$14,619,729	\$118,489,098
Kings	5,071	\$817,859,607	\$4,988,944	\$53,183,568
Mendocino	2,342	\$735,926,660	\$4,489,153	\$24,143,932
Lake	5,552	\$1,122,688,153	\$6,848,398	\$63,959,500
Sutter	5,347	\$1,048,634,045	\$6,396,668	\$59,706,045
Tuolumne	2,474	\$882,258,506	\$5,381,777	\$28,720,434
Yuba	6,201	\$1,180,265,608	\$7,199,620	\$74,635,441
Calaveras	3,892	\$1,388,189,428	\$8,467,956	\$45,153,538
Siskiyou	1,393	\$496,872,241	\$3,030,921	\$15,025,541
Tehama	2,660	\$948,665,060	\$5,786,857	\$30,385,666
Amador	2,132	\$760,287,284	\$4,637,752	\$23,993,946
San Benito	3,583	\$1,277,916,031	\$7,795,288	\$38,419,542
Plumas	1,235	\$440,308,979	\$2,685,885	\$14,629,423
Mono	1,137	\$405,500,817	\$2,473,555	\$9,287,607
Lassen	1,489	\$531,109,777	\$3,239,770	\$16,856,141
Del Norte	539	\$192,300,827	\$1,173,035	\$6,199,430
Glenn	990	\$352,931,934	\$2,152,885	\$10,506,726
Mariposa	658	\$234,741,106	\$1,431,921	\$7,683,908
Inyo	264	\$94,081,896	\$573,900	\$2,376,704
Colusa	1,251	\$446,157,891	\$2,721,563	\$15,337,050
Trinity	160	\$57,205,216	\$348,952	\$1,919,054
Modoc	104	\$36,948,008	\$225,383	\$1,415,254
Sierra	145	\$51,641,617	\$315,014	\$1,480,633
Alpine	103	\$36,734,023	\$224,078	\$1,126,819

* Foreclosure numbers from RealtyTrac

Endnotes

- ⁱ Based on data from RealtyTrac.com.
- ⁱⁱ Based on data from RealtyTrac.com 2010 year end foreclosure filings and Center for Responsible Lending.
- ⁱⁱⁱ RealtyTrac data for 2008 to 2009, and 2010 data and projected foreclosures for 2011 and 2012 based on Moody's Analytics, <http://online.wsj.com/article/SB10001424052748704692904576166982594828812.html#printMode>. Center for Responsible Lending estimates a similar number in their California Fact Sheet, <http://www.responsiblelending.org/mortgage-lending/tools-resources/factsheets/california.html>.
- ^{iv} Moody's Analytics foreclosure projections, <http://online.wsj.com/article/SB10001424052748704692904576166982594828812.html#printMode>
- ^v http://www.corelogic.com/uploadedFiles/Pages/About_Us/ResearchTrends/CL_Q4_2010_Negative_Equity_FINAL.pdf
- ^{vi} Foreclosure Radar
- ^{vii} The Value of Foreclosed Property, Anthony Pennington-Cross, Marquette University.
- ^{viii} http://www.fhfund.org/_dnld/reports/MFP_1995.pdf
- ^{ix} <http://www.washingtontimes.com/news/2010/dec/17/big-banks-profit-from-foreclosure-crisis/>
- ^x 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.
- ^{xi} http://www.huffingtonpost.com/robert-reich/new-years-prediction_b_802637.html
- ^{xii} http://www.corelogic.com/uploadedFiles/Pages/About_Us/ResearchTrends/CL_Q4_2010_Negative_Equity_FINAL.pdf
- ^{xiii} CA Board of Equalization, CA Property Tax Overview. <http://www.boe.ca.gov/proptaxes/pdf/pub29.pdf>
- ^{xiv} http://www.bondbuyer.com/issues/119_389/calif_counties_property_values_decline-1015128-1.html
- ^{xv} LA Tax Assessor Report. <http://assessor.lacounty.gov/extranet/News/rollrls2010.pdf> The property tax roll was reduced by \$19 billion. Calculation is \$19 billion x 1%, the property tax rate in California.
- ^{xvi} <http://riverside.asrclrec.com/acr/docs/2010-2011%20Annual%20Report.pdf>
- ^{xvii} <http://www.sbcounty.gov/assessor/Archives/20100630AssessorAnnualRollRecap.pdf>
- ^{xviii} <http://www.sccgov.org/SCC/docs%2FAssessor%2C%20Office%20of%20the%20%28ELO%29%2FAttachments%2FAnnual%20Report%202010-11.pdf>
- ^{xvix} <http://www.sccgov.org/SCC/docs%2FAssessor%2C%20Office%20of%20the%20%28ELO%29%2FAttachments%2FAnnual%20Report%202010-11.pdf>
- ^{xx} Statement by Councilman Alarcon, April 29, 2010
- ^{xxi} 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.
- ^{xxii} <http://www.nw.org/network/neighborworksprogs/foreclosuresolutions/reports/documents/7ForeclosureImpacts.pdf>
- ^{xxiii} http://www.msnbc.msn.com/id/21773482/ns/business-real_estate/