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Kucinich: Neighborhoods Are Blameless 'Victims' in Subprime Crisis

Nick Timiraos *reports on Congress*

Rep. Dennis Kucinich in a presidential debate in Las Vegas last year. (Getty Images)

Democrats called on President Bush to sign a House bill that would provide $15 billion in federal funds for communities to mitigate the effects of the housing crisis during a hearing Wednesday on the impact of foreclosures on communities. Rep. Dennis Kucinich began the first of two days of hearings to call attention to the "largely unrecognized … and totally blameless victim — neighborhoods." The Ohio Democrat and former Cleveland mayor heard made the case that concerns about creating a moral hazard — or rewarding risky behavior — were countered by the fact that neighborhoods weren't at fault for the impending foreclosure boom.

Several economists and housing experts were sympathetic to that view, but others urged caution. "I am very concerned about a moral hazard issue there and I find myself very much torn," said Alan Mallach, a senior fellow at the National Housing Institute. The housing economist warned against indiscriminate federal handouts to communities that didn't have the resources to address them: "If you gave money to many cities, they would not be able to spend it responsibly." Representatives from other distressed regions — including Dayton, Ohio, and Buffalo, N.Y. — joined Kucinich at the hearing. Rep. Michael Turner, the former mayor of Dayton, insisted that federal assistance be targeted towards the hardest-hit cities.

Other witnesses offered constructive solutions for cities looking to brace themselves for not only a spike in foreclosures but also the corresponding decrease in tax revenues and strain on social services that the crisis could bring to bear. Doug Leeper, a code enforcement manager from the San Diego suburb of Chula Vista, Calif., touted an ordinance enacted last fall by the city that holds lenders responsible for upkeep on foreclosed homes and requires them to post on the homes the name of a contractor that neighbors can call if the property falls into disrepair.

Mr. Leeper said that over 200 cities have inquired about the measure and that the California state assembly is considering a similar measure for the entire state. Daniel Kildee, who runs the Michigan state land bank and serves as treasurer of Genesee County, Mich., addressed the challenges and opportunities that the crisis presented to land banks. Mr. Kildee said that in Flint, the land bank has been frustrated by the number of lenders who sell in the private market foreclosed properties that have value while turning over upside-down homes to the city. "Those lenders have passed that problem onto us," Mr. Kildee said. "We're willing to accept it, but we'd like to accept it with the same ability to go to those servicers and say, 'There are assets in our community that you own that we'd like to talk to you about.'"

Others highlighted the dangers that the foreclosure crisis presented to renters as well as owners. In New York City, some 60% of foreclosures last year came in multifamily properties, including dwellings with two-to-four units and larger apartment buildings, said Vicki Been, a New York University law professor who co-directs the university's Furman Center for Real Estate and Urban Policy. Those foreclosures threatened to displace some 15,000 tenants. Committee members and panelists agreed that the foreclosure problem threatened higher costs for municipalities by depriving communities of tax revenue for schools and other social services. Rep. Kucinich repeatedly chided the White House for not taking a more aggressive stance in promising federal relief for cities and promised to investigate the root causes of the subprime crisis, which he said had stemmed largely from greedy investors and hedge funds.