Tomgram: Andy Kroll, The Illusion of Recovery

Posted by Andy Kroll at 5:30am, November 30, 2009.

Talk about a devastated landscape... Any which way you look, the housing numbers are relentlessly bad. For example, 23% of U.S. homeowners owe more on their mortgages than their properties are worth, according to Ruth Simon and James R. Hagerty of the *Wall Street Journal*. They possess, in the vivid lingo of the housing industry, "underwater mortgages." Among them, 5.3 million households have mortgages that are at least 20% higher than their home's value, 520,000 of whom have already received default notices. In the meantime, home-loan delinquencies and home repossessions are now at record highs. According to E. Scott Reckard of the *Los Angeles Times*, by the end of September, "one in seven U.S. home loans was past due or in foreclosure," and the chief economist for the Mortgage Bankers Association expects the number of foreclosures to keep rising deep into 2010.

Worse yet, foreclosures on large rental-unit buildings are also on the rise. This means, reports Robin Shulman of the *Washington Post*, that not just homeowners but renters are now being swept up in the housing crisis as landlords of apartment buildings in trouble let upkeep go while maintenance problems soar. Nor are the latest figures on home prices offering much cheer. Two key price indexes released last week, write David Streitfeld and Javier Hernandez of the *New York Times*, "indicated that the momentum the housing market showed over the late spring and summer is faltering."

There was, however, a rare ray of good news amid this dismal scene: Wall Street has, according to Louise Story of the *Times*, figured out how to make money from the mortgage mess by "buying billions of dollars' worth of home loans, discounted from the loans' original value" and pocketing profits while shifting "nearly all the risk for the loans to the federal government -- and ultimately taxpayers."

With this grim picture in mind and with California one of four Sunbelt states that account for 43% of all foreclosures started in recent months, we sent TomDispatch regular Andy Kroll to the Ground Zero of the mortgage crisis to see what an economic "recovery" looks like firsthand in post-meltdown America. *Tom*

Housing Meltdown, Ground Zero
The American Home-Owning Dream on Life Support
By Andy Kroll

I. Rescuing the Dream

At the end of a week in mid-October when the Dow Jones soared past 10,000, Goldman Sachs recorded "just another fantastic quarter" with a $3.2 billion quarterly profit, JPMorgan Chase raked in a cool $3.6 billion, and a New York Times headline declared "Bailout Helps Revive Banks, And Bonuses," I spent a Saturday evening with about 100 people camped out in a northern California parking lot. A passerby, stealing a quick glance, might have taken the crowd for avid concertgoers staked out for tickets. There was, however, no concert here -- just weary, huddled souls, slouched in vinyl folding chairs, covered by blankets, windbreakers, and knit hats against a late autumn chill.

A ragged line of them wound through the lot outside the entrance to the Cow Palace, a dingy arena decades past its prime on the southern edge of San Francisco. These people, and thousands more like them who had streamed into the arena all day long from as far away as Los Angeles, Phoenix, and Las Vegas, were unemployed, broke, bankrupt, or at their wit's end. They were here waiting for help -- for their chance to make it inside the warm arena to participate in "America's Best Mortgage Program."

For these homeowners, the last shot at saving their homes -- and their personal version of the American Dream -- lay under the glow of the floodlights in a expanse where tiers of brown and yellow seats encircled a desk-lined floor more accustomed to livestock shows and rodeos. This was, in fact, the latest stop on the "Save the Dream" tour, a massive homeowner-relief event organized by a consumer advocate group, the Neighborhood Assistance Corporation of America (NACA).

The turnout was staggering: close to 45,000 desperate homeowners showed up during NACA's five-day stand at the Cow Palace for the chance to renegotiate their disastrous subprime mortgages or sky-high interest rates or interest-only payments. For them, this event beat any chance at a star-studded concert -- and best of all, it was free.

Inside, homeowners received housing-related financial advice and met with NACA's counselors, a stoic crew, always with coffee or energy drinks in hand and clad in red and yellow T-shirts with STOP LOAN SHARKS and SHARKS BEWARE emblazoned on their backs. Here, homeowners could have their income, taxes, and spending habits analyzed, and possibly walk away with a monthly mortgage payment that actually fit their situations. With that payment figure in hand, homeowners could then meet with representatives from their mortgage companies in the same arena and try to hammer out new terms on more affordable mortgages.

The process would save many of them thousands of dollars, defuse an explosive mortgage, even avert foreclosure. To boost morale, NACA officials occasionally ushered chosen homeowners to a makeshift lectern where each offered a glowing testimonial over a PA system to the work taking place. They spoke fervently of new fixed-interest loans and fought back tears, while thanking their counselors, friends, NACA, and -- regularly -- God.

"It's a beautiful thing," said Venus Roberts, a homeowner from Los Angeles who came away from the event with lower mortgage payments. I caught up with her in the arena's parking lot as she was heading for the Amtrak station and a train home. A small, floral-printed suitcase in tow, Roberts had arrived early Friday morning, waited all day long, and finally spent the night in a nearby hotel. Back in line Saturday morning, she finally saw a counselor. The wait, she assured me, couldn't have been more worth it. In the sort of reverential tone normally reserved for the miraculous, she avowed, "NACA is spreading the news that help is here."

Not everyone was so inspired. Near the tables behind which bank representatives were arrayed I spoke with Maria Hernandez of San Jose, who was fuming about her meeting with representatives from the bank Wachovia. Hernandez, haggard and emotional, struggled for words. "It was a… what's the word? A mockery. Yes, a complete mockery." Wachovia, she insisted, had failed customers like her, letting desperate people wait in line for days only to send them home essentially empty-handed. (No representatives of mortgage companies were made available for comment at the event.)

So impassioned was Hernandez that a small crowd of the frustrated and curious soon gathered around her. Even Bruce Marks, NACA's pugnacious CEO, stopped to hear Hernandez. "All this information is related to us, then we get to Wachovia, and for what?" she asked indignantly. "To just come back another day? Or have your kids in the van spend another night here?"

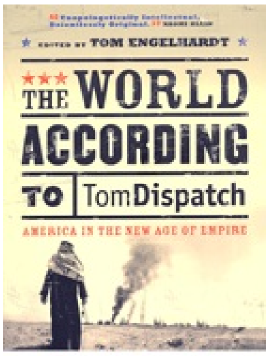
Most of the people I met at "Save the Dream," though, weren't either as elated as Roberts or as disgruntled as Hernandez; they were still in limbo, waiting in line, their futures hanging in the balance. That line began in the parking lot and, once inside, filled huge sections of the arena's seats where thousands of bleary-eyed homeowners, some there for up to 36 hours, waited to see a counselor or to meet with Spanish-speaking advisers. Those earlier in the process sat in yet another section of the cavernous arena before an initial orientation workshop, a sort of Home Economics 101 held in an adjoining annex.

Some of the homeowners I interviewed that Saturday had already been in line for 10 or 12 hours on the previous day, and had returned before sunrise once again to take up their posts. Some had slept under blankets in their seats; others clutched rolled-up sleeping bags clearly meant for an expected camp-out that night.

As I waded through the main seating area around midday, Ed Kidwell, a burly, boisterous truck driver from Fontana, California, sporting a University of Southern California hat, stopped me. Noting my camera and pad, he wrapped a big arm around my shoulder as if we were lifelong friends reuniting. "I'm just waiting for some good news to take home to take the stress off my wife and kids," he explained. Though dog-tired -- he'd arrived in the wee morning hours -- Kidwell assured me he'd do just about anything to get his mortgage fixed. As proof he offered to sing me a mortgage-themed song in the style of soul singer Sam Cooke. With a few thousand pairs of eyes trained on us, Kidwell promptly cleared his throat and belted out lyrics that featured some mix-and-match combination of the words "relief," "modification," "IndyMac," and "baby."

A man crooning about mortgage relief, retired couples camping in a parking lot for counseling appointments, 4,000 exhausted "fans" cheering announcements of 2% fixed interest rate loans as if they were so many slam dunks -- after a day at "Save the Dream," you'd be forgiven for thinking that, when it came to working class and middle class Americans, the housing market and the American economy in general hadn't exactly improved since its implosion in the fall of 2008.

Surveying the organized chaos in the Cow Palace, you might also be forgiven for thinking that all the talk of “recovery” was little more than that -- unless you happened to work for Goldman Sachs. Indeed, the beleaguered faces of the desperate homeowners at “Save the Dream” brought to my mind a famous Dorothea Lange photo of a Depression-era bread line in San Francisco’s Mission District, an image captured 75 years earlier just miles from where I stood.



Buy the book.

If you happened to be at the Cow Palace that Saturday, the daily news about the very financial players who had fueled the subprime debacle and the global economic collapse returning to their risky, overleveraged ways could seem little short of surreal. Here, after all, was a reasonable selection of what the media likes to call “Main Street” mired in debt, clinging to homes at the edge of foreclosure, struggling through a jobless “recovery.”

A “recovery,” that is, in which the true underemployment rate is 17.5%, average employee wages continue to drop, and the housing market is in shambles. The 937,840 foreclosure filings from July to September of 2009 set yet another industry record. So many people are returning to school that some community colleges have extended classes until 2 A.M. and are turning away hordes of new students. No one -- not a single person -- I interviewed at “Save the Dream” agreed with Treasury Secretary Tim Geithner or Federal Reserve chairman Ben Bernanke that their country was on the economic rebound.

Mary McCleese, an Oakland resident, who was, at least for the moment, keeping her home thanks to NACA’s help, was typical. “If you look around, you see how many people is out of work, number one, and you see how many people is in foreclosure or lost their homes or in default because they've lost their jobs,” she said. “That tells you right there what the economy is doing.”

II. Housing Meltdown, Ground Zero

About a week before the “Save the Dream” event, I rented a car and headed east from San Francisco toward Ground Zero of the subprime mortgage meltdown. Visiting one of the hardest hit cities in the country would, I reasoned, offer another measure of whether the “green shoots” of “recovery” were truly pushing up through the overleveraged earth -- better surely, when it came to ordinary Americans, than the rising price of AIG’s stock or the Dow’s ascent. While many cities can contest for the title of “most devastated by the meltdown,” including metropolitan hubs like Las Vegas and Fort Lauderdale or suburban areas like Bakersfield, California, or Mesa, Arizona, it turns out I didn’t have far to drive.

After all, Stockton, California, an arid, unremarkable city in the San Joaquin Valley, was only 80 miles away. A place for which “decimated” isn’t hyperbole but a mathematical statement of fact, Stockton, with its population of around 300,000, recorded nearly one foreclosure for every 10 houses in 2008. As other towns like to call themselves “the artichoke heart of America” or “America’s Bread Basket,” Stockton could call itself the heart of America’s subprime meltdown.

It’s an hour-and-a-half drive from San Francisco to Stockton, up through the Altamont Pass with its rows of wind turbines, then down into the Central Valley’s wide expanse and, via I-5, into the open streets of Stockton, a city that has often seemed to embody the vicissitudes of the housing crisis. In February 2008, for instance, national media outlets latched onto the story of a local man who, struck by the entrepreneurial spirit, started a business called Greener Grass Co. His service: Spray-painting the dead, burnt-out yards of foreclosed houses a hue of green so realistic that the local newspaper described the painted lawns as “good enough for a golf course or a professional football stadium.”

When I pulled into Stockton last month, more than a year had passed since CNBC had pegged it the “Foreclosure Capital of the World” -- and painting lawns green was still de rigueur. Local government workers had now taken up the job. Dead lawns, the thinking went, signaled empty houses and so attracted trouble. Painting lawns, the city hoped, might dissuade people from breaking into deserted homes.

Around mid-morning, I pulled into the Little John Creek neighborhood near the airport on the city’s southern outskirts, and one of the first things I saw was an abandoned house displaying their handiwork. The green was, in fact, a sickly teal hue and had been laid down in bizarre stripes on a dead lawn on Togninali Lane. It was, to say the least, a far cry from fairways, football stadiums, or even the perfectly real turf on neighboring lots where grass grew and people lived.

Here, the houses without occupants stood out like so many missing teeth in a wide smile. On just about every street, *foreclosures dotted the landscape: stucco homes with sheriff's notices taped to front doors, FOR SALE signs askew in front yards, lawns burnt into suburban hay by the summer sun that had yet to receive their eerie coats of green. I parked near foreclosed house after house and walked up front paths and driveways to peer through windows and over backyard fences. Most of the homes were starkly empty, often gutted -- "trashed out" in industry parlance -- with not a trace of their former owners.*

In a few, though, there were hints of lives lived and lost. A deflated basketball, a toy truck, and a skateboard sat in the backyard of a tan house with a two-car garage in Little John Creek, the back porch light still unnervingly aglow in broad daylight. At a nearby house, the front flower bed was filled with foreclosure-crisis detritus, including the business cards of realtors and mortgage specialists.

The half-dozen neighborhoods I drove or walked through in various parts of Stockton proved but repeats of Little John Creek, still littered with empty homes -- "decimated" -- more than a year after the financial meltdown occurred. Though Stockton's foreclosure rate has dropped from 9.5% of the city's houses in 2008 to 3.5% in the third quarter of 2009, that's nothing to brag about. It remains the fourth-highest rate in U.S. metropolitan areas.

Before arriving, I had envisioned the foreclosure crisis as a somewhat localized event with the majority of such homes in a limited number of lifeless neighborhoods. In Stockton, at least, the opposite was true: foreclosed homes were salt-and-peppered around the city. They often sat singly or in twos and threes among occupied homes in still lived-in neighborhoods, in cul-de-sacs where kids played basketball, on blocks where neighbors waxed their cars on a Sunday afternoon, or down streets where friends were barbecuing in open two-car garages.

The thought of an emptied-out neighborhood may pack a more visceral punch for a story, but from an economic or social standpoint, a mix of foreclosed and occupied properties is far more damaging to those still in their homes. A report from the Center for Responsible Lending estimates that foreclosures will cost neighbors $500 billion in home value in 2009, or an average of $7,200 for 69.5 million homes. A study by the Federal Reserve Bank of Chicago also found that when foreclosures increase, so, too, does violent crime in neighborhoods.

For those who have clung to their homes in hard-hit areas, the value of those investments has plummeted, while the ability to sell and so move elsewhere -- to take a new job or live in a cheaper market -- is now greatly hindered. In other words, a crisis like this one in a city like Stockton is not easily escaped.

III. A Bubble Grafted onto Rubble

The billboards and roadside ads lining Stockton's streets like campaign signs repeatedly proclaim: "Mortgage Modification Works!" and "Call for Loan Modifications!" I counted five of them on one block alone, and together they created the impression that help had arrived. Yet I knew they were scams, with anonymous local phone numbers and little other identification, meant to relieve desperate homeowners in a city not lacking in desperation of whatever money they had left. The subprime meltdown, as it turns out, has been a boon for crooks preying on the vulnerable. (Not long ago, the FBI announced a nine-month mortgage fraud investigation in Florida involving 500 defendants and $400 million in loans.)

Outnumbering the scams three to one along Stockton's main thoroughfares were glossier professional ads. At almost every intersection they urged locals to take advantage of the federal government's recently extended $8,000 homebuyer tax credit. Never mind that this tax credit has been criticized by economists and experts alike who say it could create a new housing bubble amid the devastation. Even while the rubble of the subprime meltdown is still smoking, developers here in California's Central Valley are already dreaming again about speculation on new homes.

At one point, I followed a succession of these tax-credit come-ons out to a subdivision called Cobblestone Bay. There, at the city's edge, new homes with white picket fences are popping up at the edge of the undeveloped valley beyond. It was hard, having spent much of the day in foreclosure-riddled neighborhoods, to walk around this new development without a sense of déjà vu. I couldn't shake the feeling that Cobblestone Bay was already being prepared for future foreclosure. All it lacked -- for the time being -- was the fake green lawns.

In fact, all the ad trails touting the $8,000 tax credit I followed led to subdivisions like this one, cookie-cutter communities lacking distinguishing characteristics that might remind you of California (rather than, say, Arizona or Florida). These were, of course, the very kinds of neighborhoods that were thrown up wherever land was cheap in the California boom *construction years of 2005 and 2006, and the kinds of neighborhoods now in subprime ruin.*

As my visit was ending and the sun disappearing behind the valley's edge, I made one last stop on the outskirts of town at the ornate entrance to a subdivision called Golden Eagle. It included, as its centerpiece, an impressive five-tiered water fountain, while large wrought iron gates depicting eagles-in-flight separated Golden Eagle from the surrounding neighborhood. Except there was no Golden Eagle -- just a single unfinished house on the weedy, 15-acre property. Construction equipment sat motionless on the dusty earth. A placard outside the gated entrance trumpeted grand expectations, but the new neighborhood looked stillborn.

I took down a phone number from the entrance placard and, later that week, called Golden Eagle's developer, a man named Tom Ruemmler. He told me that he had been on the project for more than three years, and envisioned it as a luxury, energy-efficient community for the green future. Ruemmler was no rube when it came to mortgages and the housing market: in the mid-1990s, he won a multi-million dollar mortgage-fraud whistleblower suit involving a Sacramento bank whose Stockton loan office he once managed.

Who, I asked him, would buy a custom, high-end, zero-energy, hypoallergenic home in a city leveled by foreclosures where housing prices have plummeted and nearly one in six people are unemployed? "I'm dealing with a different clientele," he responded, bridling at the question. "I'm dealing with probably one-fiftieth of one percent of the buying public." Did he honestly think he could sell 30 of these lots to such a small percentage of people in a place like Stockton? "Now is the time to build a custom home," he insisted. "Somebody out there is going to have money that has somebody in the family that has allergies." And out in the San Joaquin Valley, with a foreclosure on almost every block, he intended to find them.

Andy Kroll works for Mother Jones magazine and is a frequent contributor to TomDispatch. He lives in San Francisco.

http://www.tomdispatch.com/post/175170/tomgram%3A_andy_kroll%2C_the_illusion_of_recovery/#more