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House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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Opening Statement Dennis J. Kucinich, Chairman Domestic Policy Subcommittee Oversight and Government Reform Committee

Hearing on "Neighborhoods: the blameless victims of the subprime mortgage crisis."

May 21, 2008

This Subcommittee has held three hearings on the effects of foreclosures since 2007. Those include a six-hour, 15 witness marathon hearing in March 2007, as well as a field hearing in Cleveland, Ohio, one of the most foreclosure-devastated areas in the country. While awareness has grown that the meltdown of subprime lending has been a genuine tragedy for millions of individual borrowers and lenders, today's and tomorrow's hearings are about a largely unrecognized, deeply suffering, and totally blameless victim: neighborhoods.

Some foreclosed properties find new buyers. Many do not. When foreclosure leads to vacant and abandoned houses, surrounding neighborhoods and local municipalities suffer significant consequences. Those effects include: falling property values of surrounding houses, loss of equity held by neighbors in these houses, loss of rental units for renters, loss of sales to neighborhood merchants, rise in crime, rise in municipal costs in police, fire (due to vandalism and arson), increased demolition and building inspection costs, increased legal expenses, increased demand on city social service programs, and a direct loss of property tax revenues.¹

Academic researchers have found that the police costs for responding to criminal activity alone in vacant and abandoned houses add-up to between \$5,673 and \$6,753 per property. With demolition costs, the municipal cost per vacant property rises to \$19,227. If the property is subject to arson, the cost rises to \$34,199. The collective cost to neighbors within a 150 ft. radius of a block in Chicago with a large concentration of vacant properties amounted to \$220,000 in terms of capital depreciation of their own

¹ Apgar, William C., Mark Duda and Rochelle Nawrocki Gorey, "The Municipal Cost of Foreclosures: A Chicago Case Study," 10-11 (February 27, 2005).

houses.² To our knowledge, there is no comprehensive cost estimate for the nation, but it surely going to be in the many billions of dollars.

These are significant costs borne by people who had nothing to do with the transactions that resulted in the subprime mortgage meltdown. They weren't the lenders. They weren't the investors. They weren't the borrowers. They were simply the neighbors, renters and the taxpayers.

This Congress has taken a significant step to help the neighbors deal with the problem they are now facing. Two weeks ago, the House passed HR 5818, the Neighborhood Stabilization Act of 2008. This bill creates a new federal program to address the effects on neighborhoods caused by the foreclosure crisis. The bill authorizes \$15 billion in grants and loans to be spent by localities on a variety of strategies, including vacant property acquisition, building rehabilitation and demolition. The House agreed to an amendment I offered, clarifying that the purpose of the bill is to address the consequences for neighborhoods of a rise in the level of vacant and abandoned buildings and requiring local governments to target their spending accordingly.

Unfortunately, the President has issued a veto threat.

I just cannot understand that, and I hope today's and tomorrow's hearings might do something to change his mind. For if we can't help the totally innocent -- and the neighbors of vacant properties *are* the innocent victims of the foreclosure crisis -- then whom *should* we help?

Fortunately, we have some of the nation's leading experts with us today and tomorrow to explain the problems neighborhoods face and to help guide a federal response.

² *Id.* 25-28.