How One “Community” Group Helped the Housing Crisis Harm Taxpayers

ACORN’S HYPOCRITICAL HOUSE OF CARDS
Executive Summary

It is an enduring irony that the groups which profit most from worry over America’s ongoing housing correction—described in breathless media reports as a crisis—are frequently labeled “consumer advocates.” (See Predatory Charity, our policy paper on The Center for Responsible Lending.)

This report focuses on the troubling record of the Association of Community Organizations for Reform Now (ACORN) and its tax-exempt offshoot, the ACORN Housing Corporation (AHC). The ACORN/AHC version of consumer advocacy has consisted of a three-decade assault on free enterprise and a history of extracting resources from financial lenders seeking abatement of ACORN’s public relations assaults. Specifically, this report examines ACORN’s impact on the housing problem. Documents provided by internal whistleblowers, cross-checked with public records and recorded events, expose hypocritical lending recommendations tied to ACORN Housing Corporation’s agreements with major banks—agreements that end up harming consumers.

Media reports, combined with information provided by former ACORN employees, show that:

• ACORN leveraged the Community Reinvestment Act in order to attack lenders’ reputations and secure financial resources for itself; it has also endorsed loans offered by companies that fund ACORN operations

• ACORN’s decades of lobbying and publicity seeking have contributed to the current housing crisis by lowering lending standards

• Despite raking in a troubling 40 percent of its revenue from taxpayers over the last three years, ACORN Housing Corporation’s actions range from controversial to borderline illegal:

  • AHC has worked to obtain mortgages for undocumented workers
  • AHC relies on undocumented income, “under the table” money that may not be reported to the Internal Revenue Service
  • ACORN’s “financial justice” operations attack lenders for “exotic” loans, but AHC has recommended ten-year interest-only loans (which deny equity to the buyer) and reverse mortgages (which can be detrimental to senior citizens)
  • AHC may have violated federal law by failing to maintain a proper distinction between its tax-exempt housing work and the aggressive political activities of ACORN

Given this record, Congressional appropriators and administration officials should investigate ongoing and future grants to ACORN Housing Corporation.

“Documents provided by internal whistleblowers, cross-checked with public records and recorded events, expose hypocritical lending recommendations tied to ACORN Housing Corporation’s agreements with major banks—agreements that end up harming consumers.”
To understand the current subprime credit mess is to glimpse a world in which a politically active organization with a non-profit housing arm reaps millions of dollars through “rent seeking” or manipulation of favorable laws. ACORN and its non-profit housing arm have taken in millions of taxpayer and corporate dollars by abusing a three-decade-old law intended to help the poor obtain housing. For decades, the activist organization known as ACORN has grabbed headlines—and cash—by attacking mortgage lenders in the name of citizens’ rights. Considerably less attention has been paid to the amount of taxpayer money that funds ACORN Housing Corporation (AHC) and to the financial rewards ACORN has amassed by extracting resources from corporate targets.

Because the ACORN does not claim federal tax exemption, it is free to engage in politics and is not required to disclose details of its vast and varied financial operations. ACORN claims 350,000 member families in a half-dozen nations. Observers can shine light on this shrouded financial picture only by studying news reports. According to The New York Times, the budget for ACORN organizations exceeded $37 million in 2006. In 2005 a longtime labor activist, aware of its sizable budget, remarked, “That’s quite a business” — and business is the operative word. It was reported in 2005 that ACORN had received more money in settlements from corporations than from foundations and churches combined, a startling finding for a community organization.

ACORN’s business model involves choosing a corporate target, attacking it, reaching a financial settlement, and then beginning the cycle again with a different target. The organization’s own manifesto says: “ACORN’s lifeblood is conflict with targets outside the organization,” according to an internal document. This strategy has been very effective in the case of mortgage lenders. A magazine sympathetic to ACORN notes dryly, “AHC exhibits a unique ability to develop relationships with institutions, including some with which ACORN was previously in conflict.”

About ACORN and ACORN Housing Corporation

ACORN’s “Business Model”

— Presentation by Former ACORN Organizer and University of Georgia Professor Fred Brooks
Evidence from the public record, as well as documents provided to the Consumers Rights League by whistleblowers, suggests ACORN’s extension of its business model to the housing arena has been lucrative. AHC is one of ACORN’s largest 501(c)(3) tax-exempt organizations. In its fiscal year ending 30 June 2006, AHC reported expenses of $8 million. It is one of the most influential non-profit housing consumer advocates in the United States.

In addition to the millions of taxpayer dollars AHC has taken in, one of the organization’s tax returns shows private donations of more than $4 million from major banks. Whistleblower documents covering AHC’s revenue sources from July 1, 2004 through June 31, 2005 included:

- ACORN (Citibank Partnership) .............................................$127,500
- ACORN (Citibank Partnership) .............................................$240,000
- ACORN (Freddie Mac) ..................................................$35,000
- Ameriquest Mortgage ..................................................$130,000
- Fannie Mae (for Broadband) .........................................$20,000
- Fannie Mae FYE 2005–2006 .............................................$100,000
- JP Morgan Chase 2005–2006 .............................................$1,000,000
- Bank of America 2005–2006 .............................................$1,390,000
- Washington Mutual .....................................................$175,000
- M & T Bank .................................................................$150,000
- United Way (American Dream) .....................................$15,000

Why would banks pay so much without a fight? Sol Stern, a consultant to the financial industry has explained, “The banks know they are being held up, but they are not going to fight over this. They look at it as a cost of doing business.”

Lenders could be forgiven for this impression, because ACORN intentionally cultivates that perception. Internal ACORN Housing documents suggest that staff members raise money by telling bankers exactly that: “It’s the cost of doing business.”

“B of A pays quarterly. Chase when they feel like and are tired of getting bugged by me.”

— Internal ACORN e-mail from 2005
ACORN’s Role in the Current Housing “Crisis”

Setting aside for a moment the sea of acronyms and allegations swirling around the current housing correction, there are a few core concepts at its base. Some claim fraud on a massive scale, but at present there is insufficient evidence to substantiate that allegation. A more serious—and more supportable—explanation centers on the loosening of credit and acceptance of greater risk both by borrowers and by lenders seeking to serve riskier, non-traditional consumers. It is here that ACORN is most clearly tied to the present housing woes.

Whether by intention or by happy accident, ACORN has become both a leading beneficiary and an important advocate of the Community Reinvestment Act (CRA). Three decades ago politicians, spurred by activist groups, found that banks were engaging in “redlining”—refusing loans in areas with high concentrations of individuals with low credit scores. Legislators passed a bill that gave community groups significant sway over bank mergers based on the banks’ record of lending to minorities and the poor. The fact that poor credit put such borrowers at higher risk for default was deemed irrelevant. ACORN and AHC have taken advantage of that 1977 bill and have aggressively argued—since at least 1991—for its continuation. Given ACORN’s reliance on AHC to funnel federal funds for “mortgage counseling,” such support is hardly surprising.

By 1992 ACORN and AHC had for several years wielded their CRA clout to pressure banks. Then The New York Times published an in-depth examination of how changing bank practices aligned with ACORN’s goals. The paper reported from Philadelphia, Pennsylvania:

Prodded by Federal laws and an aggressive community-action group called Acorn, banks here and in other cities across the country have started making mortgage loans in neighborhoods they have traditionally avoided.

In Philadelphia, bankers are setting the rules for this kind of lending. So far, $60 million has been lent in a widely watched program. It matters little if an applicant has a small income, an irregular job pattern or collects welfare or food stamps. He or she might still qualify for a mortgage, bankers here say—a radical departure from traditional banking practices.10

The newspaper was quite clear about CRA’s role: “these mortgages help banks fulfill somewhat vague obligations of the Community Reinvestment Act of 1977, which requires banks to invest in communities that provide them with deposits.”11

More than two decades on, scholars and economists are now recognizing ACORN’s dual role in the present “crisis”—as supporter and beneficiary of a financial regime that made credit too cheap and easy to obtain. As media panic mounted in 2007, Dr. Thomas DiLorenzo of Loyola College argued that ACORN and its community allies directly contributed to current problems with subprime loans, writing that “thousands of mortgage defaults and foreclosures in the ‘subprime’ housing market (i.e., mortgage holders with poor credit ratings) . . . [are] . . . the direct result of thirty years of government policy that has forced banks to make bad loans to un-creditworthy borrowers.”12 Further, DiLorenzo argues:

The only way these borrowers could qualify for their mortgage loans (even ignoring their bad credit ratings) was to take out adjustable rate mortgages, some of which had astonishingly low first-year rates in the 3 percent range, and sometimes lower. This is what has largely fueled the subprime mortgage meltdown—the inability of thousands of subprime borrowers to afford their mortgages now that their rates have adjusted upward. Thus, the combination of the Fed’s enforcement of the CRA (with the help of political pressure groups like ACORN) and its post 9/11 monetary policy in general are the reasons for the bursting real estate bubble and the “subprime” mortgage meltdown.13

“It matters little if an applicant has a small income, an irregular job pattern or collects welfare or food stamps.”
In February 2008, economics professor Stan Liebowitz of the University of Texas at Dallas suggested:

At the crisis’ core are loans that were made with virtually nonexistent underwriting standards—no verification of income or assets; little consideration of the applicant’s ability to make payments; no down payment ...

From the current hand-wringing, you’d think that the banks came up with the idea of looser underwriting standards on their own, with regulators just asleep on the job. In fact, it was the regulators who relaxed these standards—at the behest of community groups and “progressive” political forces.14

Liebowitz further pointed to ACORN’s role in the current housing “crisis” and to current advertisements highlighting its role in procuring loans without using credit scores, 100-percent financed loans, and acceptance of undocumented income.15

In the prescient 1992 New York Times article, ACORN’s longtime housing leader, Michael Shea, admitted that banks would not have adopted ultimately harmful policies “if there was no community pressure and the law,” but that those factors made “a lot of bankers see it’s in their self-interest.”16 That self-interest—ACORN’s and modern banks’—made possible the extension of cheap credit to risky borrowers and has led directly to the modern subprime mess.

It’s important to note, as the Times did, that in this campaign there were “many such voices. But by far the loudest belongs to Acorn…”17
Feeding at the Taxpayer Trough

It is not corporate targets-turned-benefactors alone that keep ACORN Housing Corporation afloat and poised to attack. AHC’s tax-exempt status allows it to accept taxpayer money in the form of grants or contracts. It has done so, and hungrily. Two out of every five dollars AHC takes in come from taxpayer coffers. Given this largesse, AHC owes the public a good deal of transparency and good stewardship of these public dollars. However, AHC’s record in recent years includes:

- Poor service to some of its vulnerable clients
- Potential staff lapses allowing HUD fraud
- Controversial collaborations assisting undocumented workers in obtaining mortgages
- Assistance to borrowers using “under the table” undocumented income in loan applications
- Ironic (if not hypocritical) recommendations for exotic loans
- Possible violations of federal law through failure to maintain a distinction between the activities of AHC and those of the very political ACORN

Potential HUD Fraud
This sloppy staff work doesn’t just fail to meet the public’s needs—a public that is paying with its tax dollars—it also raises the possibility of fraudulent use of taxpayer money. In a disciplinary letter to one AHC staff member obtained by the Consumers Rights League, ACORN officials warn:

> Clients you claimed you saw face to face were not recorded on the appointments [sic.] book or HCO or Files. Therefore, there is no proof that you actually saw these clients. Those files are [redacted HUD file numbers].

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A Big Bite from Big Brother

Total AHC Revenue:

<table>
<thead>
<tr>
<th>Year</th>
<th>Government</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$1,700,317</td>
<td>$6,243,882</td>
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<tr>
<td>2005</td>
<td>$3,020,045</td>
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<tr>
<td>2004</td>
<td>$2,608,961</td>
<td>$5,404,306</td>
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</table>

— Years reflect AHC’s fiscal periods ending June 30.

During my recent visit of Nov22-24, I found once again that all clients’ files are in complete disarray, incomplete, specifically the following HUD forms:

- Counseling activity and unit log
- Initial Interview Form
- Client Chart
- Counseling/Action Plan

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ACORN’s Own Words

Undocumented Income

1. INTRODUCTION

Undocumented Income is a feature that allows ACORN Housing counselors to capture the applicant(s) not reported to the IRS and is also known as under-the-table. Individuals who earn undocumented income are typically paid cash from a variety of jobs that include second or third jobs, self-employment, specialized skills and hobbies, outside the applicant’s regular working schedule such as weekends or evenings.

Although it is a strictly enforced feature in other hands and products, Bank of America’s policy toward undocumented income is very flexible. ACORN Housing counselors establish the amount, source and conduct verification of such income, without questioning from underwriters. In other words, if the housing affordability purposes.

This feature has been heavily used and abused in the past year. Largely, the abuse is due to the influence of current message. Real Estate professional and builders, whose interest is to qualify borrowers for larger loan amounts, without any regard to the applicant’s long-term affordability. Let’s look at the following example:

The Smiths total gross earnings are $28,000/month, their PITI would be $780, at 38% housing ratio. However, if we add $1,200 in undocumented income, their income becomes $29,200/month and their PITI equals $817/month, at 38% housing ratio. This results in a PITI increase of $47/month, which equals 49% of gross earnings without undocumented income.

The consequences can be beneficial or detrimental. For AEs, Real Estate agents and builders, a higher PITI income $40,000-$50,000 over a regular loan, therefore a larger down payment or loan. For the Smiths, if the undocumented income was real, it would have been reflected in the event of any income reduction or an sudden increase in expenses. More likely, this family would have been able to keep the house in the long-term.

Undocumented income can be a powerful tool to capture the applicant’s total household income. However, underwriters need to be careful in providing undocumented income letters, as it can hurt the applicant(s) in the future. The following guidelines will help you in establishing and documenting the amount, and following the proper steps to find your client to the bank.

Lobbying

Citigroup and ACORN share a broad interest in public policy issues surrounding consumer lending (including terms and conditions of loans, access to credit, and fair lending practices), community reinvestment, and enforcement of laws. Citigroup and ACORN agree that the lending practices described in this statement provide protections for borrowers and a fair business environment for lenders. Consequently, Citigroup and ACORN agree that these lending practices form a basis for state or local legislation regarding real estate and consumer lending practices in the United States and pledge to use these practices as a template for discussions with each other and the

Federal Housing Administration. The parties agree that such a meeting would be held at a mutually agreeable time and place after receipt of notification. Neither party will engage in any public campaign or protest against such policies and procedures unless the other party has failed to reasonably address such concerns in a timely manner. Either party will have the right to require and obtain agreement for, after meetings and discussions, the other party unreasonably engages in a public campaign or protest against the complained about practices and procedures.

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It’s Documented: ACORN Housing Works for Its Donors, Not for the Poor

Most people unfamiliar with AHC would assume that a group dedicated to protecting consumers from abusive loans would advocate safe, traditional 30-year mortgages which build equity and help buyers experience the American dream. Records show otherwise. Professor Liebowitz notes: “On the Web, you can still find CRA loans available via ACORN with ‘100 percent financing . . . no credit scores . . . undocumented income . . . even if you don’t report it on your tax returns.’ Credit counseling is required, of course.”

The requirement for credit counseling would be reassuring if the counseling service did not bring millions of dollars in donations from the federal Department of Housing and Urban Development into AHC’s coffers.

Of specific concern is ACORN’s agreement to provide letters of “undocumented income” to Bank of America. According to a 2005 internal ACORN e-mail, that bank “pays ¼ of $1,300,000 each quarter.” Another pre-2007 ACORN document instructs its staff:

Undocumented income is a feature that allows ACORN Housing counselors to capture the applicant(s) total household income. Primarily observed in minority and immigrant communities, this type of income is not reported to the IRS and is also known as under-the-table.

AHC appears to be using taxpayer dollars to assist individuals who are dodging their taxes. Nor was AHC unaware of the potentially harmful effects for borrowers:

Although it is a strictly enforced feature in other banks and products, Bank of America’s policy toward undocumented income is very flexible. ACORN Housing counselors establish the amount, source and conduct verification of such income, without questioning from underwriters …

The consequences can be beneficial or detrimental … counselors need to be careful at providing undocumented income letters, as it can hurt the applicant(s) in the future.

AHC claims it attempts to use “undocumented income” judiciously, but one employee’s 2004 performance review indicated:

… most files reviewed show that you are using the maximum undocumented income allowed ($1,200) for household members, without pulling credit reports and verifying source of income.

An internal e-mail chain described particular use of undocumented income properly as “a longstanding policy of ACORN that was not enforced.” A reply noted, “I get your point that from now on we cannot do these over-income limits [sic.] deals. The reality is that we have deals pending.”

“On the Web, you can still find CRA loans available via ACORN with ‘100 percent financing . . . no credit scores . . . undocumented income . . . even if you don’t report it on your tax returns.’ Credit counseling is required, of course.”
Negotiating a Lobbying Hiatus and Loans for Undocumented Workers

ACORN has built much of its reputation and its ability to raise funds from HUD on its image as a foe of powerful banks, a consumer advocate that damns the torpedoes to lobby for change. Its agreements with major donors, however, would probably not delight the taxpayers who pick up 40 percent of the organization’s budget. For instance, an agreement with Citibank, a significant ACORN donor and partner, showed that some activists become less active when deals are in place: “ACORN agrees that it will not lobby for more restrictive terms and conditions, and Citigroup agrees that it will not lobby for less restrictive terms and conditions, on such legislation.”

ACORN’s relationship with Citi rests on far more than a simple lobbying cease-fire—though that alone would outrage most ardent consumer advocates. In February 2006 the San Diego Union-Tribune reported that Citibank “has funded its first home loans to undocumented Mexican immigrants” in “a move that targets a lucrative, wide-open market while providing new grist for the debate over illegal immigration.” An ACORN Housing spokesperson admitted, “It is a controversial program.”

Exotic Loans

Allowing consumers to decide which loan products are best for them allows the market to function optimally. But between 2004 and 2006—and perhaps beyond—ACORN and AHC have used taxpayer money to advocate “exotic” loans to low- and moderate-income customers, including:

- **Interest-Only Loans:** An ACORN Housing program in operation since February 2006 has offered a Bank of America “10/30” loan. Its terms allow AHC’s low- and moderate-income customers to pay only interest for the first ten years of a forty-year mortgage. It seems fine to ACORN that these customers are building no equity for those ten years.

- **Non-Amortized Mortgages:** AHC has counseled some of its clients into “40 year non-amortized” loans, which means that their low- and moderate-income customers would reach the end of a forty-year mortgage and still owe money.

- **Reverse Mortgages:** AHC counselors have been trained to recommend that low- and moderate-income senior citizens opt for reverse mortgages, an exotic loan that may be a good choice for some borrowers and a disaster-in-waiting for others.
Failing (Again) to Separate Charity and Politics

Following a 1994 Clinton administration $1 million+ grant to ACORN Housing Corporation, an investigation by the Inspector General of AmeriCorps found that AHC had falsely assured the government that it remained separate from the highly political ACORN, as required by law. In fact, the investigation found quite the opposite:

Not only did we find references to ACORN having “created” AHC to serve purposes common to both organizations, we noted numerous transactions and activities involving “fraternal” ACORN-related corporations. These transactions included costs charged to AHC, and thus to the CNS grant, by ACORN or other ACORN-related entities. 28

The grant was withdrawn as a result of those findings, but evidence suggests the illegal relationship continued. In fact, by 1996 Shelterforce magazine reported: “ACORN Housing Corporation is closely connected to ACORN, the national advocacy organization, and consequently has greatly enhanced clout when it sits down with reluctant bankers or city officials.” 29

An internal ACORN e-mail from 2004 confirms ACORN and AHC planned to continue using government funds to fund coordinated efforts (emphasis for clarity): “Total funding from HUD’s fair housing initiatives (FHIP) this year is about $650,000 which will provide a good opportunity for ACORN and AHC to work together on fair housing issues and campaigns.” 30

Public documents offer more evidence that “transactions and activities involving ‘fraternal’ ACORN-related corporations” also continued. Tax returns for three recent years show taxpayer funding accounted for 40 percent of the organization’s total budget. Meanwhile, AHC has sent $4,631,865—an average of over $1.5 million per year—to other ACORN organizations through fees and grants. In each of those three years AHC paid annual fees in excess of $300,000 to Citizens Consulting, an ACORN-related firm. Payments of at least $50,000 were made to the Peoples Equipment Resource Center—another ACORN-related organization—in two of those years.

Yet another troubling pattern emerged from the Inspector General’s original investigation, which found that AHC attempted—perhaps aggressively—to persuade counseling clients to pay for ACORN memberships. The Consumers Rights League has received a credible statement from a current or former AHC employee suggesting the practice remains in place.

Payments from ACORN Housing to ACORN-Related Organizations:

<table>
<thead>
<tr>
<th>Year</th>
<th>Grants Given</th>
<th>Fees Paid</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>2004</td>
<td>$300,366</td>
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<td>2005</td>
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<tr>
<td>2006</td>
<td>$367,353</td>
<td>$1,100,152</td>
<td>$1,467,505</td>
</tr>
</tbody>
</table>

Grand Total: $4,631,865

— Years reflect AHC’s fiscal periods ending June 30.
Conclusion

ACORN’s long history of abusing the public’s trust seems to have continued through the housing bubble. Its advocacy for loose credit played a role in the current subprime mess. Its advocacy of exotic loans calls into question the wisdom of giving taxpayer money to the organization. And its record of inappropriate ties between a non-profit that receives government funding and a political organization may violate federal laws. Congressional leaders should be wary of donating hard-earned tax dollars to a group with this sordid record. At a minimum, a Congressional investigation is warranted.

Endnotes

5. See ACORN Housing Corporation’s 2000 IRS form 990.
6. Internal ACORN e-mail, 12 July 2005.
8. Internal ACORN document titled “One thing I can do every day to raise funds for self-sufficiency.”
10. Ibid.
12. Ibid.
14. Ibid.
15. Wayne, “Fading Red Line.”
16. Ibid.
17. E-mail to ACORN Housing Corporation, 1 December 2005.
18. Internal ACORN e-mail, 22 February 2006.
19. Internal communication from ACORN Housing Corporation to a staff member, 24 November 2004.
20. Liebowitz, “The Real Scandal.”
21. Internal ACORN e-mail, 13 July 2005.
22. Internal communications from ACORN Housing Corporation to a staff member, 24 November 2004.
26. Ibid.
27. Testimony of Luise S. Jordan before the Subcommittee on Oversight and Investigations, Committee on Economic and Educational Opportunities, October 17, 1995.
29. Internal ACORN e-mail, 28 September 2004.

About Us

The Consumers Rights League is a non-profit, non-partisan, educational organization dedicated to preserving consumer choice in the marketplace. Through investigative analysis, the Consumers Rights League produces quality research that thoroughly documents the real-world choices and challenges consumers face, and reports on the benefits enjoyed by an overwhelming majority of consumers.