

PREDATORY LENDING

JOINT HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
ONE HUNDRED SEVENTH CONGRESS
FIRST SESSION

SPECIAL HEARING
MAY 14, 2001—BALTIMORE, MD

Printed for the use of the Committee on Appropriations



Available via the World Wide Web: <http://www.access.gpo.gov/congress/senate>

U.S. GOVERNMENT PRINTING OFFICE

85-218 PDF

WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON APPROPRIATIONS

TED STEVENS, Alaska, *Chairman*

THAD COCHRAN, Mississippi	ROBERT C. BYRD, West Virginia
ARLEN SPECTER, Pennsylvania	DANIEL K. INOUE, Hawaii
PETE V. DOMENICI, New Mexico	ERNEST F. HOLLINGS, South Carolina
CHRISTOPHER S. BOND, Missouri	PATRICK J. LEAHY, Vermont
MITCH McCONNELL, Kentucky	TOM HARKIN, Iowa
CONRAD BURNS, Montana	BARBARA A. MIKULSKI, Maryland
RICHARD C. SHELBY, Alabama	HARRY REID, Nevada
JUDD GREGG, New Hampshire	HERB KOHL, Wisconsin
ROBERT F. BENNETT, Utah	PATTY MURRAY, Washington
BEN NIGHTHORSE CAMPBELL, Colorado	BYRON L. DORGAN, North Dakota
LARRY CRAIG, Idaho	DIANNE FEINSTEIN, California
KAY BAILEY HUTCHISON, Texas	RICHARD J. DURBIN, Illinois
MIKE DEWINE, Ohio	TIM JOHNSON, South Dakota
	MARY L. LANDRIEU, Louisiana

STEVEN J. CORTESE, *Staff Director*
LISA SUTHERLAND, *Deputy Staff Director*
TERRENCE E. SAUVAIN, *Minority Staff Director*

SUBCOMMITTEE ON VA, HUD, AND INDEPENDENT AGENCIES

CHRISTOPHER S. BOND, Missouri, *Chairman*

CONRAD BURNS, Montana	BARBARA A. MIKULSKI, Maryland
RICHARD C. SHELBY, Alabama	PATRICK J. LEAHY, Vermont
LARRY CRAIG, Idaho	TOM HARKIN, Iowa
PETE V. DOMENICI, New Mexico	ROBERT C. BYRD, West Virginia
MIKE DEWINE, Ohio	HERB KOHL, Wisconsin
TED STEVENS, Alaska (<i>ex officio</i>)	TIM JOHNSON, South Dakota

Professional Staff

JON KAMARCK
CAROLYN E. APOSTOLOU
CHEH KIM
PAUL CARLINER (*Minority*)
GABRIELLE A. BATKIN (*Minority*)

Administrative Support

ISAAC GREEN
NANCY OLKEWICZ (*Minority*)

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

PHIL GRAMM, Texas, *Chairman*

RICHARD C. SHELBY, Alabama	PAUL S. SARBANES, Maryland
ROBERT F. BENNETT, Utah	CHRISTOPHER J. DODD, Connecticut
WAYNE ALLARD, Colorado	TIM JOHNSON, South Dakota
MICHAEL B. ENZI, Wyoming	JACK REED, Rhode Island
CHUCK HAGEL, Nebraska	CHARLES E. SCHUMER, New York
RICK SANTORUM, Pennsylvania	EVAN BAYH, Indiana
JIM BUNNING, Kentucky	ZELL MILLER, Georgia
MIKE CRAPO, Idaho	THOMAS R. CARPER, Delaware
JOHN ENSIGN, Nevada	DEBBIE STABENOW, Michigan
	JON S. CORZINE, New Jersey

WAYNE A. ABERNATHY, *Staff Director*

STEVEN B. HARRIS, *Democratic Staff Director and Chief Counsel*

GEOFFREY P. GRAY, *Senior Professional Staff Member*

JONATHAN MILLER, *Democratic Professional Staff Member*

CONTENTS

	Page
Statement of Senator Barbara A. Mikulski	1
Statement of Senator Paul S. Sarbanes	3
Statement of Hon. Martin O'Malley, Mayor, Baltimore, Maryland	5
Statement of Harry Smith, Citizen	8
Statement of Chassie Adams, Citizen	9
Statement of Vincent Quayle, St. Ambrose Housing Aid Center	10
Statement of Kenneth Strong, Director of Research and Policy, Community Law Center, Baltimore, Maryland	14
Prepared statement	18
Statement of Paul T. Graziano, Commissioner, City of Baltimore, Department of Housing and Community Development	34
Joann Copes, Director of Development, Baltimore Housing and Community Development	34
Prepared statement of Paul T. Graziano	37
Statement of Laurie Maggiano, Director, Asset Management and Disposition, Single Family Division, Department of Housing and Urban Development	41
Prepared statement	45
Baltimore Predatory Lending and Flipping Task Force Year One Accomplish- ments	47
Statement of Stephen M. Schenning, Acting United States Attorney, District of Maryland	49
Prepared statement	51

PREDATORY LENDING

MONDAY, MAY 14, 2001

U.S. SENATE, COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS, AND COMMITTEE ON APPROPRIATIONS,
SUBCOMMITTEE ON VA, HUD, AND INDEPENDENT
AGENCIES,

Baltimore, MD.

The subcommittee and committee met at 9:12 a.m., in the Curran Room, Baltimore City Hall, 100 North Holliday Street, Baltimore, Maryland, Hon. Barbara A. Mikulski presiding.

Present from the Committee on Appropriations: Senator Mikulski.

Present from the Committee on Banking, Housing, and Urban Affairs: Senator Sarbanes.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Good morning, everybody. I would like to convene this hearing. It is a joint hearing between the Senate Appropriations and the Senate authorizing committee on the issue of flipping. In the United States Senate, Senator Sarbanes and I are a one-two punch on the issue of housing. Senator Paul Sarbanes is the ranking member of the Committee on Housing and Banking and in charge of all of the housing authorization. In addition to that, he is on the Budget Committee. I am on the Appropriations. So he is the Federal law book guy; I am the Federal checkbook lady as the ranking member on the Subcommittee on VA-HUD in Appropriations.

Senator Sarbanes and I do work as not only Team Maryland, but Team USA on the whole issue of housing opportunity and empowerment. So we are here this year to hold an anniversary hearing on what has happened on the subject of flipping.

We are delighted that Mayor O'Malley could join us this morning. Mayor, your two United States Senators have some very good news for you. We wish this morning to announce a \$5 million grant from the Department of HUD to the Baltimore Housing and Community Development Agency to establish a victims' clearinghouse and to provide funds for the city to rehabilitate Baltimore's neighborhoods, particularly those that have been gouged by the locusts of predatory lenders.

First we have \$3 million for something called the Healthy Neighborhood Initiative, and this will provide funds for homeowners in Bel Air-Edison, Gwynn Oak, Midtown, Belvedere, Reservoir Hill,

and Southern Mondawmin for home improvements, to help attract more homeownership to targeted neighborhoods.

One hundred fifty million dollars for neighborhood stabilization to stabilize neighborhoods by supplying money to purchase and repair vacant housing in Baltimore. I know Mr. Graziano wants to elaborate in more detail on this.

Last, but not at all least, a \$500,000 grant for a flipping victim clearinghouse in which an expert in housing counseling at Baltimore's St. Ambrose will run a clearinghouse to serve as a one-stop shop for victims of predatory lending, otherwise known as flipping. You know, flipping has destabilized neighborhoods, gouged the poor, and ripped off the taxpayer, and we have been fighting this issue from the very able work of the U.S. Attorney, the FBI, and the Postal Inspector.

But the battle is really being done in the neighborhoods. We are looking forward to hearing from them.

Before I elaborate more on my opening statement, Senator Sarbanes, did you want to say something about the grant?

Senator SARBANES. No.

Senator MIKULSKI. We hope that these funds will help the victims of flipping and also help with neighborhood stabilization. As I said, flipping does three things: It destroys the dreams of those who wish to be first-time home buyers; it wrecks neighborhoods; and it gouges taxpayers. Once again, we say to the flippers: You can run, but you cannot hide. We will be prosecuting you. We will be investigating you. We will be driving you out of the neighborhoods.

But we not only want to stop flipping, we want to be able to restore the neighborhoods and we want to be able to restore what has happened to the people in the neighborhood.

I want to thank Council President Dixon for allowing us to meet here. As a once-again city councilwoman, I am happy to be back here in City Hall. You know, once a city councilwoman, always a city councilwoman.

I want to thank John O'Donnell for his pioneering work on this. But most of all, I want to thank all of the neighborhood groups that have fought so valiantly: St. Ambrose, ACORN, the Community Law Center, people like Andrew Weitzman, who is a metaphor for other dedicated pro bono lawyers.

Today's hearing is to answer three questions: What have we learned over the past year? What has worked and what has not? Where do we go from here? What happens to the victims of flipping? What are we doing to prevent flipping, and what are we doing to clean up the mess created by flipping?

Last year I met with local community leaders in church basements to hear what is going on. That is what prompted the whole issue of our involvement in it. FHA has become an unwitting participant in an epidemic. Flippers were actually targeting low-income people, mostly African Americans. Regrettably, Baltimore was the worst in the Nation through lax property disposals and lax oversight. FHA was actually supplying some of the houses to the flippers.

We went directly to Secretary Cuomo and we began a reform effort. Senator Sarbanes jumped right in and created outstanding au-

thorizing legislation to prevent and deal with predatory lending. Congressmen Cardin and Cummings were most helpful, and our Federal agencies stepped in to prevent flipping. Law enforcement has been sending crooks to the slammer, where they belong. We are going to look forward to hearing from the U.S. Attorney to tell us more about it.

Unfortunately, HUD underestimated the size and complexity of the flipping problem in not only Baltimore, but everywhere. Senators come up to me every day and say: What is happening, so we can get cracking on the Detroits, the Chicagos, and others?

I know the HUD administration is involved aggressively. Senator Sarbanes and I met recently with Secretary Martinez to make sure a process that had gotten off track is back on track. I want to thank Secretary Martinez for his most prompt and collegial response. I know he has delegated the responsibility to Ms. Maggiano, who we will be hearing today, to really take a good look at Baltimore so we can get our momentum going once again.

We have heard about broken dreams and we want to make sure that we are dealing with the stabilization of the neighborhoods. This morning we want to hear about the troops on the front lawn. We want to hear from a very able prosecuting team and we want to hear from HUD about where do we go from here, what lessons will we learn.

I will not let the flippers win. We will not let the flippers win. Baltimore is going to win. We went to the Superbowl, we have won the heavyweight champion of the world, and we will be a model of the Nation on how to clean up and clear out the flippers and restore our neighborhoods.

Now I would like to turn to my colleague, Senator Paul Sarbanes.

STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Thank you very much.

I want to commend Senator Mikulski for scheduling this very important hearing of the VA-HUD Appropriations Subcommittee to review how much progress has been made or has not been made, as the case may be, in resolving the problem of flipping since we held such a hearing last year. I think it is only through such oversight that we can assure ongoing accountability to the people who have been victimized by this terrible practice.

Last year Secretary Cuomo and Commissioner Apgar, the Commissioner of FHA, responded to the stories of the misuse of FHA insurance. First, working with local representatives, two of whom will testify today, they developed a series of tools to address the flipping cases where FHA was involved. These included re-underwriting the mortgages to a level where the buyer could afford to pay, helping to repair credit, providing relocation assistance where ownership was not a reasonable option.

Unfortunately, the Department has been slow to make good on those commitments. Now, you know, we can engage in a long sort of effort at blame-placing or we can try to move ahead and get things back on the right track. I think we have made the judgment that we want to do the latter. In other words, we want to move

ahead. We want to solve this problem and we want to see what can be done about it.

Senator Mikulski and I have met a number of times with Secretary Martinez. Our staffs have been in close touch with his office. We think the Secretary wants to solve the problem. We urged him to appoint a person at HUD headquarters to be the point person and to make sure we did not lose momentum again. We are putting someone right on the griddle with the spotlight trained on them, and that is Ms. Laurie Maggiano, who is here with us this morning. We are delighted she is here and we look forward to great things from her.

Second, in addition to providing redress to those victimized by the fraud, we want to work with HUD to prevent these problems from going forward. To that end, Senator Mikulski and I will soon be introducing legislation to put the HUD credit watch program into statutory language. This will help identify FHA lenders who make too many bad loans and get them out of the program.

Simply put, a part of that legislation will also seek to ensure that HUD has the authority to invoke the remedies proposed by the task force for here in Baltimore and elsewhere. HUD actually has a draft of that legislation now which has been sent down to them. We are currently awaiting their comments and suggestions and look forward to their very prompt response.

Let me just say as an aside, because I do not want to lose a broader focus, FHA continues to be a strong and effective program for the vast majority of Americans. Millions of families have achieved the American dream because they had access to mortgages through FHA, mortgages they would not otherwise have been able to obtain.

But the program is being abused. It is clear that some very fast operators have moved in and are playing this to every advantage and that lots of people are suffering as a consequence. These predatory lenders who target vulnerable people offer high-cost loans packed with unnecessary and unfair fees, costly to the borrowers, extremely profitable to the lenders, stripping equity right out of the homes.

We have got the regulators increasingly sensitive to this issue and, as Senator Mikulski said, we are going to stay with this thing until these people are vanquished.

Now, just a day or so ago we received a letter from the Department, and I am hopeful that the local people will comment on this, indicating the steps the Department has put in place as a consequence of our meetings with Secretary Martinez: One, the appointment of a team of senior officials and staff dedicated to supporting the work of the Baltimore Flipping and Predatory Lending Task Force. I have already mentioned Laurie Maggiano, Director of Asset Management in the Disposition Division, is coordinating the actions of this team.

Second—and I am laying this out because we want the local people to sort of give us their reaction, in a sense, in terms of exactly what is happening on the ground—foreclosures have been suspended on all loans that have been referred to the Department as potentially predatory by mortgage interest groups or housing counseling agencies.

Three, HUD and the task force have revised the scope to include any properties that were overvalued as a result of either flipping or a severely deficient property condition at the time of loan origination.

Four, expanded the geographic area for flipping assistance to victims, now to include the entire city of Baltimore. I am anxious for our local people to react to that.

Finally, let me say I join Senator Mikulski in being very pleased at this announcement of the grant, the \$5 million grant. Mr. Mayor, we never want to come with empty hands here, and we are delighted that you are able to be here with us this morning.

These funds will enable us to establish a flipping victim clearinghouse, a neighborhood stabilization program, purchase and repair vacant housing in Baltimore neighborhoods, and a Healthy Neighborhoods Initiative for homeowners in particular areas in order to upgrade their properties and to seek to attract more homeowners into the target neighborhoods. We think all of this will give the city some additional tools with which to move ahead to improve investment in the neighborhoods, and not only to deal with the flipping, but also to deal with the broader problem of making these neighborhoods more attractive so people will want to stay in them and other people will want to move into the neighborhoods.

So I am very pleased that we are able to hold this hearing this morning. I look forward to hearing from the witnesses. Again, I want to close by once again thanking Senator Mikulski for scheduling the subcommittee to have this hearing this morning in Baltimore so we could maintain ongoing oversight over what is taking place.

Thank you very much.

Senator MIKULSKI. Thank you, Senator Sarbanes. I want to thank you for being here this morning. I know you had some very difficult scheduling situation and rearranged your time to be with us, and it is a great joy to work with such an able colleague.

We are really honored this morning that Mayor O'Malley could join us. Mayor, we welcome you to the table for any comments that you wish to make. We congratulate you on your effort to cut all of the rates that bring a city down, whether it is the homicide rate or the trash rate. This is another way of going after the trash, the flippers, the predatory lenders.

STATEMENT OF HON. MARTIN O'MALLEY, MAYOR, BALTIMORE, MARYLAND

Mayor O'MALLEY. Absolutely. Thank you, Senator. Thank you, Senators. On any moment's notice, whenever the two of you want to come here and give us \$5 million, I will always rearrange my schedule to be here. So let me say that right up front.

Senator SARBANES. We do not want to overly intrude into your schedule.

Mayor O'MALLEY. It is never an intrusion. In fact, what are you doing this afternoon? I can—

But in all seriousness, on behalf of all of the neighbors, all of the neighborhoods, who have been victimized by flipping, I sincerely want to thank you for your advocacy, for your oversight, for your

interest in this, and for your persistence on this tough issue. This is not something that lends itself to a quick and easy fix.

But the \$5 million that you are able to produce for Baltimore is going to go a long way toward helping us repair neighbors and repair neighborhoods.

I want to thank you for letting me say just a couple of words. Mr. Graziano, as you know, will be following me, but I want to just touch briefly about this problem. You have already mentioned the way it destroys dreams, devastates neighborhoods, and cripples communities. I want to thank both Senator Mikulski and Senator Sarbanes for being national leaders, really national leaders on this problem.

Baltimore is not the only city that has been victimized by this. This is a national problem that affects a great many cities. Because of your leadership, Baltimore is at the forefront of solving this national problem. I would submit to you and our guests who are here from HUD that there is no better place to start than Baltimore, especially at this time.

Neighborhoods throughout our city are really teetering, many neighborhoods are teetering between stability and decline, and it is because they have been pushed to that tipping point, and some would argue into a free fall, by the scam artists who defraud home buyers, a lot of time first-time home buyers, a lot of time single moms who are first-time home buyers.

For the last year we have ramped up our education and our public relations campaign, our awareness campaign, to warn consumers, to warn buyers, to toughen up our own rules, so that when we have opportunities to take a look at these prospective sales through the SELT program and other things, that we are very aware, that we are very watchful and that we get right involved in the front end now wherever the city has an opportunity.

But despite these efforts, despite the public education and the prevention efforts that we have taken, flipping continues, with several thousand such deals every year. I think we have to continue to work towards making sure that every new homeowner is an educated homeowner. We have to continue, through aggressive prosecution, to throw the book at flippers.

But our efforts have to be really focused in two ways. Yes, we have to focus on prevention, but not only on identifying the means of prevention. We also have to focus on repairing the damage that has already been done, on repairing the damage that has already been done, not just because it is the just and fair and right thing to do, not just because it is the compassionate thing to do, but because from a public policy perspective it is the most cost-effective thing to do.

We spend a lot of money at the State level and the Federal level investing in programs to strengthen neighborhoods, trying to help people own part of the American dream, getting people invested in cities, getting people invested in their own home, so that they can make a better way for their families and have an ownership in this great experiment called the United States of America.

But we need to address the damage that has already been done. Without creating red tape, without creating self-defeating Catch-22's, we have to, and without making home ownership more dif-

difficult, we have to find ways to put the brakes into the system to stop flipping before the money changes hands, to prevent government entities from becoming unintentionally complicit in flipping.

In order to do this, I think there are two things that you have to have on the ground. You have to have the capacity and you have to have the climate. In Baltimore we have both the capacity and the climate.

Commissioner Graziano will speak with you about our strong community groups, advocacy groups, non-profits who are working to address this travesty already in our city. With your leadership, we are hopeful that the Department of Housing and Urban Development will use Baltimore as a national laboratory to develop cost-effective strategies to prevent flipping.

We are not the only city where this is happening, as I said. This is a national problem. But it is far more cost-effective to fix it now, before the houses totally deteriorate. It is far more effective to get these home owners into homes that they can afford to keep up. It is far more effective simply from a cost standpoint to fix this now, to prevent it for the future, than it is to let it linger while we scratch our heads and chase our tail.

The second thing that is necessary in addition to the capacity, which I mentioned we have here, is the climate. This is the right time to do this in Baltimore. Baltimore currently, according not to the braggadocious Mayor, but the National Association of Realtors, has the hottest residential real estate market in the country. Home sales in Baltimore are way up compared to what they were last year. In January I think they were up 61 percent, and this is across the board.

There are literally bidding wars going on in many of Baltimore's strongest neighborhoods for homes, because people have confidence. They know what happens to a great American city with the assets like ours has when the people come together and resolve to reduce violent crime and make their city a more livable place. Our students' test scores are improving now at a faster rate than in any other jurisdiction in the State and last year—key determiner for whether or not a person lives in the city is where the person works—we created more jobs than we lost for the first time in 11 years last year.

So this is the right time to make this cost-effective investment in turning the tide against flipping. Our housing market is there, the job market is there. Baltimore is on the rise.

I want to thank both of you for your leadership on behalf of the people of this city, on behalf of the victims of flipping and the neighborhoods that have fallen victim. I want to encourage you to keep going, and I will have a reliable partner in Paul Graziano and myself and the City Council and the local government officials here in the city of Baltimore.

Thank you.

Senator SARBANES. Good.

Senator MIKULSKI. Thank you very much, Mr. Mayor. We want to let you get back to running the city. You are right, we want to do two things: stop the flipping; and we also want to restore the neighborhoods with these vacant FHA houses. We see Baltimore as the laboratory to help solve the very big national problems.

But we thank you for your continued advocacy for our city, and we will be working with your team.

Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Mayor.

Mayor O'MALLEY. Thank you, Senators.

Senator MIKULSKI. We now move to one of two panels we have. Our first panel is comprised of the advocacy groups who brought this problem to our attention and citizens who experienced both flipping and the attempts to restore the situation. So we would like to call: Mr. Vinnie Quayle of St. Ambrose Housing; Mr. Ken Strong, formerly of SECO, now of the Community Law Center; and then two citizens who have had to endure this despicable situation: Mr. Harry Smith and Ms. Chassie Adams, who was with us last year and we actually toured her home.

Well, good morning. We want to welcome you once again to appearing before our committee.

We would like to first hear from the citizens. Mr. Smith, we would like you to lead off, and then, Ms. Adams, if you would follow. If you could just tell us your name and your community and your story about what happened to you, how you got into being targeted by a predatory lender and what has happened to you since. Mr. Smith, please proceed, sir.

STATEMENT OF HARRY SMITH, CITIZEN

Mr. SMITH. Thank you. Good morning, Senators. Senator Sarbanes, Senator Mikulski, thank you for having me.

My name is Harry Smith. I am a 53 year old single African American proud father of two sons. In 1996 after my separation, I heard about over a radio station, Heaven 600, about a program where I could get a home for me and my sons, my two sons, through Lucky Realty.

I called them up. I made an application. I was brought in, put through the process, and we were taken over to a vacant house that was under renovation several times. It was a situation where we had to move from where we were to another situation. During that time we were taken several times as the house was progressing through the renovation process.

Finally, we were brought in, the house was finished, and I sat down and I signed a number of documents, a contract that I was the homeowner of this particular piece of property. My sons and I, we moved in in September of 1996. At that time I was working and I had to take on a part-time job to make sure that all the bills would be paid, including my mortgage. That was a flexible mortgage that seemed to just keep flexing, if you know what I mean.

As the years went by, it became increasingly difficult to maintain my property. At that time, sometimes I would talk to the neighbors in the community and they would tell me—we would talk, as neighbors do—Mr. Smith, you have a real nice home and I moved here 20 years ago and my house was like \$27,000, \$30,000. And I had to bite my tongue, because I told them our house cost me \$70,000. As people would move out of the neighborhood, they would sell their homes for maybe \$35,000 or \$40,000, at the same time I was still at \$70,000.

As the years went by, it became increasingly difficult to maintain the property. A case in point: In this past January I was downsized on my job. As I sit here today, my house is in foreclosure because I have been unable to make any more payments on my mortgage since then. My sons, my two sons and myself, are in a situation where we will be homeless unless we can get some type of remedy.

Basically, that is my story.

Senator MIKULSKI. It is a very compelling story.

Ms. Adams, will you please proceed.

STATEMENT OF CHASSIE ADAMS, CITIZEN

Ms. ADAMS. Good morning. My name is Chassie Adams and how I came to be in this situation is I heard through friends about they having homes where you only have to put down a certain amount of money and you could become a homeowner. I decided to look into it because at the time I really had not decided to buy a home, but I was going to check it out anyway because it was something that I always wanted.

So a man by the name of Mr. Beeman, he came to my home and discussed with me about this. He told me all, everything, my bills and everything, I did not have to worry about nothing like that. So after talking to him, he convinced me that I had no problem in getting this home. So I decided to go ahead and go through with this.

He took me around and I looked at a lot of different places, and I decided on 610 North Robinson Street. So he told me it would be ready at a certain length of time. He called me and he told me that it was time for me to go to my closing. I went to Owings Mills for my closing. At the time, he waited until like about a half an hour before my closing to take me to this home, to look at it, go through it, and make sure that everything was in working order. So I only had like a half an hour to do this.

I went and signed my papers. After I signed my papers, my mortgage was \$650 per month. I started out paying this. I paid it up until the problem with this lady who had her house, it was knocked down or something, and she discovered that there was a problem with Mr. Beeman and all the homes that he had sold. Then we got into all this litigation and everything, and that is when the lawyer had told us that we needed to stop making payments and do all this, and that is what I did, okay.

Then last year we went through this with you, Senator Mikulski and Senator Sarbanes. They had promised that we were supposed to get some satisfaction. I have not had any so far. I have been told to go to closing about three times and every time we get near closing they give me a call and tell me something else is wrong.

Senator MIKULSKI. Closing on what?

Ms. ADAMS. On my home. They are supposed to have reduced the mortgage, and to go through a whole new closing all over again. I am also supposed to have had my repairs done on my home. Nothing has been done.

I have been—my water, hot water tank, has broken. I have not had a hot water tank in my home for over a year. My roof is leaking. The ceiling in my upstairs back bedroom is falling in. My porch steps, everything is just—I have just got so many repairs that need to be done.

My furnace was out. I did not have heat. I had to use electrical heaters to heat. I did, back a few months ago, I called in and out of my own pocket I had to have them come in and do some work on my furnace.

So at this point that is where I am. I do not really know where I am, that is the point of it.

Senator MIKULSKI. So you are no better off?

Ms. ADAMS. No.

Senator MIKULSKI. We will come back to have a larger discussion. Mr. Quayle, do you want to take it from there.

STATEMENT OF VINCENT QUAYLE, ST. AMBROSE HOUSING AID CENTER

ACCOMPANIED BY FRANK FISHER

Mr. QUAYLE. Senator, I would also like to have Frank Fisher to come up. I cleared this with Paul. Frank is the person in my office who has been talking to hundreds and hundreds of victims that have been coming in, I knew you would want to hear.

Senator MIKULSKI. Sure, absolutely. Can he pull up a chair and sit next to you?

Mr. QUAYLE. Bring your chair up, Frank.

Senator MIKULSKI. Pull up a chair next to Ken. Could we move a chair next to Mr. Strong, please.

Mr. QUAYLE. I'm going to be very brief.

Senator MIKULSKI. Mr. Fisher, you are going to be in front of Channel 13, please.

Mr. FISHER. I would just as soon get my picture taken any place.

Senator MIKULSKI. Could you go ahead, Mr. Quayle.

Mr. QUAYLE. I am going to be very brief, but I want to talk to this single piece of paper that you have in front of you. I want to make sure you have this. It has got some statistics in the middle of it. Are you with me?

Senator MIKULSKI. We are with you.

Mr. QUAYLE. I am not going to talk to the first point, what have we learned. I think we all know what we have learned.

Senator MIKULSKI. I would like you to go over it for the record, please.

Mr. QUAYLE. What we have learned, okay. Well, first of all, we were working very closely with the Baltimore task force and HUD up until shortly before the election. Things began to fall apart around that time. While we were working successfully, HUD tried some dramatic steps. They tried to get the lenders to reduce the mortgages on these high-cost loans, these overinflated loans. But the lenders' attorneys challenged them and said, you have no authority to do this, and the lenders refused to cooperate.

HUD then, in trying to get some control over the numbers of this, they tried to set parameters and limit the number of eligible clients who could come in for assistance. That is when you two Senators and your offices got back involved in this and went to see Secretary Martinez and the parameters were dropped, and we have opened it back up to anyone who is legitimately a victim of this can come forward and try to get some relief.

We feel we are very much back on track with HUD. This Laurie Maggiano, I have met with her a number of times. She seems to

be wonderful. She is willing to look outside the box and try to come up with some real creative ideas on this.

The hardest thing, the point I wanted Frank to address, is—and maybe he should do it right now—the clients that are coming to us are very difficult to work with in terms of solving their problem. These are people who should not have bought the home in the first place, many of whom then have been put into bankruptcy by another group of scammers, attorneys who just sit down there at the foreclosure circuit court office and go out and for \$1,300 put families in bankruptcy to stall the foreclosure.

Frank, if you could just say a couple of words about the families who are coming and why it is so hard to try to help them.

Mr. FISHER. Well, in the old days when people bought a house when we first started St. Ambrose, people would come to us and say: Can we buy a house? And we would tell them: Yeah, you cannot buy it yet; you have got to do A, B, and C; maybe next year you can do it; get \$500 together, do this. We had prepurchase counseling.

That seems to have disappeared. Now people go on without having really got ready to purchase. As a result, you get a buyer who is on the brink at purchase time, not after purchase, but at purchase time. It is a marginal thing to begin with.

Then the house for some reason or other or the buyer or whatever happens to marginal people, they lose their job, they bought something that is too expensive, their credit has been bad. They get into foreclosure and the house—they come to St. Ambrose for default counseling.

Almost always we can do nothing. If it is an FHA loan, we have a ballpark chance of doing something. At least there are some programs with the FHA. We have to know, too, besides the FHA there is—of the 5,000 foreclosures last year, petitions to foreclose, about 1,000 of them were for people, homeowners, who refinanced their house. That is, the term “flipping” really started there, where you own a house, refinance it, refinance it again, refinance it again, refinance it again.

I did a study of 36 loans and only 2 of them, in foreclosure, only 2 of those people had refinanced only once, some as many as 7 times, some as many as 5 times, some as many as 3 times.

Anyway, these folks come in and they are very difficult to help. The house goes to foreclosure and they keep calling us and saying: We cannot find a place to go. Out of the 5,000 petitions to foreclose, probably, if we forget about the investors—there are about 1,200 investors who lost—1,200 of those houses were investor houses that went to foreclosure. But of the other ones, people were renting previous to buying this house. They had a place to live. They did not like it, apparently, so they tried to buy something better.

They ended up with something worse, because it is extremely difficult to purchase—I mean, to rent another property after foreclosure. Fortunately, HUD is coming through with relocation money and that is a big help. It allows the family to give a double security deposit or sometimes even a triple security deposit. But without that, I do not know.

I think the biggest problem right now is what are we going to do with all these folks who have lost their house? Where are we

going to move them? They are going into the basement of ma's house, they are doubling up. It is tough. It is a terrible situation. I do not know. That is the only thing I can say.

Mr. QUAYLE. Thanks, Frank.

That is—it is almost an impossible situation that I am putting my counselors in here when these folks cannot even find rentals. But that is the reality of it.

I would like to go over the statistics in the middle of the page there, because I really think this presents the issue as it is. What we did at St. Ambrose, we did a study of every petition to foreclose for calendar year 2000. A year ago when we met, I said, let us find out what is going on in this town, let us look at every family who goes into foreclosure this year and see what we can find.

So that sale to homeowners, we are not talking—this is not a big city. We are not talking about tens of thousands of sales. We only had 8,400 sales, homeowner sales, last year in Baltimore. I put that down just to put it in perspective, and it is up a little from 1996. The Mayor commented on that. Maybe that is a good sign.

The next line item is the frightening one. The number of foreclosures that were initiated in the year 2000 were 5,197. That is what we had the moratorium. If you remember, we had an FHA moratorium for the whole city for 3 months, and then we had another 3 months in 5 selected zip codes, very hot, busy zip codes. So we probably would have had close to 6,000 loans going to foreclosure had it not been for the moratorium.

All of this has happened in the last 4 years. Back in 1996 and prior, 1,900 was your typical number of loans that went bad in a given year. Now last year we are up to 6,000 and we expect at least 5,000 this year from the few months.

But the more frightening thing is the FHA-insured loans. If you look in calendar 2000, FHA insured 3,100 loans in the city. That is 37 percent of the market share. Nationally, FHA controls about 30 percent, but we are an FHA town. We have always been an FHA town, so we have a higher percentage of our people using FHA.

While those 3,100 loans were being originated, the number of FHA loan foreclosures initiated were 1,453. If you just look at the 3,100—and I am not saying the 3,100 went into foreclosure, although many of them did. Many of the loans going into foreclosure in this town are going in in the first year, which is something new.

Senator Sarbanes, Matt Franklin, I am not sure he is with HUD any more, but I remember last year you had a hearing and Matt came and when we began to hit him with some of these frightening statistics he said: Wait a second; we have a 3 percent default rate nationwide in FHA—which is true. I am not denying that. But that was his—that was where he was coming from, 3 percent. The industry itself, if the default rate goes from .4 of 1 percent to .5 percent it is on the first page of the Wall Street Journal. It is a national crisis.

In this town we are seeing as many as 40 percent of these FHA loans over the last 4 years go to foreclosure, 40 percent. It is absolutely incredible. The reason I put the 8,400 up on top is because the numbers of foreclosures are beginning to approach the number of loans in our city.

Then the last item is the number of houses that HUD actually took back, these vacants that are sitting out there in the neighborhoods. That has doubled again from 1996 to 2000. Last year, 1999, it was 850 as well, or close to it, and we expect this to continue because the bad loans are in the pipeline. They are going to be in the pipeline at least for the next 3 or 4 years.

I know you want to ask me, are we still making bad loans. We cannot prove it. FHA and HUD are trying electronically to prevent future bad loans, especially the flips. They are starting to catch the flips. But our gut instinct at St. Ambrose is that we are continuing to make bad loans, and by that I mean loans to people who really cannot afford to make that loan work.

I just have two suggestions on where do we want to go from here. I know you want to get to that. I personally, I have been at it 33 years. We have got to restore HUD's oversight. We have got to do something extraordinary in Baltimore because the situation is extraordinary. I put down the suggestion and it sounds facetious, but it is almost as if I think we should have a couple of FHA employees who call the buyers up as they are applying for their loan and say: Let me ask you a couple of questions; are you really putting \$500 down or \$1,000 down? Is your grandmother really going to live in the house with you? Is this income really your true income?

Because that is what it looks like when FHA gets the paperwork, but that is not what the people tell us when they come to our office. They tell us that the real estate agent told them to put the grandmother on the deed and say that she was going to live in the house. So I really almost think we need to be talking as part of the oversight, HUD's oversight, to the future homebuyers.

The second big issue is the failure—and we all know this and it is the hardest thing because as policy FHA does not want to do this, but, unlike VA that does it—when the house becomes a failure, we need to do something to correct that wrong. We really—what I suggest is I really think we need to develop a system where that house is renovated, truly renovated so it is in excellent shape, and then use the real estate board, use the private people as much as possible, to market it and sell it to a homeowner.

To let it go in lousy shape to an investor who is going to slap some paint on it is the beginning, the first sign of a neighborhood's deterioration.

I have got to tell you, this dollar house program is wonderful. We bought 63 houses since last October. We have completed ten of them and sold all ten immediately. The real estate industry has lists of our houses. They know we are repairing them to the best house in the market. The neighborhoods, Bel Air-Edison is calling me saying: Vinnie, I cannot believe how beautiful these homes are. The neighbors are telling us.

This is exactly what should be done with the FHA houses. That is the confidence the neighborhood should have in FHA and did have in FHA when I started in the sixties and seventies. That was the way FHA operated.

Anyway, thank you very much. I am sorry, I did not mean to go this long.

Senator SARBANES. No, no, no. Very good.

Senator MIKULSKI. Thank you very much.

STATEMENT OF KENNETH STRONG, DIRECTOR OF RESEARCH AND POLICY, COMMUNITY LAW CENTER, BALTIMORE, MARYLAND

Mr. STRONG. Thank you, Senators. My name is Ken Strong. I am the Director of Research and Policy for the Community Law Center in Baltimore. For the past 6 months I have also served as a consultant to the Baltimore City Department of Housing, coordinating Baltimore's flipping and predatory lending task force.

You called the hearing this morning to learn where we stand on the issues of mortgage scams, flipping schemes, and predatory lending, abuses of the FHA and HUD's inventory of vacant houses in Baltimore. Many of us in government and the community have worked hard to prevent illegal and unethical real estate practices and to respond to the damage done already to families and to neighborhoods. You will hear about that today.

But the bottom line, Senators, is that we are not winning the war. Property flipping, according to my research, has not decreased. Its character has changed somewhat. There are more investor schemes now than bilking of first-time homeowners, but there is still a lot of that. But it has not decreased. New flippers have replaced old flippers.

Even with all the publicity, all the investigations and people going to jail, all the consumer education efforts, all the counseling, there are still too many people trying to make a fast buck in Baltimore's housing market, whether illegally or unethically, and too many witless and hapless buyers, both investors and homeowners.

The resources that we have brought to bear on the problems are inadequate to the need. In terms of the National Task Force on Predatory Lending that you helped get started with the previous HUD Secretary, there are reams of reports from around the country that we are not alone in this problem, but that Baltimore has experienced some of the worst of it. In terms of the local task force that has been meeting every 3 weeks over the past year with good participation from community groups and government and HUD, the full report of where we have come with that task force and the fact that we have worked hard is contained in the attachment to my testimony on the progress report and I will not reiterate that.

But I do want to emphasize the criminal investigations and prosecutions. We have had nearly three dozen individuals prosecuted, indicted, and charged with crimes by Federal authorities. The Attorney General's office is also undertaking cases. The FBI and the U.S. Attorney's office and other Federal agencies have done, Senators, exactly what you told them and asked them to do. They are going after fraudulent actors in the buying and selling of Baltimore with a vengeance.

Special Agent Jim Costigan of the FBI and Assistant U.S. Attorney Joe Evans deserve some special recognition for their work. There is some positive sign that it is having an effect. A group of investors and developers met recently with me and with city housing officials. They were complaining that it is harder to buy and sell properties quickly in Baltimore now and that appraisers have become more cautious and lenders more skeptical. Thank goodness.

I recommend that Federal authorities keep that pressure on and even increase their efforts, because it does have a positive effect. It does chill some of the people who are trying to make those fast

bucks. Illegal flippers and mortgage scam artists have to know that there is a risk of jail time at the end of their real estate joy ride.

One of the major frustrations in working with HUD to help families victimized in mortgage scams—that has been one of the major frustrations. Vinnie Quayle and Frank Fisher have addressed that.

The point I want to make was that the task force in Baltimore had hoped to have the FHA fraud prevention and victim assistance program already in gear, running smoothly, so that we could turn our attention to investor schemes and predatory refinancing of mortgages, equity stripping of seniors and people who have invested in their homes over time. We still want to pursue those issues with HUD and with the Baltimore Housing Department as our partners. Hopefully, with the turnaround that we have been seeing lately, with the creative problem-solving on the FHA part of the problem, we can begin to do that.

Senator Mikulski, last year after our hearing on March 27th you joined me and Congressman Cardin and we walked through the 600 block of North Robinson Street. We visited families sold houses for upwards of \$80,000. We saw the cosmetic repairs inside some of these homes. We saw a vacant HUD house and other vacancies on the block, magnets for trash and rats. And we met good, honest, hardworking homeowners and tenants trying to maintain their dignity and raise their families in spite of the real estate mayhem all around them.

Figuratively speaking, I want to take you back to that block today and it is not a pretty picture. Some of the pictures—and I will leave them up on the easel and we can look at them later in the hearing—tell, as pictures do, a lot more than words can at times.

A year ago there was one HUD house on that block. Now there are three. The vacant and dilapidated house at 600 North Robinson Street that Robert Beeman sold to somebody for \$85,000 is still vacant and now more dilapidated. I believe the criminal information has recently been filed by the U.S. Attorney's office against some sellers who were getting FHA mortgages arranged and selling houses for over \$50,000. One of those buyers was banned by FHA. One of the houses that he sold on that block has gone into foreclosure. The other house, I think the homeowner is struggling to pay an inflated mortgage and should not have to do that.

I question whether any of the houses on this block are worth more than \$50,000. There is no question at all that none of the houses were ever worth \$80,000 plus.

There are two new bank foreclosures on the block. A company, Milton Robinson LLC, owned 605 North Robinson Street—we have a picture of it—last year, after acquiring the property for \$17,500. Brent Reed bought it from the company for \$47,000 and on the same day flipped it to Andrew Bogdan in a sale recorded the same day for \$64,000. Mr. Bogdan has the distinction of being the number one person with foreclosure petitions in the year 2000. Forty nine of his properties have been filed for foreclosure.

It has been announced by the U.S. Attorney's office that a criminal information has been filed against Mr. Bogdan. But the aftereffects of what he has done is continuing on this block.

Right next door to 605 is 607, and it was bought by Cadillac properties recently for \$13,000. I fear that house could be a candidate for the flipping and the scams and the continued deterioration of the block. The reason I fear that is that Milton Robinson LLC and Cadillac Properties are owned by the same individual. The principal in both of them is William W. Wright and the resident agent is the same person.

We have so much work to do to step this tide. I want to go back to the HUD houses for a minute, because we hope that they will be bought by homeowners and owner occupants. It seems that the one last year did. But the chances are in this neighborhood that the properties will languish and eventually be sold to an investor who may flip the property and continue the cycle of deterioration.

We have provided HUD with a list of former HUD properties that have been bought by investors and quickly flipped for large profits. They deserve investigation. HUD has recently shared with me a list of their most frequent investors and buyers of their property.

One of the big recommendations I want to make to you and to HUD is that there be eligibility criteria for people, companies and investors who buy property. There is eligibility for so much else. You should not be able to buy a HUD house if you have a criminal record in real estate or economic crimes. You should not be able to buy a HUD house if all you do is leave them vacant, waiting for the market to change, or if you have housing code violations on your record.

The purchase of HUD homes ought to be encouraged and made easy for real homeowners. The purchase of HUD homes by investors and speculators ought to be more difficult, and for illegal flippers and scammers it ought to be impossible.

I was infuriated when it appeared that HUD was renegeing on its promises to help Baltimoreans afflicted in FHA-insured mortgage scams and I know you were. The actions that you took then have begun to show progress.

We are thrilled with the personnel assignments that HUD has made to work with us: Laurie Maggiano, Engram Lloyd, excellent people working hard. We have to avoid the bureaucratic tendencies in the bureaucracy they work within, that this is not a short crisis solved quickly and move on to the next crisis. This is a long-term problem. It arose over years. We need to work through it and put the resources that are necessary to deal with this into Baltimore and turn it around.

I have enclosed in my testimony a letter from the Finney family, who has been waiting for more than a year to find out if HUD is going to help them with their problem. All they want is a fair mortgage at a fair appraised value of the house. They are still waiting. I believe they are in the audience today. Hopefully, they will not have to wait much longer.

I am so glad that Ms. Chassie Adams has joined us this morning and that you heard her story. We are hoping that Ms. Adams may be one of the lucky ones because she had a good lawyer, Andre Weitzman, she has had a good housing counselor, Carl Cleary in Southeast Baltimore. We have gotten a cooperative lender to consider a rewritten mortgage in her situation and the Abell Founda-

tion to consider guaranteeing the loan part for repairs on her house.

We are not out of the woods yet. That has not settled yet. Ms. Adams is still suffering. But we hope that this is the last winter that she has to live without a furnace.

There are some other people who are being helped through that system, but not nearly enough. Last Friday night, Senator Sarbanes, you joined us at Solid Foundations in its kickoff fundraiser, Senator Mikulski is on our honorary committee, to try and raise some private funds that are flexible and that can provide small grants to people who are in recovery from mortgage scam victimization.

That will help in part, but it does not solve all of the problem. We have to regroup and redouble our efforts to work, not only with the victims of FHA-insured scams, but also of conventional loan scams, and be creative in how we solve that problem. Ruth Louie, the Mayor's Coordinator of Community Investment, is working with a group of bankers and Fannie Mae in trying to think through how we can do that. We do not have it solved yet, but we are hoping that we can make some progress over the next several months to create a system to help people get refinanced and back on their feet.

Mayor O'Malley talked about neighborhoods that are at risk. One of them is Brooklyn, a strong Baltimore neighborhood. We need a strong Brooklyn. There are a lot of strengths to that community in Baltimore. But there is a pocket within Brooklyn, the 800 and 900 blocks of Jack Street and Stoll Street, that investors have undermined. We have to pay attention to the investor schemes as well.

So I have made some recommendations in my testimony. I will not spell them out. They are pretty straightforward.

Senator MIKULSKI. Please, spell them out.

Mr. STRONG. I would be happy to. Number one, we want to keep HUD's feet to the fire to follow through on the cases already submitted and to be open to the new cases that we are just now discovering. People are calling every day to report their victimization. So that has to be in place and strong.

We have to pursue new ideas for increasing the HUD sale of HUD's inventory to actual homeowners, to keep the speculators and investors out.

We have to seek substantial Federal support to help Baltimore City deal with the vacant house crisis that is left in the wake of this bad business. We deeply appreciate the Federal support announced today and that we have been working to use, but it does not match the need. We need to really look at what the need is and then seek the support at State and Federal levels to really bring the neighborhoods back in recovery.

We have to test out the requirement of prepurchase homeownership counseling, exactly what Mr. Fisher described in his testimony.

PREPARED STATEMENT

Lastly, we need to look at authorizing HUD and FHA to tap the huge funds in the FHA for programs that reduce fraud, prevent

foreclosure, repair and maintain HUD's inventory, and provide for neighborhood recovery.

I want to thank both of you for the leadership you have had on these issues and for your support.

[The statement follows:]

PREPARED STATEMENT OF KENNETH J. STRONG

Good morning. My name is Kenneth J. Strong, I am the Director of Research and Policy for the Community Law Center in Baltimore, Maryland. For the past 6 months I have also served as a consultant to the Baltimore City Department of Housing and Community Development coordinating Baltimore's flipping and predatory lending task force. On March 27, a year and 6 weeks ago, I testified before this committee in my capacity then as the Director of SECO (South East Community Organization) and as a founder of the Coalition to End Predatory Real Estate Practices.

You have called this hearing to learn where we stand on the issues of mortgage scams, flipping schemes, predatory lending, foreclosures, abuses of the FHA, and HUD's inventory of vacant houses in Baltimore. Many of us in government and in the community have worked hard to prevent illegal and unethical real estate practices—and to respond to the damage done already to families and to neighborhoods—you will hear about that today. But the bottom line, Senator, is that we are not winning this war. Property flipping, according to my research has not decreased, it's character has somewhat changed, but it hasn't decreased. New flippers have replaced old flippers. Even with all the publicity, all the investigations and people going to jail, all the consumer education efforts, all the counseling—there are still too many people trying to make a fast buck in Baltimore's housing market, whether illegally or unethically, and too many witless or hapless buyers, both investors and home owners. The resources we have brought to bear on the problems are inadequate to the need.

As a direct result of your hearing last year, a National Task Force on Predatory Lending was formed and a Baltimore Task Force on Flipping and Predatory Lending. Both groups had excellent participation from government, community, and the private sector. Early on, it was determined that Baltimore would serve as a national laboratory for the understanding of these issues and the testing of solutions. We documented the dramatic increase in foreclosures in Baltimore and four other cities—New York, Chicago, Atlanta, and Los Angeles—and their relationship to subprime lending. In the 1990s the subprime lending market, lending at higher rates of interest to borrowers with imperfect credit, exploded.

In Baltimore, the number of subprime refinance loans increased over tenfold between 1993 and 1998. These loans were seven times more likely in low-income neighborhoods, six times more likely in predominantly African-American neighborhoods, and four times more likely in middle class African-American neighborhoods. Subprime loans had a disproportionate share of the foreclosures in Baltimore's low-income and African-American neighborhoods. They resulted in foreclosures more rapidly than prime or FHA loans. The mean lag time between origination and foreclosure petition filing was less than 2 years in the subprime category. These findings related to subprime lending were consistent with disturbing national trends. Even more disturbing were the accounts of families abused by predatory lending practices within that market. Excessively high interest rates and fees, severe prepayment penalties, the deceptive sale of credit life insurance financed into the mortgage, balloon payments, negative amortization, aggressive refinancing and equity stripping are the kinds of practices that turned a large part of the subprime market into what we call predatory.

In addition to our fair share of the national problem of predatory lending, Baltimore also experienced, and still experiences, an unfair share of mortgage scams and flipping schemes in the conventional mortgage market and loans insured by FHA. Baltimore has had the highest per capita rates of FHA defaults, foreclosures, and vacant house in the HUD inventory. These problems are exacerbated by neighborhood concentrations of the flipping and mortgage scam problem. The neighborhoods of Patterson Park, Belair-Edison, Waverley, Govans, and Southwest Baltimore—neighborhoods where racial change is taking place—have been especially hard hit. Last year I showed you maps that graphically demonstrated the problems with hundreds of pins. More recently, I have studied the real estate transactions in Baltimore between 6/1/99 and 11/15/00, roughly an 18 month period. I identified over 1,800 properties that were bought and sold quickly for suspiciously high profits in neighborhoods where the sales prices seemed over-valued. In more than a thousand

of those transactions, the purchase and the sale were recorded on the same day, leaving no excuse that rehabilitation or market changes could account for the profit margins.

A great deal, though not all, of the property flipping in Baltimore is illegal. Nearly three dozen individuals have been prosecuted, indicted, or charged with crimes by Federal authorities. The Attorney General's Office is undertaking additional cases through its criminal and consumer protection divisions. Last year, you called on the FBI, the U.S. Attorney's Office and other Federal agencies to do exactly what they are doing—going after the fraudulent actors in the buying and selling of Baltimore with a vengeance. Special agent James Costigan of the FBI and Assistant U.S. Attorney Joe Evans deserve special recognition for their work. The investigations and prosecutions are having some of the effect we want. A group of investors and developers met recently with me and with city housing officials. They were complaining that is harder to buy and sell properties quickly in Baltimore—appraisers have become more cautious and lenders more skeptical. Thank goodness. I recommend that Federal authorities maintain and increase their efforts. Law enforcement cannot solve our broader problems in Baltimore's housing market, they can't touch the unethical but not illegal activities, but they are a critical part of the solution. Illegal flippers and mortgage scam artists have to know there is a risk of jail time at the end of their real estate joy ride.

In addition to playing our part in the National Task Force on Predatory Lending and supporting law enforcement, the Baltimore Task Force and its members have been active on several fronts. We have encouraged civil law actions on behalf of home owners and neighborhoods. One of our members, Civil Justice Inc., recently announced a new program, funded by the Abell Foundation, to provide legal advice to first time home buyers prior to settlement as an antidote to housing fraud. A task force subcommittee developed an urban appraiser training course now required for new and renewed licensure. How to avoid becoming a party to mortgage scams and flipping schemes is part of the course. Ms. Ruth Louie, Mayor O'Malley's community investment coordinator, chairs a committee looking at new mortgage products that are safe and economical, and ways to refinance victims of mortgage scams. Local and national banks are active on her committee. We have co-sponsored town hall meetings with Attorney General Joseph Curran taking prevention messages and pamphlets on the road. We have supported a number of other consumer education efforts that you will hear about in other testimony. We are thrilled that HUD is now working acorn to expand consumer education at the grass roots level.

Legislative and regulatory reform efforts have been frustrating. The Maryland general assembly has failed two years in a row to pass any major bills to curb predatory lending or real estate practices. Last year, a comprehensive anti-predatory lending bill died in committee. And this year four targeted pieces of legislation—restricting “yield spread” premiums, banning single premium finance credit life insurance, requiring the escrow of taxes and insurance, and mandating home ownership counseling for government supported loans—all failed. We have not succeeded in getting legislators outside Baltimore city to sufficiently appreciate the problems or understand that they threaten their constituents as well. We have yet to reach a consensus locally on what power the Baltimore city council has to enact anti-predatory lending laws or how best to use that power. Nationally we expressed support for the Sarbanes-LaFalce legislation but current congressional leadership has not moved it forward. At every level of legislative initiative—Federal, State, and local—we need to increase our efforts to build consensus, to broaden constituencies, to forge bi-partisanship, and to involve industry in crafting solutions.

Our other major frustration has been in working with HUD to help families victimized in mortgage scam abuses of the FHA program. Vinny Quayle will testify more directly about these issues, as will HUD. The point I want to make was that the task force had hoped to have the FHA fraud prevention and victim assistance programs well underway by now. We wanted to move to turn our attention and energy to predatory convention loans and refinancing—the other two thirds of Baltimore's skyrocketing foreclosure problem. We wanted to pursue the investor schemes that degrade neighborhoods and frequently involve mismanaged or neglected rental property. We still want to pursue these issues with HUD and Baltimore's housing department as our partners. With HUD's renewed commitment to creative problem solving on the FHA part of the problem, and renewed compassion for the families in FHA-insured housing crises, maybe we can.

Senator Mikulski, last year you and Congressman Cardin walked with me through the 600 block of North Robinson Street. we visited families sold houses for upwards of \$80,000, we saw the cosmetic repairs inside some of these houses, we saw a vacant HUD house and other vacancies on the block, magnets for trash and rats—and we met good, honest, hard-working home owners and tenants trying to

maintain their dignity and raise their families in spite of the real estate mayhem all around them. Figuratively speaking, I want to take you back to that block—it is not a pretty picture. A year ago there was one HUD house, now there are three. The vacant and dilapidated house at 600 North Robinson Street that Robert Beeman sold to someone for \$85,000 is still vacant and now more dilapidated. Each of the three new HUD homes had been sold to home buyers for over \$50,000; I believe that criminal information has recently been filed by the U.S. Attorney's Office against one of the sellers; a second seller was banned from doing business with HUD. The banned buyer sold another house to someone on this block for over \$50,000 but it has not gone into foreclosure. The home owner is probably struggling to keep up with inflated mortgage payments. HUD ought to offer this home owner mortgage reduction assistance if it is warranted but they don't have a way of doing that now until after default and foreclosure proceedings. I question whether any of the houses on this block are worth more than \$50,000. There's no question at all that none of the houses were ever worth \$80,000 plus.

There are two new bank foreclosures on the block. Milton Robinson LLC owned 605 North Robinson Street last year after acquiring the property for \$17,500. Brent Reed bought the property for \$47,000 on 4/7/00 and flipped it to Andrew Bogdan in a sale recorded the same day for \$64,000. Mr. Bogdan has the distinction of being the number one person with foreclosure petitions in the year 2000; 49 of his properties fell into that category. Next door at 607 North Robinson Cadillac Properties, Inc. has purchased the property for \$13,000. I hope this property is not flipped in the same way the one next door was but I have reason to fear it might. William W. Wright is, according to State records, the resident agent and a principal of both Cadillac Properties and Milton Robinson LLC.

Let's go back to the new HUD houses. We hope that they will be bought by owner occupants; it does seem that the one last year did. But the chances are in this neighborhood, that the properties will languish and eventually be sold to an investor who may flip the property and continue the cycle of neighborhood deterioration with a new victim buyer or lender. I am providing to HUD today a list of former HUD properties that have been bought by investors and quickly flipped for large profits. While there is nothing inherently illegal in this, I am suggesting that HUD examine and analyze these sales with an eye toward preventing fraud. People who HUD knows have abused FHA as sellers should not be eligible to buy HUD properties at auction. I would go further in recommending that HUD establish eligibility criteria for purchasers of HUD properties, particularly investors. You shouldn't be able to speculate on HUD houses if you have a criminal record in real estate or economic crimes. You shouldn't be able to buy a HUD home if you have a record of selling to unqualified buyers and contributing to our foreclosure problems. You should be able to buy HUD houses if all you do is leave them vacant waiting for market conditions to change in your favor. You should not be able to buy them if the city's housing department says you have a significant record of housing code violations. The purchase of HUD homes by real homeowners ought to be encouraged and made easier. The purchase of HUD homes by investors and speculators ought to be more difficult. For illegal flippers and scammers it ought to be impossible.

As you know I was infuriated when it appeared that HUD was reneging on its promises to help Baltimoreans afflicted in FHA-insured mortgage scams. I know you were too. Thanks to your efforts and those of Senator Sarbanes, we are seeing signs of progress today. HUD will testify, I am sure, about renewed efforts to assist victims. I am cautiously optimistic about these efforts. There are no quick fixes to these problems, this is why the Baltimore Task Force needs to continue; we have a very long way to go to right the wrongs that have been done and prevent their recurrence. As I said before we are not yet winning that war. But I am pleased with HUD's staff assignments to this work—Engram Lloyd from Philadelphia, Laurie Maggiano and Vance Morris from DC are working hard. They and we have to be vigilant against bureaucratic tendencies to circumscribe and minimize the problem we face, to offer gestures and band-aids that don't heal the wounds or prevent injury, to move quickly to the next crisis in the next city without learning the most we can from the Baltimore experience. And we have to reject the tendency to throw up hands and say we don't have the authority or the capacity to act. If the agency feels it is unable to act fully to address and redress FHA-insured mortgage scam issues, the agency should ask for legislative and budgetary help from Congress. I will be more than cautiously optimistic when the Finney and the Chriscoe families find out whether HUD is going to help them or not. I have enclosed the letter from the Finney that they gave to our task force. Larry Chriscoe's story was told in the Sunpapers (copy attached). These families have been waiting a long time; they should not have to wait much longer.

Let me share some good news with you. Last year you visited Chassie Adams at 610 North Robinson Street and Cheryl Hargrove at 625 North Robinson Street. Ms. Adams bought her home from Robert Beeman; the sales price was \$84,000. She had a monthly payment on the first note amounting to \$650 per month. It was a 13 percent interest loan with an infamous balloon payment at the end of fifteen years; Through the assistance of her lawyer Andre Weitzman, housing counselor Carl Cleary, First Mariner Bank, and the Abell Foundation, Ms. Adams is in the process of getting a new mortgage for \$27,500 at 7 percent with a monthly payment of \$345. The new mortgage includes several thousands of dollars of repairs to her home. Hopefully the winter of 2000–2001 is the last one Ms. Adams will spend without a furnace.

The story of Ms. Cheryl Hargrove is similar. Her \$83,000 cosmetically repaired house is becoming a \$31,300 house with \$6,795 of real repairs structured into the mortgage and \$700 worth Ms. Hargrove is paying for herself. Her monthly mortgage payment of \$611 is changing to \$420. Ms. Adams and Ms. Hargrove have a few more hurdles on the road to recovery but there is light at the end of the tunnel. Unfortunately they are exceptions to the rule. Most people don't have lawyers like Mr. Weitzman, housing counselors like Carl Cleary, and cooperative local bankers like First Mariner.

Many mortgage victims, even those on the road to recovery, need a helping hand to continue as homeowners. Some families need help in transition to safe rental properties. Others need help in preventing foreclosures and making homes liveable. Solid Foundations is emerging as a private flexible fund to help families with small grants in these circumstances. You know about this because you serve as one of our honorary committee chairs and you attended our first annual fundraiser last Friday night. Solid Foundations was the brainchild of a Baltimore businesswoman, Mimi Kapiloff, who read about the plight of at-risk home owners and decided to do something about it. Families working with housing counseling or non-profit agencies may apply for small grant assistance through such organizations. It is an exciting new development.

When we have the HUD/FHA aspects of prevention and victim assistance under control and in gear, we do have to invest intensive research and resources into the companion issues of investor scams and predatory refinancing. The investor scams involving the flipping of vacant properties or properties with tenants are not victimless crimes. Neighborhoods suffer from the vacancies left in the wake of this bad business. Over a thousand foreclosure petitions in 2000 were filed against multiple property owners who had invested in get rich quick schemes. A great many of these properties have or had tenants who suffer from the conditions of these houses and their instability. A prime example is an area of Brooklyn, the 800 and 900 blocks of Jack Street and Stoll Street. Brooklyn, as you know, is a long-standing working class community with a good housing stock and many strengths. In this pocket of Brooklyn, where property flipping is concentrated, conditions are more like a third world country. The trash, debris, the physical environment is appalling. In this area, a number small two story brick houses were purchased by an investor for \$64,000 each; the State Department of Assessment and Taxation considers those values inflated. Many are owned by Eugene Manning or his companies; Mr. Manning has the distinction of having the second highest number, 41, properties petitioned for foreclosure in 2000. So many foreclosures in such concentrated areas of south and southwest Baltimore will wreak havoc on those neighborhoods, disrupt the lives of tenants, and create pockets of real estate rot with negative impacts on all the surrounding houses.

Investor schemes are a growing part of Baltimore's flipping problem. Mr. Russ Whitney advertised on cable TV last week that he is hosting a series of free seminars in Baltimore starting tomorrow on how to build wealth. One of his strategies is flipping properties. He said he would teach how to buy HUD houses cheaply, make modest repairs, and sell them quickly for large profits. He said he would teach how to get government grants and first time home buyer incentives on the way to building wealth. Mr. Whitney says he started with \$1,000 and after 18 months had over \$4,000,000. Apparently he wants to share these secrets of success with me and you and everyone else. He is not the only person selling the snake oil of getting rich quick in urban real estate, there are real estate investment clubs that meet monthly in Baltimore and a website www.flippinghomes.com.

The arena of predatory refinancing is best appreciated by looking at the vulnerability of senior citizens, many of whom have equity built up over decades or who own their homes outright. Congress has received substantial testimony that some refinancing companies target seniors to loan money for repairs or other needs using their homes as collateral, to churn those loans getting the borrower deeper and deeper in debt, and then to strip their equity in their homes. Last Monday, the

Community Law Center and Fannie Mae sponsored a seminar on predatory refinancing. AARP provided information after surveying a cross section of citizens over 50 years old. They found that 59 percent own their homes outright. Eighty six percent of them have seen or heard home equity loan ads. Nearly a quarter did not think that they had enough money set aside for home repairs and about the same percentage actually took out home equity loans. Of those borrowers more than half did not talk to more than one lender, they did not shop. More than a quarter selected their lender based only on the lender's mailing, phone calls or door-to-door solicitations. Many of the lenders who push their products on seniors and strip their homes of equity are the same lenders who originate or buy subprime mortgages. The subprime lending industry, like most industries, will tell you they are over-regulated and no new legislation is needed to curb abuses within their industry. I couldn't disagree more. I strongly support the Sarbanes-LaFalce initiative and all other efforts to better protect consumers, especially senior citizens and lower-income families.

In conclusion, I would like to make the following recommendations:

Keep HUD's feet to the fire to follow through on the cases already submitted for victim assistance in FHA-insured houses. Establish some benchmarks for accountability and require progress reports.

Pursue HUD's new ideas for increasing the sale of HUD's inventory to actual home owners, owner-occupants, and decreasingly the sale to speculators and investors.

Establish eligibility for people and companies who buy multiple properties from HUD. Ensure that they are law-biding, honest, competent.

Seek substantial Federal support to help Baltimore City with the vacant house crisis, thousands of vacant houses, a problem exacerbated by mortgage scams, flipping schemes, and predatory lending.

Test out the requirement of pre-purchase home ownership counseling in a selected area of Baltimore as an antidote to abuses of FHA.

Authorize HUD and FHA to tap the FHA fund for programs that reduce fraud, prevent foreclosure, repair and maintain HUD's inventory, and provide neighborhood recovery funds to communities where HUD abuses are concentrated.

In the broadest sense, all of our efforts to address these problems need to be redoubled. Law enforcement needs to continue and be intensified. Civil law actions need to continue and be multiplied. Consumer education must be promoted through all media and in every community. Victims' assistance through government and private channels has to grow, expand, and become easier. Neighborhood recovery has to be revisited and expanded, especially as it relates to vacant housing. Legislation and regulatory must be pursued to keep professionals in real estate and lending more honest and ethical. The issues we are discussing today are not Democratic or Republican, not city or suburban. Every part of our society is threatened by the explosion of predatory lending practices and the destabilization of neighborhoods.

Thank you for your leadership on this issue, for your consistency, your caring and your strength. It has been an inspiration and a support to me.

Senator MIKULSKI. Well, thank you very much, Ken, and to all of those people who have testified.

Vinnie, I want to ask you a couple of questions and then go to Ken Strong and Ms. Adams, Mr. Smith as well. Let us go to your sheet, "What Is Happening In Neighborhoods." Those 8,400 sales to homeowners were conventional, VA, and other forms.

Mr. QUAYLE. And FHA.

Senator MIKULSKI. So that is the total mortgages in Baltimore City.

Mr. QUAYLE. That is right.

Senator MIKULSKI. In all of the neighborhoods.

Mr. QUAYLE. That is right.

Senator MIKULSKI. Then of that, 5,000 foreclosures were initiated. Do you mean that only 3,400 mortgages—

Mr. QUAYLE. No, the foreclosures are not those 8,400 loans. The foreclosures are loans that were made previously.

Senator MIKULSKI. Okay, fine. Then FHA-insured loans. Of that 8,400, 3,100 were FHA.

Mr. QUAYLE. That is correct.

Senator MIKULSKI. Then of that 3,100, 46 percent, some in the first year, were foreclosed.

Mr. QUAYLE. No. That is the same question you asked before. While 3,100 FHA loans were being originated in calendar 2000, at that same time 1,453 FHA loans made in previous years and in 2000 as well went bad.

Senator MIKULSKI. I got it. But the point is that of all of the loans in Baltimore City by FHA, 46 percent last year?

Mr. QUAYLE. The last couple of years, and it will be in the future, because this is just one year, 2000. A lot more of these loans than the 3,100 will go bad in the next few years.

Senator MIKULSKI. Well now, let me get to a couple of questions with you, and then perhaps Senator Sarbanes would ask some questions, and we will go back and forth in rounds.

Now, let us go to prevention, because you and Frank spoke eloquently about this. I am going to throw out something else, because what you are talking about is so retail, I am not so sure that retail a loan with preventive pre-housing ownership counseling is going to be effective. Given the magnitude of this, there is just not enough employees in nonprofits, HUD, and FHA to be doing this.

So here is my question. Do you envision that there could be more what I will call wholesale advice, for example workshops and given President Bush's idea of involving faith-based organizations—and there is always the issue of constitutional compliance on service. But really, to use both the community advocacy groups and faith-based groups for wholesale workshops getting people ready for homeownership, I think one person at a time is great, but I do not see how we can get to it.

What do you think about what I am saying and do you think we ought to go wholesale, or do you think my intentions are off the mark?

Mr. QUAYLE. We at St. Ambrose do not have a lot of confidence in the education piece. The industry, the real estate industry, the banking industry, are all saying what we need are more consumer education. In our 30 years we have not seen that work.

Is that right, Frank?

Mr. FISHER. Yes.

Mr. QUAYLE. But I share your concern, because not everyone can get pre-purchase counseling. I share that. We do not have the counselors, we do not have the quality counselors. But the problem is that we have lost HUD's oversight. Once the lenders started endorsing the loans themselves, we lost HUD's oversight.

We have got to figure out some way to get some oversight back in there.

Senator MIKULSKI. So that is the issue.

Mr. QUAYLE. That is the issue, yes.

Senator MIKULSKI. But I am not so sure random phone calls are—

Mr. QUAYLE. I know. Maybe if we took the bad lenders, the lenders where—this new legislation is coming that is going to identify who the lenders are who are making these questionable loans—

Senator MIKULSKI. But am I correct in saying when there was a national policy change that enabled FHA to go directly to the lenders, that created the window for the predatory lenders to come in?

Mr. QUAYLE. Absolutely, absolutely.

Senator MIKULSKI. Well, I think it is something to be considered, and we look forward to your advice. I know this is something that would need to be dealt with in the authorizing.

Mr. STRONG. Senator, could I answer that question just very briefly?

Senator MIKULSKI. Which question? You mean the wholesale?

Mr. STRONG. The one about the wholesale education, because I think it is an important part of the solution. Reaching into churches and community groups with real seminars, lengthy things, not just ads on TV or hot line numbers to call, but real education, is part of the solution and ought to be supported. But I do not think it will be a panacea by any means for what we are dealing with.

I think HUD is working now with ACORN to try and do some more grassroots education in neighborhoods that have been targeted by flippers. That is a good thing.

Senator MIKULSKI. Well, I do not know if that answers my question. We can always point to individual organizations doing individual things. I am talking about a significant government-organized, not based on volunteers or the kindness of strangers, really intervention, with real workbooks and resources.

We have a very robust ministerial community of a variety of faith organizations, probably one of the richest nonprofit organization towns in America. That is what I was trying to consider.

But let me—I have been asking questions for 5 minutes. I am going to turn to my colleague and then, Ken, I will come back to your point, and then I am going to talk to Ms. Adams. Senator.

Senator SARBANES. Thank you very much.

First, Ken Strong, I was pleased to hear that we may work Ms. Adams' situation out here now, that you are hopeful that that will come through. Who is going to be left holding—I mean, the sales price on her home was \$84,000, right?

Mr. STRONG. That is correct.

Senator SARBANES. Now, in the reworking of this thing she is going to come back with a mortgage of \$27,500.

Mr. STRONG. That is correct.

Senator SARBANES. Which more approximates the value of the home, I take it, and would put the payments more within her grasp, so to speak; is that correct?

Mr. STRONG. That is correct.

Senator SARBANES. Now, Beeman walked away with \$84,000, is that right?

Mr. STRONG. Yes.

Senator SARBANES. Who is going to absorb that loss, the way this thing will be structured?

Mr. STRONG. Ms. Adams was one of several dozen people represented by Andre Weitzman, who sued the lenders, the appraisers, the title companies, and everyone who was involved in the transactions of Robert Beeman and another individual who has recently been charged criminally, Walter Dirsh. So it is only through the lawsuit that the agreement to reduce the mortgages on these houses has been made.

HUD has had a frustrating time getting lenders to do that voluntarily. But without the lawsuit, we would not have the possible so-

lution. It is coming to conclusion soon. We are not at settlement on the new mortgage and Ms. Adams is still suffering in a bad house, but we are getting there, but only through the lawsuit.

Senator SARBANES. Now, does the lender then bear the loss or do they get back at Beeman?

Mr. STRONG. Well, the lender—Beeman is serving time in Federal prison. I am not sure what resources you can go after in his case that are left. He has been fined in Federal court and is serving close to 3 years in Federal prison.

The lenders were victims in this as well and they had to take the loss in the lawsuit, along with the insurance companies of the professionals who were involved in the case who did wrong.

Senator SARBANES. Now, you are working some others out, I gather, as well along the same path; is that correct?

Mr. STRONG. Yes. But the point I make is they are exceptions to the rule. I wish we had more—

Senator SARBANES. Why are they exceptions? Why cannot the process that is working for Ms. Adams and the others that you have indicated be institutionalized as a regular process to provide remedy for, if not all, at least most of the people who have been affected?

Mr. STRONG. The case that Mr. Weitzman brought against Beeman and Dirsh and their cohorts was a 3 to 4-year process of civil litigation. There is civil litigation that is being undertaken by Civil Justice, Incorporated. Its director is here this morning, Dennis Murphy. St. Ambrose has undertaken some legal actions.

But in the private bar we do not have enough people with either the expertise or patience or ability to take on these very big cases. I wish we did.

Senator SARBANES. Why should not the city and HUD, working together, pick up this burden, so you would have a joint legal task force, that in effect you did not have to depend on people? I commend Andre Weitzman. I think he has made really a very significant and substantial contribution. But he has really in a sense performed a real act of public service. He has invested an enormous amount of his time and effort trying to correct these terrible wrongs.

I do not know why we should be dependent or look to that kind of private contribution. Why is there not a public obligation here to be picked up on by, say, a joint legal task force by the city and by HUD to pursue these matters?

Mr. QUAYLE. There is an effort going on, Senator Sarbanes. HUD has established a program of reducing these mortgages for the people who qualify, the people they judge as eligible. It is not always that easy because, as Frank tried to say, for many of the borrowers even when you reduce the mortgage to the fair value the people cannot buy the house, they cannot afford it. Their credit has been destroyed. They are in bankruptcy.

It is very complicated. It is very complicated. So what HUD is trying to do is say, well, in that case, the people that have judgments on them for not paying gas and electric bills or other things, what we are doing with one case—and hopefully it is going to be the beginning of others—is HUD is going to sell the house to a non-profit, who will rent it to the family for the few years it takes for

the family to get back on their feet and the family will then buy it at the fair price.

That is one avenue that we are pursuing. That would be the solution for Mr. Smith's case here, to take that house—his house is worth maybe \$40,000. He bought it for \$70,000; reduce it to \$40,000. He is in a situation where as he gets that full employment back he will be in a position to afford that house at \$40,000.

There are families out there like Mr. Smith's, but there are also a lot of others who, even at the new price, cannot afford to buy the house.

Senator SARBANES. Well, they were lured in, in a sense, lured into buying a house and it was way over their head in terms of being able to handle it, correct?

Mr. QUAYLE. Right. What we are hoping to do there is get them relocation money so they can go out and at least rent a decent place. But as Frank mentioned, the landlords do not want to rent to them because they are coming out of a foreclosure, their credit has been destroyed, they are in bankruptcy. It is very hard to get the landlords to agree to rent to these folks.

Mr. STRONG. Senator, I think your idea is excellent and that we ought to pursue it with HUD and HCD. It is exactly what I was saying. We need to put the kind of resources into resolving these problems that it requires. Too often, government lawyers tell you what you cannot do. We need government lawyers, as the strike force tells us, to tell us what we can do to make it right for these families.

Senator SARBANES. Well, I think I have used up my question time. I yield back.

Senator MIKULSKI. Senator Sarbanes, your line of questioning, as usual, is quite excellent.

Ken, as I understand it, though, when HUD actually took action in terms of the lender community, they challenged HUD's authority and therefore slowed down the whole process. Am I correct in that?

Mr. STRONG. I think HUD in its testimony should address that. If they need additional authority to do the right thing, they ought to seek it.

Senator MIKULSKI. Was that your observation?

Mr. STRONG. Yes. They attempted to do this and were frustrated by the lenders administratively. I do not think we had the full legal team going after it the way Senator Sarbanes suggested.

Senator MIKULSKI. Well, I think the purpose of this hearing was that we view this situation as a work in progress. But while we work, we must make progress. It seems to me we have really gotten bogged down. We have gotten bogged down in HUD rules, legal rules, the plight of the community. I think there needs to be among all of us a greater sense of urgency, both in terms of the families that have been victimized, the prevention, and the cleanup.

Now, let me go to Ms. Adams here. In your testimony on pages 7 and 9, you said she was one of the lucky ones. Well, first, luck does not count. Luck is great in a lotto. It is terrible in homeownership.

Ms. Adams, you do not seem to feel you are one of the lucky ones. As I understand from your testimony, you are not only no

better off this time, this year, but you are worse off because of the collapse of the infrastructure of your home.

Ms. ADAMS. Yes.

Senator MIKULSKI. Yet you seem to be in limbo as to where you should go, what you should do, what you should be paying, and what you should be listening to. Am I correct?

Ms. ADAMS. You are correct.

Senator MIKULSKI. I am not doubting you, Ken, but in your testimony it sounds like the Adams situation is straightened out, when the Adams situation is not straightened out.

Mr. STRONG. No, I described it as light at the end of the tunnel. It is not straightened out yet. It has been a frustrating negotiation, taking longer than anyone wanted. First Mariner Bank with the lawyer and the housing counselor, and the Abell Foundation had to step in during the process to guarantee the loan part.

It should be closing soon, in a month, but we are not there yet.

Senator MIKULSKI. Could I interject.

Mr. STRONG. Yes, ma'am.

Senator MIKULSKI. I understand it is a frustrating process, believe me. But could you identify each step, how it can be different next time for the next person?

Mr. STRONG. Yes.

Senator MIKULSKI. So what happened with the bank? Do you see what I am trying to get at?

Mr. STRONG. I do.

Senator MIKULSKI. And how at the end of this hearing Ms. Adams can know where to go to and have a 9-1-1 safety net.

Mr. STRONG. After this hearing we will arrange with Ms. Adams to sit down with the housing counselor, the bank, the lawyer. It is close, as has been reported to me, it is close to resolution. That has not been communicated clearly. We are going to close that gap. This is one case that I do believe we are close to resolving, but we need to be better communicating.

Senator MIKULSKI. What happened when you went to First Mariner? What happened at each step?

Mr. STRONG. Well, at first—at first the bank had difficulty with the value of the house, given the condition of the house. So they were unwilling to make the loan if the house was not in good condition. That took some negotiating. That took a while, to get to that point.

That is when we went to the Abell Foundation and said: In some of these cases, could you guarantee the repair portion of the loan? They considered that.

Senator MIKULSKI. So that is an issue.

Mr. STRONG. Yes, it is.

Senator MIKULSKI. In other words, the bank was right in the sense of looking at what they were getting back into.

Mr. STRONG. That is correct.

Senator MIKULSKI. Again, I am into pinpointing, not fingerprinting.

Mr. STRONG. That is right.

Senator MIKULSKI. So there needs to be another force where some of the houses are so deteriorated.

Mr. STRONG. Exactly.

Senator MIKULSKI. Go ahead.

Mr. STRONG. And HUD has found this also in its attempts to help people.

Senator MIKULSKI. Now, keep going on to each step.

Mr. STRONG. In its attempts to help people, the repairs issue has been a frustration. I think Ms. Maggiano will speak to that.

Senator MIKULSKI. What was the next step?

Mr. STRONG. The next step was—actually, prior to that were the continuing steps that took a very long time in the lawsuit against Beeman and the other people involved.

Senator MIKULSKI. Okay.

Mr. STRONG. So we could not get to the help point until that lawsuit was resolved fully.

So the bank, the repairs, and the Abell Foundation's guarantee. The housing counselor, Carl Cleary, has been doing a great job working with very many families.

Senator MIKULSKI. I am sure.

Mr. STRONG. So he has been working with Ms. Adams and trying to help arrange for the repairs. She had, Ms. Adams had, a 13 percent interest loan with a balloon payment after 15 months.

Senator MIKULSKI. I remember that. That was so horrifying.

You were going to owe \$57,000. I will never forget that when you said that. I have shared your story with my colleagues in the Senate.

So then you had to renegotiate the loan.

Mr. STRONG. That is right, and the new loan will be at 7 percent. The monthly payment used to be \$650. It will be around \$345. But I understand there are a couple steps in the settlement process that have yet to get to settlement, but that that should be soon.

Senator MIKULSKI. Well, again, we will talk that over, but it seems to me that Mr. Cleary, doing an outstanding job, has more than he can handle. Is this not what is happening in our advocacy groups?

Mr. STRONG. Yes, it is.

Senator MIKULSKI. There is a limit to being able to handle all of these cases—Frank, excuse me. Frank. Is this another resource issue?

Mr. STRONG. That is correct, yes, you are.

Senator MIKULSKI. For the nonprofits working on cleaning up the swamp that the predators have left.

Mr. STRONG. These are difficult, intense cases, and we need more resources.

Senator SARBANES. What is the lender that lent the money to sustain Beeman's \$84,000 sales price?

Mr. STRONG. The originating lender in many of these cases was McCowan Funding and the president is in jail today. Then those loans were quickly sold to any number of people in the sub-prime market, companies that buy up loans at high interest rates.

Senator SARBANES. So I want to be clear. First Mariner was not the lender involved?

Mr. STRONG. They were not.

Senator SARBANES. They are coming in now in a sense trying to be helpful and be a good corporate citizen, is that correct?

Mr. STRONG. That is correct.

Senator SARBANES. I wanted to be clear about that on the record, because my understanding is that it is the combination of First Mariner and the Abell Foundation working together that is making it possible to work out Ms. Adams' situation.

Mr. STRONG. That is exactly right.

Senator SARBANES. Well, Vinnie is right, it is very complicated, no question. We have a number of people who have taken on a homeownership responsibility who never should have done so. They were just enticed into that situation. Would that be a fair description?

Mr. QUAYLE. Yes, absolutely.

Senator SARBANES. For them, probably the only remedy is relocation to rental housing.

Mr. QUAYLE. Right.

Senator SARBANES. Now, is HUD and the City HCD providing the assistance that is necessary in order to do this relocation?

Mr. QUAYLE. HUD has been providing \$2,000 to a half a dozen families so far that we know of and that is solving those families' problems. We are hoping there will be a lot more of that and we are hoping that our landlord community will come forward and say: Listen, we will be willing to overlook that foreclosure and find an apartment. That would be wonderful, if you could use your influence with the property owners association here in Baltimore to see if they would not step forward and help some of these families even though they have bad credit.

We are able to put down 2 months security deposit or maybe even 3 months as added security for the lender.

Senator SARBANES. Now, these are people that, even if the loan were written down, crammed down, as we are going to do with Ms. Adams, they still would not be able to handle it, is that correct?

Mr. QUAYLE. That is right.

Senator SARBANES. What percent of the total affected would you say are in that category?

Mr. QUAYLE. Frank, you see these families. Are you awake, Frank?

Mr. FISHER. I just dozed off for a minute. Yes.

What percent? I do not know. The case of Ms. Adams is the sub-prime lender. It has nothing to do with HUD. There are 1,200 houses last year went to foreclosure that were not FHA, they were not refinance. They were purchase money mortgages, somewhat similar to the Beeman type scam, where they inflated sale price, just a paper sale price of \$85,000, first mortgage of \$50,000 and a bad house.

Ms. Adams is one of, I do not know, an awful lot, I will tell you that. There is a carload of people out there like Ms. Adams.

Senator SARBANES. Well, actually Ms. Adams as I understand it is in a situation where if she can get the mortgage crammed down to a realistic figure, she can then handle the payments and continue to move ahead on owning her home. Is that correct?

Mr. QUAYLE. Yes. Frank?

Mr. FISHER. I would say yes.

Senator SARBANES. Unlike people who, even if the mortgage were crammed down, cannot handle the home. They actually have to move over into the rental.

Mr. FISHER. If the house was okay, if the roof did not leak, if the furnace worked, if the plumbing was okay, if the electricity is in there, and the price was right, the family could probably—she would probably be okay. You would be okay. Put Ms. Adams in a good house and she will be okay. Put her in a lousy house—she is lucky enough to have gone to Carl Cleary and he did something.

But the folks who do not get to the Carl Cleary's lose their house.

Mr. STRONG. Senator, I think we do not know exactly how many need relocation help because homeownership is not in the cards for them, was not then, is not now. HUD is reviewing all of the cases that we have referred, over 300 of them, to their office and trying to examine exactly that: Who can be helped to remain as homeowners and who really needs relocation assistance?

Senator SARBANES. What do we do with the houses that the people are in who cannot handle them, who need to be relocated into rental housing? Let us assume you can accomplish that. That is a big challenge. But then if they move into rental housing and then there is a house left there, right?

Mr. QUAYLE. Right.

Senator SARBANES. What happens there?

Mr. QUAYLE. If it is in a good neighborhood, like Bel Air-Edison, it is going to go back on the market and be sold either to a homeowner or to an investor, who would convert it to a rental or flip it again. If it happens in Patterson Park, 600 block or 700 block north of the park, it is going to sit there. No one is going to buy it. No one wants to do anything with it.

So it depends on where the houses are, the neighborhoods. This dollar house program, I have to be honest with you, I am not buying dollar houses down in East Baltimore on bad streets. I am buying dollar houses in Waverly, Bel Air-Edison, Hamilton. I bought one in Guilford, 300 block Southway.

So to answer your question, if it is in a decent neighborhood something good can happen to it. If it is in one of the—you have three categories of neighborhoods, Senator Mikulski—

Senator MIKULSKI. Stable, stress, and siege.

Mr. QUAYLE. If it is the siege neighborhood, the chances are it is going to sit there and just continue to deteriorate.

Senator SARBANES. That is the sort of portfolio that HCD confronts, then.

Mr. QUAYLE. That is right. It will go into their portfolio of vacant houses, right.

Senator SARBANES. I see my time is up.

Senator MIKULSKI. Mr. Smith, first of all, we thank you for coming. We know it is not easy to come forward, as Ms. Adams knows, and admit that you have been cheated. But the fault was not yours. We salute you, trying to hold your family together. We further commend you for trying to find not only a better house, but a better way of life for your children while you are struggling with this. So do not feel bad, and we are glad to see you.

Let me ask the question about your predatory situation. You are in a foreclosure situation because you lost your job and now you are in the process of getting back into the marketplace. But where did the flipping occur? Do you know what that house sold for? Did

you have an appraisal that you looked at? Did you have a home inspection that you knew what you were getting into?

Mr. SMITH. It is my belief that all of that took place prior to me sitting down at the table with Lucky Realty Company. All of that had been done. The price they came up with with me for that particular house was \$70,000. We had visited the property with one of their agents several times during the construction or reconstruction or renovation period and we saw it at one phase, then the next phase, then the next phase.

When we sat down at the table, we started signing papers—I started signing papers.

Senator MIKULSKI. Well, Mr. Smith, as you know, I am very much interested in the prevention aspects. If we look at a public health model, if we were hit by an epidemic, which this is, our first thing is prevention. What do you think you would have liked to have been able to turn to or what would have helped you from getting into this situation in the first place?

Mr. SMITH. Someone has said it before: education. Maybe being aware of this type of practice. I had no idea of what a flip was. I thought I was getting into a situation where I was going to have a better home for me and the boys. As a matter of fact, as we talked to these people, that is all they talked about, was a better situation for me and my two sons.

Senator MIKULSKI. But Lucky Realty filed all the papers for you, is that correct?

Mr. SMITH. Yes, when I sat down at the table I just started signing.

Senator MIKULSKI. That was at settlement.

Mr. SMITH. Yes.

Senator MIKULSKI. But prior to that, they submitted all the papers; is that correct?

Mr. SMITH. Yes, ma'am. Yes, Senator.

Senator MIKULSKI. So then you did not even talk to a mortgage lender? They arranged that for you?

Mr. SMITH. He was at the table, too, Bank of Virginia or some kind of bank in Virginia. He was there, too. As a matter of fact, I talked to him first. He was at the long table, him and I.

Senator MIKULSKI. We all know about those long tables and those tons of papers. But you did not go to Bank of Virginia? Lucky Realty went for you?

Mr. SMITH. That is correct.

Senator MIKULSKI. I see.

Well, I think Mr. Smith is a perfect example of an honest man, an intelligent man, a guy who would want to be very rigorous in protecting his family and his pocketbook. So this is an indication.

Let me go to the last part of what my questions are. This goes to what to do about something called HUD houses. You know, a HUD house should have a good name to it, but the minute you hear "HUD house" tremors go through neighborhoods. Vinnie, could you tell us, what is this dollar program that you are talking about?

Mr. QUAYLE. The dollar house was started, I believe—

Senator MIKULSKI. Because we had the old dollar house from old homesteading.

Mr. QUAYLE. No, it is not like the dollar house from the seventies. Because of HUD's large inventory in cities like Baltimore, HUD made agreements with the local jurisdictions that if they could not market their failures within 6 months through the real estate industry and through the company that they hired to manage them, they would offer those houses for one dollar to the City of Baltimore, our Housing Department.

The Housing Department then has—I think there are three nonprofits participating right now. They will assign that house to either St. Ambrose, Ed Rukowski's group in Patterson Park, or Park Heights, a group up in Park Heights. They are the only three nonprofits participating.

I think Michael Guy is here. I think he said—

Senator MIKULSKI. Is this a good idea?

Mr. QUAYLE. Oh, it is an excellent, excellent idea.

Senator MIKULSKI. Then what happens after they assign these houses and they go to you? Why is it an excellent idea and what should we learn from it?

Mr. QUAYLE. Two things happen at St. Ambrose. Because of this dollar house program, we are able to get private money from Freddie Mac and Fannie Mae to renovate these houses. We are renovating them totally. We are overimproving them so that they are the best house in the neighborhood. Then we are selling them through the real estate or through the private real estate market.

We are going to do 50 houses this year. I will bet it is more than any nonprofit in the whole country who is dealing in scattered site single family houses. We have never done more than ten a year.

Senator MIKULSKI. So this dollar house idea is a good idea.

Mr. QUAYLE. Oh, it is wonderful, wonderful.

Senator MIKULSKI. Ken, could you tell us other ideas on what to do with HUD houses, because I know we are running a bit late now.

Mr. STRONG. Yes, I will be brief. The dollar house idea is excellent for another reason. It takes those HUD houses out of the hands of investors and speculators who are not going to do good things with them and puts them in the hands of nonprofits, like St. Ambrose, that are.

The other thing that we need to look at with HUD houses is who repairs them. A HUD house stays vacant in a neighborhood far too long. Even the dollar houses are there for 6 months before they are available to nonprofits. We need to invest some of that FHA success, the billions of dollars in the FHA fund, in maintaining the HUD inventory and making it available more quickly to homeowners and to nonprofits, people who are doing good things with them in the neighborhood.

Senator MIKULSKI. Well, we are going to talk to Mr. Graziano and Ms. Maggiano about some of the others.

Senator Sarbanes.

Senator SARBANES. I just have a couple of questions, because I know we want to go to the next panel. Vinnie, on your statistics, I want to be clear about this. You have FHA foreclosures initiated of 1,453.

Mr. QUAYLE. Right.

Senator SARBANES. That is in the entire city of Baltimore?

Mr. QUAYLE. That is right.

Senator SARBANES. Then you compare that with Matt Franklin's assertion about nationwide. But what was the number in 1996, do you know? The 1,453, what would that number have been in 1996?

Mr. QUAYLE. You know, I do not know the answer to that. I can get it for you.

Senator SARBANES. Would you, please?

Mr. QUAYLE. You know, I think HUD is going to have to get me—we do not have that. I do not have that number. That does not appear in the Lusk Real Estate Reports, which is where we get all this information. But HUD certainly has that number. They can tell us how many loans went into foreclosure in Baltimore in 1996.

Senator SARBANES. That would be a better way to judge how much of an upswing there was.

Mr. QUAYLE. Right, right.

Senator SARBANES. Now, on the 3,100 loans originated, FHA loans originated in the year 2000, is that in the entire city of Baltimore?

Mr. QUAYLE. Yes.

Senator SARBANES. Now, if you took the hot areas, as we described them, where these practices—because there are some areas of the city presumably where the FHA-originated loans—where these practices either do not take place or are very rare; is that correct?

Mr. QUAYLE. You would be surprised at how large an area of the city this is happening in. All of Northwest, West, East Baltimore, and now more and more in Northeast Baltimore as well. But certainly not in Locust Point, and I do not even know if there are any FHA loans down in Locust Point, but certainly not in the real healthy neighborhoods you do not have this going on.

Senator SARBANES. All right. Now, what if you took—would you say half of the loans originated are in these difficult neighborhoods?

Mr. QUAYLE. I would say more. I would say two-thirds.

Senator SARBANES. Two-thirds, so that would be 2,000.

Mr. QUAYLE. That is right, at least, at least.

Senator SARBANES. All right. Now, suppose the FHA required a loan being originated in the difficult areas to get a signoff from an FHA employee based on a phone conversation with the prospective purchaser, in effect where you said this thing cannot go through unless—well, let us say call instead of meet, because that is even more complicated, but unless you call in and we go through this checklist of questions for you, and where they ask the sort of questions we were talking about earlier before they will let that loan originate.

Mr. QUAYLE. That would be beautiful. That is exactly what I think should happen. The first question could be: Did you get a home inspection? That is exactly. I would have thought that was too much to ask for, but if someone could be talking to that, and it could be an FHA employee, in the vulnerable neighborhoods and just ask a few simple questions, we would get a lot better understanding of whether or not this is going to be a workable loan.

Senator SARBANES. Well, maybe I am missing. I will ask the HUD people when they get here. If you had 2,000 loans and they

did a half an hour question on each loan, that is 1,000 hours, right? So that is within one person's capabilities in a year's time.

Mr. QUAYLE. Absolutely.

Senator SARBANES. So it is not an overwhelming thing in terms of staffing.

Mr. QUAYLE. No.

Senator SARBANES. Okay. Thanks very much.

Senator MIKULSKI. Well, we want to thank our panelists and our constituents. We hope that before you leave today there is even more clarification on how to help. Thank you for your ideas and your advocacy.

We would now like to go to the second panel to get a sense of where government is in all of this. We call: Mr. Paul Graziano, the Commissioner of the Department of Housing for the City of Baltimore; Ms. Laurie Maggiano, HUD's Single Family Division Director of Asset Management; and Mr. Stephen Schenning, the Acting U.S. Attorney for the State of Maryland.

Senator Sarbanes has to take care of a phone call and will be returning shortly. We want to welcome all three of you. Mr. Graziano, why do you not lead off and, Ms. Maggiano, we will hear from you, and then we will hear from our very able, of course, Mr. Schenning, who has been doing an outstanding job as the Acting U.S. Attorney.

STATEMENT OF PAUL T. GRAZIANO, COMMISSIONER, CITY OF BALTIMORE, DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ACCOMPANIED BY JOANN COPES, DIRECTOR OF DEVELOPMENT, BALTIMORE HOUSING AND COMMUNITY DEVELOPMENT

Mr. GRAZIANO. Thank you, Senator Mikulski, and Senator Sarbanes when he arrives back as well, for your leadership on this issue and including calling this very illuminating hearing this morning. For a relative newcomer to the area, this has been very, very helpful for me as well and I have been taking furious notes and I think that there are a lot of things that we are doing and more that we can do. I would like to just read my opening statement and then of course be available for follow-up questions.

Much has been written concerning the nature of property flipping and predatory lending and the terrible toll they have taken. Others at this hearing have spoken eloquently about this issue, so I will not repeat the sordid details. But I do want to point out that, beyond the very real harm inflicted upon victimized buyers, property flipping and the resulting abandonment causes a tremendous drain on public resources and dramatically obstructs broader community revitalization efforts.

A cornerstone of the city's program to revitalize these communities is sustainable homeownership. We must create a climate where current owners wish to and are able to stay and where new home buyers from a broad range of incomes will have a stake in the neighborhood's future.

Some of our current efforts to address the problems include a public awareness campaign, the Attorney General's town hall meetings on flipping, and the pamphlet for prospective home buyers, the Bankers Association consumer education program, a hotline. Also,

the city is moving toward requiring housing counseling to all home buyer incentive programs, including our SELT program. Participating lenders in all city home buying initiatives are being asked to outline plans to detect and deter real estate fraud in their transactions.

All the loans that are underwritten by the city staff are carefully evaluated and prospective buyers are also urged to engage a home inspection service for evaluation of the property.

I would like to at this time also thank you for the announcement this morning of the \$5 million award. Let me just talk a minute about what kinds of activities will be undertaken with that money. The city has designed something called the neighborhood recovery program, which really is in three parts: a \$1.5 million community-based stabilization initiative, a half million dollar flipping victim clearinghouse operated by St. Ambrose—and I should point out there that currently victims have to go to five or more different organizations to obtain services to address their needs. This will bring all the services into one clearinghouse. And the healthy neighborhoods initiative funding. \$3 million in Federal funds for this grant will be supplemented by State and local dollars to provide things, including 3 percent loans for 30-year terms both for current homeowners who want to do rehabilitation work on their property and for those who are being encouraged to purchase and rehabilitate properties in these targeted neighborhoods.

Something that has not come up this morning, but I think it is a very important related issue the section 8 program. Section 8 is a program that we believe can be utilized to help create sustainable homeownership as well. It is a program we will be embarking upon, and as we design this program we will be very mindful of the pitfalls and the concerns about sustainable homeownership.

Also, as an aside I will say that the section 8 program unfortunately has been utilized by some of the same predatory real estate folks to drain the life out of neighborhoods. So we are going to have at least a two-pronged approach. One is dealing with predatory lending and flipping schemes. The other is to clean up our section 8 program so that neighborhoods will not be hurt by either FHA action or by our operation of the section 8 program.

Also in relation to this effort, we will be coordinating the efforts with those related to our strategic demolition program. This is something extremely important. We talked about some of these properties that will be taken back. Unfortunately, some of them probably need to be slated for demolition, and we want to make that part of our strategic program.

On the HUD side, they have strengthened their fraud detection procedures, including property appraisal reviews. They have reviewed 500 previous loan referrals to determine if there is an inflated mortgage. Where fraud has likely occurred, HUD is offering various types of assistance to borrowers. As part of its commitment to try new methods and ideas, HUD agreed that the city could assign dollar house contracts to qualified nonprofit developers so the houses could be redeveloped to a high standard of resale or rental. We heard an enthusiastic endorsement of that, obviously, from Vinnie Quayle. To date, the city has contracted for about 85 FHA properties, which are turned over to three nonprofit developers.

Much has been accomplished, but we do see a number of statutory and regulatory changes that need to be addressed to continue the effort. On behalf of the flipping task force, I have collected these suggestions and recommendations from the task force in recent days. I will just walk through these quickly.

First, FHA needs the authority to use insurance funds as a way to prevent foreclosure, not waiting until after foreclosure, but to free up some of these dollars in advance, and we think that may require some legislative authority.

Second, we believe HUD would be more successful in disposing of its REO from FHA foreclosures if it hired a local agent to handle these dispositions and provided resources to bring properties up to full FHA standards before marketing. The HUD foreclosed properties would then become an asset in a neighborhood, not a further drain on property values. It is extremely important that they be rehabilitated to the highest levels and sold at market rates.

The FIRREA legislation set a monetary threshold which classifies mortgage transactions below \$250,000 as *de minimis*. Only those transactions exceeding that amount require the use of licensed or certified appraisers. The *de minimis* provision should be eliminated so that all appraisers in all mortgage transactions are held to the highest standard.

The fourth point: All licensed and certified appraisers nationwide are required to subscribe to uniform standards of professional appraisal practices. Federal law should define violations of these standards as criminal.

Five, direct assignment of appraisal work to FHA-approved appraisers by mortgage lenders subject to appraisers to potential—subjects appraisers to potential lender pressure to come up with the right value, that is values that will support the contract sale price of the property. The appraisers are sometimes reluctant to say no. They are fearful that they will not be selected again.

FHA should go back to a HUD-approved appraiser panel, with appraisers assigned on a rotating basis by FHA. In addition, FHA needs to institute a local appraisal review system. Currently, appraisals for FHA loans are sent to far distant review appraisers who are not familiar with the Baltimore market and that can have a profound impact. Small distances make big differences in terms of the value of a property, block to block differences.

Number six, the direct endorsement system has allowed many bad loans which in no way meet FHA underwriting standards. While the credit watch system can eventually catch lenders with high foreclosure rates, FHA's direct endorsement system needs to be eliminated or substantially modified.

Number seven, the Federal Real Estate Settlement and Procedures Act, the RESPA, should be amended to provide for penalties against title agents who fail to make the necessary verifications of the financial details shown on the settlement sheet. We have certainly heard stories today about people fabricating information to make a loan qualify.

Number eight, on a pilot basis a Baltimore neighborhood should be designated wherein every first-time home buyer seeking an FHA loan would be required to complete counseling prior to home purchase. Foreclosure rates in this neighborhood would be compared

with those in comparable neighborhoods where counseling is not required.

Number nine, investors with criminal backgrounds or with a record of shoddy property management or maintenance practices should not be allowed to purchase HUD properties.

Number ten, HUD said it would demand that lenders reduce mortgages to appropriate levels when it found mortgages that exceeded 120 percent of fair market value. Unfortunately, lenders refused to voluntarily make the mortgage reductions and FHA apparently may not have the authority to do so. This needs to be changed. It may require some statutory change.

Number 11, one of the penalties for banishment from FHA programs because of fraudulent lending practices should be an ability by FHA to decline to pay further claims.

PREPARED STATEMENT

I will close by saying certainly, the task force certainly supports Senator Sarbanes' authorization bill and I am sure a number of these matters will be addressed there. In closing, I would just say these reforms will go a long way toward addressing the flipping problems and we are certainly committed to remaining vigilant to attack the new schemes and make recommendations, more recommendations as appropriate.

Thank you for the opportunity to testify.

[The statement follows:]

PREPARED STATEMENT OF PAUL T. GRAZIANO

Thank you Senator Mikulski and Congressman Cummings for your leadership on this issue, your encouragement in the formation of the Baltimore City Flipping and Predatory Lending Task Force and your support of its work over the past year. Your demand that HUD come to the table to uncover the facts about this crisis in Baltimore and to craft a response, has made all the difference in our ability to get a handle on this problem and to begin to cooperatively and collectively devise solutions.

I must commend the Task Force for all the groundwork to investigate and frame this problem and its effect on individuals and our neighborhoods. The work of the task force has been a model of cooperation and mutual support from many sectors and at all levels. I would be remiss if I did not acknowledge many of those who have been around the table tirelessly working on this problem. We have had participation and input from advocacy groups, community based nonprofits, private attorneys representing victims, law enforcement agencies at the Federal and State level, secondary market leaders like Fannie Mae and Freddie MAC, the State Department of Assessments and Taxation, regulatory bodies and professional associations for lenders, appraisers, and Realtors, and many victims who have told their stories to help us understand how these schemes work. This has truly been a sustained, collaborative effort.

Much has been written concerning the nature of property flipping and predatory lending, and the terrible toll they have taken. Others at this hearing have spoken eloquently about this so I will not repeat all the sordid details. But I do want to point out that, beyond the very real harm inflicted upon victimized buyers, property flipping and the resulting property abandonment, causes a tremendous drain on public resources and dramatically obstructs broader community revitalization efforts.

Baltimore has an estimated 13,000 units of vacant and largely abandoned housing and growing disinvestment in certain neighborhoods. In these areas stable homeownership is declining and absentee ownership and speculation are on the rise.

A cornerstone of the City's program to revitalize these communities is sustainable homeownership. We must create a climate where current owners wish to and are able to stay, and where new homebuyers from a broad range of incomes will have a stake in the neighborhood's future. Obviously, flipping schemes have a devastating impact on all these efforts.

*Current efforts to address the problem**Local Efforts*

The City, in partnership with the Greater Baltimore Board of Realtors, Maryland Center for Community Development and Fannie Mae and Freddie Mac provided funding and developed a public awareness campaign which included bus advertising, radio spots, T.V. public service announcements and printed brochures.

Attorney General Joseph Curran has sponsored a series of Town Hall Meetings on flipping and predatory lending, and produced a useful pamphlet for prospective homebuyers—"Beware, Don't Buy Trouble."

The Maryland Bankers Association is producing a consumer education program designed to reach churches and community groups.

The Maryland Center for Community Development staffs a hotline and makes referrals to non-profit housing counselors. This on-going service allows homeowners and prospective homebuyers to get information regarding suspected fraud and prevention of fraud in home purchase.

The City has moved to require housing counseling on all homebuyer incentive programs as a means of prevention through education.

Participating lenders in all City home buying initiatives are also being asked to outline plans to detect and deter real estate fraud in their transactions, and to investigate fraud that may have occurred in prior identified transactions.

All loans that are underwritten by the City staff are carefully evaluated with checks on appraised value, previous sales price and prior purchase date prior to approval. In addition, the City is encouraging prospective buyers to select an independent home inspection company for an evaluation of property condition prior to purchase.

We are also in the process of developing a low interest rehabilitation loan fund to improve property, raise housing values, strengthen civic involvement and increase confidence on targeted blocks in selected neighborhoods—our Healthy Neighborhoods Initiative. Those funds will begin flowing shortly. This is both a restoration and preventive measure. It is low values and a weakened market which makes communities vulnerable to those investors looking for opportunities to flip properties. Improved conditions and neighborhood confidence will deter predators.

HCD has worked with Neighborhood Housing Services to assist in several fraud victims to remain in their homes by providing rehabilitation assistance to put the house in a safe and habitable condition.

HUD/FHA Efforts

HUD, through FHA, has strengthened its fraud detection procedures, including property appraisal reviews.

HUD has re-reviewed over 500 previous loan referrals to determine if there is an inflated mortgage based on an over valuation of the property, and to look at the condition of certain FHA insured property which might not have met FHA standards as certified at purchase.

Where fraud has likely occurred, HUD is offering various types of assistance to borrowers including credit repair letters, relocation expenses if necessary, the opportunity to repurchase the property at a fair market value if the buyer can qualify for a new mortgage, and a lease-purchase arrangement if it cannot. While lease-purchase arrangements may work to help some victims eventually repurchase, everyone recognizes this will not likely work on a large scale. We need to come up with more tools to help in these circumstances, which I will address more fully when I get to "Recommendations."

HUD is continuing as part of the Task Force and has affirmed its commitment to try new ideas and processes, using Baltimore as its laboratory.

The City has used the HUD Dollar House Program fairly extensively. HUD's Dollar House Program allows local jurisdictions the opportunity to purchase FHA foreclosed property that has been on the market for 6 months or more, for a dollar. As part of its commitment to try new methods and ideas, HUD agreed that the City could assign Dollar House contracts to qualified nonprofit developers, so houses would be redeveloped to a high standard for resale or rental. To date, Baltimore has contracted for about 85 FHA properties which have, in turn, been assigned to three nonprofit developers—Patterson Park CDC, St. Ambrose Housing Aid Center, and the Development Corporation of Northwest Baltimore. Renovations are underway and houses are selling, legitimately, at the top of the market.

So, much has been accomplished. But we see a number of Federal and regulatory changes that could be made to address the effects of this problem and to deter it in the future. On behalf of the Task Force I make the following recommendations:

FHA needs the authority to use insurance funds as a way to prevent foreclosure

Current law prohibits HUD from expending FHA insurance funds to address victim relief or other activities to preserve property and protect the FHA security in property prior to foreclosure. This is both short-sighted, and an impediment to assisting flipping victims who have taken their mortgage responsibilities seriously and have remained current on payments for those inflated mortgages. In many cases, we know these properties will remain at risk of default and foreclosure because of the failure of the sellers to make promised repairs and to bring the properties up to FHA standards. As conditions deteriorate, buyers cannot meet repair costs.

FHA recognizes this, but its hands are tied in using the insurance fund to help those buyers bring the properties up to a satisfactory standard.

We believe it would be more cost effective to provide funding for repairs, than to pay the insurance claim on a foreclosed property, and the costs of trying to dispose of an unmarketable property.

Revise FHA disposition practices

We believe HUD would be more successful in disposing of its REO from FHA foreclosures if it hired a local agent to handle those dispositions, and provided resources to bring properties up to full FHA standards before marketing. Currently FHA takes an average \$31,000 loss on a foreclosed property by the time it is eventually disposed of.

We believe this loss can perhaps be decreased, while at the same time assuring timelier disposition of property by putting it in marketable condition, attractive to purchase by owner occupants, rather than bottom-fishing speculators.

Furthermore, HUD foreclosed property will then become an asset in a neighborhood, not a further drain on property values. The HUD houses can set the market standard as opposed to evidencing the bottom of the neighborhood market as is often currently the case.

An agent could expeditiously complete high quality rehabilitation and then sell property at a market rate to homebuyers not restricted by income or first time buyer status.

FHA already has the authority to institute such a system and we encourage HUD to pilot such an effort in Baltimore as soon as possible.

Eliminate de minimus amounts specified under FIRREA

The Financial Institution Recovery Reform and Enforcement Act of 1989 (FIRREA), Title 11, has set a monetary threshold which classifies mortgage transactions below \$250,000 as de minimus. Only those transactions exceeding that amount require the use of licensed or certified appraisers.

Approximately 95 percent of all mortgages fall below the de minimus standard. The de minimus provision should be eliminated so that all appraisers in all mortgage transactions are held to the highest standards, and are accountable to regulatory bodies. An unlicensed appraiser is not held to any ethical standards.

Impose criminal penalties on negligent & fraudulent appraisers

All licensed and certified appraisers nationwide are required to subscribe to the Uniform Standards of Professional Appraisal Practices (USPAP). Violation of these standards results only in administrative penalties. Federal law should define violations of USPAP as criminal, enabling Federal (and, by extension, State) prosecutions when appraisers are found to be complicit in fraudulent transactions.

Related to this is the FIRREA provision allowing States to make appraiser licensing optional. It is probably no accident that the States with the highest rates of property flipping and predatory lending are license-optional States, such as Maryland. We believe FIRREA should be amended to eliminate that choice.

Restore FHA appraiser panels and a local appraisal review process

The elimination of the appraiser panels and the local review of appraisals by HUD are likely two major reasons that appraisal fraud increased dramatically after 1996. The VA did not make this change and has experienced only a fraction of the problem that exists with FHA-insured properties. Direct assignment of appraisal work to FHA-approved appraisers by mortgage lenders subjects appraisers to potential lender pressure to “come up with the right value”—that is, values that will support the contract sale price of the property. Some appraisers are vulnerable to this pressure, fearing their work pipeline will be cut off by the lender if they do not cooperate.

FHA should go back to the system used by VA—a HUD approved “appraiser panel” with appraisers assigned on a rotating basis by FHA.

In addition, FHA needs to institute a local appraisal review system. Currently, appraisals for FHA loans are sent to far distant review appraisers who are not fa-

miliar with the Baltimore market. Those of us who live here understand that the distance of a few blocks on a map can put you in very different real estate market conditions. Unless you have this local geographic perspective, you are unlikely to pick up bogus comparable sales used by some unscrupulous appraisers. FHA needs local review if it is to cut down on appraisal fraud in its programs.

Re-evaluate the lender direct endorsement system

The direct endorsement system allows the lender to certify that it has underwritten the loan in accordance with all FHA requirements without further review by FHA. Unfortunately, as is often the case, a few bad apples can spoil the barrel. The direct endorsement system has allowed many bad loans which in no way meet FHA underwriting standards, to make their way into FHA's portfolio.

While FHA's Credit Watch System can eventually catch lenders with high foreclosure rates and lead to their eventual loss of privilege to be a direct endorsement lender or to be banned from FHA programs, this is only an after-the-fact method of enforcement. By the time it is caught, the damage has been done.

We believe FHA's direct endorsement system needs to either be eliminated, or substantially modified to assure the bad actors cannot participate.

Hold settlement agents accountable

Fraudulent real estate transactions can only occur with the collusion of a number of parties, or at least the willingness of some parties to look the other way. Title companies also need to be held accountable. The Federal Real Estate Settlement and Procedures Act (RESPA) requires that settlement agents verify that the cash attributed to the buyer toward purchase is in fact money brought by the buyer to the transaction. However, there are no penalties for failure to do so. RESPA should be amended to provide for penalties against title agents who fail to make the necessary verifications of the financial details shown on the settlement sheet.

Initiate mandatory pre-purchase counseling

On a pilot basis, a Baltimore neighborhood, perhaps Belair-Edison, should be designated wherein every first time homebuyer seeking an FHA loan would be required to complete counseling prior to home purchase. Foreclosure rates in this neighborhood would be compared with those in comparable neighborhoods where counseling is not required in order to determine the effectiveness of this effort.

Establish stringent standards for investor purchasers of HUD properties

Investors with criminal backgrounds or with a record of shoddy property management or maintenance practices should not be allowed to purchase HUD properties. We are in full agreement with Ken Strong's recommendation that pre-qualification standards be set for investors who want to purchase FHA foreclosed property. HUD needs a system to assure that the bad guys do not use FHA property as a resource to continue their illegal business practices.

Provide legislative authority for FHA to require mortgage reductions

As part of its effort to pilot remedial measures in Baltimore, HUD said it would demand that lenders reduce mortgages to appropriate levels when it found loans that exceeded 120 percent of fair market value. Unfortunately, lenders refused to voluntarily make the mortgage reductions, and FHA apparently has no authority to force them to do so. Adding insult to injury, if those inflated mortgages then end up in default and foreclosure, FHA must make good on the entire mortgage amount through the insurance fund.

This needs to be changed. As it stands, lenders have no incentive to be more careful in checking values on lending, and secondary market purchasers have no incentive to do more due diligence with regard to the loans they are purchasing.

Ban FHA insurance payments to disqualified lenders.

In the course of investigating predatory lending, HUD has determined that some lenders should be banned from its programs. However, claims by those lenders for transactions which took place prior to their disbarment, are still honored by FHA. One of the penalties for banishment from FHA programs because of fraudulent lending practices should be an ability by FHA to decline to pay further claims.

Assure enough review appraisers to make timely reviews of cases referred for determinations of inflated mortgages

We are very pleased with the recent HUD response to our plea to look again at the more than 500 cases of possible mortgage fraud which had been referred by the advocacy organizations and attorneys. This second review has resulted in determinations that a number of borrowers previously rejected for assistance have now been determined to be eligible for FHA's victim assistance programs.

However, the initial review of cases and the re-reviews were hampered by the unavailability of sufficient review appraisers on the HUD list. This led to long waits on determinations. This is unacceptable as the affected households are in a crisis situation and may not be able to hold out for long periods of time without knowing if help is on the way.

In closing, these reforms would go a long way in addressing the flipping problem and we are committed to remaining vigilant to attack new schemes and making additional recommendations as appropriate.

Senator MIKULSKI. Thank you very much.

Now we turn to Laurie Maggiano, who Secretary Martinez has personally designated as his liaison to the Baltimore predatory lending task force. We understand from all concerned that you have really been very actively engaged in this and express our thanks to Secretary Martinez for it.

Ms. MAGGIANO. Thank you very much.

Senator MIKULSKI. So now let us hear what you found and where you think we need to go.

Senator SARBANES. The Secretary very graciously placed her in the frying pan, I think.

Senator MIKULSKI. Well, I do not know if you thank the Secretary, but we do.

STATEMENT OF LAURIE MAGGIANO, DIRECTOR, ASSET MANAGEMENT AND DISPOSITION, SINGLE FAMILY DIVISION, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. MAGGIANO. Well, first of all let me say that the Secretary has asked me to thank both of you for the opportunity to come before you today to describe the recent progress that both HUD and the task force have made since your meeting with him.

In April of last year, at your urging, HUD convened the predatory lending task force and last month at a meeting with both of you Secretary Martinez reaffirmed the Department's commitment to work with the task force and he promised some very specific and swift action on a number of issues. My remarks today will focus on HUD's progress on those issues, as well as some other priorities of the task force.

During that April 3rd meeting, you suggested that a senior HUD official from headquarters be appointed to work with the Baltimore task force on a regular basis and, despite the fact I knew I would be on the griddle with the spotlight, in your words, Senator, I was honored when the Secretary asked me to assume that responsibility.

For the last 4 weeks I have been dedicated nearly full-time, heading a team of 15 senior staffers representing program development, the Philadelphia Homeownership Center, the Office of General Counsel, and Quality Assurance Division of HUD. The Secretary has also asked his Special Counsel, Bryant Applegate, to monitor our progress and to keep him personally informed. This is a significant commitment of resources and it demonstrates the importance that the Secretary places on the outcome of the work of the task force.

Immediately following the April meeting and again at your request, the HUD team met with other task force participants to re-define criteria that had been used to evaluate 560 loans that had been referred as potentially predatory. Our first action was to notify mortgage servicers to suspend foreclosure actions on the loans

in this group that were in default and to suspend eviction actions on those loans that had already been foreclosed. These suspensions will continue to be in effect until the task force completes the re-review to determine which loans are overvalued and which borrowers can be assisted.

HUD's initial review approach had been to aim for a burden of proof that would support enforcement against the perpetrators and therefore it was to some extent purposely narrow. The re-review parameters focused on borrower assistance rather than enforcement. The expanded parameters are not limited by zip code, but encompass all of Baltimore City. The eligibility date was pushed back to January 1st, 1997, and the review was expanded to focus on overvaluation as well as simply flipping.

Using information available to us, the HUD team has now completed a re-evaluation of all 560 cases. 225 of those borrowers did purchase homes that were overvalued. Of particular note are the 41 cases referred for re-review by Senator Mikulski, and of these 21 met the task force criteria for overvaluation and assistance will be provided to those borrowers. A list of the loans that did not meet our very broad redefinition of overvaluation has been delivered to the nonprofit task force participants with the request to them to provide us with any additional supplemental information that they may have that would support an overvaluation determination.

HUD is committed to work with the task force on a case by case review so that no homeowner is arbitrarily denied assistance. Assistance is being provided to borrowers by HUD and the task force, though the type of relief available is dictated by circumstances unique to the borrower and the property. To date, the following assistance has been or is being provided:

Foreclosure suspensions are enforced. Twelve borrowers have received relocation assistance checks. Mrs. Charlotte Ware is receiving funds from HUD to reinstate her mortgage and cure her delinquency, and these are funds she will not have to repay. Mrs. Sheila Marabell will be able to retain possession of her property following foreclosure through a lease-purchase from St. Ambrose, and we thank St. Ambrose very much for working with us to make that available to this homeowner. Without them it would not have happened.

One hundred seventy eight credit explanation letters have been provided by HUD and 93 borrowers have recently received letters—they were mailed last week—providing them with the option of either relocation assistance, loss mitigation to reinstate their loans, or consideration for a property repair buyback option. I should say in all honesty that the number of borrowers who are going to be able to qualify based on the condition of their title and their credit history for the property repair buyback option is going to be small. That is a great disappointment to all of us.

Beginning next week, HUD is detailing staff to the Baltimore office to work directly with these 93 borrowers and the task force counseling partners to expeditiously review each borrower's circumstance and provide available assistance.

Senators, the HUD staff has been working with many of these borrowers for months. We have heard their stories. We have visited their homes and are intensely aware of the real and personal trage-

dies that they and their families have suffered. No one at HUD takes their suffering lightly.

One of my greatest frustrations and one that I know is shared by everyone on the task force—and you heard it this morning—is the limited ability that the Department has to provide any direct assistance to these homeowners. We do recognize the sense of urgency that you alluded to earlier and are committed to working with you to find the means that we need.

As it is, the Department is pushing the envelope of its statutory and regulatory authority by providing the level of assistance that I have already described. One notable area of weakness is our ability to provide assistance to borrowers that are either current or only slightly delinquent on their mortgages, but who need help to pay for emergency property repairs. As an interim measure, HUD has proposed that the City of Baltimore re-allocate \$1.5 million from the pending neighborhood initiative grant that you announced this morning and earmark this money for assistance to borrowers affected by predatory lending. But this will not go very far. In the near future other sources of funding will be necessary to provide for repairs and help borrowers permanently reduce overinflated debt.

While borrower assistance has provided the greatest challenges and will continue to be an area of focus and concern, HUD believes that the most effective long-term solution to predatory lending is prevention. Since the initiation of the task force, HUD has focused, its prime area of focus has been on prevention.

One of the lessons learned is that predatory flipping cannot happen without corrupt appraisers. During the past year, HUD has implemented a wide-ranging appraisal reform initiative that is already helping to prevent predatory appraisal practices by requiring licensing and testing of all FHA appraisers. This is especially important in Maryland, where there is no appraisal licensing requirement. The appraisal reform initiative also expands the appraisal report to include a full description of property condition and requires that the borrower receive a copy of the property condition report prior to closing.

Finally, it provides a quality assurance statistical review of 100 percent of FHA appraisals that are made for origination purposes.

Another preventative measure is a provision of the new government-supervised enterprise rule that became effective in January which specifically disallows housing goals credit for loans with predatory features. Soon to be issued is a proposed rule that will make flipped loans ineligible for FHA insurance. Also under consideration are policy and regulatory changes that would require mortgagees to use fraud prevention tools to screen new applications for indications of flipping, place strict limits on costs and fees that can be charged in the origination of an FHA loan, and provide increased authority to hold mortgagees more accountable for the quality of the loans that they purchase and/or service.

Consumer outreach and education is another important element of prevention. HUD has provided a grant to ACORN to produce brochures and develop consumer education materials warning of predatory practices for use in housing counseling and at home buyer fairs. These materials will be tested here in the Baltimore

laboratory, but will eventually be made available on a nationwide basis.

Upcoming Baltimore community outreach events include training for all Baltimore area nonprofits on indicators of predatory lending, a series of bimonthly consumer education programs to begin later this month at the Pratt Library, and a June 16 trolley ride homeownership event, and a bank fair on June 30. That is just indications of some of the consumer outreach activities that are currently scheduled, but this will be an ongoing process.

Also, through the neighborhood initiatives grant HUD is funding a predatory lending clearinghouse that will work directly with HUD staff on a review of the new predatory lending referrals that we have alluded to earlier in the testimony.

Following closely behind prevention activities are HUD's efforts to get the perpetrators of such practices off the streets. In the past year the Department has initiated a wide range of enforcement actions against more than 140 individuals and organizations involved in FHA-insured loans in Baltimore. The origination and servicing practices of 54 lenders were reviewed, resulting in 13 referrals to the mortgagee review board, eight lenders who were terminated or proposed for termination under the credit watch initiative, and four more who have been placed on warning status. Ten lenders are under investigation by the Office of the Inspector General and 12 lenders are on a probationary status that requires a 100 percent post-endorsement technical review of the loans that they originate.

Additionally, two real estate brokerage firms have been barred from the purchase and sale of HUD homes, 15 appraisers have been removed from the FHA roster, and 32 individuals have been referred for debarment, meaning that they will not be able to participate in any HUD program.

Senator MIKULSKI. Is this in Baltimore or nationwide?

Ms. MAGGIANO. This is in Baltimore.

This is a strong record of accomplishment, but we know that there is a lot more to do. For example, in April a new task force subcommittee was established to explore strategies to better target the marketing of HUD-owned properties. I attended the first subcommittee meeting on May 3rd along with Cheryl Walker, the HUD REO director responsible for properties in Baltimore. During that meeting Cheryl agreed to several actions that will increase opportunities from owner-occupied sales of HUD homes.

Specifically, we will expand the time period during which owner occupants have the exclusive right to bid on properties before they become available to investors. We will partner with nonprofit members of the task force to develop a property repair pilot to ensure that more properties are in move-in condition, and we will sell those repaired properties exclusively to owner occupants.

Finally, we have encouraged the city and nonprofit partners to submit a proposal for the purchase of HUD-owned properties that is consistent with the goals of the healthy neighborhoods initiative. Harold Young, our senior community builder in the Baltimore office, is helping to coordinate this proposal.

Throughout HUD's year-long participation in the Baltimore predatory lending task force, much good work has been accomplished, but there is much left to do. Let there be no mistake that Secretary

Martinez and the U.S. Department of Housing and Urban Development are fully engaged in the effort to combat predatory lending in Baltimore City and across America. We will continue to work aggressively on borrower assistance, consumer education, prevention, and enforcement. But HUD does not stand alone in this effort. It will require the combined energy and contribution of all task force partners, as well as conventional lenders and mortgage insurers, to protect the citizens of Baltimore from predatory and abusive lending practices.

PREPARED STATEMENT

We wish to thank both of you for your continued attention to this cause and we look forward to working with you and your staffs in the future. Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF LAURIE MAGGIANO

Introduction

I am Laurie Maggiano, and Secretary Martinez has asked me to thank you for the opportunity to come before you today and describe recent progress that has been made by HUD and the Baltimore Predatory Lending Task Force.

The Federal Housing Administration plays a key role in expanding homeownership opportunities by providing mortgage insurance to nearly 130,000 Baltimore families. However, many low and moderate income neighborhoods in Baltimore have been destabilized by predatory and abusive lending practices, turning the American dream of homeownership into a nightmare for families who have been duped into purchasing homes at inflated prices or with significant undisclosed repairs.

In April of last year, at the urging of Senator Mikulski, HUD convened the Predatory Lending Task Force to involve a diverse group of citizens, elected officials, community advocates, legal and government staffers in the task of combating predatory practices in Baltimore City. Last month at a meeting with Senators Mikulski and Sarbanes, Secretary Martinez reaffirmed the Department's commitment to the work of the Task Force and promised specific and swift action on a number of issues. My remarks today will focus on HUD's progress on those issues and other priorities of the Task Force.

Resource Commitment

During your April 3, 2001 meeting with the Secretary, you suggested that a Senior HUD official from Headquarters be appointed to work with the Baltimore Task Force on a regular basis. I was honored when the Secretary asked me to assume this responsibility. As Single Family Division Director of Asset Management and Disposition, I have policy responsibility for loan servicing, loss mitigation, foreclosure and HUD owned property sales. The important issues before the Task Force are directly in my sphere of responsibility, and I have the perspective to apply lessons learned from the Baltimore laboratory to refinement of national policy.

For the past four weeks I have been dedicated nearly full time to heading a team of 15 senior staffers from Program Development, the Philadelphia Homeownership Center, Office of General Counsel, and the Quality Assurance Division. The Secretary also asked his Special Counsel, Bryant Applegate to monitor progress and keep the Secretary informed. This is a significant commitment of resources, and it demonstrates the importance the Secretary places on the outcome of the work of the Task Force.

Foreclosure Suspension and Re-review Completed

Immediately following the April meeting and again at your request, the HUD Team met with other Task Force participants to redefine criteria to be used to re-evaluate the 560 loans previously reviewed. Our first action was to notify mortgage servicers to suspend foreclosure actions on loans in this group that were in default and to suspend eviction actions on those loans that had already been foreclosed. These suspensions will be in effect until the Task Force completes its re-review to determine which loans were overvalued and which borrowers can be assisted.

HUD's initial review approach had been to identify flipping activity and aim for a burden of proof that would support enforcement against the perpetrators. Working

with the Task Force we developed re-review parameters focused on borrowers assistance rather than enforcement, and overvaluation rather than flipping. All 560 cases have been reevaluated based on these parameters:

- FHA insured loans on properties in Baltimore City
- Origination date on or after January 1, 1997
- Appraisal indicates that the property was overvalued by at least 120 percent or \$10,000, OR
- An automated value analysis indicates that the purchase price exceeded an acceptable range of fair market value for other neighborhood homes at time of origination, OR
- Evidence of grossly deficient property condition at origination.

Based on information available to HUD, the re-review identified 225 borrowers whose properties are believed to have been overvalued. A list of the loans that did not meet the very broad criteria for overvaluation has been delivered to the members of the Task Force who generated the initial case referrals, with a request to provide HUD with any additional information that would support a finding of overvaluation.

Of particular note is the disposition of the 41 cases referred for re-review by Senator Mikulski. Of these, 21 met the Task Force criteria for overvaluation and assistance is being provided to the borrowers as more fully described below.

Borrower Assistance Completed and In Progress

Affected borrowers (plus others to be added in the future) are being provided some assistance by HUD and the Task Force, though the type of assistance available is dictated by circumstances unique to the borrower and the property. To date, the following assistance has been/is being provided:

- Foreclosure suspensions enforced
- 178 credit Explanation Letters mailed to borrowers
- 12 checks have been issued to provide relocation assistance
- 1 loan is being reinstated using HUD funds (partial claims)
- 1 borrower has qualified to retain possession through foreclosure, sale to St. Ambrose and subsequent lease purchase.
- 93 borrowers have been offered the option of (1) relocation assistance (2) loss mitigation or (3) or consideration by Task Force housing counseling partners for the occupied conveyance/property repair/buy back option.

Though the available assistance options do not fully address the damage suffered by many of these borrowers, it is important to understand that the Department is pushing the envelope of its statutory and regulatory authority in providing this level of assistance. One notable area of weakness is our ability to provide assistance to borrowers who are either current or only slightly delinquent on their mortgage but who need help to pay for emergency property repairs. The HUD team is working aggressively with the Task Force to leverage the Department's commitment with resources available through the City of Baltimore and other community based organizations to offer grants or low interest loan for property repairs. Specifically we believe there is opportunity to reallocate up to \$1.5 million from the pending Neighborhood Initiatives Grant from HUD and earmark this money for assistance to borrowers affected by predatory lending.

New Case Referrals

The City of Baltimore has established a Predatory Lending Clearinghouse and awarded a contract to St. Ambrose Housing Aid Center. The new evaluation criteria agreed upon by the Task Force is as follows:

- Property is located in Baltimore City
- The loan is currently insured by FHA and was originated later than January 1, 1997
- The borrower is not under investigation by the Inspector General or Attorney General for complicity in a predatory scheme.
- The property was resold at least once within 12 months of loan origination at a price at least 120 percent of the original sale price (or \$10,000 more). OR
- The property was in grossly deficient physical condition at the time of origination, and this was fraudulently misrepresented on the appraisal or loan documents.

In concert with St. Ambrose, GOVAN and ACORN, the HUD team has developed effective, written procedures for the Clearinghouse, including a uniform intake process, a referral tracking log and clear delineation of responsibilities to ensure that borrower concerns about predatory activities are evaluated quickly and fairly. These procedures are in place, and new referrals are being processed.

Community Outreach

The HUD team is focusing a significant level of attention on prevention of predatory lending activities through consumer education and community outreach. ACORN continues to be a valuable partner in this effort. Using funds provided in a special discretionary grant from HUD, ACORN is preparing brochures for general distribution, writing a predatory lending module for existing homebuyers counseling courses, developing curricula for consumer and non-profit organization training and developing materials for use at Homebuyer Fairs. All of these materials will be tested in Baltimore but will eventually be made available on a nationwide basis. During the next 60 days, HUD, ACORN and other Task Force Members are cooperating on these community outreach events:

- May training for all Baltimore Area non-profits on indicators of predatory lending and Clearinghouse referral procedures
- Bi-monthly consumer education programs at the Pratt Library beginning in May
- June 16th Trolley Ride Homeownership event
- June 30th Bank Fair.

Ownership Focus in the Disposition of HUD Homes

The Department is pleased to report that, consistent with an overall decrease in foreclosures nationwide, the number of properties foreclosed in Baltimore is also down for the first half of fiscal year 2001 by nearly 15 percent over the same period last year. Still, there are currently more than 600 HUD Owned homes in Baltimore City. In April, a new Task Force subcommittee was established to explore strategies to better target the marketing of these properties so that they will be available to owner occupants. I attended the first subcommittee meeting on May 3, 2001 along with Cheryl Walker, the HUD REO Director responsible for properties in Baltimore.

During the meeting Cheryl agreed to expand the time period during which owner occupants have the exclusive right to bid on properties and to reinstate that exclusive bid period each time a property is re-listed with a price reduction. We also offered to partner with the non-profit members of the Task Force to pay for repairs on properties in their catchment areas if they are willing to identify and supervise qualified contractors. Finally, we discussed creating more flexibility within existing discounted sale programs to better meet community needs. HUD has encouraged the City and non-profit partners to submit a proposal for purchase of HUD owned property that is consistent with the goals of the City's Healthy Neighborhoods Initiative. Harold Young, Senior Community Builder in the Baltimore office is helping to coordinate this proposal.

CONCLUSION

Throughout HUD's year-long participation in the Baltimore Predatory Lending Task Force much good work has been accomplished. This testimony, focused as it is on the progress of the past 4 weeks, did not recount the impressive strides made in identification of predators or the enforcement actions already taken or in progress against them. Neither did it focus on preventative actions being considered by FHA and the mortgage industry to make it harder to commit predatory acts.

Let there be no mistake that Secretary Martinez and the U.S. Department of Housing and Urban Development are fully engaged in the effort to combat predatory lending in Baltimore City and across America. But HUD does not stand alone in this effort. It will require the combined energy and contribution of all Task Force partners to protect the citizens of Baltimore from predatory and abusive lending practices. Thank you.

BALTIMORE PREDATORY LENDING AND FLIPPING TASK FORCE YEAR ONE
ACCOMPLISHMENTS

Borrower Assistance

Since April 2000, the U.S. Department of Housing and Urban Development, in conjunction with the Baltimore Task Force has received and reviewed 557 cases of alleged predatory lending in Baltimore City. Of these 227 have met the Task Force definition of overvaluation and are being provided some type of assistance:

- 12 borrowers have received relocation assistance checks
- 1 borrower is receiving funds from HUD to reinstate her mortgage and cure her delinquency
- 1 borrower has qualified to retain possession of her property following foreclosure
- 178 Credit Explanation Letters have been provided by HUD

—93 borrowers have received letters detailing the assistance options available to them.

Prevention Actions

While borrower assistance will continue to be an area of activity and concern, HUD believes the most effective long term solution to predatory lending is prevention and has made this a primary focus. One of the early lessons learned by the Task Force is that predatory flipping cannot happen without corrupt appraisers. During the past year HUD has implemented a wide ranging Appraisal Reform Initiative that will prevent appraisal fraud by:

- requiring licensing and testing of FHA appraisers
- expanding the appraisal report to include a full description of property
- condition and the requirement that the borrower receive a copy of the property condition report prior to closing
- providing for 100 percent statistical review of every FHA appraisal.

Other preventative measures include a provision of the new GSE Rule that became effective in January, which specifically disallows housing goals credit for loans with predatory features, and a proposed rule now in the concurrence process, that will make flipped loans ineligible for FHA insurance.

Also under consideration are policy and regulatory changes that would require mortgagees to use fraud prevention tools to screen new applications for indications of flipping; place strict limits on cost and fees that can be charged in the origination of an FHA loan; and provide authority to hold mortgagees more accountable for the quality of the loans they purchase and/or service.

Consumer Outreach

Consumer outreach and training is another important element of prevention. HUD has provided a grant to ACORN to produce brochures and develop consumer training materials for use in housing counseling and at homebuyer fairs. These materials will be tested in Baltimore but will eventually be made available on a nationwide basis. Upcoming Baltimore Community Outreach events include:

- May training for all Baltimore Area non-profits on indicators of predatory lending and Clearinghouse referral procedures
- Bi-monthly consumer education programs at the Pratt Library beginning in May
- June 16th Trolley Ride Homeownership event
- June 30th Bank Fair.

Through the Neighborhood Initiatives Grant program, HUD is also funding a Predatory Lending Clearinghouse that will be work directly with HUD staff on the review of new predatory lending referrals in the Baltimore area.

Enforcement Actions

The Department initiated a wide range of actions against more than 140 organizations and individuals involved in FHA-insured loans in the Baltimore area. The origination and servicing practices of 54 lenders have been reviewed resulting in:

- 13 referrals to the Mortgagee Review Board for action
- 8 Lenders terminated, or proposed for termination under the Credit Watch initiative; 4 placed on warning status
- 10 lenders under investigation by the Office of the Inspector General
- 12 lenders placed in 100 percent post-endorsement technical review status.

Additionally, 2 real estate brokerage firms have been barred from purchase and sale of HUD Homes, 15 appraisers have been removed from the FHA Roster and 32 individuals have been referred for debarment, meaning that they will not be able to participate in any HUD program.

Continued Commitment

Throughout HUD's year long participation in the Baltimore Predatory Lending Task Force much good work has been accomplished but there is so much left to do. Secretary Martinez and the U.S. Department of Housing and Urban Development are fully committed to the effort to combat predatory lending in Baltimore City and across America.

Senator MIKULSKI. Thank you for that very thorough contribution.

We now want to turn to Mr. Stephen Schenning the Acting U.S. Attorney from the State of Maryland, to tell us essentially where we are on the Federal prosecution of property flipping.

STATEMENT OF STEPHEN M. SCHENNING, ACTING UNITED STATES ATTORNEY, DISTRICT OF MARYLAND

Mr. SCHENNING. Thank you, Senators. Thank you, Madam Chairman and Senator Sarbanes. I am pleased to be here this morning to report to you on what Federal law enforcement is doing in this area.

Senator MIKULSKI. Do you want to pull that microphone up?

Mr. SCHENNING. I want to tell you what Federal law enforcement is doing in this area of mortgage flipping. Together with the FBI, the Postal Inspection Service, the Internal Revenue Service, and of course HUD IG, our office formed a task force to address criminally the problem of flipping. We assigned about ten Assistant United States Attorneys in Baltimore to address this. As Mr. Strong mentioned, Assistant U.S. Attorney Joe Evans is leading, chairing that effort in Baltimore.

To date we have opened about 40 different investigations into mortgage flipping. That gives you some idea the breadth of the problem. To date we have charged 40 defendants, we have convicted 15, 2 have been acquitted, and there are 23 pending. Of those 23 individuals who are pending, we filed criminal informations against those. A criminal information instead of indictment indicates that there have been negotiations and there is a likelihood that the case will be resolved by way of a guilty plea.

In terms of breakdown of defendants that I just mentioned, 16 of those are flippers, the person behind the deal, the person who is buying the houses at a low price and then selling them quickly at a higher price and is usually the person that is orchestrating the whole scheme. Sixteen of those have been charged, 8 convicted, 8 pending trial. There have been 4 mortgage brokers charged, 3 have been convicted, 1 is pending. Appraisers, there have been 3 charged, 1 convicted, and 2 acquitted. Loan officers, 3 have been charged, they are all pending. There have been 11 straw purchasers, with 1 convicted and 10 pending. There have been 4 settlement agents, 2 convicted and 2 pending. Two of those, I might add, of the settlement agents, were licensed attorneys.

In terms of sentencing, the eight defendants that have been convicted that have been sentenced, one received probation, one who cooperated substantially with law enforcement received an 18-month sentence, and the other six received sentences between 30 and 36 months. Of course, in the Federal system that is no parole, so for white collar offenses those are substantial sentences.

In one of the cases, the Beeman investigation, the sentencing judge agreed with our analysis that an enhancement of the sentence ought to be made. In other words, the sentences that two of the defendants got were higher than the guidelines ordinarily called for because of the impact on the community. This was in the north of Patterson Park area and the government argued and the judge agreed that the impact was so destabilizing that that justified an enhancement.

There was also in that case, the government tries to, when it can prove restitution, we try to obtain that and get it ordered by the court. In two instances we were able to negotiate payments by the convicted defendants to the Patterson Park Community Development Corporation in order to help fund that agency's work at re-

storing that part of Baltimore City and to undo in small measure the harmful effects that flipping has inflicted on that neighborhood.

I also want to mention, we have a Greenbelt office in the other part of the State and that office has been busy, too. In the past 18 months, the subdivision attorneys, U.S. Attorneys, have obtained five indictments. In my remarks I submitted I indicated four indictments. I found out over the weekend we actually unsealed another indictment, so the proper count is five indictments against 11 individuals involved in mortgage fraud schemes.

Senator SARBANES. Where is that located in the southern district?

Mr. SCHENNING. Prince Georges County.

Senator SARBANES. Prince Georges County.

Mr. SCHENNING. Yes, sir.

There are indications and it is true that Baltimore is not unique in this mortgage flipping, that other jurisdictions, New Jersey, Milwaukee, St. Louis, and Los Angeles just to name a few, have also been hit. But in terms of our impression, we think that Baltimore has been hit harder. It is difficult to say with any, certainly for a prosecutor to say with any certainty, why Baltimore is more susceptible, but we think that there are a few features about Baltimore that may enable this scheme.

First, the Baltimore row houses create an opportunity to make it appear that individual houses and individual neighborhoods are comparable when they are not. I am sure both Senators understand you can go three or four blocks in a given place in Baltimore City and the values are quite different just a few blocks away.

The house market in Baltimore has traditionally been less, I think, than other places, so that out of town lenders, some of the—most of these houses involve FHA or HUD type loans, but there is also a sub-prime market that is involved. The lenders in the sub-prime market tend to be from out of State. So that when they are reviewing materials, looking at a house that is perhaps valued at \$50,000, that will not leap off the page at somebody from Ohio or Chicago and think that it is perfectly reasonable, not realizing that \$50,000 may be \$30,000 inflated.

Then of course, once this flipping starts it really can pollute, if you will, the whole database. Appraisals rely in large measure to comparables. You compare other houses in the neighborhood. Once these flippers start, and we have had a few instances of that, the same house, a house that was flipped was then used as a comparable for another flip.

Senator MIKULSKI. Faux appraisals.

Mr. SCHENNING. Exactly. So that one actually acts as polluting the whole database for people to come in and look.

We have opened about 40 investigations, as I have indicated. We have about 25 still pending that we are still working on.

I would like to make just two other points. That is that in the earlier testimony from Mr. Strong and the other people up here they were talking about the 600 block of North Robinson Street. We charged and convicted Robert Beeman, who was involved in activity there. We have pending charges by way of criminal information against Walter Dirsh, George Schiafano, Kay Realty, and just this Friday Andrew Bogdan. So just in that one block, just the 600

block of North Robinson Street, our office has gone after six individuals. So it gives you some idea how pervasive and how destructive it can be, just the one city block.

I also want to endorse in terms of what can you do about it, prosecutors can prosecute. I think people understand you go after people for fraud. But the one thing that we have seen, and Mr. Graziano and Ms. Maggiano both echoed it, is the key point in the whole process, at least from our view, is the appraisal process. In every case that we investigate, in every case that we have prosecuted, the sine quo non of the scam, it does not work unless you have a faulty appraisal.

PREPARED STATEMENT

That is the point, it seems to me, in terms of prevention. Of course, I am just a prosecutor. I am not here to tell the experts how to do it. But if there can be more attention focused on the appraisers, because the flippers cannot make it work unless they have got that phoney appraisal. If someone there is licensing through oversight at that part of the process, I think that there can be effective oversight of this problem.

I think, from a prosecutor's standpoint, that is where I would start and that is where I would focus the attention.

[The statement follows:]

PREPARED STATEMENT OF STEPHEN M. SCHENNING

Senator Mikulski and Members of the Committee: I am pleased to be here today to report on the status of Federal prosecutions of property flipping in Baltimore. The first subpoenas were issued in late February of 1998. Since that time, the United States Attorney's Office, in conjunction with the United States Postal Inspection Service, the Federal Bureau of investigation, the HUD Inspector General, and the Internal Revenue Service has opened some forty separate investigations. These investigations invariably involve multiple individuals and entities, and oftentimes, there is substantial and dizzying overlap. In Baltimore, these investigations are monitored by approximately ten different Assistant United States Attorneys who have full caseloads in addition to the flipping matters. Nonetheless, in the past 2 to 3 years, Federal law enforcement has made significant and, I think, commendable progress.

While I cannot comment on pending investigations, I can speak to prosecutions that are in the public record. In that regard, let me provide the following statistics:

Defendants charged	40
No. Convicted	15
No. Acquitted	2
No. Pending	23

Of the 23 pending charges, 12 of those are charges which were filed by Criminal Information.

Types of Defendants Charged and Convicted:

- Flippers—16 charged, 8 convicted, 8 pending
- Mortgage brokers—4 charged, 3 convicted, 1 pending
- Appraisers—3 charged, 1 convicted, 2 acquitted
- Loan Officers—3 charged, all of which are pending
- Straw Purchasers—11 charged, 1 convicted, 10 pending
- Settlement Agents—4 charged, 2 convicted, 2 pending. The two convicted settlement agents are both licensed attorneys

So far, only 8 of the convicted defendants have been sentenced. One of those defendants received probation, and one who cooperated with law enforcement received an 18 month sentence. The others all received sentences between 30 and 36 months, without parole. Where it was possible to identify direct losses, restitution was ordered. In two instances, we were able to negotiate payments by the convicted defendants to the Patterson Park Community Development Corporation in order to help fund that agency's work at restoring this part of Baltimore and undoing many

of the harmful effects that flipping has inflicted on that very fragile part of the City. Indeed, in a number of the cases we were able to convince the sentencing judge that enhanced sentences were appropriate by reason of the impact that flipping has had on the Patterson Park area.

Additionally, over the past 18 months, the Southern Division of the U.S. Attorneys Office, located in Greenbelt, Md. has obtained 4 indictments against 7 individuals engaged in mortgage fraud schemes. We have obtained five convictions to date. In one particularly complex Greenbelt case, the defendant refinanced his own properties using inflated appraisals, fictional lenders and phony pay off letters to defraud unsuspecting lenders. The funds that this individual sought to receive by way of this scheme amounted to over \$500,000.

There are some other Federal prosecutions of mortgage flipping across the country—some in New Jersey, Milwaukee, St. Louis, and Los Angeles to name a few. Nonetheless, it is our impression that Baltimore has been hit harder than other areas. It is difficult to know with any certainty why Baltimore would be particularly susceptible, but our general sense is that there are a few features that serve as enabling circumstances. First, Baltimore's row houses create the opportunity to make it appear as though individual houses and individual neighborhoods are comparable when they are not. Additionally, Baltimore housing prices appear modest to out-of-town investors and lenders who do not realize that a house selling for "only" \$50,000 north of Patterson Park may be over-valued by \$30,000. Finally, once the snowball starts, it becomes an avalanche so that property databases become polluted with flips thereby making additional flips appear to be normal transactions; neighborhoods deteriorate because of vacancies and foreclosures, thereby making more houses available to be snatched up by flippers; and unethical business practices become so customary that any normal moral compass that an appraiser, settlement agent or mortgage broker may have becomes skewed.

I mentioned that we have opened about 40 separate investigations in the last 3 years. About 25 of those still remain open, not counting cases that have now been charged or concluded. Federal law enforcement in general, and the United States Attorney's Office in particular, views property flipping not only as a significant violation of Federal fraud statutes, but also as a practice that leads directly to the destruction of neighborhoods that are essential to the continued vitality of cities like Baltimore. Putting a stop to these predatory practices deserves as much prosecutorial effort as can be mustered, and this Office is committed to that effort.

Senator MIKULSKI. Thank you very much, Mr. Schenning.

Moving along in our hearing, I am going to do some of my first questions to you, Mr. Graziano. First of all, I just want two general comments. Flipping is a national problem. The Mayor said it. Secretary Martinez said it, Ms. Maggiano said it. The policy solutions, either legislative or regulatory are so enormous that we want to continue to use Baltimore as the laboratory, recognizing that Baltimore is not the only city. This is why we so appreciate your efforts, Ms. Maggiano, and we also will continue to follow up.

In June there will be the HUD hearing before Appropriations Committee and we will have one segment of our questions devoted to this. Then I know Senator Sarbanes will be pursuing his legislation.

Mr. Graziano, I am really hot on this prevention issue, because when we hear of all the resources that are going into cleaning up and clearing up, it shows why prevention is so important.

Number one, I would like to ask from you a set of recommendations on how we can prevent section 8 in its efforts to move into homeownership. I do not want it here. I would like it to be submitted to the committee in writing, in terms of the prevention on section 8. That is the subject of essentially a different type of hearing. But I believe Ms. Maggiano and Secretary Martinez would be keenly interested in your recommendations.

Second, your Baltimore City task force gave to Senator Sarbanes and I a list of what HUD FHA promised under Secretary Cuomo, what has happened and what needs to be happening. We would

like an update on that. So as I understand it, HUD promised where the mortgages have been inflated it would be conducting its own appraisal reviews on cases. You say what needs to be happening is that FHA needs to deal with slow review appraisal processes.

Has that improved or where are we on that?

Mr. GRAZIANO. That has improved at this point, but we need to make sure that there are adequate resources at HUD and FHA dedicated to continue that. But it has improved.

Senator MIKULSKI. Well, Ms. Graziano, I know that is an issue that will be an interest of yours.

The other issue was that after review FHA would insist insured buyers who were found to have mortgages above 30 percent of appraised value to be able to be helped. Could you tell us what happened there? That is recommendation number two.

Mr. GRAZIANO. Yes, yes. My understanding is that HUD, FHA has in fact dropped a number of the limiting conditions and is looking at a much broader range. They are looking city-wide at this point, rather than just the five zip codes, and they have pushed the date back earlier, to an earlier date. I do not know the exact date on the reviews.

Ms. MAGGIANO. It is January 1st, 1997.

Senator MIKULSKI. Well, we will come back. There are a couple of other issues. One, that FHA would demand that lenders reduce the inflated FHA-insured mortgages to the appropriate levels, and if lenders refuse the mortgage—I am on page 2—they would allow the borrower to sign over the deed to FHA and FHA would resell the property back to the borrower at the appropriate level.

Now, this is one of the core of our making whole efforts. Could you elaborate on what you think has happened there and what more needs to be done by either you or HUD.

Mr. GRAZIANO. Well, my understanding is that HUD has made these efforts in a number of cases. They have been resisted by the lenders. They have refused to reduce the loans. As I understand it, there is some lack of clarity as to whether FHA has the current authority to impose that where the lender is not willing to voluntarily do it.

I am not an expert on that particular section, but that is the advice I am being given. I would say that—

Senator MIKULSKI. Well, Mr. Graziano, let us hold you there and turn to Ms. Maggiano, because this is one of the pillars on which our reform must stand.

Could you comment? Do you have that chart, ma'am? Could my staff take that to Ms. Maggiano? You will see what it is. You are going to like this chart. I think you are the kind of lady who likes these Powerpoint checklists to get things done.

Ms. MAGGIANO. I certainly see that written there, Senator Mikulski. What I would say is that FHA perhaps overcommitted what it was able to deliver. The section 203(e) of the National Housing Act has a clause called the incontestability clause, and that clause prevents us from denying an insurance claim—excuse me. That prevents us from forcing a mortgagor to cram down a mortgage by threatening to deny the insurance claim if they do not. That was, unfortunately, really the bitter pill that we have learned over the last few months in trying to resolve the Baltimore problem.

We had great hopes initially that we would be able to go back to mortgagees and ask them to do the right thing. We demanded that they do that, and they pointed to this clause and said: You cannot make us and we are not going to.

Senator MIKULSKI. So essentially, Ms. Maggiano, you need new statutory legislation? You need new statutory authority?

Ms. MAGGIANO. In order to use the insurance fund to pay borrower claims and to cram down mortgages or to require mortgagees to do that, it would require statutory authority.

Senator MIKULSKI. Well, again, this is very complex information and I would appreciate if you could furnish to Senator Sarbanes and myself what your legal counsel and others have told you to really correct this situation, so we can ponder it and, again working with our Republican colleagues, I certainly will be discussing this with Senator Bond.

I must comment, though Senator Bond is not at this hearing, he finds this whole predatory lending to be as despicable as us. So this is not Democrat-Republican. This is Team USA here.

So I think we would appreciate getting your recommendations or a white papers so that the authorizers can ponder it and we can look at it as their appropriator colleagues. I think this would be a very important tool for us to get to it.

Senator Sarbanes, do you want to pick up?

Senator SARBANES. Well, right on this point actually. First of all, we are awaiting from HUD your recommendations as to the statutory changes you need in order to enhance your authority to deal with some of these problems.

Second, I want to encourage HUD to push the envelope on its authority under its existing legislation. For example, you had a credit watch situation in which your authority was challenged, as I understand it, to disqualify lenders; is that correct?

Ms. MAGGIANO. I believe so, sir.

Senator SARBANES. That case went against you at the initial level, but was reversed on appeal. So at the appeals level your authority was upheld. So in a sense, on that issue at the moment you have a clear street and we urge you to press forward with that. We would be happy to talk with counsel at HUD about trying to move in other areas and sort of not backing off simply because some of the private parties say, well, we are not going to be cooperative.

Now, in the one instance, of course, you were upheld by the appeals court in the end, and it might happen in other areas as well. We need to look at that. In any event, we also need to discuss with you what statutory changes you think are necessary. But we have to dry up this pool that enables people to function this way.

Mr. Graziano, I want to ask you, what is the city's strategy to deal with the problem in the non-FHA arena? We are focusing on the FHA and we have got Ms. Maggiano now as the point person and we are very pleased that the Secretary has come through so quickly on that assurance that he gave to us about designating someone at the central office. We think that is very important, that we now have a coordinator to pull all this together.

A lot of the focus, of course, has been on the FHA and HUD because that is a public agency and we deal in a public dimension in it. But this problem obviously, as we hear from our local people,

extends out beyond HUD. So you are dealing in other areas where there is no HUD presence, as I understand it. What about that?

Mr. GRAZIANO. Well, that is obviously a tougher one. We do not have quite the hook there that you do with the FHA program, even with some of the current limitations. But I think it starts with a basic education program that we have talked about, the mass education program, the specific individual counseling for home buyers which we are trying to make mandatory, we are making mandatory in all of our programs.

I made reference to a section 8 homeownership program that we will be creating. An important element of that will be ensuring that people are fully educated. Of course, because the dollars will go through our agency through section 8, we will be able to ask some of the questions, as you suggested earlier, where HUD could make that half-hour phone call, FHA could, before a loan was closed. We can certainly go through those kinds of initiatives, those kinds of questions, rather, under the section 8 homeownership initiative.

I think there are also some other very basic things that we need to do that touch on this program, but that have a broader impact. That is to say, our code enforcement program is one that we are beefing up more and more each day and week. Fundamental code enforcement I think holds owners accountable. Those would-be speculators and so forth would be, we hope, discouraged from participating if they know that there is a greater watch over the condition of properties.

The same thing would be said on the section 8 side for renters, the rental section 8 program also, much stricter inspections and holding landlords accountable.

So there is a lot of up-front education on the one hand, helping wannabe home buyers, making sure that they have the wherewithal, that they can sustain the homeownership, but also holding—discouraging the involvement in our market of speculators who have no interest in stable neighborhoods, whether they be for rental property or for homeownership.

Senator SARBANES. Well now, Fannie Mae and Freddie Mac have both enunciated policies to try to dry up the availability of the secondary market for these sales. Is the city in touch with them?

Mr. GRAZIANO. We have been in discussions with them. I am not fully—I cannot give you a complete rundown at this point. But that is something we would continue to do.

Senator SARBANES. Now, is there an adequate database? I mean, obviously a Vinnie Quayle and Ken Strong and Ed Rukowski, who is here for the Patterson Park people—I am sure that when they see a certain name or a certain company they know enough that red lights go off. Now, is the city plugged into that?

I mean, it seems to me we have experienced enough of this. Of course, Mr. Schenning is removing a lot of them from the playing field, thank heavens.

Mr. GRAZIANO. Right.

Senator SARBANES. And we encourage him in what he is doing. I think it is very important that one message that comes out of this hearing is that, you know, this is not a risk-free endeavor these people are in and some big bonanza and that we have got—you say ten Assistant U.S. Attorneys in this office?

Mr. SCHENNING. Just in Baltimore.

Senator SARBANES. In the Baltimore office, working on this problem. That is a major task force. How many U.S. assistants are there in the Baltimore office?

Mr. SCHENNING. Forty-seven.

Senator SARBANES. Forty-seven. So that is a major task force addressing this problem, and the sort of prosecutions that you are bringing is an indication of, I think, of the growing effectiveness of that task force. So the word needs, if it is not out there yet, it ought to be out there that the people engaging in these deplorable practices and exploiting people in the most gross fashion are going to pay a price for it.

Now, you say these sentences are running about 30 to 36 months?

Mr. SCHENNING. Correct.

Senator SARBANES. And there is no time off of those sentences?

Mr. SCHENNING. That is without parole. There is no parole in the Federal system. You can earn some good time credits, but it is about 5, 6. If you get 30 months, you are going to do 25 months before you get released.

Senator SARBANES. So they are going to serve a substantial sentence off of this. There is also an effort to recoup in monetary terms, I gather, as well; is that correct?

Mr. SCHENNING. We always look a restitution if it is there. We do financial backgrounds before a defendant is sentenced and we try to, if we can, individualize the restitution. Of course, in the cases a lot of times the victim, in say the Beeman investigation, the victim in terms of the prosecution was the out of State lender who had loaned the money and who had been stuck with it. That is one of the reasons that we ask.

We knew that there is another victim here. Like the lady who was sitting in this chair, she is a victim, too. But in terms of a prosecution and restitution, the judge does not have any authority to order money to her, but what we did in the Beeman case was ask the court, at least in two cases where the defendants had money, ask them in one case for \$30,000 and \$40,000, for a total of \$70,000, to go to the agency, the Patterson Park community agency—Mr. Rukowski I think is the head of that—money that the court ordered to that agency so they could continue their good work.

Senator SARBANES. Do you have a database that enables you to sort of send up the warnings as soon as you see certain entities moving around our city?

Mr. GRAZIANO. I am going to ask Joann Copes, my Director of Development, if you would indulge me, to respond to that.

Ms. COPES. We are keeping data through the task force. The State Department of Assessments and Taxation has all the data on property transactions and they are an active member of the task force. The task force meets every 3 weeks. We have also relied heavily on the advocacy group, St. Ambrose. But we do have a formal relationship with Ken Strong, who is now with Community Law Center, on a consulting basis to provide that kind of information and data to us in the city.

So I would say through the task force we are keeping data and are well aware of who the actors are. Of course, that is a changing landscape.

Mr. GRAZIANO. If I could just elaborate on the earlier questions, too. In some of my points I spoke of orally and in the written testimony as well, I focused on the appraisers and the licensing of appraisers. Mr. Schenning certainly pointed that out as well, that appraisal is the critical element of all, whether it be an FHA or a non-FHA loan. So to get at those non-FHA loans I think we have to focus on the recommendations here about appraisers.

One is that in the FIRREA legislation I believe it allowed for discretionary or States having optional licensing, and Maryland is a State that does make licensing optional. Perhaps we should look at the being a Federal mandate for licensing of appraisers be mandatory.

Then we talked about the de minimis provision that said if your mortgages are below \$250,000 that there need not be a licensed appraiser. Well, 95 percent of the loans out there are less than that and in Baltimore probably more. So that we need to get licensed appraisers and they need to be held accountable.

Senator SARBANES. There are two approaches to that. One is to try to get a Federal standard that all appraisers must be licensed.

Mr. GRAZIANO. Right.

Senator SARBANES. Which would be nationwide.

Mr. GRAZIANO. Right.

Senator SARBANES. The other would be to close this gap as far as Maryland is concerned by getting Maryland legislation that says, at least in Maryland, as is the case in some other States, the appraisers must be licensed. In how many States must appraisers be licensed under State law, do you know?

Mr. GRAZIANO. I think there are something like half a dozen States that have it optional, I am told.

Senator SARBANES. We are one of only six where it is optional?

Mr. GRAZIANO. Something like that.

Senator SARBANES. In all the other States they require licensed appraisers, is that correct?

Mr. GRAZIANO. That is correct. The reason why that is important, of course, is because right now it is optional—

Senator SARBANES. You see, it would be different—that is a problem on a Federal standard because you have got 44 States who have no interest in the Federal standard because they in a sense are already doing it at the State level.

Mr. GRAZIANO. We can certainly work on it at the State level as well. The importance is that if you do not have—if it is optional and you lose your license, if that is the penalty imposed, that is not a terrible penalty because you can go off and continue to do your business without a license. So clearly it is important that the taking away of that license has some real teeth in it.

Senator MIKULSKI. Picking up on what Senator Sarbanes said about this appraisal licensing, we would really encourage Mayor O'Malley to make this one of his legislative priorities in the next session of the Maryland General Assembly. We would like to know the other five States as well. But we think this would be an important Maryland self-help initiative.

I want to compliment Delegates Rosenberg and Kreziak and MacIntosh on their efforts in this area. I also note that Councilman Kane was here and I see Council Keeper Mitchell, who himself has a very keen interest in this. Perhaps, Councilman, you could work with the delegation as they go to Annapolis on this, because I know you are hot on this topic, too. We are glad to see you this morning.

Picking up on our U.S. Attorney, Mr. Schenning, I was really struck by the ten different Assistant U.S. Attorneys on this. This approximates about 20 percent of our caseload. Then when you think about what it takes—here is my question. Number one, how much is the U.S. Attorney spending on it? Do you have enough resources? This really has to show what kind of urgency we need to do the prevention and intervention.

Mr. SCHENNING. The ten that are assigned to these cases, that is not their only assignment. They have other commitments, too.

This might give you some insight, Senator. Two cases have gone to trial so far. Samson U. Gorgy, who is an appraiser; in that case—he was in the Beeman investment.

Senator MIKULSKI. Oh, I am familiar with him.

Mr. SCHENNING. He went to trial and it took 4 weeks to try that case in front of Chief Judge Motts. He was the sole defendant who actually went to trial.

The other case that went to trial, there were three defendants, two appraisers and one of the flippers, before Judge Smalkin, I believe. That case took 3 weeks. So 2 trials that we have taken, taken to trial; 1 was 4 weeks, the other 3 weeks plus. It was actually into the fourth week. That is just trial time. So it is a tremendous—these cases are complicated. Anybody that has ever gone to a settlement on their own house—

Senator MIKULSKI. We understand they are complicated. How much is it costing you?

Mr. SCHENNING. I guess I cannot give you statistics, but it is a tremendous undertaking.

Senator MIKULSKI. Well, we would like to know it. I will tell you why, because, you see, we have got to talk about the cost to everybody. The FHA, the taxpayers are being ripped off. I know this is one of the reasons Mr. Martinez feels so outraged. There are two kinds of locusts and predators that are hitting our Baltimore City. One sells the white powder of cocaine and heroin, and we know you are working on that with local and State. Then there are the white collar predators, equally the locusts, destroying the stressed neighborhoods, turning them into siege.

Now, we are on your side. The reason is—this is in no way a criticism. It is to show the cost of failing to have the right prevention, statutory and other interventions in place. Do you have enough resources to be able to do this?

Mr. SCHENNING. Well, I think we move—you also know that we are doing tons of gun cases that are coming out of Baltimore City. We have a whole floor of people dedicated to that. The drug cases, we have that. Then in the white collar section—we could always use more people because the assistants, they are not just doing these cases. They are doing other cases, too.

Senator MIKULSKI. Well, I just want to say thank you to you, your team, to all that help put the cases together, that was commu-

nity-based law enforcement, the techno-databases, everything, because I believe that your indictments and then subsequent convictions have really had a chilling effect, that we are really serious. This is not some toothless wonkie public policy seminar being run by Brookings or Heritage. We are in this.

Again, the model—and we want to thank you, and we know it is happening, too, in Greenbelt. We know that flipping is in Baltimore County, Prince Georges County, even some tell-tale signs in Montgomery. Where there is stress, the predators come in. So we want to thank you and as we move forward on State, Justice, Commerce Approps we would like to know what we can do to be helpful to you.

I am sorry, Senator Sarbanes. Did you want to ask a question?

Senator SARBANES. I just want to say, presumably as you bring these trials and gain these convictions you build up a momentum that leads other people that are indicted often to go ahead and enter a guilty plea. I urge you to really press hard with them and make it very clear that you are going to take this thing right down to the end if necessary. The more I think you reflect that attitude and gain some successes in expressing it—

That is a siren warning these people of what is coming.

Senator MIKULSKI. That is exactly right.

Senator SARBANES [continuing]. The more you can, I think, get more accommodation from the others you bring these indictments against. Of course, the whole impact of that is to send a very strong and clear warning signal to these people that we are just not going to have it. We will find you—if you need the resources, let us know. We will find the resources. But these people have been engaged in absolutely despicable practices.

They are not performing some sort of honest function where they are really trying to provide a service for which they get a reasonable remuneration, which is sort of how the system operates. They have set in there to just abuse the system and to exploit people that are unaware, and then they say, well, they ought to know better, you know, caveat emptor and all the rest of it. But they use all these techniques to lure them into this situation, and once they get them in, then they have other techniques to deepen people's involvement and the extent to which they are being exploited.

So you are performing a very significant function. I join Senator Mikulski in commending the U.S. Attorney's office.

I want to thank Ms. Maggiano. We are glad you are there. I am sure we will be at you from time to time, but I must say I think you have come in today and in very short order indicated a clear working plan on the part of the Department. I have confidence in your ability to sort of hold it together and to work with—we think our nonprofit sector here is first rate, and working with the city and the nonprofit sector we think we can crack this thing. So thank you very much.

Ms. MAGGIANO. Thank you.

Senator MIKULSKI. Senator Sarbanes, I just have a little bit more before we close out.

Ms. Maggiano, you of course have heard from our U.S. Attorney and we are not involved in any of the pending cases, but really the

cost. I am sure when you convey this to Secretary Martinez and even to Attorney General Ashcroft you will see this.

You listened to the testimony of Mr. Graziano in which he has about 11 or 12 recommendations. Do you have any initial comment on those or do you want to study these more and advise the appropriate committees on how you think we should proceed or how we could recommend to Mayor O'Malley, particularly where there might be State changes, for him to take up the cudgel, both with himself and, I might add, the other big seven executives if this is happening in the Prince Georges and Montgomery and Baltimore Counties, etcetera?

Ms. MAGGIANO. Well, first I thank you for the courtesy of letting me give you a more formal response rather than trying to solve very, very difficult problems sort of off the cuff after a month's worth of involvement in this process. But a couple things I certainly can address. One of those that has been sort of floating around during the testimony today is the disposition of HUD REO property, HUD-owned real estate.

Senator MIKULSKI. We want to hear about that.

Ms. MAGGIANO. I do want to commit to everyone in this room that HUD is going to be working very aggressively, both internally and with nonprofits, to put together a property repair pilot, because we feel that in many ways that is the biggest stumbling block to homeownership. The properties are just not in a condition that most homeowners can readily take on the challenge of buying them and getting them insured. So we are going to be working on that.

We are going to be using our 203(k) loan program more extensively in Baltimore. We think that that will help get some of these properties repaired and get them into private hands as well.

We would like to use a prepurchase housing counseling pilot for the REO properties as well, because we think that the recommendations for prepurchase counseling that have been made here have merit and we would like to test them on the REO portfolio because it is a portfolio that we can control and can maintain.

Senator MIKULSKI. This was one of the set of recommendations that came from Quayle-Strong.

Ms. MAGGIANO. Yes.

Senator MIKULSKI. Are you announcing today or are you considering today Baltimore being a pre-pilot program?

Ms. MAGGIANO. Well, I had actually already discussed with Vinnie using the REO portfolio as a pilot for prepurchase counseling. So we will be pursuing that. That is not the same as the entire FHA new origination portfolio.

Senator MIKULSKI. We understand that this is a test to see how this would work; am I correct?

Ms. MAGGIANO. That is correct.

Senator MIKULSKI. That sounds excellent.

On behalf of Senator Sarbanes and I and our other respective committee chairs, we would like your analysis or comments on this. This takes me then to some closeout things. What we need from you, Ms. Maggiano, is number one to stay engaged. First of all, we are happy to have you. We think that this is really the kind of

problem-solving, pinpointing that we had hoped for in the Baltimore laboratory.

Second, for you to provide recommendations to Senator Sarbanes and myself and our respective chairs on both the issues related to Baltimore, and nationally, how this would tie into both authorizing and appropriations. If you could do that, it would be terrific.

The Baltimore City task force gave us this checklist that we have operated off of. We would like very much for it to be updated and if we could have monthly reports to see how we are doing, so nothing falls through the cracks again. I believe that in this room there is real goodwill, and if there is goodwill we are going to find a way to actually do problem-solving.

So we would like these monthly reports. We would like to have a status report on where we are now—I think some have been accomplished—and where we need to go.

Now, I tell you, when I listened to our nonprofits and our citizens I really had a hard time following this. The reason I say this—I mean, I know it, but if we go to explain changes to our colleagues—we have been at this for more than 18 months in really various cities. Of course, each step is another misstep. I wonder if we could have one of those charts that say, first of all, prevention, point one, what goes wrong, what needs to be done; what goes wrong, what needs to be done. Then once they enter into actually being a homeowner, like Ms. Adams and Mr. Smith.

But you see what I am saying? Not a Rube Goldberg chart awash with bureaucracy and so on, but what is broken and what needs to be fixed. Then also this whole cleanup process, because we would like to be able to explain this to our colleagues. I will tell you, that again, as everyone says it is so complex that people lose interest, and we do not want them to lose interest. We want them to have a great sense of urgency.

So if we could have that as a tutorial, as kind of a teaching tool, for example in preparation for the June 20 hearing, I think it would be a big help. Not with numbers and statistics, but really the story of like through one person and what goes askew.

There are many more questions that we can ask. But you see, again, we said that this was a work in progress.

We want to thank everybody who has participated. We have a lot more work to do both in the streets and neighborhoods through our Baltimore City task force and working with HUD, with our U.S. Attorney. Mr. Graziano, we hope you are going to keep Ms. Copes as your point person as well.

Mr. GRAZIANO. Yes.

Senator MIKULSKI. So we think now we have the right people and we have the momentum. So we want to thank you for your testimony, but also for your active engagement. I cannot say enough, as Senator Sarbanes said, about our nonprofit advocacy. We thank you for your continued vigorous championing of both the needs of our community and on what is the gouging of the taxpayer.

To you, Mr. Schenning, thanks for all the work, and please thank the U.S. Attorney staff for what they are doing.

Ms. Maggiano, we are glad to see you.

CONCLUSION OF HEARING

With this, the committee is going to recess, the VA-HUD Subcommittee is recessed, until tomorrow at 10:00—no, Wednesday at 10 o'clock, when we will be taking the testimony of FEMA and how they are going to respond to natural disasters and to terrorist attacks.

[Whereupon, at 12:04 p.m., Monday, May 14, the hearing was concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

○