Stop the Foreclosure Crisis: Make Wall Street Banks Pay

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Abstract
[Excerpt] Owning a home used to symbolize what it means to achieve the American Dream. But for millions of homeowners, that dream was dashed by the abuse, fraud and lawlessness of Wall Street banks. This chain of misconduct by the Big Banks is at the root of the foreclosure avalanche, the failure of existing government programs to resolve the problem and a fundamental cause of the broader economic crisis that has cost millions of jobs. Failure to resolve the foreclosure crisis is worsening our economic situation and making it harder to create jobs. In turn, unemployment is now the leading cause of foreclosure.

Keywords
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Comments
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Owning a home used to symbolize what it means to achieve the American Dream. But for millions of homeowners, that dream was dashed by the abuse, fraud and lawlessness of Wall Street banks. This chain of misconduct by the Big Banks is at the root of the foreclosure avalanche, the failure of existing government programs to resolve the problem and a fundamental cause of the broader economic crisis that has cost millions of jobs. Failure to resolve the foreclosure crisis is worsening our economic situation and making it harder to create jobs. In turn, unemployment is now the leading cause of foreclosure.

A record 2.9 million homes received foreclosure filings in 2010—one out of every 45 homes. At the end of the second quarter of 2011, 4.43 percent of residential mortgages were in foreclosure and another 8.44 percent were delinquent and at risk of foreclosure. Foreclosures further harm our communities by reducing property values, creating neighborhood blight, eroding local tax collections and reducing the possibility of an economic recovery. And while the damage has impacted every corner of our country, communities of color have been disproportionately harmed by the foreclosure crisis.

What happened?

In the early years of the Bush administration, bank regulators allowed banks to create risky new mortgage products that helped fuel a real estate bubble. Many of these subprime mortgages included terms like teaser interest rates or loan balances that grew over time. Because wages have been stagnant, many homeowners borrowed against their homes to pay their bills. When the housing bubble burst, speculation on mortgage bonds led to the Wall Street financial panic and, as a result, more than 14 million workers now are unemployed and millions more face foreclosure.

In their rush to process foreclosures, banks broke the law. Bank officers “robosigned” foreclosure documents without properly reviewing each homeowner’s mortgage. Banks illegally foreclosed on the homes of soldiers who were deployed overseas. In some foreclosures, banks have had difficulty proving their ownership of mortgages because they misplaced paperwork or used the “MERS” (Mortgage Electronic Registration System) system to avoid paying recording fees. Banks also lost paperwork when homeowners applied for mortgage modifications to avoid foreclosure.

How can we save homes from foreclosure?

We need the Obama administration and state attorneys general throughout the country to conduct a complete investigation of the banks’ illegal activities that caused the foreclosure crisis. The findings of the investigation must be made public. Law enforcement officials should restore the rule of law by holding banks and individual bankers account-
able for what they have done. All parties with an interest in resolving the foreclosure crisis must come together—banks, investors, homeowners and law enforcement officials—to negotiate a resolution that fully addresses the scope of the problem.

Struggling homeowners should be offered alternatives to foreclosure. Homeowners who have been harmed by bank wrongdoing should receive a reduction in their mortgage principal amounts to reflect the decline in the value of their homes. The banks that service mortgages should offer homeowners who face foreclosure a mortgage modification to reduce mortgage payments to affordable levels. Unemployed homeowners need to be given a mortgage payment grace period (known as forbearance) to find new jobs. Mortgage servicers must correct basic flaws in the servicing and modification process, including fully ending the dual track of foreclosure proceedings during modification processing and providing a single point of contact for borrowers.

We also need a long-term solution to the jobs crisis. Without income, homeowners have no way to pay down their mortgages. Writing down underwater mortgages by reducing principal balances will provide a $71 billion annual stimulus to our economy. We also should put people back to work to rebuild our economy by investing in our nation’s infrastructure. We can pay for job creation with a financial speculation tax on Wall Street. Until the foreclosure crisis is solved, the labor movement will keep the pressure on banks by working with our community allies, and we will continue to bring attention to the plight of working families whose homes are being foreclosed.