

**“The Interdependent Web of Money and Life”
A Sermon in Honor of the Eighth Annual Carter Sunday**

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“If you would be healthy, peaceful and happy, be kind, friendly, peaceful, and live a useful life. You will reap what you sow. It is as easy as that.” 2008 has brought Americans hard economic news, affecting homeowners, renters, children, adults, rich and poor. Our so called American “subprime” mortgage crisis has rippled far out from individual homeowners and local banks to all levels of society within this country and around the world.

As with all economic crisis it will be the poorest and most vulnerable who will suffer the most and there is no way to honestly talk about poverty in America without talking about racism and I believe that the Reverend W. H. G. Carter would want me to speak the truth on this issue. Some of this information might be hard to hear, and it might make you anxious. It will probably make you angry. It made me angry. But we need to know the facts so that we, individually and communally, can make better choices, so that we are more educated when purchasing a home, and so that we can ask for more accountability and oversight from our financial institutions.

In the last decade there has been an increase in homeownership. Discussed less often was the reality that a booming housing market and low interest rates led to inflated housing prices – in the last decade many people purchased homes that are/were not worth the market cost paid for them. In addition, some homeowners financed their homes with subprime mortgages.

Subprime adjustable-rate mortgages, known as ARMs, are an option for families with limited or bad credit histories, that’s a lot of us. Essentially financial institutions are willing to loan money to families with poor credit and limited finances at rates that are initially low, but that in a year or two increases by several percentage points. Some families using subprime mortgages are able to collect enough money to refinance their homes with fixed rate mortgages, mortgage rates that do not increase. For these families subprime mortgages are great; they enable families with spotty credit to get their foot in the door of home ownership and quickly refinance at a fixed and stable rate. This is the best that subprime mortgages have to offer.

The problem with subprime mortgages is the same as that of credit card offers that start with 0% interest for the first year, and then go up to a high interest rate of 21% after that. These credit card offers are everywhere and they appeal to human optimism (next year I will cut back or get the raise or finish college). But how often does that really happen without both luck and serious financial discipline? Only customers with good, established credit receive credit card offers with less than 10% interest. These credit card offers are rare and precious. Financial institutions get buyers in the door with the low

initial interest, and then make their money with the following high interest payments. Same with subprime mortgages.

The subprime mortgage market was like a house of cards, and the deck finally fell. Too many subprime mortgages were offered and taken and then in the last few years too many subprime mortgages increased their interest rates and too many homeowners could not pay the increased mortgage payment. So financial institutions foreclosed on these homes, forcing families, whether owners or renters, out, and the number of foreclosures is only increasing.

As of November 2007 Ohio ranked fourth in the nation in home foreclosures, with over 17, 000 new home foreclosures in October 2007, a 136% increase from October 2006, just a year earlier.¹ From January – September 2007 “a record 8,298 new foreclosures were filed in Butler, Clermont, Hamilton, and Warren counties . . . filings for those 9 months were up 8.6 percent locally compared to the same period in 2006.² And this is not the end. In the next eight months approximately 2 million home owners around the country, holding \$600 billion in subprime mortgages will be facing their first increased ARM payments.³ What began as one homeowner taking out a subprime mortgage that could not be paid once the interest increased has spiraled wider and wider.

Foreclosure means economic devastation for families. Property is repossessed by the financial institution holding the loan and families are made homeless if they have not made other arrangements. Even worse, families lose all the assets placed in their homes while still owing all the debt on the home. How can families get out from under that? Once out of the home families lose the ability to refinance or retrieve their initial investment. Many families can face bankruptcy. Children are taken out of school districts as families relocate. Foreclosure creates chaos.

Multiple foreclosures also mean economic devastation for neighborhoods. Foreclosed homes sit vacant. As the *Enquirer* recently noted “Some foreclosures are taking a year or more to process – allowing abandoned buildings to become a blight on neighborhoods, pushing down property values and leading to even more foreclosures.”⁴ All the sudden there are more homes on the market, sitting empty, making it harder to sell any home. The value of everyone’s home goes down (and we all thought we were a bunch of individual homeowners - wrong).

Imagine that you live in Norwood, Ohio (or Montgomery or Madisonville or Indian Hill) and just got a new job in Columbus, Ohio. You have a fixed mortgage rate and still might not be able to sell your home in Norwood because there are too many homes on the market. How long can you pay a mortgage in Norwood and Columbus, or commute to Columbus from Norwood paying high gas prices? So families who have never taken out a subprime mortgage also suffer or foreclose. In turn these families spend less money in other areas, shrinking the US economy.

I know this sounds like the worse case scenario but it is the news, the news from this week, not the movie of the week, the news of the week. December sales for 2007 were the lowest in five years. Oil costs are high. The economy is slowing. Wholesale inflation is at a 21% or 17% high (I heard both numbers quoted, the first on NPR, the

¹ Gregory, Korte, *Cincinnati Enquirer*, “Going . . . going . . . growing (November 30, 2007).

² *Cincinnati Enquirer*, “Cleveland sues on subprimes (January 12, 2008), A10.

³ *Cincinnati Enquirer*, “Subprime fallout getting worse” (November 26, 2007).

⁴ Korte, “Going . . .”

second on yahoo). Then I heard a word I hadn't heard in over twenty years, stagflation. Just this past week I heard the suggestion of not just a recession (an economic slowdown), but stagflation, an economic slowdown combined with increasing prices.

Multiple foreclosures also pressure cities and its poorest citizens and neighborhoods. Two weeks ago the Mayor and City Council of Baltimore filed suit against Wells Fargo Bank alleging that its "lending practices discriminated against black borrowers and led to a wave of foreclosures that has reduced city tax revenues and increased its costs."⁵ So now we see the close link between poverty, questionable financing practice and race. In 2006 Wells Fargo made high interest loans to 65% of its black customers in Baltimore while at the same time making high interest loans to 15% of its white customers.⁶ There is a good chance that more black borrowers were poor than white borrowers – we know this from demographics, but I am sure that plain racism played a factor as well. There came a moment when a mortgage broker could not see the inherent worth and dignity of the person before him or her because the borrower was black.

The Baltimore suit contends that Wells Fargo allowed mortgage brokers to charge higher commission rates for getting customers to take higher interest loans than they needed. If I understand this correctly, mortgage brokers had a financial incentive to push home owners into higher interest loans that they needed to take. The word unethical comes to mind, perhaps even immoral, brokers and financial institutions making money off the ignorance and trust of homeowners while preying on the poor. Apparently this was/is common practice in the subprime mortgage market across America. We reap what we sow. It is that easy.

Here is why cities like Baltimore, and just this past week Cleveland, have filed suit. More foreclosed homes means less tax revenue which means more abandoned property and less public services for things like schools, homeless centers (which we'll need more of now), mental health services, and fire and police departments. A 2005 study in the Chicago area indicated that the local cost of each foreclosure is over \$34,000.⁷ We live in an interdependent web, and there is a personal, family, neighborhood, and local, state, and national cost to each foreclosure.

Beyond that there is a financial and international cost. It keeps rippling. This past week Citigroup reported that it lost almost \$10 billion in the fourth quarter of 2007. I can't completely explain why, but it was related to the subprime spillover effect. This week prestigious Merrill Lynch announced \$15 billion in lost mortgages. Both companies now need an influx of foreign capital for stability. And finally, I recently read an article in the *New York Times* about a small Finnish town that, based on its advisor, had invested its money in the American mortgage market and took serious losses, and now the residents of this small town a continent away don't know if they have enough money to fund their public schools, their day care centers, and their social services. Our crisis became their crisis as well.

As much as I love being an American, I truly despair of the capitalist and excessive consumer forces that encourage greed among individuals and institutions in

⁵ Gretchen Morgenson, *New York Times* "Baltimore is Suing Bank Over Foreclosure Crisis (January 8, 2008).

⁶ Morgenson.

⁷ Morgenson.

this country. As citizens we have the right to scrutinize banks and require more oversight. Profit is not the only measure of success. There are plenty of American institutions that make a lot of money. It doesn't mean that they are doing the right thing. I am glad that two cities have filed two different suits against banks offering subprime mortgages. They might not win, but it is a wake-up call (again) that our financial institutions and corporations need more oversight. Not that long ago it was Securities and Exchange fraud, then there was Enron stock fraud. Now there is subprime mortgage fraud.

There are also things that we can do as individuals, consider buying only what we need instead of too often what we want. Few of us really need trophy homes, multiple cars, plasma screen TVs, and couture. Please stop overspending. It's OK to be poor, working class, and/or middle class, to have a budget that we must follow. We need to take pride in who we are (respect our worth and dignity) instead of trying to pass for something else by purchasing things we cannot afford. It's OK, probably good, maybe even great, to have a non-anxious talk with our children and let them know why there is no Gameboy and that this year's family vacation is going to be in town. We need to tell our families the truth so that they learn about financial realities, the need for everyone to work together, and the importance of financial truth telling among family members.

We also need to respect ourselves and our families enough to understand financial papers or credit offers that we accept. I have purchased and sold two homes in my lifetime and I worked very hard to understand the papers that I signed (I understand the burden; those papers come flying at you). The banks aren't always helping us, so we have to help ourselves and ask questions.

We need to be extremely careful about purchasing anything with a high or variable interest rate. If it sounds too good to be true, it is. Read the small print. W. H. G. Carter would want us to read the small print (he would be angry if we didn't) and if we don't read, we need to find someone we trust that does read. It's better to ask for help at the start than at the end when the sheriff comes for the eviction.

Over the holidays First Church received a letter from the Ohio Treasurer of State with information to help homeowners with subprime mortgages. I know that this information is going to be relevant to many of you sitting here today. If you are uncertain if you have a subprime mortgage, please find your mortgage documents and read them to learn more. If you need help with a subprime mortgage and have access to the internet, go to www.OhioTreasurer.gov and click on the "foreclosure help" button. You will find a list of resources there. There are some state refinancing programs found at www.ohiohome.org/refinance/default.htm. In addition, there are some national refinancing programs through FHA. Contact the NeighborWorks hotline at 1-888-995-HOPE.

You can also try calling your mortgage lender to renegotiate before your mortgage increase goes into affect. I know this sounds crazy. These are some of the people that got you into this mess, but at this point banks and mortgage companies are swimming in foreclosed loans that are not going to be repaid. What once made them money is now pulling them under, so call. You might find that whoever owns your mortgage is as desperate as you are, and willing to renegotiate.

There are some serious troubles ahead, especially for the poor and vulnerable that either have subprime mortgages or will suffer from the economic ripples caused by the

subprime fallout. However, most of us will weather this storm and it is important that we do not get caught up in a general panic. If you have a good job and keep this job, you are probably OK. Your pension or investments might suffer in the short term, but that is the nature of investments in the stock market. As long as you are a prudent investor in the market for the long run, and did not need the money in the short run (not as in “need a second home” but as in “need money for unexpected health care”), you will be OK. We might pay higher food and fuel costs in the short run, but again, most of us will be OK. Recessions happen, and they turn around again. A financially tighter year or two for most of us is disappointing or challenging, but not devastating. A financially tighter year for the poor and vulnerable can be catastrophic. It is important to keep things in perspective.

We are in an interdependent web of money and life together. No person, bank, country, or neighborhood is an island. Educate yourself, protect yourself, tell the truth, and help your neighbors whenever possible knowing that we are neighbors all around the world, and we all need to live useful lives. Amen.

