

Testimony of Jim Rokakis

Treasurer of Cuyahoga County, Ohio

Submitted to the Joint Economic Committee

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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 7,000 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. Sadly, we are on pace to foreclose on 17,000 properties in Cuyahoga County in 2007 – five times the 1995 total.

The impact of the foreclosures on the county's tax base has been overwhelmingly negative. Last year more than 74,000 borrowers filed for a property tax reduction with our county auditor and the Board of Revision. Professor Dan Imergluck of Georgia Tech, among others, has written about the impact of foreclosures and vacant properties on crime and property values. While very few of my residents have read Professor Imergluck's work they know this: their neighborhoods are less safe and their properties worth substantially less as a result of these foreclosures and they are voting with their feet. 50,000 residents have left Cuyahoga County in the past five years – only Hurricane Katrina afflicted counties have experienced a greater loss. We surveyed vacant properties in seven suburbs and Cleveland, and estimate at least 15,000 structures are vacant in Cuyahoga County as a result of this foreclosure epidemic.

The impact has been felt in suburbs as well as in the city of Cleveland. Almost every community in Cuyahoga County is being forced to maintain yards and empty dwelling units as a result of these foreclosures. Shaker Heights will be forced to spend over \$500,000 this year to maintain its vacant properties. Euclid will spend almost \$400,000. Cleveland Heights, Garfield Heights, Maple Heights, South Euclid, Lakewood and Parma will all spend hundreds of thousands of dollars out of their general funds to maintain these properties – monies they cannot afford and expenditures that will result in a loss of services in other critical areas.

The last thing I want to discuss is the carelessness, sloppiness and rampant fraud that is so prevalent in the mortgage lending industry. Look at this study of foreclosed properties conducted by Cleveland State University. The first exhibit is a page of foreclosed mortgages on loans made by Argent Mortgage, a wholly owned subsidiary of

Ameriquest. This first exhibit is a random sampling of foreclosed mortgages on Cleveland's west side. Look at the auditor's fair market value in the second to last column. We have color-coded this chart to highlight our point. Every mortgage in red is a mortgage of at least 175% of the auditor's fair market value. Every mortgage in yellow is at least 125 to 175% of the auditor's fair market value. Look at how many mortgages are loaned at amounts of at least 200% of fair market value. The second part of this study looks at the total value of Argent mortgages and the total value of these properties according to our county auditor. The study shows negative equity totaling one hundred eighty six million dollars in the city, and forty three and one-half million dollars in the suburbs. The negative equity in the city of Cleveland is probably much higher since so many of these properties have been vandalized and stripped of their siding and copper piping, and anything else of value.

The purchasers of these properties were not blameless in most of these transactions. Many had horrible credit. Most put nothing down. Most received cash back at the closing, but the broker, mortgage banker and Wall Street knew all of this but the money was too good, the profits too powerful to ignore. Don't buy the argument of the Federal Reserve Bank that the market will correct itself. The market corrected too late and only after neighborhoods in Cleveland, and cities like it all over the country, were decimated by this industry. The real victims in this scandal, Mr. Chairman, were the hard working citizens of my community who pay their taxes, maintain their property and who watch helplessly as properties are sold and resold around them, going dark and being vandalized – citizens whose major and often only asset – their home – is stripped of its value – just as the home next door to them is stripped of its aluminum siding and copper piping. And we must not

forget, Mr. Chairman, that 90% of the subprime loans in our country are not new homeowners. They are existing homeowners who have refinanced their properties. That is why when foreclosures on subprime mortgages – there are about 800 billion dollars of subprime arm's resting this year and next – are all filed and adjudicated – there will be fewer homeowners in this country than before this whole sordid mess got started.