H.R. 3068, TARP FOR MAIN STREET ACT OF 2009

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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H.R. 3068, TARP FOR MAIN STREET ACT OF 2009

Thursday, July 9, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:02 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Kanjorski, Waters, Maloney, Gutierrez, Velazquez, Watt, Ackerman, Sherman, Meeks, Moore of Kansas, Capuano, Hinojosa, Clay, McCarthy of New York, Baca, Lynch, Miller of North Carolina, Scott, Green, Cleaver, Bean, Moore of Wisconsin, Hodes, Ellison, Klein, Wilson, Perlmutter, Donnelly, Foster, Carson, Speier, Childers, Minnick, Adler, Kilroy, Driehaus, Kosmas, Grayson, Himes, Peters, Maffei; Bachus, Castle, Royce, Biggert, Hensarling, Garrett, Barrett, Neugebauer, Bachmann, Marchant, McCarthy of California, Posey, Jenkins, Paulsen, and Lance.

The CHAIRMAN. We are about to start the hearing.

People over on the left, there is a three-way conversation going on. Please take it outside. If you are not here for the hearing, please leave. Let's have people be seated. There are plenty of seats.

I am hurrying because we have, unfortunately, a lot of votes coming up, so I want to get this started. We will have the members' opening statements. We may get through the Administration. And I apologize, but we may have to do our opening statements, take off for about an hour, and come back. I apologize, but that is the nature of our business.

So I will begin with my opening statement.

This is a hearing on H.R. 3068. We are receiving in repayments from the TARP—there were actually three revenue streams.

Let's have people leave. If you are leaving, leave. Close the doors.

The bulk of it, of course, is principal repayment. And, I have to say, for those who have counted the whole $700 billion advanced under the TARP, or authorized under the TARP, as lost, the facts obviously are clearly to the contrary. Of $200 billion advanced to banks since this program began, $68 billion has already been repaid in less than a year in principal.

There are warrants that are still unredeemed that will be a revenue source. And there is a source of interest and dividends and some warrants which by now amount to about $6.5 billion. This is a bill that would expend that $6.5 billion to deal with the ongoing foreclosure and mortgage problems we still have and to fund an item that has been frequently supported by the House in the past couple of years, the National Affordable Housing Trust Fund.

The National Affordable Housing Trust Fund is very important because I believe there was a preference for homeownership over rental housing, and for lower-income people, that was a contributing factor to the crisis we are in. We did too much in pushing people into homeownership when they were in lower-income brackets and we did not do nearly enough in terms of rental housing.

Beyond that, the great bulk of the money goes to dealing with the ongoing foreclosure crisis. We have a program that was supported by the Congress in two separate bills, signed last year by President Bush and this year by President Obama as part of overall bills, which provide money—pardon me, but this microphone does not appear to be on. And I apologize. I will try to keep that in mind.

The program is one where money is provided to communities to buy up property that is foreclosed. Property that is foreclosed, residential property, goes from being a tax payer to a tax eater. It is a serious problem for municipalities, and, as we know, foreclosures are not randomly geographically distributed. They become serious problems for particular neighborhoods.

This is a very successful program, broadly supported by local officials, to give them funds with which they can buy up the foreclosed property, take a blight off their rolls, not have to send out their police and their fire, already overtaxed by the need for layoffs, unfortunately, by budget crises, and put them to more productive use.

It also begins a new program. We clearly face a new wave of foreclosures, not because there were problems with the initial mortgage, but because people who took out mortgages, conventional mortgages overwhelmingly, have lost their jobs.

In 1994, this House passed a bill that was authored by our former chairman, Mr. Gonzalez, who peers at us from over my right shoulder, to provide loans, not grants, but loans to mortgage holders who would face the loss of homes because they have lost their jobs. That never passed the Senate. And there is, of course, a lot of that going around.

But it now seems to me an appropriate thing to do because a new wave of foreclosures will be tragic not just for the individuals who will lose their homes because they lost their jobs through no fault of their own at a time of great unemployment, but it will add to the downward pressure on housing and housing assets that contribute to this crisis.

And it is not the role of this committee or this Congress or anybody else to try to artificially prop up housing prices. But to the extent that we can prevent another artificial drop that comes because people who had good mortgages and were in good standing now have lost their jobs in unprecedented numbers for recent times, we should step in.

So that is what this bill does. It is an effort to prevent bad situations from getting worse in ways that will add to the economic crisis that we now face.

And I recognize the gentleman from Alabama for 4 minutes.

Mr. BACHUS. Thank you, Mr. Chairman.

Mr. Chairman, I oppose this legislation for several reasons.

I will start with the Constitution. Article I, section 9, of the Constitution requires that all drawdowns of the general fund of the Treasury must go through the appropriations process. However, this bill circumvents the appropriations process by sending funds directly from the general fund of the Treasury to the Housing Trust Fund. And that is $6.2 billion.

According to the minority staff on the Senate Committee on Budget, the Federal Government has pledged more than $9.7 trillion to address our economic credit crisis, including billions for foreclosure mitigation initiatives. For instance, the Treasury has committed $75 billion for loan modification and foreclosure prevention. Instead of using the TARP dividends to offset these obligations, Chairman Frank's bill spends them.

It also increases the Federal debt. Any new Federal commitment would come on top of our existing $10.9 trillion national debt and an estimated 2009 budget deficit of $1.8 trillion, despite the fact that dividend provisions in TARP were intended to make taxpayers whole from any bailout committed. This bill obviously flies in the face of that commitment.

Today, soaring deficits are the biggest threat to financial stability, economic recovery, and job growth. Vice President Biden acknowledged that the Administration had misread the economy. But the solution of the Administration is more deficit spending, including potentially another multi-billion-dollar government stimulus, a new $1.5 trillion government-run health care plan, and now the chairman's new legislation to divert $6.2 billion from TARP to finance an Affordable Housing Trust Fund.

Most disturbingly, this legislation transfers $1.5 billion to the Neighborhood Stabilization Program, which could be accessed by ACORN, a community group notorious for its efforts to commit voter fraud. Ironically, this approach also undermines the flexibility that Treasury Secretary Geithner indicated is necessary for the Treasury to carry out TARP's authorized legislation.

In a June 30th letter, this last week, Secretary Geithner said, "We believe it is critical that the Treasury maintain full flexibility to strengthen our financial system, promote the flow of credit, and permit a rapid response to unforeseen economic threats." Yet, here we consider legislation that undermines that flexibility.

Mr. Chairman, one of the best things we can do to stabilize the credit markets and promote long-term economic growth is to restore fiscal discipline and stop the reckless government spending. Just this week, Morgan Stanley's chief economist characterized our trillion-dollar-a-year deficits as "America's fiscal train wreck" and offered this dire warning: "Soaring debt will force up real interest rates, reducing credit and productivity and boosting debt service. Not only will these factors steadily lower our standard of living, but they imperil our economic and financial stability."

This bill adds $6.2 billion to that deficit. As institutions begin to pay back their TARP assistance, we need to end the bailouts and return that money to the taxpayers, thereby reducing the deficit.

Republican members of the committee, including the gentleman from Texas, Mr. Hensarling, and the gentleman from California, Mr. McCarthy, have introduced legislation to do that. I urge the members of this committee to support that legislation, not this legislation—$6.2 billion added to the deficit.

I am very interested in hearing the witnesses' perspectives on this legislation. Thank you, Mr. Chairman. And I yield back the balance of my time.

The CHAIRMAN. The gentlewoman from California is recognized for 3 minutes.

Ms. WATERS. Thank you very much, Chairman Frank, for arranging this hearing on the TARP for Main Street Act of 2009, which we, along with Representatives Cardoza and Velazquez, introduced at the end of June. I believe this legislation represents an important step towards ensuring our economic stability.

Let me just say, Mr. Frank, that I have been very, very concerned that the foreclosure problem is larger than we thought it was, and that RealtyTrac data indicates that foreclosure filings were reported on more than 320,000 properties in May. They also report that, at the end of May, there were over 460,000 properties that have completed the foreclosure process and are now real estate owned. So, no matter how you measure it, the foreclosure problem far exceeds current resources.

I am very pleased about your leadership on this legislation for the three areas that will now be supported. Additional money for Neighborhood Stabilization—as you know, this is a program that I worked very hard to establish and get funding for, to assist communities in mitigating the negative impacts of foreclosed and abandoned housing.

And I am very pleased that cities around the country are taking advantage of this program. They are so pleased that they are able to clean up their neighborhoods and to rehabilitate these homes and put them back on the market. It is a real way by which to help not only our cities but families get back into housing.

And of course the Housing Trust Fund that you, Mr. Chairman, have been in the leadership of, because we do need to expand housing opportunities. People are homeless, increasingly, because of this economic crisis. And we have people standing in line for assistance and for opportunities. The Housing Trust Fund will help to expand our ability to create new housing.

And, of course, the most innovative portion of this, the Emergency Homeowner Relief Fund. And this is very important because, despite everything that we have done, there are people who are losing their jobs, and they need some help. And, with this fund, we will be able to help them stay in their homes and pay those mortgages with a creative arrangement that will allow them to pay back once they get re-employed.

So I thank you, Mr. Chairman, and I yield back the balance of my time.

The CHAIRMAN. The gentleman from California, Mr. Royce, is not here, so we will go to the gentlewoman from Illinois, Mrs. Biggert.

Mrs. BIGGERT. Thank you, Mr. Chairman.

The CHAIRMAN. A minute-and-a-half, because we have one more—

Mrs. BIGGERT. You know, I think we should rename the bill under discussion today, call it, "Another Bailout Paid for by Main Street."

Who is Main Street? If you could drive down any Main Street in my district, you will see the storefronts of family-owned small businesses such as a hardware store, a bakery, and a shoe repair shop, and the block behind Main Street are family homes.

These Americans pay taxes, and over 90 percent of them are paying their mortgages and paying them on time. They can't afford another big-government, big-spending bill—so that the Federal Government can build more housing? Our families and home builders can't sell the housing on the market right now. And bailout programs are not making money, and if they do it should help put our fiscal house in order.

Our budget deficit could reach $1.8 trillion this year. Our current national debt is $10.9 trillion. And who is loaning us this money? China holds 25 percent of U.S. Treasury securities, and Japan holds over 20 percent.

Spend, spend, spend. Who pays for it? During these tough economic times, when credit is less available, the family budget is tight, and small businesses are making tough decisions to keep their employees in a job, they simply can't afford more Washington spending. We can't afford to lose more jobs, we can't afford to tax to death the American family, and we can't afford another bailout bill or a free-for-all housing spending bill.

I yield back.

The CHAIRMAN. The gentleman from Texas. The time will be the same, but the membership is different, in terms of numbers. So the gentleman from Texas is recognized for 1 minute.

Mr. HENSARLING. Thank you, Mr. Chairman.

"TARP for Main Street" is an ironic title for this hearing, since 95 percent of Main Street either rents their homes, own them outright, or are current on their mortgages, which means that 95 percent of Main Street taxpayers are being forced to bail out the other 5 percent, many of whom acted irresponsibly.

TARP was established as emergency legislation to stabilize our financial markets. Regardless of what good may have been achieved last October, the program has since morphed into a $700 billion revolving bailout slush fund.

And what do we have to show for the current TARP in this Administration's failed economic policies? 9.5 percent unemployment, the greatest in a quarter of a century; 2.6 million jobs lost since February alone; and trillions of debt for our children to repay, debt the likes of which we haven't seen since World War II.

Section 103 of the TARP legislation lists as the first consideration for the Secretary of Treasury, "protecting the interests of taxpayers by maximizing overall returns and minimizing the impact on the national debt." The taxpayer wants his money back. Washington led him to believe that he would get his money back. What a cruel hoax it is to take it from him now.

It is not time to recycle TARP; it is time to terminate TARP. It is time to quit borrowing money from the Chinese and sending the bill to our children and grandchildren.

I yield back the balance of my time.

The CHAIRMAN. The gentleman from Illinois is recognized for 3 minutes.

Mr. GUTIERREZ. I would like to thank Chairman Frank for calling this hearing to discuss the TARP for Main Street Act of 2009. I think it is vital for both our economy and our communities that we find ways to reinvest, repay TARP funds into our local neighborhoods.

I supported, along with the chairman, the TARP money, primarily to unfreeze our credit markets and get capital flowing on Main Street. But, under no circumstance, do I want the money held up in the vaults of Wall Street firms. I am pleased this committee is shifting its focus away. We have had hearings in my subcommittee where we know that banks aren't lending people money that we hoped would become unfrozen because of the TARP money. But we also have heard very innovative ways that TARP money is being used to stimulate our economy.

To that end, using TARP dividends to finance the redevelopment of abandoned and foreclosed homes, as the chairman's bill proposes, is an excellent step. However, we must also consider expanding the scope of this idea to assist our local businesses and nonprofits.

Mr. Chairman, while I support your legislation, I would like to see the committee take a lead in pushing TARP funds that are returned to Wall Street banks to be set aside for the funding of CDFI loans and SBA loans, to make them directly to people out of private lenders' hands. These simple steps would allow TARP funds to directly reach those businesses which help create jobs and help keep people in their homes.

Another way to increase it is to do this—I mean, in my home State of Illinois, 49 percent of the workforce is employed by small businesses. Without a vibrant small-business community, this recession will continue to linger. Investing TARP funds resources in small businesses and nonprofits is one of the fastest routes, I believe, to economic recovery.

I do not regret my vote. Sometimes it would have been probably a little easier to have said "no" to the TARP money and then watched the consequences to our economy and to our financial structures had we not responded. But that would have been irresponsible.

So, Chairman Frank, I want to thank you again for showing leadership and ingenuity in these ideas, and I look forward to working with you on them.

The CHAIRMAN. I thank the gentleman. And I think many of us look back to the days when we thought the TARP was what you used to cover the infield when it rained, but we are beyond that.

The gentleman from New Jersey, Mr. Garrett, for 1 minute.

Mr. GARRETT. Thank you, Mr. Chairman.

You know, there seems to be a competition here by the Democrats, and especially in this committee, as to who can come up with the most outlandish way to spend taxpayers' dollars and to do it, as the ranking member said, maybe outside the Constitution and outside the regular appropriation process.

You know, the current proposal is to take the TARP program and to turn it into something of a Madoff-like Ponzi scheme. It goes something like this. They assume that because a portion of the $700 billion TARP programs turns out a return, they call it a profit. This, despite the fact, you know, the CBO says the majority of the money, the $700 billion, is still outstanding, and the CBO says that the majority will most likely result in a loss. They still consider it a profit and say they want to spend it on their pet projects.

Now, the lady from California said that she had misread the housing situation. The Vice President said the Administration misread the unemployment and the economic situation. I would suggest the other side of the aisle has misread the American public, who is tired of all the bailouts, tired of all the big spending. And the simple solution that they are really looking for from this committee and from Congress is to return these dollars to the American taxpayers, to the Treasury, pay down the debt, and not one more big spending program.

The CHAIRMAN. The gentleman from Texas, Mr. Marchant, is next for 1 minute.

Mr. MARCHANT. Thank you, Mr. Chairman.

Mr. Chairman, one of the main reasons why I was concerned about the TARP vote back in October was the fact that I did not see in the bill any provision for the TARP money to ever be paid back to the Treasury. In fact, it was my impression, when the vote was passed, that the money would go back into general Treasury, and my fear at that time was that it would just be spent for general programs.

I think the disagreement that I have on this particular proposal is that it is, in my opinion, the first step towards spending the money outside of the appropriations process and spending the money on new programs. The people in my district, I think, expect this money to be paid back to the Treasury. And I think my fears have been realized, in that it looks like our plan is to spend the money.

The CHAIRMAN. The gentleman from California, Mr. Royce, is again recognized.

Mr. ROYCE. Thank you, Mr. Chairman.

You know, let's start with a basic premise here. The TARP is not profitable. We had to go out and borrow that money, plus the interest. We have forgotten about the interest that we are paying on that borrowed money. There are no TARP profits. We have spent $643 billion; we have gotten back $70 billion. That is a $573 billion hole.

There is no new money to spend. The dividends should be used to pay down the enormous national debt with interest that is accruing. And they should not be recycled, they should not be churned. Pay down the debt. It is the only fiscally responsible thing to do.

A couple of other points here. This obviously would violate Article I, section 9, of the Constitution, requiring that all drawdowns of the general fund going through Treasury must go through the appropriations process. That would be circumvented here.

And, lastly, the proposed $1.5 billion transfer of funds to Neighborhood Stabilization Programs would be accessible by ACORN. And ACORN, frankly, is notorious for its efforts to commit voter fraud.

So you increase the Federal debt, you worsen the problem in terms of already having too much supply in terms of housing on the market, so you have a continued depreciation in home prices. Building new apartments, which this fund would do for affordable housing, would further decrease the value of existing homes, potentially leading to even more defaults and foreclosures.

The CHAIRMAN. The gentleman from California, Mr. McCarthy, for 1 minute.

Mr. MCCARTHY. Thank you, Mr. Chairman.

Mr. Chairman, I oppose this legislation. I believe that any funds repaid to the government from the TARP program should go to pay down our immense debt, which is projected to double in 5 years and triple in 10 years. In fact, this Administration will compile more debt than all the 43 previous Administrations combined. That is from the creation of this country, to the World Wars, to the Depression, to Hurricane Katrina, to Iraq, the building of the highway system, and so on.

That is why I have introduced legislation to have repaid TARP funds go down to pay the debt, to help relieve our children and grandchildren of the burden of the crushing debt. The government borrowed the money to pay for the TARP program when it began, so we need to repay them first, rather than establishing a revolving line of credit for Washington bureaucrats and politicians.

And I yield back.

The CHAIRMAN. We have 1 minute remaining. I am going to yield to myself.

First of all, there has been a total misreading of the Constitution. There was no Appropriations Committee when the Constitution was adopted. Somebody's history is fairly deficient. What it says is, no expenditure, except by appropriation, made by law. That meant a statute. This has already been litigated. Apparently, members here have never heard of the Highway Trust Fund, which spends a lot of money without going through the Appropriations Committee.

So the notion that the founders of the Constitution, bright as they were, anticipated the existence of the Appropriations Committee, and therefore said everything had to go through the appropriations process, is historical nonsense. And, of course, members here have voted consistently for spending money outside the appropriations process—for example, the Highway Trust Fund.

Second, as to ACORN, it is true that under the Bush Administration, ACORN consistently received over a million dollars a year to no objection from my colleagues. Apparently there was no partisanship there. It was okay for the Bush Administration to give ACORN a total of $8 billion during its presidency. I am not aware of how much they have gotten under the NSP. I am not aware they got any. I would think, given the mighty obsession from little acorns that grow, if they had gotten a nickel we would have heard about it. And if they had registered a voter on a vacant property, we probably would have heard about that.

But this ACORN thing, let's be clear, this is not the Bush Administration, and the pattern of millions of dollars to ACORN, in my experience, has not yet been repeated. And, again, I would urge members to look at a little history when they look at the Constitution; know, when the Constitution was drafted, the founders who wrote the Constitution did not have Dave Obey in mind.

With that—

Mr. BACHUS. Mr. Chairman?

The CHAIRMAN. The gentleman's time has expired. I used an equal amount of time.

Mr. BACHUS. Oh, that was your opening.

The CHAIRMAN. That was my last minute.

We will begin now. We will start our witness statements. I hope we can get through them. I apologize, but we will have to go vote.

Let's begin with Mr. Apgar.

STATEMENT OF THE HONORABLE WILLIAM C. APGAR, SENIOR ADVISOR TO THE SECRETARY FOR MORTGAGE FINANCE, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. APGAR. Chairman Frank, Ranking Member Bachus, and members of the committee, thank you for the opportunity to talk today on H.R. 3068, the TARP for Main Street program.

My name is William Apgar, and I serve as a Senior Advisor for Mortgage Finance for HUD Secretary Shaun Donovan. In this capacity, I have worked closely on the development and implementation of the Obama Administration's Homeowner Affordability and Stability Plan, as well as other initiatives.

Working together, Congress and the Administration have undertaken a number of initiatives designed to prevent foreclosures and mitigate the impact of foreclosures and abandoned properties on local neighborhoods and the broader economy. Yet the magnitude and evolving nature of the foreclosure crisis has necessitated the development and use of innovative tools.

Congress has provided additional legislative authority on a number of occasions, most notably to improve the initial HOPE for Homeowners Program, provide FHA with additional tools to mitigate foreclosures, and increase the flexibility under the Neighborhood Stabilization Program. HUD is pleased that the Financial Services Committee is once again examining a range of options for responding to the housing crisis.

We believe the goals of H.R. 3068 are commendable, as the proposed legislation attempts to help borrowers and communities in need of assistance. HUD stands ready to work with you and others in Congress to build upon these objectives, as we seek to refine the Administration's overall response to the current foreclosure crisis.

I want to talk about each of the four main elements of the bill in turn.

First, the Neighborhood Stabilization Program. We applaud Chairman Frank and other sponsors for recognizing the magnitude of the foreclosure problem and the need to continue to mitigate foreclosure.

Last week, Secretary Donovan witnessed firsthand the devastation that concentrated foreclosures can wreak on formerly stable, middle-class communities when he toured hard-hit areas in Nevada, California, and Alabama. Secretary Donovan has challenged HUD to do all we can to work with Congress and the Administration to ensure that the nearly $6 billion appropriated to date for the NSP program is deployed quickly and used wisely and well.

Emergency mortgage relief is the second important component. HUD would like to commend the committee for placing a spotlight on the negative impacts that rising unemployment can have on the ongoing foreclosure crisis. The centerpiece of the Obama Administration's Making Home Affordable Program offers significant relief to at-risk borrowers by reducing mortgage-related payments to 31 percent of monthly income.

Unfortunately, many individuals who have lost their jobs or experienced a significant drop in income generally do not have the income sufficient to qualify for the program. Once again, HUD looks forward to working with the committee to better understand the approach on these issues taken in this bill and to forge a series of programmatic options that can help unemployed workers get the mortgage assistance they need.

The third component is for troubled multi-family properties. Over the last year, while the spotlight has been on single-family home mortgage foreclosures, there is mounting evidence of a pending multi-family crisis, as well. As in the single-family market, investors and individuals, enabled by loosening underwriting standards, purchased multi-family properties at sales prices that were not supportable by existing income from the property. As the real estate market has cooled off, these owners are finding that they are underwater, with outstanding mortgages greater than the value of the properties that they own, and unable to pay both maintenance and debt services.

Numerous analyst reports indicate that these loans are increasingly falling behind in their debt service payments. More troubling, however, is that once these loans reach maturity, borrowers will be unable to repay the mortgages and will not be able to qualify for refinancing.

Equally problematic is that many of the loans are held on individual bank balance sheets, including many smaller regional and community banks, and, hence, the turmoil in this sector threatens to undermine the safety and soundness of many of the smaller community and regional banks.

In short, we are now seeing the early signs of a looming multi-family foreclosure crisis, a crisis that could have significant negative impacts on the economy, as well as on families living in these multi-family properties and who will likely experience worsening housing conditions.

Recognizing this impending crisis, HUD has already taken action. For example, Secretary Donovan has led the Administration review of potential means to expand access to bond financing to assist State and local housing finance agencies continuing to pursue the important financing role to expand both affordable homeownership and rental housing opportunities.

HUD has also created an internal task force to develop better understanding of the emerging crisis, reached out to Treasury and the Federal Housing Finance Agency to explore new approaches to confront this situation, and is now completing a top-to-bottom review of HUD's own multi-family initiatives.

Building on these efforts, HUD looks forward to working with the committee to explore various options for stabilizing the multi-family housing sector.

Finally, the capitalization of the Housing Trust Fund. Foreclosure is adding to the already overwhelming need for affordable rental housing. Many individuals who lose their homes to foreclosure lack housing alternatives and often become at risk for homelessness. An estimated 12 million renters and homeowner households now pay more than 50 percent of their annual incomes for housing. Families with this high a rent burden not only tend to reside in marginal dwelling units, but also may have difficulty affording necessities such as food, clothing, transportation, and medical care.

HUD's effort to increase the supply of affordable housing received a big boost last year with the authorization of the Housing Trust Fund in the Housing and Economic Recovery Act of 2008. The Housing Trust Fund represents a bipartisan enactment of perhaps the most significant new Federal housing production program since the creation of the Home Investment Partnership Program in 1990.

Originally authorized with a dedicated funding stream from assessments of Fannie Mae and Freddie Mac, the financing difficulties these entities have encountered have eliminated this revenue stream. In response, the Administration included a billion dollars to fund the initial capitalization of the trust fund in this year's Fiscal Year 2010 HUD budget request, now being considered by the Senate and House Appropriations Committees.

Given the uncertainty over the level of funding and the severity of the affordable housing crisis, HUD welcomes further discussion with Congress to identify the best method to secure funding needed to make the trust fund a reality.

Once again, and in conclusion, I would like to thank you for the opportunity to participate in today's hearing and commend the committee for proposing enhanced efforts to address the growing foreclosure crisis. I want to reiterate HUD's willingness to work with the committee to achieve the objectives highlighted in this bill as we seek to improve the Nation's overall response to the housing crisis and address the continued need to expand access to decent and affordable housing for all Americans.

Thank you for your consideration.

[The prepared statement of Mr. Apgar can be found on page 43 of the appendix.]

The CHAIRMAN. Thank you, Mr. Apgar.

Mr. Engel, my apologies, but we are going to break now. I don't want your statement to be rushed. It is the nature of our business. We will be back probably in about an hour.

I will apologize because I have an important meeting involving part of my district that I have to be at in the Senate. I will be back shortly after that. One of my colleagues will be presiding. We will get to Mr. Engel's testimony and into the questioning.

The other witnesses, this is an important issue, we have all day, so we hope to see you. Get some lunch and do whatever else, and we will see you later.

We are in recess.

[recess]

The CHAIRMAN. Let me get your attention with another apology.

A very important subcommittee hearing is scheduled at 1:30. We have a very jammed calendar. I am, therefore, going to have to postpone the second panel until a further time. I apologize, but—well, let me think about this. We may—no, I think what we will do—I take it back. Let me consult with the minority.

With concurrence, we won't do that. But when we reconvene, we will have the second panel testify and we will deal with it as one panel. We are going to have to break at about 1:30. So, as soon as Mr. Engel is through, we will get the other witnesses to testify, and then we will question them all as one panel.

If Mr. Apgar and Mr. Engel have to leave, they can do that, but then we will be through by 1:30. So we will reconvene, and we will ask all the witnesses on the second panel to join the first set of witnesses, and they will all testify together.

[recess]

The CHAIRMAN. We have your statements for the record. We will ask questions.

Mr. Engel, you have been very gracious, and let's begin with you.

STATEMENT OF GARY T. ENGEL, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. ENGEL. Thank you. I am pleased to be here today to discuss the status of participants' dividend payments and repurchases of preferred stock and warrants in connection with the Troubled Asset Relief Program, commonly referred to as TARP.

According to Treasury's records, since the inception of TARP and through June 30, 2009, Treasury had received approximately $6.7 billion in dividend payments on preferred stock acquired through various programs such as the Capital Purchase Program and the Targeted Investment Program.

Treasury's agreements under these programs entitled it to receive dividend payments on varying terms and at varying rates. For example, publicly held institutions participating in the Capital Purchase Program pay quarterly dividends at a rate of 5 percent per year for the first 5 years. After the first 5 years, the preferred shares pay quarterly dividends at a rate of 9 percent per year.

Importantly, the dividend payments to Treasury are contingent on each institution declaring dividends. Dividend payments received, other than for the Asset Guarantee Program, are deposited into the general fund of the U.S. Treasury. The dividend payments received for the Asset Guarantee Program, which totaled about $108 million, are deposited into the Troubled Asset Insurance Financing Fund to fulfill obligations of certain guarantees. Dividend payments to Treasury from participants other than for the Asset Guarantee Program are not to be used to reduce the outstanding balance under the almost $700 billion TARP limit.

According to Treasury records, from March 21, 2009, through June 30, 2009, 17 Capital Purchase Program participants had not declared or paid dividends of approximately $6.6 million. Treasury officials told us that, of these 17 institutions, 13 informed Treasury that State or Federal banking regulations or policies restricted them from declaring dividends, one indicated concerns about its profitability, and three did not provide a reason for not declaring dividends.

Under the standard terms of the program, after 6 nonpayments of dividends by a participating institution, Treasury and other holders of preferred stock equivalent to Treasury's can exercise their right to appoint two members to the board of directors for that institution.

As permitted by the Act as amended, participants may at any time repurchase or buy back their preferred stock and warrants issued to Treasury under the Capital Purchase Program. This is subject to consultation with the participant's primary Federal banking regulator. According to Treasury records, as of June 30, 2009, 32 institutions had repurchased their preferred stock from Treasury, for a total of about $70.1 billion, including 10 of the largest bank holding companies that are participating in the program. Funds received from the repurchase of preferred stock are deposited into the general fund of the U.S. Treasury and reduce the outstanding balance under the TARP limit.

After all the preferred stock is repurchased, the financial institution may repurchase all or part of its warrants held by Treasury. According to Treasury records, as of June 30th, 11 of the 32 financial institutions that had repurchased their preferred stock had also repurchased their warrants, and three others had repurchased their warrant preferred stock at an aggregate cost of about $20.3 million.

As of June 30, 2009, none of the 10 largest bank holding companies that had repurchased their preferred stock had repurchased their warrants. Like the dividend payments, any amounts received from the repurchase of warrants are deposited in the general fund of the U.S. Treasury and are not to be used to reduce the outstanding balance under the TARP limit.

Certain financial institutions that had repurchased their preferred stock had informed Treasury that they did not plan to repurchase their warrants. For these institutions, Treasury may attempt to sell the warrants in the financial markets. According to Treasury officials, Treasury had not yet, as of June 30, 2009, liquidated any Capital Purchase Program warrants in the financial markets.

Treasury has received billions of dollars from TARP participants from dividend payments and repurchases of participants' preferred stock and warrants. Treasury has also continued to disburse funds. As of June 30, 2009, Treasury had disbursed almost $339 billion of TARP funds. In addition, as of that date, Treasury's projected use of TARP funds totaled about $643 billion, without taking into account any repayments.

Mr. Chairman, this concludes my oral statement. I would be pleased to respond to any questions.

[The prepared statement of Mr. Engel can be found on page 61 of the appendix.]

The CHAIRMAN. Thank you, Mr. Engel.

Let me say to all the panelists that any material you have will be submitted in full.

Mr. Calabria has to leave and go talk to the Judiciary Committee. And they are always in need of instruction, so we will go to you now so you can do that.

STATEMENT OF MARK A. CALABRIA, PH.D., DIRECTOR, FINANCIAL REGULATION STUDIES, CATO INSTITUTE

Mr. CALABRIA. Thank you, Mr. Chairman. I appreciate that. And I will be testifying there on mortgage modifications, which I know is a topic that this committee is interested in as well. I want to thank you and thank all of the members of the committee for the invitation to appear today.

The first part of my testimony is that, despite the repayment of TARP funds from a number of banks and the receipt of over $6.2 billion in dividends from TARP institutions, the TARP overall has not been profitable. CBO's most recent estimate is that the overall subsidy of the cost of the TARP will be $356 billion. This is $356 billion lost to the taxpayer that will not be recovered.

In addition to the $356 billion in losses from the TARP, we are also likely to see between $200 billion and $300 billion absolute losses from the bailouts of Fannie Mae and Freddie Mac. We may also see losses in the tens of billions from the Federal Reserve's mortgage-backed securities purchase program. So we are ultimately likely to see taxpayer losses from the bailouts approach $700 billion.

While any dividends received will only make a small dent in these losses, diverting these dividends for purposes other than offsetting TARP losses will leave a deeper hole for the taxpayer. If, however, Congress chooses to use TARP dividends or any other funds to support the housing market, I believe Congress should focus on stimulating the demand side of the housing market rather than the supply side.

The fundamental problem facing our Nation's housing market is an oversupply of housing rather than a lack of housing. The Nation's oversupply of housing is documented in the Census Bureau's housing vacancy survey. The Census reports a national rental vacancy rate for the first quarter of 2009 at 10.1 percent. This is only slightly below the record rate of 10.4 percent and is almost 40 percent higher than the average rental vacancy rate for the last 50 years of 7.2 percent.

The record vacancy rates are not an issue of specific geographic areas, but are found almost everywhere throughout the country. The highest vacancy rates and also the areas seeing the largest increases in rental vacancy rates are in our Nation's central cities. All the increases over the last year can be attributed largely to the increase in central-city vacancies. Vacancies in suburban and rural areas, while near historic highs, have moderated over the last year and remain below those of the central cities.

I raise this fact because of the way it relates to our tendency of Federal housing production programs to concentrate new production and rehabilitation in central cities, and I think that is something that needs to be very much considered with any production program going forward.

Even in parts of the country with traditionally tight rental markets, such as California, while they remain tighter than the Nation overall, have seen significant increases in rental vacancy rates over the last year. Interestingly, those States with the lowest vacancy rates—Vermont and Wyoming—are concentrated in rural areas, those very areas where our production programs have been least effective, in my opinion.

Our production programs also tend to build almost exclusively multi-family properties, as would be the case of a production-focused trust fund. However, over two-thirds of vacant rental units are current in multi-family properties. This fact isn't simply the result of older units based in older urban areas. For instance, the rental vacancy rate for units constructed in the 2000's is almost twice that of units constructed in the 1990's.

Despite an almost 1 million increase in rental households associated with the meltdown of our mortgage markets, the overall number of vacant rental units has actually increased by over 400,000. Currently, there are over 4.1 million vacant rental units in this country. The glut in our housing markets is not simply one of single-family units intended for homeownership, but also one of recently constructed multi-family units.

I recognize that was a considerable amount of data, so, to summarize, my main point was that, if we are going to subsidize additional housing, it should really be focused on stimulating demand.

The most obvious method of doing so would be additional rental vouchers. I am concerned that additional production actually runs the risk of adding to supply, which would put downward pressure on house, particularly condo, prices, which could actually have the reverse effect of increasing mortgage defaults. Additional production could also increase multi-family mortgage defaults.

In addition to directing any additional housing assistance only at tenant-based subsidies, I would also encourage Congress to re-examine the feasibility of redirecting current unit-based subsidies which are not already committed to specific housing units toward increased vouchers. Such a move would help increase the demand for rental housing while also providing much-needed assistance to the recently unemployed, many who are renters and probably would prefer to stay in the unit they are in.

A final concern I would have with H.R. 3068 is the precedent it sets for redirecting TARP funds and its potential to erode the checks and balances that come with the appropriations process. Once the line has been crossed to redirect TARP dividends to non-TARP uses, I am concerned that it will only be a matter of time before TARP repayments start to be redirected. So, while H.R. 3068 represents just over $6 billion, it could easily become the first step in a process that results in hundreds of billions being diverted. I think such would leave the taxpayer with a much bigger hole to fill. So I would strongly urge any additional housing subsidies, trust fund or otherwise, to be subject to either appropriations or PAYGO.

Once again, I thank you for this opportunity and appreciate your attention.

[The prepared statement of Dr. Calabria can be found on page 48 of the appendix.]

The CHAIRMAN. We will now go to Sheila Crowley, who is the president of the National Low Income Housing Coalition.

SHEILA CROWLEY, MSW, PH.D., PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Ms. CROWLEY. Thank you, Chairman Frank, and members of the committee. I am glad to have the opportunity to testify today on H.R. 3068, the TARP for Main Street Act of 2009, and specifically on section 2 that designates a billion dollars from dividends paid by financial institutions that receive TARP funds to the National Housing Trust Fund.

It was almost 2 years ago that this committee held a hearing on H.R. 2895, the National Affordable Housing and Trust Fund Act of 2007, that was introduced by Chairman Frank with eight Democratic and eight Republican cosponsors. The bill passed the House in October of that year by a vote of 264–148. With similar bipartisan success in the Senate, President Bush signed the Housing and Economic Recovery Act on July 30, 2008, that included the National Housing Trust Fund. This victory was not possible without the championship of you, Mr. Chairman, and we thank you.

The original proposal for the National Housing Trust Fund was developed in the 1990's, under the leadership of the founder of the National Low Income Housing Coalition, the late Cushing Dolbeare. And I would like to acknowledge the presence here today of Louis Dolbeare, who was married to Cushing and who remains a very strong supporter of the Coalition and of the trust fund.

The National Housing Trust Fund is intended to produce, preserve, and rehabilitate rental homes that are affordable for extremely low- and very-low-income households. HUD will distribute funds to States based on the need for rental homes affordable for this income group. States will make grants to qualifying public nonprofit and for-profit entities that produce and operate the rental homes. All the funds must benefit households with incomes at or below 50 percent of the area median, and 75 percent of the funds must benefit households who are extremely low income, or at 30 percent of the area median income.

The goal that we have set is to build or preserve 1.5 million rental homes over the next 10 years, and HUD is now completing the interim regulations for the trust fund for implementation this fall. But before the trust fund can be implemented, it must be capitalized.

A key feature of the National Housing Trust Fund is its reliance on dedicated sources of revenue, not discretionary appropriations. Contributions from Fannie and Freddie were designated as the first funding source for the trust fund, but they have obviously been suspended in light of the financial difficulties of the companies. We are confident that someday they will be restored, but it is important to know that Fannie and Freddie were never intended to be the sole sources of revenue, and the legislation actually allows Congress to direct any appropriations, transfers, or credits that it may choose to into the National Housing Trust Fund.

So, use of TARP dividends for the National Housing Trust Fund is a welcome proposal, from our perspective. And, as you just heard, Treasury has received approximately $6.2 billion in TARP dividend payments as of mid-June. And we certainly recommend that the committee claim all current and future dividends that the TARP program yields for "Main Street" purposes, including the National Housing Trust Fund.

The longstanding shortage of rental homes that are affordable to the lowest-income households in the United States is well-documented. The recession has only made the problem worse. But some people assert, like my colleague Mark Calabria, that because we have an excess supply of housing now, housing production is not necessary and, he says, unwise. This analysis does not account for the mismatch between housing supply and housing need, which is causing both high housing vacancy rates and growing housing cost burdens.

A new analysis of the American Housing Survey shows that the number of rental units in the United States actually increased by 3.5 percent between 2005 and 2007. The number of units affordable to households with incomes over 50 percent of the area median income grew by 16 percent. For households with incomes over 100 percent of the area median income, the number of units grew by 34 percent. However, for units affordable to households with incomes at 50 percent of the area median income or less—that is the folks who would be served by the National Housing Trust Fund—the number of units actually fell by 7 percent, for a loss of 1.5 million homes. That was between 2005 and 2007.

The ultimate consequence of this particular part of the failure of our housing market is that some people will have no home at all. The New York Times reports this week about the surge in homelessness now that school is out. Earlier this year, when the unemployment rate was expected to reach just 9 percent, we were able to predict that 800,000 new people would become homeless. And we now know, of course, that the unemployment rate is going to go higher.

So, in the absence of new resources to expand the supply of homes that people who are elderly, disabled, employed in the low-wage workforce, or out of work altogether can afford, we will see a growth in homelessness that rivals or exceeds the recession in the early 1990's. We made the mistake then of thinking that it was a temporary shelter problem that we could solve by building shelters, not permanent housing. We should not make that mistake again.

In closing, more than 1,000 organizations across the country have signed an open letter to Congress and the Administration urging greater balance in our approach to the mortgage crisis by also attending to the housing shortage for the lowest-income people. I ask, Mr. Chairman, that this letter be entered for the record, and that we will make copies available to all the members.

TARP for Main Street will help achieve this balance that we are seeking, and I urge the committee to move forward with this. Thank you for the opportunity to testify.

[The prepared statement of Dr. Crowley can be found on page 51 of the appendix.]

The CHAIRMAN. Thank you. And, as I said, everything will be made a part of the record.

And next—if I mispronounce the name, I apologize—Mr. Frank Apeseche, who is chief executive officer of the Berkshire Property Advisors Group, here for the National Multi Housing Council.

Mr. Apeseche, please go ahead.

STATEMENT OF FRANK APESECHE, CHIEF EXECUTIVE OFFICER, BERKSHIRE PROPERTY ADVISORS AND THE BERKSHIRE GROUP, ON BEHALF OF THE NATIONAL MULTI HOUSING COUNCIL AND THE NATIONAL APARTMENT ASSOCIATION

Mr. APESECHE. Thank you, Chairman Frank, and distinguished members of the committee.

I am chief executive officer of Berkshire Property Advisors, based in Boston. We are a fully integrated multi-family investor owner and operator. We currently operate more than 26,000 units throughout the United States and have an employee base of 800 personnel servicing our assets.

I am testifying on behalf of the National Multi Housing Council and the National Apartment Association. Both represent the Nation's leading firms participating in the multi-family housing rental industry.

First, I would like to say that we fully support the Federal efforts to help preserve the Nation's supply of affordable housing and to provide liquidity to the apartment sector. And we thank you for taking such important steps in the right direction.

As the committee begins its debate on provisions of H.R. 3068, I would like to take the opportunity to offer some key recommendations in order to keep the legislation focused where we believe it is most needed. We have five significant recommendations for section 5 of the legislation.

First, we encourage any program to support the following three items. The first item we recommend is that this program should not compete with or crowd out private-sector investors but, instead, direct investment capital to areas currently not appropriately served by private investors, and to support and preserve the properties developed using low-income housing tax credits or other public subsidies which have limited cash flow and have exhausted operating and repair reserves, especially if they have material deferred maintenance or are in poor condition.

Second, we would like to see an appropriate definition of mortgage loan default and at-risk properties. We believe it is critical to appropriately define what constitutes a mortgage default that would trigger any government assistance, because government action prior to a well-defined economic default would not only interfere with contractual obligations between the borrower and mortgage lender but would also create future uncertainty and concern about the sanctimony of the legal transaction process.

We recommend here only multi-family properties that are in economic default be eligible for government assistance. Economic default should be defined as mortgage payments delinquency of 90 days beyond applicable notice and cure periods. And government intervention in any economic default situation should be limited to actions to support and stabilize the property by providing capital for necessary repairs or to fund maintenance reserves. In addition, it should, in all circumstances, be undertaken in consultation with the lender and property owner.

It is also important to define at-risk properties, too, since the term "at-risk" can be broadly interpreted or even misconstrued. We believe that it is prudent for at-risk to specifically be linked to material deferred maintenance and physical distress as evidenced by significant structural problems, system integrity failures, and health and safety issues.

Third, the multi-family housing industry does not, under any circumstances, support the transfer or taking of a property without the consent of both the property owner and lender. Privately contracted property assignments, assumptions, and transfers are significantly negotiated arm-length provisions of any mortgage contract and have economic value. If such provisions are countermanded through government intervention, this action could have profound, unpredicted negative impact on both multi-family capital and investment market stability. It can also have profound negative impact on investors' reliance that future property ownership rights will be respected.

Fourth, we support assistance to Federal Government-financed, sponsored, or assisted multi-family properties. However, we support a more tailored assistance to properties financed without government ownership or sponsorship.

Here, we recommend that the government assistance should be kept to borrowers and lenders who participated in reasonable underwritings and financing. We do not believe that borrowers and lenders who took undue risks upfront should be rewarded by government assistance at this time. We specifically recommend that assistance eligibility here be limited to those properties with originating loan-to-value ratios at or below 80 percent, debt service coverage at or above 1.2 times, and current deferred maintenance at or below $2,000 per unit.

Lastly, we enthusiastically support active government response to mortgage refinance needs. Here, we urge the committee to use its resources to add liquidity to the refinance markets. We support the use of government funds to provide insurance to lenders who will extend current loans for periods of 12 to 36 months, allowing the cash flows of properties to recover as the economy does.

Thank you very much for your time. I appreciate the opportunity to represent the multi-family industry before the committee and look forward to any questions.

[The prepared statement of Mr. Apeseche can be found on page 33 of the appendix.]

The CHAIRMAN. Thank you, Mr. Apeseche.

Next, we have Mr. Brian Hudson, who is the executive director of the Pennsylvania Housing Finance Agency.

And I should tell you that, some months ago, Representative Fattah talked proudly about the program, and more recently, Representative Schwartz mentioned it. And we were guided, to some extent, by the successful work you have been doing in Pennsylvania.

Please go ahead.

STATEMENT OF BRIAN A. HUDSON, SR., EXECUTIVE DIRECTOR & CEO, PENNSYLVANIA HOUSING FINANCE AGENCY

Mr. HUDSON. Thank you, Mr. Chairman, and members of the committee, for the opportunity to talk to you today on behalf of the Pennsylvania Housing Finance Agency on H.R. 3068, the TARP for Main Street Act of 2009.

I also wanted to recognize members of the Pennsylvania delegation who are members of your committee, Congressman Paul Kanjorski and Congressman Tim Gerlach.

Mr. Chairman, thank you for your early and persistent efforts to revive with Federal help the struggling municipal bond market. Your legislative initiatives, including the previous Troubled Asset Relief Program bill, and your appeals to the Administration over the last several months have succeeded in focusing critical attention on the needs of the municipal bond market and particularly the tax-exempt housing bond market.

Because of your encouragement, the Administration is now on the verge of announcing a plan to support State and local housing finance agencies' affordable housing lending by purchasing HFA housing bonds and providing liquidity to support HFA variable rate debt. With this assistance, HFAs will finally be able to put our housing bond resources to work to produce hundreds of thousands of affordable housing, sustainable homes, and jobs, as well as tax revenues, in support of our Nation's economic recovery.

We understand that the Administration's HFA initiatives as currently conceived do not rely on TARP resources. However, since the HFA plan has not been finalized, we urge you to leave open the possibility of committing TARP resources to it, should that become necessary to the plan's successful implementation.

Mr. Chairman, we would also like to thank you for your leadership in creating the Housing Trust Fund and for dedicating through this legislation TARP funds to its initial capitalization. My agency and my fellow State agencies are eager to help address with these new resources housing needs as we struggle to meet existing resources, particularly those of extremely low-income families.

Finally, we are pleased that your new TARP legislation reauthorized and allocates funding to the Emergency Mortgage Relief Program. As you consider the optimal design of this program, we urge you to look at PHFA's Homeowners' Emergency Mortgage Assistance Program, HEMAP, as a model. We also encourage you to consider making HFAs eligible for direct funding under this program so that a program such as HEMAP may benefit and be replicated around the country,

Senator Casey was successful in getting an amendment accepted in the Senate during deliberations on Neighborhood Stabilization Program funding as reauthorized in the American Recovery and Rehabilitation Act of 2009. Mr. Casey's amendment would have allowed the use of NSP funds for foreclosure prevention activities, such as HEMAP, in the Commonwealth. Opening up the NSP for these type of activities may be another option to stem the tide of foreclosures as a result of temporary economic conditions.

Pennsylvania's Act 91 of 1983 authorized PHFA to develop HEMAP to help certain homeowners in danger of losing their homes to foreclosure. Pennsylvania created this program to address the large number of foreclosures, particularly in the southwestern part of the State as a result of the downturn in the steel industry early economic recession in the 1980's.

HEMAP has been very successful. It has saved almost 43,000 homes from foreclosure by providing $442 million in loans to at-risk homeowners. Over 20,000 loans have been repaid in full, and

HEMAP has received over $246 million in principal and interest repayment from homeowners. They are structured as loans, not grants. These repayments are recycled into HEMAP loans assisting additional Pennsylvanians.

State appropriation has totaled $225 million. The average HEMAP loan to a distressed homeowner is $10,500, much less than the $35,000 it costs to complete most foreclosure actions. Additionally, it is estimated that average foreclosure costs do not consider the impact of foreclosures on families, neighborhoods, and communities. HEMAP prevents mortgage foreclosures only from defaults caused by circumstances beyond a homeowner's control. It provides loans to bring delinquent mortgage payments current, and may also provide continuing help with mortgage payments. Total assistance under the current environment cannot exceed 36 months.

Unlike programs that have been created by other States and other structures to address unsound or predatory lending, HEMAP is focused on helping homeowners who are facing a short-term financial setback. The number one reason for a HEMAP applicant's delinquency under the HEMAP is loss of a job. The second reason is illness. In all instances, there has been a reasonable likelihood that a homeowner will be able to resume making his mortgage payment without State help, since HEMAP assistance is temporary.

In the current economic environment of unemployment at 9.5 percent and the State over 7, HEMAP would be a great complement-like program with other Federal initiatives. With over 25 years of experience, PHFA has refined the operation of this primarily unemployment driven program. Lenders in the Commonwealth are some of its most ardent supporters because of the seamless nature of this operation. These results have led Harvard University to directly recognize HEMAP as a top innovation in American government.

A number of States have developed HEMAP-like programs. Delaware has DMAP; North Carolina has a pilot; Tennessee is exploring it also. With creative legislation and creative language and ending current TARP legislation to allow States the flexibility to operate a model like HEMAP, we think that would help many homeowners across the Nation.

I have provided more explicit details on our programs, and I would be more than happy to answer any questions that the committee would have. And, again, thank you for the invitation. I look forward to working with you.

[The prepared statement of Mr. Hudson can be found on page 74 of the appendix.]

The CHAIRMAN. Thank you.

Next, we have Mr. Damon Silvers, who is associate general counsel of the AFL–CIO and, relevant today, a member of the oversight board of the Troubled Asset Relief Program.

Mr. Silvers?

STATEMENT OF DAMON A. SILVERS, ASSOCIATE GENERAL COUNSEL, AFL–CIO

Mr. SILVERS. Thank you, Chairman Frank. It is a pleasure to be here with you this afternoon.

As you mentioned, in addition to serving at the AFL–CIO, I am Deputy Chair of the Congressional Oversight Panel. I have the honor of serving with Congressman Hensarling of this committee in that capacity. My testimony today, however, reflects my views and those of the AFL–CIO.

The CHAIRMAN. And not Mr. Hensarling.

Mr. SILVERS. I believe he speaks for himself. Nor is it the view of the panel, its staff, or its Chair.

Let me begin by saying that there is an urgent need to help American families address the financial crisis. We can no longer continue the pretense that simply putting money in at the top of this financial system is going to achieve very much unless we stabilize the other end of the system, the household balance sheets.

For that reason, the AFL–CIO strongly supports H.R. 3068, the TARP for Main Street Act of 2009. And we want to congratulate you, Mr. Chairman, for your leadership in moving this bill forward at this time.

In March, the Obama Administration announced its intention to devote significant TARP resources to assisting families facing foreclosure. In our March report, the Congressional Oversight Panel was supportive of this effort but noted that it had limitations, particularly around situations where homeowners' mortgages were deeply underwater and where unemployed families were facing foreclosure.

It is now very clear today that what began as a foreclosure crisis driven by falling real estate values and exploitative mortgage products is now being very significantly compounded by accelerating rates of unemployment.

As was mentioned by the prior witness, the official national rate of unemployment is now 9.5 percent, with higher rates in many States. Estimates of real rates of effective underemployment are now well into the teens in many States. And even more troubling projections by the International Monetary Fund and the OECD for the U.S. economy are for rates going significantly higher than current levels and remaining over 10 percent through next year. Most recently, the OECD's June economic outlook shows that the United States has added 6 million unemployed people since December of 2000 and projects unemployment at the end of 2010 to be 10.1 percent.

Yesterday, the mortgage insurer PMI Group cited rising unemployment as the leading cause of a projected continued rise in home foreclosures. The result, according to PMI, is a likely continuing fall in housing prices in the majority of U.S. cities driven by unemployment-related foreclosures through the first quarter of 2011.

Rapidly rising unemployment and its consequences for the quality of bank assets, particularly home mortgages, substantially threaten what progress has been made in stabilizing our financial system. In these circumstances, the AFL–CIO believes there is an urgent need to pursue all paths necessary to halt both the rising tide of unemployment and consequent home foreclosures, including a second, more job-targeted stimulus, the restoration of the ability of homeowners in bankruptcy to get relief from mortgage debt, and a more vigorous effort to restructure bank balance sheets to avoid the zombification of our major financial institutions.

H.R. 3068, though, is an immediate step that could help this rapidly deteriorating situation, using resources already allocated to the TARP program. While the AFL–CIO believes the scale of funding for the bill could be larger, there are competing and serious concerns that Treasury should continue to have enough headroom in the TARP to act should an acute crisis develop in the near term.

Substantively, in addition to providing $2 billion in funding for emergency relief to the unemployed, H.R. 3068 would provide $1 billion in funding to assist State and local government in redeveloping abandoned and foreclosed homes, $1 billion for the Housing Trust Fund, and $2 billion in the multi-family sector. These provisions are targeted toward clear needs with broad economic impact, particularly the aid to unemployed and the moneys targeted toward rehabilitating foreclosed and abandoned properties.

H.R. 3068 will not end our economic crisis or halt the broader foreclosure epidemic, but it will help the unemployed stay in their homes and deliver help to those communities most affected by the foreclosure crisis. The AFL–CIO urges this committee to move the bill forward.

I thank you for the opportunity to appear this morning and look forward to working with the committee to address this crisis.

[The prepared statement of Mr. Silvers can be found on page 79 of the appendix.]

The CHAIRMAN. And our final witness is Mr. Chris Warren, who is chief of regional development for the city of Cleveland.

Mr. Warren?

STATEMENT OF CHRIS WARREN, CHIEF OF REGIONAL DEVELOPMENT, CITY OF CLEVELAND, OFFICE OF THE MAYOR

Mr. WARREN. Thank you, Mr. Chairman, and members of the committee.

It is not hyperbole to say that the subprime mortgage crisis has hit Cleveland with the force of a natural disaster. Call it "Hurricane Greed": 24,000 residential foreclosures since 2005, 70 percent attributable to subprime loans; an overwhelming concentration of those foreclosures in inner-city neighborhoods; over 10,000 vacant, distressed residential structures; $35 million spent by our City since 2006 to eliminate life-threatening nuisances. This is demolition, this is weed cutting, this is pulling out tires, this is dealing with abandoned properties.

Mr. Chairman, the predatory practices of unregulated mortgage brokers and originators was made possible by complex investment schemes hatched by giant companies. The most active participants in this subprime fiasco that has hit Cleveland are among the highest recipients of TARP. And I have provided a chart of that in my written testimony. Six institutions alone have accounted for 40 percent of the foreclosure-related sheriff sale filings in Cleveland since 2005. All, except Deutsche Bank, have received TARP investments. Their total TARP take—$96 billion.

Mr. Chairman, Cleveland's response to the unnatural disaster in our City is predicated on three principles.

Collaboration: To devise an act on a common strategy, we have brought together under one umbrella our city, our county, suburbs, court system, our housing authority, community organizations, counseling agencies, foundations, and a newly formed countywide land bank. A $74 million application for Neighborhood Stabilization II funds, in fact, will be submitted to HUD next week by a consortium comprised of these entities.

Principle two: gaining control of abandoned property. Earlier this year, our Ohio general assembly enacted legislation establishing the Cuyahoga County Land Bank. The land bank has the statutory powers and recurring revenues needed to acquire, responsibly maintain, and position for redevelopment thousands of mortgage- and tax-foreclosed properties.

Principle three: intensely targeted resources. Last year, we launched what we called the Opportunity Homes Program in six Cleveland neighborhoods. Over 3 years, through this program, we will acquire, rehabilitate, and sell 450 homes; demolish 300 condemned structures; convert 600 vacant lots into useful public assets; and provide foreclosure counseling to 450 at-risk homeowners. Funds made possible through a $25 million NSP I grant to Cleveland and hopefully a successful NSP II application will allow expansion of this approach to 14 more neighborhoods, including five in inner-ring suburbs.

Mr. Chairman, without question, passage of the TARP for Main Street Act will advance our efforts that I just described. On behalf of Mayor Jackson, I thank you for your leadership.

I have included in my written testimony recommendations for technical improvements to the Neighborhood Stabilization Act. But, in closing, I want to also bring to your attention two troubling recent phenomenons in our City.

First, financial institutions are unloading unsalvageable REO properties in bulk sales to out-of-town, faceless investors. This sounds familiar. The City is put in the position often of proceeding with demolitions of these properties with little chance of recovering our costs. TARP recipients need to be held to strict standards with respect to disposition of uninhabitable condemned properties.

And we are seeing walkaway foreclosures. This practice involves the decision by creditors to forgo sheriff sales because, we suspect, they determine the cost of abating—

The CHAIRMAN. Your time is up, Mr. Warren.

Mr. WARREN. —the nuisances in our communities are in excess of liquidation values. This needs to be dealt with by this legislation.

[The prepared statement of Mr. Warren can be found on page 83 of the appendix.]

The CHAIRMAN. Thank you.

I am going to try to—we have a hearing coming up. I am not going to ask questions.

I just want to be sure, Mr. Apeseche, nothing in this legislation tries to take property over the objection of the owner. There is nothing like that on the table. You were concerned about it. There is nothing there that would do it.

Mr. APESECHE. The current wording of the legislation, you are absolutely correct.

The CHAIRMAN. Well, okay. It is not going to get any—don't worry about it.

I will go to Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. And I will be as brief as you have been. I will just make a couple of points.

It has been my observation that all persons on this committee are persons of good will, but we do have different points of view. And, in my brief tenure on the committee, I have noticed that some of the things that we would like to do to be of assistance—the Affordable Housing Trust Fund, for example—in good times, this was a bad time to do it; and in bad times, it is not a good time to do it. It appears that there will never be a time that is a good time for an Affordable Housing Trust Fund.

And this is not to demean any of my colleagues. It is just that we have different points of view about the role of government, especially when people are at risk by way of unnatural disasters. I will borrow that term, if I may.

I would also want to observe that I am a bootstrap guy. I think folk ought to pull themselves up by their bootstraps. But I find it very hard for many people to do this when they don't have bootstraps. I think that what we are trying to do is afford people bootstraps so that they can help themselves.

The language is pretty explicit. We are talking about people who have lost their jobs due to no fault of their own, due to economic circumstances, and they are being foreclosed on. What do we do? Do we continue to allow the foreclosure rate to escalate? Do we continue to have people placed out of their homes on the streets? Or do we, as responsible agents and trustees of the government, take affirmative, positive action to assist people? That is my position.

I don't, in any way, find fault with my friends who have a different position. I just find that those of us who believe that this is the right thing to do have to have the courage to do the right thing. This is a moment of courage in this country, and those of us who are in leadership and in positions of responsibility, we have to have the courage to act now.

We may not have the chance to act in such a responsible way again in our lifetimes, and I think that we have to take advantage, not of a bad circumstance, but advantage of an opportunity to be our brothers' and our sisters' keepers and to afford people who really are trying the opportunity to succeed.

Finally, I would say that, Mr. Chairman, this is a great piece of legislation. I will be supporting the legislation. I think that it is timely, it is targeted, and it impacts the people who need it the most.

I yield back the balance of my time.

The CHAIRMAN. The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. And I will try to be brief, as well.

Mr. Engel, is it your understanding that the two different TARP tranches were intended to be a program to inject and/or lend capital or loan money to entities with the intention of getting that money back?

Mr. ENGEL. The TARP program was intended to put capital out into the financial markets. I am not sure there was an understanding that we would get every dollar back.

Mr. NEUGEBAUER. But, obviously, the scoring was such that you wouldn't get all the money back. Is that correct?

Mr. ENGEL. One of the programs, the Making Home Affordable Program, the way that is structured currently is a direct disbursement program. They haven't disbursed any money yet, but once they do, that is a direct disbursement out. So, there will be no money coming back for that particular program at all.

Mr. NEUGEBAUER. But if I could just get an answer. Was it, by and large, the intent of the original legislation to get most of that money back for the taxpayers?

Mr. ENGEL. I am not sure I can respond to that.

Mr. NEUGEBAUER. Well, obviously you haven't yet.

Mr. ENGEL. I would have to get back to you for the record on that.

Mr. NEUGEBAUER. So, on $700 billion, do you know what the interest at prevailing rates would be on that on an annual basis?

Mr. ENGEL. You mean the borrowing rate by Treasury?

Mr. NEUGEBAUER. Yes.

Mr. ENGEL. I am not sure what the current borrowing rate is. It is not real high.

Mr. NEUGEBAUER. For a 30-year right now, I think it is around 4 percent. Is that correct?

Mr. ENGEL. We haven't borrowed the whole $700 billion.

Mr. NEUGEBAUER. But, at some point in time, we will. That is $28 billion a year, if I am not mistaken. So it would be premature to call the dividends that we have received up to this point a profit, would you say?

Mr. ENGEL. We haven't looked at it from a profit-loss standpoint. The dividends are intended to go into the general fund and then to be used to basically bring down the debt.

Mr. NEUGEBAUER. To bring down the debt. And so, but if you haven't even paid the interest yet, it is a little difficult to bring down the debt, right?

Mr. ENGEL. Yes.

Mr. NEUGEBAUER. And so, what is the current estimate of the—if the full $700 billion is disbursed, what is the expected potential return to the taxpayers?

Mr. ENGEL. That hasn't been determined yet. The Office of Financial Stability, which is responsible for accounting for the activities, will be developing their models and things to be able to do that as part of their financial statements. But right now there is no estimate of what that would be.

Mr. NEUGEBAUER. And based on your understanding of the original legislation that was passed, is it allowable to use any of the dividends for the purposes under this bill?

Mr. ENGEL. Under the bill, the money for the dividends are to go into the general fund to be used to pay down the debt.

Mr. NEUGEBAUER. But if this legislation were not to pass, could you fund money for these purposes?

Mr. ENGEL. Without the legislation, no. That money is to be used to go into the general fund to pay down the debt.

Mr. NEUGEBAUER. So you don't have—are you familiar with the money that we put into the auto industry?

Mr. ENGEL. Somewhat, yes.

Mr. NEUGEBAUER. And how much of that money have the American taxpayers put in so far for that?

Mr. ENGEL. You mean, what has come back?

Mr. NEUGEBAUER. Well, none of it has come back. But, I mean, how much money have we put in?

Mr. ENGEL. It has been announced as an $80 billion program, but disbursed so far is about $54 billion.

Mr. NEUGEBAUER. And do we think we are going to get all that back?

Mr. ENGEL. It is hard to determine at this point how much of that would be recouped. For example, in the Chrysler situation, we have equity shares, and it would probably be dependent upon what we would get back in selling those equity shares. There is a possibility we would not recoup all that we have put in.

Mr. NEUGEBAUER. Both on the Chrysler and the GM?

Mr. ENGEL. The GM is just now going through the restructuring process. But if it had a similar type situation, it would be dependent upon what we are able to get by selling those shares of equity that we received.

Mr. NEUGEBAUER. But you would not characterize the $6.5 billion as a profit to the American taxpayers at this point?

Mr. ENGEL. Not at this point.

Mr. NEUGEBAUER. Thank you.

I yield back.

The CHAIRMAN. The gentleman from Missouri, Mr. Cleaver.

We are going to try and do two more, and then we do have to relinquish this for the 1:30 hearing on the Fed. So Mr. Cleaver and Mr. Hensarling, and we will have to cut it to that. I apologize.

Mr. CLEAVER. Very briefly, do any of you believe that H.R. 3068 represents a poor or improper use of TARP funds? And, if so, why?

That does it. I have no other questions, Mr. Chairman.

The CHAIRMAN. All right. The record should show that no one responded. The record is not very good at charades.

The gentleman from Texas, Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman.

And let me welcome my fellow member of the Congressional Oversight Panel and thank him for his service to his country on that panel.

I would like to also acknowledge the comments of my colleague from Texas, who—my respect for him is only equaled by my disagreement with him on a number of public policy matters, although I certainly respect his views.

I have heard a number of panelists today speak of the housing crisis, which we all acknowledge. I am somewhat disappointed, though. I don't believe, perhaps with one exception, did I hear any mention of the debt crisis.

I think, I trust, the panel is aware that recently Congress passed a budget that will triple the national debt in the next 10 years, create more national debt in the next 10 years than in the previous 220 years. The Federal deficit has increased tenfold in just the last 2 years. We are presently borrowing 46 cents on the dollar, principally from the Chinese. We are sending the bill to our children and grandchildren, who either: one, cannot vote; or, two, have yet to be born.

A number of economists believe that one of the great drags on our economic recovery today is this debt overhang. And so I am troubled by the underlying legislation that finally, finally, the taxpayer sees a little money coming back that potentially could be used for either taxpayer relief or to pay off the deficit, and, instead, it is going right out the door.

So my question is, number one, does anybody on the panel acknowledge the debt crisis? And, if so, do you see any link to the housing crisis to it?

I would be happy to hear any comments from anybody on the panel. Mr. Hudson?

Mr. HUDSON. Yes, that is one of the reasons why I advocated for HEMAP as a loan program. It has been a model that existed since 1983, funded by the Commonwealth legislature. The State has set aside $225 million; it has gotten repaid $246 million, in terms of repaying. They are actually appropriations. It is set up as a loan. It is meant to be repaid. The fund has lent $442 million under that fund, and not to be a grant, but actually a loan to be repaid.

Mr. HENSARLING. Now, Mr. Hudson, as I understand your testimony, apparently the Pennsylvania Homeowners' Emergency Mortgage Assistance Program, you loan to people who "have a reasonable likelihood that the homeowner will be able to resume making the mortgage payment without State help," is what you said in your testimony. Correct?

Mr. HUDSON. Resume their payment within 36 months in the current environment without continuing assistance, correct.

Mr. HENSARLING. Then do you believe that government should only provide assistance, then, to those who have a demonstrated ability to repay their mortgages without further government assistance? Is that the conclusion I should draw from your testimony?

Mr. HUDSON. Well, it is designed as temporary assistance, given that we now have a high unemployment rate at 9.5 percent in the Nation, and for our Commonwealth it is over 7 percent. Yes, it is temporary assistance, that they should show the prospect of getting back on their feet, get the jobs, and be paired with the other programs that are designed to create those jobs.

Mr. HENSARLING. As I look at a number of the programs of this Congress and the Administration, I don't see that they are working particularly well. For example, congressionally authorized programs for foreclosure mitigation and for housing: The Neighborhood Stabilization Program costs $5.8 billion, although no money has been spent on eligible activities. Stimulus homelessness prevention programs, $1.5 billion. National foreclosure mitigation counseling, HOPE for Homeowners, up to $300 billion authorized. Supposedly we were going to see 400,000 homeowners being helped. As of June 15th, 945 applications, one loan has closed. Administration programs, making homes affordable, $75 billion, $50 billion from TARP. FHA Secure, 4,000 loans financed.

What I see is either a bunch of programs that don't seem to work or a bunch of programs that still have money in the pipeline. Now, the latest data I see is that foreclosure rates are still increasing.

So why do we want to put money into a failed agenda? Why have you concluded that somehow these programs, if we simply give them more money, are going to work?

Anybody who cares to take that one?

The CHAIRMAN. We don't have much time.

Mr. HENSARLING. Well, there may not be an answer to that one, Mr. Chairman.

I will tell you what, Mr. Chairman. I see the red light has come on. I will yield back the balance of my time.

The CHAIRMAN. I thank the witnesses.

We have to give this over to a hearing that is very important on the Federal Reserve. We will be continuing this. And I will ask the GAO—I have some differences with the estimate of borrowing costs that my colleague Mr. Neugebauer gave, so we are going to be asking the GAO to give us the figures on the borrowing costs for the TARP.

Obviously, the whole $700 billion hasn't been borrowed because it hasn't been disbursed. It is not all on the 30-year bonds, etc. But rather than debate that, I would ask them for what the figures are. I believe they are far less than was indicated. Mr. Neugebauer thinks they are that, perhaps. We are going to ask that we get those figures.

The hearing is adjourned.

[Whereupon, at 1:36 p.m., the hearing was adjourned.]

A P P E N D I X

July 9, 2009

Statement by Rep. Michele Bachmann
House Financial Services Committee
Hearing on the TARP for Main Street Act

July 9, 2009

Thank you, Mr. Chairman.

When Congress passed the $700-billion bailout, the American people were outraged. They were furious that Wall Street was getting bailed for its mistakes, many of which were encouraged by government policies, and that they were the ones who were footing the bill. Worse yet, they were worried sick that they would never see a cent of their money again.

I can only imagine what my constituents would have said had they been told back then that Congress would later seek to recycle their money into new bailouts instead of repaying the original bailout loan. What could possibly take priority over repaying the taxpayers and reducing the debt for future generations that the bailout created? Congress can use every budget gimmick at its disposal and try to claim that we're only using TARP "profits," but the fact remains that more than $643 billion of the $700 billion TARP funds remain outstanding.

But wait, there's more. Congress is actually proposing to recycle the TARP money in order to subsidize billion-dollar housing slush funds – slush funds that would be accessible to ACORN. This organization that has been officially linked to voter registration fraud and similar crimes in more than a dozen states already has access to $8.5 billion in taxpayer funds, thanks to this Congress. This bill would add billions more to the funds that ACORN could access.

As I have said on multiple occasions before this committee and this House: Any group that has a track record of violating the public trust, as ACORN does, shouldn't be eligible for a cent of taxpayer money. We should expect more from the groups that want to use our constituents' hard-earned money. This bill once again takes money from the taxpayers and allows it to be dished out to organizations that have failed to meet even minimal standards.

Mr. Chairman, many institutions are still not even paying the government dividends, much less repaying their actual TARP money. According to GAO's June report, 17 troubled institutions have not paid their dividends. Even if this legislation wasn't just plain bad policy, how could we realistically be positioned to spend the funds?

Any TARP funds that do return to the taxpayers should really return to the taxpayers and pay down the debt burden that Congress created and laid on their shoulders. Two of our colleagues have introduced legislation to do just that -- Mr. McCarthy's H.R. 2119 and Mr. Hensarling's H.R. 2745 -- both of which I have cosponsored.

Mr. Chairman, I would urge you to hold a hearing to discuss these far more meaningful proposals so that we may fully hear all the options.

Thank you, Mr. Chairman, and I yield back the balance of my time.

NMHC National Multi Housing Council®
Apartments: Smart Communities, Smarter Living

NAA National Apartment Association

TESTIMONY OF

FRANK APESECHE

CHIEF EXECUTIVE OFFICER

BERKSHIRE PROPERTY ADVISORS

ON BEHALF OF THE

NATIONAL MULTI HOUSING COUNCIL

AND THE

NATIONAL APARTMENT ASSOCIATION

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

ON

H.R. 3068, TARP FOR MAIN STREET ACT OF 2009

JULY 9, 2009

1850 M Street, NW, Suite 540 ▪ Washington, DC 20036 ▪ 202.974.2300 ▪ FAX 202.775.0112 ▪ www.nmhc.org ▪ info@nmhc.org

Chairman Frank, Ranking Member Bachus, and distinguished Members of the Committee, I am Frank Apeseche, the Chief Executive Officer of Berkshire Property Advisors. Based in Boston, Berkshire Property Advisors is a fully integrated multifamily investment management firm. Multifamily housing is our core competency; we operate more than 26,000 apartments throughout the United States.

I am testifying on behalf of the National Multi Housing Council (NMHC) and the National Apartment Association (NAA).

NMHC and NAA represent the nation's leading firms participating in the multifamily rental housing industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. The National Multi Housing Council represents the principal officers of the apartment industry's largest and most prominent firms. The National Apartment Association is the largest national federation of state and local apartment associations. NAA is a federation of 165 state and local affiliates comprised of more than 36,000 multifamily housing companies representing more than 5.7 million apartment homes. Nearly one-third of Americans rent their housing, and more than 14 percent of all U.S. households live in a rental apartment.

As the Financial Services Committee begins debate on H.R. 3068, the TARP for Main Street Act of 2009, I would like to take this opportunity to provide the Committee with information on how this legislation will impact the multifamily sector.

NMHC/NAA fully recognize the stress on the multifamily housing sector resulting from our nation's economic situation. We fully support federal efforts to help preserve the nation's supply of affordable housing and to provide liquidity to the apartment sector, and we thank you for taking steps in the right direction. While the apartment sector has not suffered to the degree of the single-family sector, we are nonetheless collateral victims of the bursting of the housing bubble and the ensuing economic and financial meltdown.

Because of the nearly complete freeze in the capital markets, much of the new development activity in our sector has come to a standstill. There is virtually no funding for new apartment construction and resale of existing properties has plummeted despite the fact that the foreclosure crisis in single-family housing is increasing the demand for affordable rental housing. In addition, our industry faces $60 billion in loans that will mature in 2009-2010 and will need to be refinanced.

With this in mind, we would urge you to consider some revisions to the program in order to avoid creating a further chilling effect just when there are preliminary signs that the markets may be starting to recover. We are pleased to offer some recommendations for your consideration.

We offer these recommendations in order to keep the legislation focused where it is most needed, relevant to helping carefully selected multifamily properties meet the needs of residents. It must be narrowly targeted so that taxpayer dollars are not wasted and to avert a broad national law that could very well cause further distress in the capital markets that are vital to alleviating further distress in multifamily properties.

Section 5 of H.R. 3068 seeks to invest taxpayer dollars to stabilize multifamily properties that are in default or foreclosure or have recently been foreclosed. The goal is to protect current and future renters of at-risk multifamily properties. The legislation would provide funding to: create sustainable financing; maintain the level of federal, state and city subsidies; rehabilitate properties; and, where appropriate, facilitate the transfer of property, with the owner's agreement, to a new owner to ensure affordability. The legislation provides broad guidance to the HUD Secretary to develop a program.

The multifamily housing industry strongly believes that any program design should not have negative consequences on the debt and equity markets, which are critical to the development, creation, operation and preservation of multifamily housing. On behalf of the multifamily industry, we extend our cooperation during the development of any program specifications and provide the following recommendations that are critical to not only the success of your goals, but to the multifamily housing industry and the capital markets in general.

A. Defining Mortgage Loan Default

As proposed in H.R. 3068, the government would offer assistance to stabilize properties that are in default or foreclosure, or have recently been foreclosed. It is important to clearly and appropriately define specifically what constitutes a mortgage default that would trigger any government assistance because:

- Many properties are well maintained and managed and are current in their debt payments, but may be in technical or non-monetary default.
- Government action prior to a well-defined economic default would interfere with contractual obligations between the borrower and mortgage lender, resulting in hesitancies to correct situations and creating market uncertainty, thus further hindering capital investment by equity and debt providers, increasing capital costs and defeating the legislation's purpose.

*Therefore, **we strongly recommend:***

1. Only multifamily properties that are in economic default be considered eligible for government assistance.
2. Economic default for this purpose should be defined as mortgage payment delinquency of 90 consecutive days or more beyond any applicable notice and cure periods, as authorized in the loan documents.
3. Government intervention in any economic default situation be coordinated with the lender and should be limited to actions to stabilize the property by providing needed investment capital for necessary repairs, or to fund operating, maintenance and repair reserves and should, in all circumstances, be undertaken in consultation with the lender and property owner.
4. The property owner and lender be afforded 90 days to cure (or to put in place a plan to cure) any identified defaults prior to government intervention.

Given the current market and economic climate, there are rental properties that are not meeting certain financial or other covenants of their mortgages, but are current in their loan payments and are well maintained and managed. These loans could be considered to be in "technical default" or "non-monetary" default. It is important that these loans not be eligible for assistance, as the default conditions are circumstantial and specific to contractual loan documents and do not affect residents or their rights under their lease agreements. For example, market conditions beyond the property owner's control may have created a temporary change in mortgage debt service coverage requirements and the loan may now exceed the loan-to-value parameters contained in the mortgage documents. As stated previously, the loan in this instance would not be considered in "economic default," nor would it result in negative property conditions or adverse effects on the residents. Therefore, the property is not in need of government assistance.

B. Defining Eligible At-Risk Properties

It is also important to define program-eligible, "at-risk," properties, as the term "at-risk" can be broadly interpreted. *We offer the following **recommendations and rationale:***

1. State and local government laws, codes and regulations that specify property operations and conditions should be respected and not undermined or preempted when considering eligibility. This is important to protect current and future development.
2. Government assistance must be linked to material deferred maintenance and physical distress evidenced by material structural and systems integrity problems and material health and safety issues.
3. Funds for repairs and replacements must be exhausted.
4. The property owner and lender should have exceeded a minimum period of 90 days to cure or to put in place a plan to cure material problems with property operations and conditions. Existing owners must be held accountable, and they, along with their lender, should be afforded the opportunity to make needed improvements to the property in response to health and safety issues.

C. Owner and Lender Consent Required for the Transfer of Ownership

The multifamily housing industry does not under any circumstances support the transfer or taking of a property ***without the consent of both the property owner and lender.*** Severe consequences would result in the market should this type of action take place or be threatened by any program. Even in the event of default and documented mismanagement and disinvestment by the owner, any government action in support of an ownership transfer prior to foreclosure or upon recent foreclosure should only be sought in extreme cases and the government should have no authority to proceed without consultation with and the consent of the lender. This is important because:

- Privately contracted mortgage assignment, assumption and ownership transfer provisions are significantly negotiated, arm's-length provisions of mortgage transactions and have an economic value. If such provisions are countermanded through government intervention without clearly defined criteria and an exigent and overriding public purpose, this action could have profound, unpredictable long-term negative effects on the multifamily debt capital and investment markets.
- The risk associated with uncertainty regarding property ownership transfer to the government would be reflected in substantial increases in borrowing costs, and therefore, rental housing costs to residents, thereby defeating the bill's purpose.
- The access to and amount of equity and debt capital available to affordable and rent stabilized multifamily rental housing would decrease and their costs would increase disproportionately to that of conventional multifamily rental housing.
- Contrary to the stated goals of the proposed legislation, such action would likely result in higher construction and mortgage rates and fees, tougher lending standards and reduced private investment, particularly in the affordable housing sector.

D. Responding to Mortgage Refinance Needs

Declining real estate values and economic conditions are also impacting the ability of apartment owners to secure new mortgage financing for their properties. An estimated $60 billion in multifamily mortgages will require refinancing over the next two years. This includes mortgages held by banks and thrifts, credit companies, life insurance companies, Fannie Mae, Freddie Mac, through commercial mortgage securities, and housing agencies.

Any program to stabilize at-risk properties must address the looming loan maturity defaults in the multifamily real estate sector. To stabilize rental housing and to prevent further foreclosures, we support government assistance in this area. We do not advocate a federal handout or a bailout, nor do we condone excessive greed or poor underwriting. Just as the legislation proposes to invest in capital repairs and to stabilize foreclosed properties through new financing, we urge this committee to use the proposed resources to add liquidity to the refinance market for the following reasons:

- Preserving existing properties that are well managed and maintained is critical to ensure stability in the rental housing market for families that are in greatest need of safe, decent and affordable housing.
- Many multifamily owners do not have the additional equity available to cover the needed capital to support the current underwriting and loan terms. As a result, many properties will not be refinanced and there is a greater likelihood of increased foreclosure and bankruptcy.
- The additional capital contributions sought by lenders upon refinance are associated with short-term market concerns surrounding the uncertainty of the capital and real estate investment markets.
- Much of the refinancing need is not associated with high-leverage loans, but with traditional financing.
- Many affordable housing properties have been greatly impacted by limited income due to rent caps and increasing expenses such as insurance, taxes and utilities that are outside of the owner's control. These factors, combined with reduced investor capital, compound the difficulty in securing adequate mortgage refinancing.

NMHC and NAA support efforts by lenders to extend the terms of existing mortgage loans until markets stabilize, but most lenders are unwilling to provide long-term extensions due to added risk and the corresponding capital requirements. Therefore, ***we support the use of government funds to:***

1. Provide insurance to lenders who extend current loans for periods of 12-36 months.
2. Provide gap financing on newly refinanced loans through subordinated debt, cash-flow mortgages or, when appropriate, even grants.

As stated previously, the multifamily housing industry does not support a federal handout or bailout, as we have great confidence in the private markets. Our recommendations below, therefore, are based on the premise that we do not promote rewarding or endorsing the reckless lending or borrowing by some parties of the recent past. NMHC/NAA promote assistance for owners who sought mortgage debt with reasonable and prudent terms and who are seeking to refinance employing a prudent borrowing approach.

Assistance to Federal Government Financed, Sponsored or Assisted Multifamily Properties

Regardless of property financial or physical condition, government assistance should be made available to:

1. Government-financed properties, including those financed by FHA.

2. Properties developed with proceeds from the low income housing tax credit program (LIHTC).
   or
3. Properties that have a project-based federal or other direct federal subsidy.

Assistance to Properties Financed Without Government Assistance
Government assistance should be targeted to borrowers and lenders that participated in reasonable underwriting and financing terms. *Financing properties financed or developed without federal government assistance* ***should only apply to properties that meet the following criteria*****:**

1. Have loans documented to have an originating loan-to-value ratio equal to or below 80 percent or a debt-service coverage ratio equal to or above 1.20:1.
   and
2. Are in good condition and do not have material deferred maintenance that exceeds $2,000 per-unit per-year.

E. Leverage Private Sector Investment

Under H.R. 3068 as proposed, the government would use funds to facilitate the transfer of properties when appropriate and with the agreement of the owners to responsible new owners and ensuring the affordability of such properties.

While the debt markets are not liquid, there is a great deal of public and private equity seeking appropriate opportunities to invest in multifamily real estate, including properties that serve working families. Many of the investment transactions will take place as part of foreclosure sales, while others will be arm's-length transactions by willing buyers and sellers.

We ***encourage any program to:***

1. Not compete with private sector equity investors, but to attract investment capital to areas currently not served by private investors, such as to support and renew our cities and neighborhoods.
2. Focus government funds in the markets and sub-markets where rental housing is experiencing distress in order to attract the capital markets to invest in rental housing.
3. Preserve properties developed with proceeds from low income housing tax credits or other public subsidy that have increased vacancy, limited cash flow and have exhausted operating and repair or replacement reserves and have material deferred maintenance issues and are in poor property condition.

We appreciate your consideration of these recommendations and look forward to working with you and the U.S. Department of Housing and Urban Development to finalize a working program to help support the continued efforts of our industry to provide the nation with safe and affordable housing.

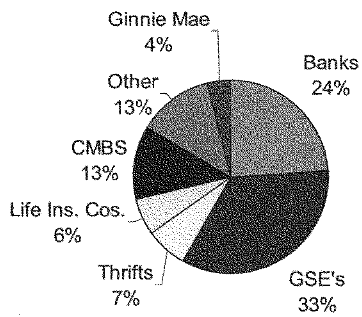
Multifamily Foreclosure Needs Further Review

There has been widespread media coverage of a March 3, 2009 report by Deutsche Bank declaring that multifamily CMBS are experiencing the worst deterioration of all the CMBS thus far, and that the deterioration is worsening.

While the multifamily CMBS market is indeed suffering, it is important to keep this in perspective. Many observers have misunderstood the Deutsche Bank report to mean that ALL multifamily mortgages are experiencing high default rates.

This is untrue. CMBS represents just 12.5 percent of $904 billion of multifamily loans outstanding. The vast majority of multifamily mortgages are held by commercial banks (23.5%) and the Government Sponsored Enterprises Fannie Mae and Freddie Mac (34.1%). A small portion is also held by thrifts (7.3%), life insurance companies (5.7%), and FHA/Ginnie Mae (4.2%).

Multifamily Mortgage Debt Outstanding 2009q1



When loans held by those entities are examined, it is clear that multifamily default rates remain, in fact, quite low and much lower than in the single-family sector.

In sharp contrast to the CMBS market, less than one-third of one percent of the Fannie Mae portfolio is seriously delinquent as of the first quarter of 2009. For Freddie Mac, the number is even smaller: 0.09%.

As of March 31, Fannie Mae had only 15 REO multifamily properties in its portfolio, a negligible number compared to the 65,538 single-family houses it held as a result of foreclosure.

Freddie Mac, meanwhile, had only $2 million in credit losses in the first quarter of 2009. By comparison, single-family credit losses were more than 650 times greater: $1.3 billion.

Even within the more volatile CMBS market, multifamily continues to strongly outperform the single-family sector. Only 1.8% of multifamily CMBS loans were delinquent or in foreclosure by the end of March 2009; the single-family rate was 7.2 percent.

To reiterate, the apartment industry is not seeking a federal handout or bailout. We do, however, share your concerns and we support efforts to stabilize rental housing to ensure decent and safe rental housing to all residents. We favor prudent and effective action to provide funds in response to property deterioration and looming loan maturities in this capital-constrained debt market and to stimulate private sector capital investment.

National Policy Change to Meet Our Housing Needs

For decades, the federal government has pursued a "homeownership at any cost" housing policy, ignoring the growing disconnect between the country's housing needs and its housing policy. In the process, many people were enticed into houses they could not afford, which in turn helped fuel a housing bubble that ultimately burst and caused a global economic crisis.

The nation is now paying the price for that misguided policy and learning firsthand that there is such a thing as too much homeownership; that aggressively pushing homeownership was not only disastrous for the hardworking families lured into unsustainable homeownership, but also for our local communities and our national economy.

If there is a silver lining in this situation, it is the opportunity we now have to learn from our mistakes and rethink our housing policy. Housing our diverse nation means having a vibrant rental market along with a functioning ownership market. It's time we adopt a balanced housing policy that doesn't measure success solely by how much homeownership there is.

For many of America's most pressing challenges, from suburban sprawl to affordable housing, apartments are a much better solution. Apartments help create stronger and healthier communities by offering enough housing for the workers that businesses need, by reducing the cost of providing public services like water, sewer and roads and by creating vibrant live/work/play neighborhoods.

They will help us house our booming population without giving up all our green space and adding to pollution and traffic congestion. And they will help us reduce our greenhouse gas emissions by creating more compact communities that enable us to spend less time in our cars.

Elements of a Balanced Housing Policy

NMHC and NAA have joined together to advocate for a more balanced housing policy, one that respects the rights of individuals to choose housing that best meets their financial and lifestyle needs. We urge policymakers at all levels of government to work with the apartment industry to craft a smarter housing policy that:

- Assures that everyone has access to decent and affordable housing, regardless of his or her housing choice;
- Respects the rights of individuals to choose the housing that best meets their financial and lifestyle needs without disadvantaging, financially or otherwise, those who choose apartment living;
- Promotes healthy and livable communities by encouraging responsible land use and promoting the production of all types of housing;
- Recognizes that all decent housing, including apartments, and all citizens, including renters, make positive economic, political and social contributions to their communities; and
- Balances the expected benefits of regulations with their costs to minimize the impact on housing affordability.

We are heartened by recent statements by HUD Secretary Donovan that it is time to make rental housing a higher priority, and we look forward to working with the Committee as you work legislatively to restore balance to our housing policy.

Appendix: Summary of NMHC/NAA Recommendations

A. Defining Mortgage Loan Default

1. Only multifamily properties that are in economic default be considered eligible for government assistance.
2. Economic default for this purpose should be defined as mortgage payment delinquency of 90 consecutive days or more beyond any applicable notice and cure periods, as authorized in the loan documents.
3. The property owner and lender be afforded 90 days to cure (or to put in place a plan to cure) any identified defaults prior to government intervention.
4. Government intervention in any economic default situation be coordinated with the lender and should be limited to actions to stabilize the property by providing needed investment capital for necessary repairs, or to fund operating, maintenance and repair reserves and should, in all circumstances, be undertaken in consultation with the lender and property owner.

B. Defining Eligible At-Risk Properties
We offer the following ***recommendations and rationale:***

1. State and local government laws, codes and regulations that specify property operations and conditions should be respected and not undermined or preempted when considering eligibility. This is important to protect current and future development.
2. Government assistance must be linked to <u>material</u> deferred maintenance and physical distress evidenced by material structural and systems integrity problems and material health and safety issues.
3. Funds for repairs and replacements must be exhausted.
4. The property owner and lender should have exceeded a minimum period of 90 days to cure or to put in place a plan to cure material problems with property operations and conditions. Existing owners must be held accountable and they, along with their lender, should be afforded the opportunity to make needed improvements to the property in response to health and safety issues.

C. Owner and Lender Consent Required for the Transfer of Ownership

The multifamily housing industry does not under any circumstances support the transfer or taking of a property ***without the consent of both the property owner and lender.*** Severe consequences would result in the market should this type of action take place or be threatened by any program. Even in the event of default and documented mismanagement and disinvestment by the owner, any government action in support of an ownership transfer prior to foreclosure or upon recent foreclosure should only be sought in extreme cases and the government should have no authority to proceed without consultation with, and the consent of, the lender.

Appendix: Summary of NMHC/NAA Recommendations (Continued)

D. Responding to Mortgage Refinance Needs

We support the use of government funds to:

1. Provide insurance to lenders who extend current loans for periods of 12-36 months.
2. Provide gap financing on newly refinanced loans through subordinated debt, cash-flow mortgages or, when appropriate, even grants.

Assistance to Federal Government Financed, Sponsored or Assisted Multifamily Properties

Regardless of past and current property financial or physical condition, government assistance must be made available to:

1. Government financed properties, including those financed by FHA.
2. Properties developed with proceeds from the low income housing tax credit program.
   or
3. Properties that have a project-based federal or other direct federal subsidy.

Assistance to Properties Financed Without Government Assistance

Financing properties financed or developed without federal government assistance should only apply to properties that meet the following criteria:

1. Have loans documented to have an originating loan-to-value ratio equal to or below 80 percent or a debt-service coverage ratio equal to or above 1.20:1.
   and
2. Are in good condition and do not have material deferred maintenance that exceeds $2,000·per-unit per-year.

E. Leverage Private Sector Investment

We encourage any program to:

1. Not compete with private sector equity investors, but to attract investment capital to areas currently not served by private investors, such as to support and renew our cities and neighborhoods.
2. Focus government funds in the markets and sub-markets where rental housing is experiencing depressed values in order to attract the capital markets to invest in rental housing.
3. Preserve properties developed with proceeds from low income housing tax credits or other public subsidy that have increased vacancy, limited cash flow and have exhausted operating and repair or replacement reserves and have material deferred maintenance issues and are in poor property condition.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

TESTIMONY OF WILLIAM APGAR

SENIOR ADVISOR TO HUD SECRETARY SHAUN DONOVAN

HOUSE FINANCIAL SERVICES COMMITTEE HEARING ON

"TARP FOR MAIN STREET ACT OF 2009"

JULY 9, 2009

Chairman Frank, Ranking Member Bachus, and members of the Committee, thank you for the opportunity to testify on H.R. 3068, the "TARP for Main Street Act of 2009" and other efforts to provide relief to homeowners and neighborhoods suffering from the effects of the foreclosure crisis. My name is William Apgar and I serve as Senior Advisor for Mortgage Finance to HUD Secretary Shaun Donovan. In this capacity, I have worked closely on the development and implementation of the Obama Administration's Homeowner Affordability and Stability Plan (HASP) which was announced on February 18, 2009, as well as other efforts intended to stabilize the U.S. housing market.

We are all aware that the U.S. is facing an unprecedented foreclosure crisis – with millions of Americans projected to lose their homes within the next few years. Working together, Congress and the Administration have undertaken a number of initiatives designed to prevent foreclosures and mitigate the impact of foreclosed and abandoned properties on local neighborhoods and the broader economy. These comprehensive and targeted programs are experiencing success. However, the magnitude and evolving nature of the foreclosure crisis has necessitated the development and use of innovative tools. Congress has provided additional legislative authority on a number of occasions, most notably to improve the initial Hope for Homeowners Program, provide FHA with additional tools to mitigate foreclosures, and increase flexibility under the Neighborhood Stabilization Program.

HUD is pleased that the Financial Services Committee is once again examining a range of options for responding to the housing crisis. We believe that the goals of H.R. 3068 are commendable, as it attempts to help borrowers and communities in need of additional assistance. HUD stands ready to work with you and others in Congress to build on these objectives as we seek to refine the Administration's overall response to the current foreclosure crisis.

The Neighborhood Stabilization Program

We applaud Chairman Frank and other sponsors for recognizing the magnitude of the foreclosure problem and the need to continue to mitigate foreclosures. HUD stands ready to work with your Committee to explore efforts to increase the capacity of state, local governments, and nonprofits to purchase and rehabilitate foreclosed properties and use the $6 billion that has been appropriated for the Neighborhood Stabilization Program (NSP).

The current economic crisis has not only threatened the American dream of homeownership for millions of individuals but also the stability of neighborhoods across the nation. Communities in every corner of the U.S. are suffering from the impact of high rates of foreclosure and abandoned property. Many homeowners are facing foreclosure because they can no longer afford the payments on their homes either because their monthly payments have increased dramatically or they have lost employment. Other homeowners are merely choosing to walk away from homes when the value of the home decreases substantially below the outstanding mortgage balance.

Regardless of the reason, when homes are abandoned, properties and communities begin to deteriorate. Not only do abandoned and neglected properties create eyesores in neighborhoods, but these properties often increase public safety concerns because many become venues for a wide range of criminal activity and increase the risk of fire, particularly hazardous in high-density urban areas where fires can spread quickly to nearby buildings. In addition, vacant properties jeopardize public health by creating opportunities for infestation by vermin and mosquitoes and become dumping grounds for garbage which can spread disease. Moreover, the presence of abandoned properties in neighborhoods significantly affects the value of remaining properties and imposes a massive fiscal burden on local tax payers.

In the past week, HUD Secretary Shaun Donovan witnessed first hand the devastation that concentrated foreclosure can wreak on formerly stable middle-class communities when he toured hard hit areas in Nevada, California and Alabama. Secretary Donovan has challenged HUD to do all that we can to work with Congress and the Administration to insure that the nearly $6 billion appropriated to date for the NSP plays its intended role in helping to stabilize housing markets and combat blight. In many communities, the NSP is starting to generate real results, but HUD will continue to monitor program activities, identify strategies that produce real results, and work to make program modifications that will help ensure that this funding is deployed quickly, wisely, and well.

The Administration is currently exploring additional options for reducing the number of vacant homes in neighborhoods and mitigating the negative spillover effects. One approach that has been suggested would encourage the purchase of Real Estate Owned (REO) properties to provide additional rental stock in hardest hit areas. Alternatively, REO property could be used to restore a path to homeownership via "rent-to-own" formulation where borrowers who can't afford a modified payment on their current homes could be pre-qualified to "rent-to-own" smaller homes.

Emergency Mortgage Relief

HUD would like to commend the Committee for placing the spotlight on the negative impact that rising unemployment is having on the ongoing foreclosure crisis. The current very high level of unemployment is making the already difficult task of helping families struggling to meet their mortgage payments even harder.

Initial efforts by the government to prevent foreclosures were not primarily designed to target an environment where one in five workers would be unemployed in some of the hardest hit communities. For example, the center piece of the Obama Administration's Making Home Affordable Program is helping at-risk borrowers avoid foreclosure by reducing mortgage related payments to 31% of monthly income. Unfortunately, individuals who have lost their jobs or experienced a significant drop in income generally do not have income sufficient to qualify for the program. Neighborhood Housing Services of Chicago estimates that roughly 45% of the more than 900 borrowers who sought help at two recent counseling events would not qualify even if their interest rate were dropped to 2% and their loan terms were extended to 40 years under the Home Affordable Modification Program (HAMP).

As the economy has weakened, unemployment has become an increasing cause of mortgage default and foreclosure. Approximately 27% of borrowers who called the mortgage industry's national "HOPE Hotline" in the second quarter of 2009 cited unemployment as the primary or secondary reason for their mortgage problems, up from 9.7% in the second quarter of 2008. When coupled with falling house prices, an environment of rising unemployment makes it impossible for homeowners to utilize traditional ways of mitigating a disruption of income – refinancing or selling the house.

Once again we commend the Committee for similarly seeking to provide assistance to homeowners behind on their mortgage payments because they have lost their jobs and have a reasonable prospect that they will be able to resume full mortgage payments. HUD looks forward to working with the Committee to better understand the approach on these issues taken in H.R. 3068, and to forge a series of programmatic options that can help unemployed workers get the mortgage assistance that they need.

Troubled Multifamily Properties

Over the last year, while the spotlight has been on the single family home mortgage foreclosure crisis, bank analysts, affordable housing advocates, and local governments around the country have become increasingly concerned about an impending multi-family property foreclosure crisis. As in the single family market, investors and individuals, enabled by loosening underwriting standards, purchased multi-family properties at sales prices that were not supportable given the existing income from the property. As the real estate market has cooled off, these owners are finding that they are underwater with an outstanding mortgages greater than the properties' values and/or unable to pay both maintenance and debt service. Analyst reports indicate that these loans are increasingly falling behind on their debt service payments. More troubling however, is that once these loans reach maturity, borrowers will be unable to repay their mortgages and will be unable to qualify for refinancing. Even properties which are less stressed – that is they still have positive equity and net operating income -- may be unable to refinance upon loan maturity at current underwriting ratios without an additional equity infusion.

Many of these loans are held on individual banks' balance sheets or are bundled into Commercial Mortgage-Backed Securities (CMBS). It is difficult to estimate the total dollar amount at risk in just the multi-family market - there is no single data source on loans in bank's individual portfolios, and data for CMBS can also include other commercial buildings, such as offices, hotels, etc. However, a recent Deutsche Bank report estimated that $67 billion of short-term fixed-rate CMBS loans that were originated from 2005 to 2007 will mature at some point from 2010 and 2013 and will be unable to refinance. And the Deutsche Bank report goes on to add that there is a "distinct risk that bank commercial mortgages will under-perform CMBS loans." The Commercial/Multifamily Quarterly Data Book from the Mortgage Bankers Association shows that the first quarter 2009 delinquency rates among multifamily mortgages in CMBS and held by banks and thrifts have jumped to the highest levels experienced since 1996, when the MBA began tracking these data: 1.85% for CMBS and 2.28% for banks and thrifts. One year ago the multifamily delinquency rates were 0.48% for CMBS and 1.01% for banks and thrifts.

That report also argues that "there are hundreds of billions of dollars, perhaps more than a trillion dollars, of commercial mortgages scheduled to mature in the next decade that are unlikely to qualify for refinancing without substantial equity infusions from borrowers." This statement corroborates what local governments across the country have been seeing and if this trend continues, we could be facing a multi-family foreclosure crisis just as the single-family crisis is easing. This could have significant, negative impacts on the economy as well as the families living in these multi-family properties, who will likely experience worsening housing conditions and who, it is worth noting, are entirely blameless in this situation.

Recognizing this impending crisis, HUD has already taken action. For example, Secretary Donovan has led the Administration's review of potential means to expand access to bond financing to assist State and Local Housing Finance Agencies in continuing to pursue their important financing role to expand both affordable homeownership and rental housing opportunities. HUD has also created an internal task force to develop a better understanding of this emerging crisis, has reached out to Treasury and the Federal Housing Finance Agency (FHFA) to explore new approaches to confront this situation, and is now completing a top to bottom review of HUD's own multi-family initiatives to identify new programmatic alternatives. Building on these efforts, HUD looks forward to working with the Committee to explore various options for stabilizing the multifamily housing sector.

Capitalization of the Housing Trust Fund

The foreclosure crisis is adding to the already overwhelming need for affordable rental housing in this nation. Many individuals that lose their homes to foreclosure lack affordable housing alternatives and often become at-risk for homelessness. An estimated 12 million renters and homeowner households now pay more than 50 percent of their annual incomes for housing, well in excess of generally accepted housing affordability standards. Families with such high rent burdens not only tend to reside in marginal dwelling units, but also may have difficulty affording necessities such as food, clothing, transportation and medical care.

The expansion of the supply of affordable housing for low-income families is at the very core of HUD's mission. In addition to providing public housing and Section 8 vouchers to low-income individuals, the HOME Investment Partnerships, and FHA multi-family finance programs bring federal resources directly to the state and local levels for use in the development of affordable housing units, or to assist income-eligible households in purchasing, rehabilitating, or renting safe and decent housing.

HUD's efforts to increase the supply of affordable housing received a big boost last year with the authorization of the Housing Trust Fund in the Housing and Economic Recovery Act of 2008 (HERA). The Housing Trust Fund represents the bi-partisan enactment of perhaps the most significant new federal housing production program since the creation of the HOME Investments Partnership Program in 1990. The purpose of the Trust Fund is primarily to increase and preserve the supply of rental housing for low and very low income households, including homeless families and to increase homeownership for extremely low-and very low-income families. Funding will be provided to States, including State Housing Finance Agencies for the production, rehabilitation or preservation of affordable rental housing, with up to 10 percent of funds available for low-income homeownership.

Originally authorized with a dedicated funding stream from assessments on Fannie Mae and Freddie Mac, the financial difficulties of these entities have eliminated this revenue source at least in the short term. In response, the Administration included $1 billion for the initial capitalization of the Housing Trust Fund in the fiscal year 2010 HUD budget proposal now being considered by the Senate and House Appropriations Committees.
Given the uncertainty over the level of funding and the severity of the affordable housing crisis, HUD welcomes further discussion with Congress to identify the best method to secure the funding needed to make the Housing Trust Fund a reality.

Conclusion

Once again, I would like to thank you for the opportunity to participate in today's hearing and commend the Committee for proposing enhanced efforts to address the growing foreclosure crisis in the U.S. I want to reiterate HUD's willingness to work with the Committee to achieve the objectives highlighted in H.R. 3068 as we seek to improve the Administration's overall response to the housing crisis, and address the continued need to expand access to decent and affordable housing for all Americans.

Testimony of Mark A. Calabria, Ph.D.
Director, Financial Regulation Studies, Cato Institute
Before the
House Committee on Financial Services
On H.R. 3068, TARP for Main Street Act of 2009
July 9, 2009

Chairman Frank, Ranking Member Bachus, and distinguished members of the Committee, I thank you for the invitation to appear at today's important hearing. I am Mark Calabria, Director of Financial Regulation Studies at the Cato Institute, a nonprofit, non-partisan public policy research institute located here in Washington. Before I begin my testimony, I would like to make clear that my comments are solely my own and do not represent any official policy positions of the Cato Institute. In addition, outside of my interest as a citizen and a taxpayer, I have no direct financial interest in HR 3068, nor do I represent any entities that do.

The first point of my testimony is that despite the repayment of TARP funds from a number of banks, and the receipt so far of over $6.2 billion in dividends from TARP institutions, the TARP overall has not been profitable. CBO's most recent estimate, released on June 17th, is that the overall subsidy cost of the TARP will be $356 billion. To be very clear, this is $356 billion of loss to the taxpayer that will not be recovered. I know of no creditable forecaster or auditor that is projecting profits for the TARP program.

In addition to the $356 billion in losses from the TARP, we are also likely to see between $200 billion and $300 billion in absolute losses from the bailout of Fannie Mae and Freddie Mac. We may also see losses in the tens of billions from the Federal Reserve mortgage backed securities purchase program.

So we are likely to see ultimate taxpayer losses from the various bailouts approach $700 billion. While any dividends received will make only a small dent in those losses; diverting those dividends for purposes other than off-setting TARP losses will only leave the taxpayer with a larger hole to fill.

If however, Congress chooses to use TARP dividends, or any other funds, to support the housing market, I believe Congress should focus on stimulating the demand side of the housing market, rather than the supply side. The fundamental problem facing our nation's housing markets is an oversupply, a "glut", of housing, rather than any lack of housing.

The nation's oversupply of housing is usefully and carefully documented in the Census Bureau's Housing Vacancy Survey. The Census reports a national rental vacancy rate for the first quarter of 2009 at 10.1 percent. This is only slightly below the historic record rental vacancy rate of 10.4 percent, and is almost 40 percent higher than the average vacancy rate for the last 50 years of 7.2 percent.

The record rental vacancy rates are not simply an issue of specific geographic areas, but are found almost throughout the country. In fact, the highest rental vacancy rates, and also the areas seeing the largest increases in rental vacancies are in our nation's central cities. In fact, all the increase in vacancy rates over the last year can be attributed to the increase in central city vacancies. Rental vacancies in suburban and rural areas, while still near historic highs, have moderated over the last year and remain below that of central cities. The primary importance of this fact relates to the tendency of our federal housing production programs to concentrate new housing production and rehabilitation in the central cities.

Even in parts of the country with traditionally tight rental markets, such as California, which while remaining tighter than the nation overall, have seen increases in rental vacancy rates over the last year. Since the bursting of the housing bubble in 2006, we've seen rental vacancy rates increase in California by over 10 percent. Few states, however, have witnessed the increase seen in Florida, where rental vacancy rates have jumped by over 60 percent since the bursting of the housing bubble. Of course, some states, particularly those where the housing bubble had little impact on prices, such as Ohio and Michigan, have not seen major increases in rental vacancies, but still have rates considerably higher than the national average. Interestingly, the states with the lowest vacancy rates are Vermont and Wyoming, and are concentrated in rural areas, those very areas where our federal production programs have been least effective.

Our federal production programs also tend to build almost exclusively multifamily properties, as would likely be the case with a production-focused trust fund. However, over two-thirds of vacant rental units are currently in multifamily properties. This fact is not simply the result of older units based in older urban areas. The rental vacancy rate for units constructed in the 2000s is almost twice that of units completed in the 1990s. Despite an almost 1 million increase in rental households associated with the meltdown of our mortgage markets, the number of vacant for rent units has actually increased by almost 100,000 over the last year. Since the bursting of the housing bubble, the overall number of vacant rental units has increased by over 400,000. There are currently over 4.1 million vacant units for rent in this country. In addition to this excess supply of housing, there are almost 7 million vacant units being held off the market. In all likelihood, many of these units will enter the rental market as owners look for ways to derive income from vacant homes. The glut in our housing markets is not only one of single-family units intended for homeownership, but also one of recently constructed multifamily rental units.

Recognizing that was a considerable amount of data, my basic point is that additional housing subsidies should be focused on stimulating demand. The most obvious method of doing so would be with additional rental vouchers. Additional production runs the very real risk of adding to supply, and hence putting downward pressure on home, particularly condo, prices, which could have the perverse effect of increasing mortgage defaults. Additional production could also increase multifamily mortgage defaults.

In addition to directing any additional housing subsidies only at tenant-based assistance, I also encourage Congress to examine the feasibility of re-directing current unit based subsidies, which are not already committed to a specific housing unit, toward increased vouchers. Such a move would help increase the demand for rental housing while also providing much needed assistance to the recently unemployed.

A final concern with HR 3068 is both the precedent it sets for re-directing TARP funds and its potential to erode the checks-and-balances that come with the appropriations process. Once the line has been crossed to redirect TARP dividends to non-TARP uses, I fear it will only be a matter of time before TARP repayments are also redirected. While HR 3068 represents just over $6 billion, it could easily become the first-step in a process that results in $100s of billions being diverted. Such would only leave the taxpayer with an even greater burden. I strongly urge any additional housing subsidies, trust fund or otherwise, to be subjected to either the appropriations process or to pay-go.

The repayment of TARP funds has raised a variety of legal questions, perhaps the most important of which is the Treasury Secretary's ability to re-allocate those funds. Pronouncements from Treasury have been mixed and at times in contradiction. I would suggest Congress examine whether the Treasury Secretary has the ability to re-allocate TARP funds once they have been repaid. In order to reduce the potential for additional losses under TARP, Congress should consider explicitly restricting the ability of the Treasury to re-spend TARP funds that have been repaid.

While the various bailouts have been truly expensive and shocking, I unfortunately do not believe all the bailouts are behind us. In particularly, there is a high likelihood that tens of billions of taxpayer funds will be needed to re-build the Federal Housing Administration's single family mortgage insurance program. In order to minimize the ultimate cost of that bailout, I urge the Committee to begin examining the structure of FHA and institute much needed reforms to protect the taxpayer from unnecessary loss.

Chairman Frank, Ranking Member Bachus, members of the Committee, I again thank you for this opportunity and appreciate your attention. I welcome your questions.

Mark A. Calabria, Ph.D. is Director of Financial Regulation Studies at the Cato Institute. Before joining Cato in 2009, he spent six years as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing and Urban Affairs. In that position, he handled issues related to housing, mortgage finance, economics, banking and insurance for Ranking Member Richard Shelby (R-AL). Prior to his service on Capitol Hill, Calabria served as Deputy Assistant Secretary for Regulatory Affairs at the U.S. Department of Housing and Urban Development, and also held a variety of positions at Harvard University's Joint Center for Housing Studies, the National Association of Home Builders and the National Association of Realtors. Calabria has also been a Research Associate with the U.S. Census Bureau's Center for Economic Studies. He has extensive experience evaluating the impacts of legislative and regulatory proposals on financial and real estate markets, with particular emphasis on how policy changes in Washington affect low and moderate income households. He holds a doctorate in economics from George Mason University. http://www.cato.org/people/mark-calabria

Testimony of Sheila Crowley, MSW, Ph.D.
President of the National Low Income Housing Coalition
presented to the
Financial Services Committee
United States House of Representatives
July 9, 2009

Chairman Frank, Ranking Member Bachus, and Members of the Committee, thank you for the opportunity to testify today about H.R. 3068, "TARP for Main Street Act of 2009."

I am Sheila Crowley, President of the National Low Income Housing Coalition. Our members include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations, residents of public and assisted housing and their organizations, and concerned citizens.

The National Low Income Housing Coalition (NLIHC) is dedicated solely to achieving socially just public policy that assures people with the lowest incomes in the United States have affordable and decent homes. NLIHC does not represent any sector of the housing industry. Rather, NLIHC works only on behalf of and with low income people who need safe, decent, and affordable homes, especially those with the most serious housing problems, including people without homes.

Specifically, I am testifying today on Section 2 of the TARP for Main Street Act, the section that designates $1 billion from dividends paid by financial institutions that received TARP funds to the National Housing Trust Fund (NHTF).

As I prepared for today's testimony, I reflected on past occasions in which I have come before this committee to discuss the NHTF. It was almost two years ago on July 19, 2007 that the Committee held a hearing on H.R. 2895, the National Affordable Housing Trust Fund Act of 2007, introduced by Chairman Frank with eight Democratic and eight Republican co-sponsors, including Ms. Waters, Mr. Miller, Ms. Velasquez, Mr. Hinojosa, Mr. Clay, Mr. Lynch, and Mr. Green. Eventually the bill garnered 103 cosponsors and was passed by the House on October 10, 2007 by a vote of 264-148, including all the Democrats on the committee and Mr. Castle, Mr. King, Mr. Gerlach, and Ms. Capito. NLIHC and our many partners in the NHTF campaign are proud of and grateful for the bipartisan support that the NHTF has enjoyed in the U.S. House of Representatives.

After similar success in the Senate, when President Bush signed the Housing and Economic Recovery Act (HERA) on July 30, 2008, he enacted the NHTF into law. This victory was due in no small part to your vigorous championship of the National Housing Trust Fund, Mr. Chairman. On behalf of the millions of poor Americans who will someday have decent and affordable homes because of your leadership, I thank you.

As I said in my testimony two years ago, "establishment of a national housing trust fund with dedicated sources of revenue for the production and preservation of housing affordable for people with the most serious housing problems has been the top priority of the National Low Income Housing Coalition since 2000. (However) NLIHC's interest in a national housing trust fund actually predates my tenure at NLIHC; the original proposal for a national housing trust fund was developed under the leadership of NLIHC founder, the late Cushing N. Dolbeare, in the early 1990s." I would like to acknowledge the presence here today of Louis P. Dolbeare, Cushing's husband, who remains one of our most ardent supporters.

What the National Housing Trust Fund Will Do

To recap the purpose and structure of the National Housing Trust Fund, primarily it is intended to produce, preserve, and rehabilitate rental homes that are affordable for extremely and very low income households. HUD will distribute funds to states using a formula that is based on the need for rental homes affordable for this income group. States will make grants to qualifying public, non-profit, or for profit entities that will produce and operate the rental homes. All the funds must benefit households with incomes at or below 50% of the area median; at least 75% of the funds must benefit households with incomes at or below 30% of the area median. At least 90% of the funds must be used for rental homes.

This is the first federal rental housing production program that is specifically targeted to extremely low income households since the Section 8 program was established in 1974.

The goal for the NHTF set by the NHTF campaign and articulated in H.R. 2895 is to build or preserve 1.5 million rental homes over 10 years.

HUD is now completing the interim regulations for the NHTF as required by statute for implementation this fall. The version of the NHTF legislation that ultimately was enacted did not have the level of specificity on the structure of the program that was found in H.R. 2895. Therefore, the NHTF campaign has submitted suggestions to HUD on how to shape the regulations to reflect some of the decision-making that went into the drafting of H.R. 2895. (A copy of letter to former Secretary Preston is attached.) Because the regulations have not yet been made public, I cannot comment today on whether additional legislation is needed to clarify or augment Congressional intent on how the NHTF should and will operate.

How to Fund the National Housing Trust Fund

Before the NHTF can be implemented however, it must be capitalized. A key feature of the National Housing Trust Fund is its reliance on dedicated sources of revenue to fund the program, as opposed to discretionary appropriations. There are over 600 state and local housing trust funds and the most successful are funded with housing related dedicated sources of revenue. The National Housing Trust Fund Campaign has proposed several possible sources of dedicated funding and is open to other ideas.

As you know, it was contributions from Fannie Mae and Freddie Mac that were designated for the NHTF in H.R. 2895 and in HERA. These contributions have been suspended in light of the financial difficulties of the two companies. We are confident that whatever form the companies take next as the country works its way through the mortgage crisis and recession that they will be again be able to make contributions to the NHTF. But Fannie and Freddie's contributions were never intended to be the sole source of revenue. Indeed, the legislation allows Congress to direct any appropriations, transfers or credits into the NHTF. The level of contributions from Fannie and Freddie enacted in HERA would not have generated the level of funding needed to reach the goal of 1.5 million rental homes.

Use of TARP dividends for the NHTF is a welcome proposal from our perspective. According to the GAO, by June 12, 2009 Treasury had received approximately $6.2 billion in dividend payments from financial and other institutions that received TARP funds.[1] The Troubled Asset Relief Program, $700 billion in taxpayer dollars used to prevent the failure of major private, for profit institutions caught up in the mortgage crisis, is controversial, but ultimately probably a necessary intervention. Nonetheless, it is difficult for ordinary American citizens to understand how TARP has or will help us weather the recession and not lose economic ground. For people who are truly suffering in the recession, TARP is most likely seen as a bail-out of the very people who are to blame for getting us into this mess.

The notion of "TARP for Main Street" offers some balance and fairness to federal response to the country's economic crisis. Indeed, I would recommend that the Committee and Congress lay claim now to the all current and future dividends that TARP yields for "Main Street" purposes, including the NHTF.

The National Housing Trust Fund Is Needed Now More Than Ever

For years, NLIHC and others have documented the shortage of rental homes that are affordable to the lowest income households. The mortgage crisis and recession have only made the problem worse.

Unfortunately a shorthand analysis of the current housing market causes some to believe that because the country has an excess supply of housing, housing production is unnecessary. This simplistic analysis does not account for the mismatch between housing supply and housing need in the U.S. housing market today. The latest *State of the Nation's Housing* report by the Joint Center on Housing Studies at Harvard documents both the high housing vacancy rate and the growing rates of housing cost burdens (paying more than 30% of income for housing).[2] Unfortunately, the housing that has been produced in recent years seems to be more in line with what Americans desire than what we need and can afford.

A new analysis done for HUD shows that the number of rental housing units increased by between 3.3 and 3.7% between 2005 and 2007. However, all the growth occurred in units affordable to households with incomes at 51% of the area median income or more. The number of units affordable to these households grew by 16% or 2,791,000 rental homes. For households with incomes of over 100% of the area median, the number of affordable units grew by 34%. At

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[1] U.S Government Accountability Office. (2009, June). *Troubled Asset Relief Program: June 2009 Status Efforts to Address Transparency and Accountability Issues.* GAO-09-658. Washington, DC: Author.

[2] Joint Center on Housing Studies. (2009, June). *State of the Nation's Housing 2009.* Cambridge, MA: Harvard University.

the same time, the number of units affordable to very low and extremely low income households (50% area median income or less) fell by 7% during the same period for a loss of 1,526,000 homes.[3]

With the growth in unemployment and foreclosures continuing unabated, the demand for affordable rental homes remains high. At the same time that delinquencies in multifamily loans are growing at an alarming rate.[4]

The ultimate consequence of the failure of our housing market is that some portion of the population will end up with no home at all. Reports of new homelessness are showing up with some regularity now. The *New York Times* ran a story this week about the surge in homelessness now that school is out. Families hold on in tenuous housing situations as long as they can so that kids can finish out the school year.[5] We know that the rate of poverty increases as unemployment increases and that for ten people in poverty in given year, one will become homeless. Earlier this year when the unemployment rate was expected to reach 9%, 800,000 new people a year were predicted to become homeless.[6] Unemployment has now of course exceeded 9% and shows no signs of letting up.

Congress has taken some measures to intervene to prevent such a precipitous increase in homelessness. Recently enacted legislation to make sure that renters are not evicted without reasonable notice when their landlords are foreclosed on will give renters some time to find new homes that hopefully they can afford, although that will be harder for lower income households. We deeply appreciate the work of committee members Mr. Ellison, Ms. McCarthy, and Mr. Capuano on the renter protection legislation. Also important is the $1.5 billion in the American Recovery and Reinvestment Act that is funding the new Rapid Rehousing and Homelessness Prevention Program at HUD.

But in the absence of new resources that will expand the supply of homes that people who are elderly, disabled, employed in the low wage force, or out of work all together, we will see a growth in homelessness that rivals the recession of the early 1980s. We made the mistake back then of thinking it was a temporary problem that could be addressed by providing temporary shelter, instead of providing permanent housing. We know better now and should not repeat the same mistake.

What We Mean By Housing

I would like to close with a quote from an open letter to the Congress and the

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[3]Eggers, F.J. & Moumen, F. (2009, June). *American Housing Survey: Rental Housing Dynamics: 2005-2007.* Prepared for U.S. Department of Housing and Urban Development, Office of Policy Development and Research. Bethesda, MD: Econometrica, Inc.

[4] Parkus, R. (2009, March). *Commercial Real Estate Outlook Q1 2009: Commercial Real Estate at the Precipice.* Deutsche Bank.

[5] Bosman, J. (2009, July 7). Summer brings a wave of homeless families. *The New York Times*, pp. A-1, A-16.

[6] National Alliance to End Homelessness. (2009, January 23.) *Homelessness Looms as Potential Outcome of Recession.* http://www.endhomelessness.org/content/general/detail/2161. Parrot, S. (2008, November 28). *Recession Could Cause Large Increases in Poverty and Push Millions into Deep Poverty.* Washington, DC: Center on Budget and Policy Priorities.

Administration that has been signed by more than 1000 organizations across the country. We call the letter "what we mean by housing."

"The economic crisis that has beset the United States is rooted in excesses in the home ownership housing market that must be corrected for our economy to recover. But housing is much more than the private market home ownership. The undersigned organizations want to call attention to what *we* mean by housing. We mean enough homes renting at affordable prices so that our nation's lowest income families and individuals are assured of safe and decent places to live.

As the Administration and Congress consider action to stem housing foreclosures and to reform the housing finance system, equal attention must be paid to the long-standing and unmet need for decent, affordable homes for households with the lowest incomes. Despite the surplus of single family homes for sale today, the shortage of rental homes that extremely low income households can afford continues unabated.

When we compare the unprecedented attention paid to homeownership and the investment the federal government will make to shore up troubled mortgages to the resources for programs serving the nation's most vulnerable people, we are dismayed and disappointed that those households for whom stable homes are most threatened in today's economy are once again being shortchanged.

The solutions to the housing crisis of the lowest income renters are simpler and less expensive than what is needed to repair the home ownership market. We know what to do: preserve and expand the supply of rental homes that these members of our communities can afford. To do so, we call for dedicated sources of funding for the National Housing Trust Fund that will generate the necessary revenue to produce or preserve 1.5 million homes in the next ten years and 200,000 new housing choice vouchers a year for ten years."

Thank you for the opportunity to testify today.

November 18, 2008

The Honorable Steven Preston
Secretary, U.S. Department of Housing and Urban Development
451 Seventh Street, SW
Washington, DC 20410-0500

Dear Secretary Preston,

On behalf of the National Housing Trust Fund Campaign, I am pleased to submit the following recommendations for the implementation of the National Housing Trust Fund (NHTF). We are grateful for this opportunity to provide our views on the implementation of this critical program.

The National Housing Trust Fund is the fulfillment of a campaign that began in 2000. The NHTF Campaign is led by 40 national non-profit and faith-based organizations, and has been endorsed by over 5,700 organizations, state and local elected leaders, and editorial boards in every state. The campaign's goal is to establish a National Housing Trust Fund with ongoing, permanent, dedicated and sufficient sources of revenue to build, rehabilitate and preserve 1.5 million units of housing for the lowest income families over the next 10 years.

With the enactment of Public Law 110-289, the Housing and Economic Recovery Act (HERA), the first objective of the Campaign was achieved. HERA section 1131 requires the Secretary of Housing and Urban Development (HUD) to establish a permanent, deeply targeted National Housing Trust Fund, with a dedicated source of funds and the ability to accept additional dedicated sources.

The bill provides that HUD will distribute NHTF funds to states, including the District of Columbia and U.S. territories, according to a detailed formula. This formula must be established by July 30, 2009. Representatives of the campaign have met with HUD staff to begin discussions about the development of that formula. We look forward to additional discussions with HUD. This letter does not contain any recommendation for the development of that formula.

This letter offers suggestions and guidance on the development of the regulations for the implementation of the NHTF. By statute, HUD must develop regulations to implement the NHTF, including regulations to establish the procedural requirements by which states will select designated entities to carry out activities meeting the state's priority housing needs. While the law contains no deadline for these regulations, we recommend developing and publishing these regulations in connection with the development of the allocation formula referenced above.

While HERA provided the basic structure for the NHTF, many details were left to HUD's discretion and definition in promulgating regulations. To assist HUD in expediting this process, the Campaign formed a series of working groups to identify areas needing additional explication and to develop recommendations in those areas. The recommendations below reflect the outcome of that process.

Term of Affordability

Protecting the investment of federally-designated resources is essential. Even if federally appropriated funds are not used, HUD should ensure that any funds designated by Congress remain available for their original purpose as long as possible. The campaign has given a good deal of thought to maximizing NHTF resources, including reviewing the experiences of state and local trust funds. We recommend that, in establishing regulations defining "the extent to which rents...will remain affordable," HUD define the period of affordability as 50 years, with a preference for projects that commit to even longer terms of affordability.

Affordable Rents

We recommend that in establishing regulations defining how states will provide priority for "rents for units in the project [that] are affordable," HUD adhere to the Brooke rule limiting the rent paid by the tenant to 30% of household income.

Compatibility with Other Federal Assistance

NHTF funds will often be used in combination with funds from other federal programs. The NHTF should be implemented in a manner that ensures its compatibility with other federal housing programs, including U.S. Housing Act section 8, HOME and the Low Income Housing Tax Credit program. We also expect that HUD will include in the implementing regulations a prohibition against denying access to NHTF-related housing to those assisted under section 8.

Economic Opportunity and Mixed Income Housing

Families with extremely low incomes should be provided with the opportunity to live in economically diverse communities close to needed transportation, jobs and good schools. Public Law 110-289 requires states to provide priority to applications, based in part on the extent of their use of other funding sources. The use of diverse funding sources should encourage economically diverse housing. But this authority is broad enough to allow HUD to adopt regulations requiring states to consider not only the amount of other funding sources relative to the requested amount of NHTF dollars, but also the extent to which such other funding sources will expand economic and educational opportunities for the residents of assisted units.

Operating Costs

The statute provides that funds may be used for the "production, preservation, and rehabilitation of rental housing...and for operating costs." It is our position that the reference to "operating costs" in the statute does not create a fourth separate eligible use of NHTF dollars for rental housing. The core purpose of the NHTF is to expand the supply of units affordable to persons with extremely low incomes. We think that the correct interpretation of the statutory language is that operating costs are eligible uses of NHTF funds only if those costs are incurred in connection with extremely low income units/projects produced, rehabilitated, or preserved with NHTF dollars. Consequently, we recommend that HUD limit the use of funds for operating costs at the state level by providing that of the funds allocated to a state in a given year, no more than 20% can be used for operating costs with respect to units affordable to those at 30% of area median or below. Further, to maximize the use of NHTF dollars for preservation, rehabilitation and production, HUD should require states to give priority to projects that obtain operating subsidies from sources other than the Trust Fund. Finally, HUD should limit the mechanisms controlling how funds can be used for "operating costs" to 1) provide project-based rental assistance for not more than 12 months or 2) establish capitalized project operating reserve accounts for the sole purpose of achieving deeper affordability levels for households with incomes equal to or less than 30% of Area Median Income (AMI).

Rural Areas

The need for housing in rural areas targeted to those with the lowest incomes is substantial. Because NHTF funding is allocated to states, it is important that HUD ensure equity in the distribution of funds within each state. In defining "priority in funding… based upon…geographic diversity," HUD should require that states recognize the needs of rural as well as urban areas and the needs of Native Americans on reservation lands. The campaign recommends that HUD adopt regulations that require states to allocate NHTF dollars based on relative need in rural and urban areas. However, "geographic diversity" is not a reason to require that every county in a state receive Trust Funds or to distribute funds in a manner that sets a "cap" on individual projects to achieve a geographic diversity objective. Finally, we urge HUD to include a requirement that, as states develop their allocation plans, they consult with any tribes with reservation lands in that state.

Make Eligibility of Public Housing Agencies Explicit

HUD should make explicit in its regulations that "agency," in the list eligible recipients, includes public housing agencies. However, NHTF dollars should not be allowed to be used to supplant the public housing capital fund.

Loans as Eligible Use

NHTF funds should be available to eligible recipients as grants or loans.

Data Collection

The campaign, like HUD and Congress, wants to ensure that the data and information necessary to track expenditures from the NHTF are collected and available to the public. To that end, we purpose the attached data collection requirements.

These suggestions are not meant to encompass all of the issues HUD will in encounter in establishing the program rules for the NHTF. The campaign recognizes that developing regulations requires an ongoing dialogue. Other issues, such as tenant protections and ensuring public participation are important and we look forward to additional discussions.

Thank you for this opportunity to offer our recommendations to you as HUD decides how best to implement this critical program.

Sincerely,

Sheila Crowley
President and CEO, National Low Income Housing Coalition

Data Collection Requirements

1. Project-level data collected from the owner/developer by the state agency
   a. Unique NHTF ID
   b. Name
   c. Address
   d. Owner name
   e. Owner contact info
   f. Minority status of owner/developer [7]
   g. Type of owner (nonprofit, for-profit, etc.)
   h. Is there an approved affirmative marketing plan for the property? (yes/no)
   i. Manager name
   j. Manager contact info
   k. Type of structure (high-rise, townhomes, etc.)
   l. Year built
   m. Occupancy rate of assisted units
   n. Length of waiting list for assisted units, where applicable and available
   o. Start and end dates of the NHTF affordability period
   p. Income targeting of assisted units (<=30% AMI, <=50% AMI)
   q. Target population (family, elderly)
   r. Number of total units by size (studio, 1-bedroom, etc.)
   s. Number of assisted units by size
   t. Monthly rent for assisted units by size
   u. Number of assisted units accessible to disabled individuals [8]
   v. Fields indicating the presence/absence of other project-based subsidies [9]

[7] Quoting from HUD's Office of Small and Disadvantaged Business Utilization (OSDBU) webpage: "The Federal Government's goal under SBA is to award 23% of its prime contracts to small businesses. Within this goal, there is a subgoal of 5% for small, disadvantaged businesses and minority businesses, and 5% for women-owned small businesses." Data should be collected to ensure compliance, which is monitored by OSDBU.

[8] Units receiving funds from the NHTF likely must comply with Section 504 in terms of being accessible to disabled individuals. Collecting this information would monitor compliance.

[9] See the LIHTC dataset for an example of these fields. Both the state agency and HUD will need to indicate whether an NHTF-funded project receives other federal or state subsidies. While providing an ID consistent with other HUD datasets (specified in 2a) will aid in this determination, there are many federal and state programs for which datasets are not available to the public.

2. Project-level data supplemented by HUD
    a. ID consistent with other HUD datasets (where applicable) [10]
    b. Latitude/longitude
    c. Physical inspection (REAC) scores
    d. Any notice of intent filed by the owner to prepay/opt-out of/terminate any subsidy associated with the property
    e. Fields indicating the presence/absence of other project-based subsidies (see footnote 3)

3. Summary characteristics of tenants collected from the owner/developer by the state agency
    a. Race/ethnicity of tenants (as detailed as possible)
    b. Race/ethnicity of applicants/households on the waiting list (as detailed as possible)
    c. Family composition
    d. Age
    e. Household income
    f. Other forms of rental assistance
    g. Disability status

[10] If a project receives federal subsidies in addition to NHTF funds, it is important to be able to link it with information contained in other HUD databases. An example of this kind of field is the REMS ID, which allows users to identify the same project across several HUD datasets.

United States Government Accountability Office

GAO

Testimony

Before the Committee on Financial Services, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, July 9, 2009

TROUBLED ASSET RELIEF PROGRAM

Status of Participants' Dividend Payments and Repurchases of Preferred Stock and Warrants

Statement of Gary T. Engel, Director,
Financial Management and Assurance

GAO Accountability * Integrity * Reliability

GAO-09-889T

Mr. Chairman, Ranking Member Bachus, and Members of the Committee:

I am pleased to be here today to discuss certain of our work on the Troubled Asset Relief Program (TARP), under which the Department of the Treasury (Treasury) has the authority to purchase and insure through its Office of Financial Stability (OFS) up to almost $700 billion in troubled assets held by financial institutions.[1] As you know, Treasury was granted this authority in response to the financial crisis that has threatened the stability of the U.S. banking system and the solvency of numerous financial institutions. The Emergency Economic Stabilization Act of 2008 (the act) that authorized TARP on October 3, 2008, requires us to report at least every 60 days on the findings resulting from our oversight of the actions taken under the program, which includes, among others things, outflows and inflows of funds.[2] We are also responsible for auditing TARP's annual financial statements.

My statement today is based primarily on certain information in our June 17, 2009, report—our fifth report under the act's mandate—which covers TARP activities as of June 12, 2009.[3] Specifically, this statement includes information on (1) terms and rates for dividend payments from participants, (2) the dividend payments received through June 30, 2009, from participants, and (3) repurchases of preferred stock and warrants[4] by participants. To do this work, we reviewed documents provided by OFS and conducted interviews with officials from OFS. In addition, we have updated the dollar amounts and numbers as of June 30, 2009.

[1]The Emergency Economic Stabilization Act of 2008 (the act), Pub. L. No. 110-343, 122 Stat. 3765 (2008) originally authorized Treasury to buy or guarantee up to $700 billion in troubled assets. The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, div. A, amended the act and reduced the maximum allowable amount of outstanding troubled assets under the act by almost $1.3 billion, from $700 billion to $698.741 billion.

[2]Pub. L. No. 110-343, 122 Stat. 3765 (2008). The act requires the U.S. Comptroller General to report at least every 60 days, as appropriate, on findings resulting from oversight of TARP's performance in meeting the act's purposes; the financial condition and internal controls of TARP, its representatives, and agents; the characteristics of asset purchases and the disposition of acquired assets, including any related commitments entered into; TARP's efficiency in using the funds appropriated for its operations; its compliance with applicable laws and regulations; and its efforts to prevent, identify, and minimize conflicts of interest among those involved in its operations.

[3]GAO, *Troubled Asset Relief Program: June 2009 Status of Efforts to Address Transparency and Accountability Issues*, GAO-09-658 (Washington, D.C.: June 17, 2009).

[4]A warrant is an option to buy shares of common stock or preferred stock at a predetermined price on or before a specified date.

We conducted the performance audit for our June 17, 2009, report between April 2009 and June 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In Summary

According to Treasury, as of June 30, 2009, Treasury had disbursed about $339 billion in TARP funds. Although most of the disbursements have been for the Capital Purchase Program (CPP), Treasury has utilized other programs as well. The agreements entered into under the various programs for the purchase of preferred stock entitled Treasury to receive dividends on varying terms and at varying rates. For example, according to the CPP terms for publicly held institutions, participating institutions pay Treasury quarterly dividends at a rate of 5 percent per year for the first 5 years on the preferred stock acquired by Treasury.

According to Treasury, from TARP's inception through June 30, 2009, Treasury received approximately $6.7 billion in dividend payments on preferred stock acquired through the CPP,[5] Targeted Investment Program (TIP), Automotive Industry Financing Program (AIFP), and Asset Guarantee Program (AGP). The dividend payments received are generally deposited into the General Fund of the U.S. Treasury and are not to be used to reduce the outstanding balance under the almost $700 billion TARP limit.

According to Treasury records, as of June 30, 2009, 32 institutions, including 10 of the largest bank holding companies participating in TARP, had repurchased their preferred stock from Treasury for a total of about

[5]For some of the CPP participants, Treasury acquired cumulative preferred stock while for others it acquired noncumulative preferred stock. If an institution does not declare a dividend for noncumulative preferred stock during the dividend period, the noncumulative preferred shareholders generally have no right to receive any dividend for the period, and the institution has no obligation to pay a dividend for the period, whether or not dividends are declared for any subsequent dividend period. Generally, if an institution does not declare a dividend for cumulative preferred stock during the dividend period the unpaid dividends accumulate and the institution must pay the cumulative accrued dividends before making dividend payments to other classes of shareholders.

$70.1 billion.[6] Also, as of June 30, 2009, 11 financial institutions had repurchased their warrants and 3 institutions had repurchased their warrant preferred stock from Treasury at an aggregate cost of about $20.3 million.[7] Funds received from the repurchases of initial preferred stock are deposited into the General Fund of the U.S. Treasury and reduce the outstanding balance under the almost $700 billion TARP limit. Treasury may then issue new debt to purchase new financial instruments if it so chooses until December 31, 2009, or a later date determined by the Secretary of the Treasury under the sunset provision of the act. However, like the dividend payments, any amounts received from the repurchases of warrants and warrant preferred stock are deposited in the General Fund of the U.S. Treasury and are not to be used to reduce the outstanding balance under the almost $700 billion TARP limit.

As of June 30, 2009, Treasury had disbursed approximately $339 billion in TARP funds, had approximately $102 billion outstanding in additional obligations to purchase or insure troubled assets, and had received approximately $70 billion from preferred stock repurchased by CPP participants.[8] As a result, Treasury has approximately $328 billion remaining under the almost $700 billion limit on the amount of purchased or insured troubled assets that Treasury may have outstanding at any time (the almost $700 billion TARP limit reduced for $339 billion in

[6]Our use of the term repurchases in this testimony is general and does not differentiate between repurchases and redemptions of senior preferred stock. A redemption of senior preferred stock occurs when an institution completes a qualified equity offering per the standard terms of the preferred stock and subsequently exchanges cash for its senior preferred stock previously issued to Treasury. A repurchase occurs when the institution buys back its senior preferred shares without having completed a qualified equity offering, as permitted by the American Recovery and Reinvestment Act (ARRA), Pub. L. No. 111-5, div. B, § 7001, 123 Stat. 115, 516 (2009), or another authority.

[7]In addition to preferred stock, Treasury also received from the privately held institutions warrants to purchase a specified number of shares of preferred stock, called warrant preferred stock, that pay quarterly dividends at a rate of 9 percent per year. The exercise price for the warrant preferred stock is $0.01 per share unless the financial institution's charter requires otherwise. Unlike for publicly held institutions, Treasury exercised these warrants immediately for warrant preferred stock.

[8]The additional obligations outstanding include approximately $29 billion in the undisbursed portion of an equity facility under the Systemically Significant Failing Institutions Program (SSFI), $30 billion relating to AIFP, $20 billion relating to Term Asset-Backed Securities Loan Facility (TALF), $18 billion relating to Making Home Affordable, and $5 billion in obligations under AGP. These amounts do not include a subtraction from the outstanding guarantee amount to reflect the balance in the Troubled Asset Insurance Financing Fund as stipulated in section 102 of the act.

disbursements and $102 billion in obligations, and increased by $70 billion in preferred stock repurchases).

Agreements under Certain TARP Programs Entitle Treasury to Receive Dividend Payments on Varying Terms and at Varying Rates

The agreements under the various TARP programs—CPP, TIP, AIFP, AGP, and the Systemically Significant Failing Institutions Program (SSFI)—for the purchase of preferred stock entitle Treasury to receive dividend payments. However, the terms and rates vary by program and type of institution. For example:

- According to the CPP terms for publicly held institutions, participating institutions pay quarterly dividends at a rate of 5 percent per year for the first 5 years on the preferred stock acquired by Treasury. After the first 5 years, the preferred stock pays quarterly dividends at a rate of 9 percent per year.[9]
- According to the CPP terms for privately held institutions, participating institutions pay quarterly dividends at a rate of 5 percent per year for the first 5 years on the initial preferred stock acquired by Treasury.[10] After the first 5 years, the preferred stock pays quarterly dividends at a rate of 9 percent per year. Any preferred stock of privately held institutions acquired through Treasury's exercise of warrants pays quarterly dividends at a rate of 9 percent per year.
- Under the terms of the TIP agreements, Citigroup and Bank of America pay quarterly dividends on preferred stock acquired by Treasury at a rate of 8 percent per year.
- Under the terms of the AGP agreement, Citigroup pays quarterly dividends at a rate of 8 percent per year on the preferred stock issued as a premium for the guarantee provided by Treasury in accordance with section 102 of the act.

[9]Treasury also received from each publicly held institution a warrant to purchase a specified number of shares of common stock.

[10]The term initial preferred stock refers to the preferred stock acquired by Treasury from privately held CPP institutions as a result of the initial investment amount.

- Under the terms of the restructured SSFI agreement, American International Group Inc. (AIG) pays quarterly dividends on preferred stock issued to Treasury at a rate of 10 percent per year.[11]

Importantly, each dividend payment to Treasury is contingent on each institution declaring dividends. The dividend payments received under CPP, TIP, SSFI, and AIFP are deposited into the General Fund of the U.S. Treasury. The dividend payments received under AGP are deposited into the Troubled Assets Insurance Financing Fund to fulfill obligations of any guarantees provided to financial institutions pursuant to section 102 of the act. Dividend payments from TARP participants—other than AGP participants—to Treasury are not available to be used to reduce the outstanding balance under the almost $700 billion TARP limit.

Treasury Has Received Approximately $6.7 Billion in Dividend Payments

From TARP's inception through June 30, 2009, Treasury received approximately $6.7 billion in dividend payments on preferred stock acquired through CPP, TIP, AIFP, and AGP (table 1).

[11]AIG is the sole participant in SSFI. On April 17, 2009, AIG and Treasury restructured their November 25, 2008, agreement. Under the restructuring, Treasury exchanged $40 billion of cumulative Series D preferred shares for $41.6 billion of noncumulative Series E preferred shares. The amount of Series E preferred shares is equal to the original $40 billion, plus approximately $733 million in undeclared dividends as of the February 1, 2009, scheduled quarterly dividend payment date, $15 million in dividends compounded on the undeclared dividends, and an additional $855 million in dividends accrued from February 1, 2009, but not paid as of April 17, 2009. AIG's restructured agreement kept the quarterly dividend payment dates of every May 1, August 1, November 1, and February 1, established by the original November 25, 2008, agreement. However, the restructured agreement also specified that dividends were payable beginning with the first dividend payment date to occur at least 20 calendar days after the restructuring date. Accordingly, in compliance with these dividend payment terms, the dividend payment for the period from April 17, 2009, through May 1, 2009, which amounts to approximately $150.2 million, is to be included in the August 1, 2009, scheduled quarterly dividend payment.

Table 1: TARP Dividend Payments Received as of June 30, 2009

Dollars in thousands

Program	Dividend payments received	Cumulative dividends not declared and not paid	Noncumulative dividends not declared and not paid
Capital Purchase Program (CPP)	$5,254,685	$5,962	$802
Targeted Investment Program (TIP)	1,128,889	-	-
Automotive Industry Financing Program[a] (AIFP)	159,611	-	-
Asset Guarantee Program (AGP)	107,573	-	-
Systemically Significant Failing Institutions Program (SSFI)	-	-	-[b]
Total	**$6,650,758**	**$5,962**	**$802**

Source: Treasury OFS, unaudited.

[a]Dividend information for AIFP only relates to GMAC LLC.

[b]See footnote 11.

According to Treasury records, from March 21, 2009, through June 30, 2009, 17 CPP participants had not declared or paid dividends of approximately $6.6 million. Specifically, 7 institutions did not declare and pay their cumulative dividends of approximately $6 million and 10 institutions did not declare and pay their noncumulative dividends of approximately $666,000. OFS said it received notification from the 17 institutions that they did not intend to declare or pay their May 15, 2009, quarterly dividends. According to OFS officials, of the 17 institutions, 13 informed Treasury that state or federal banking regulations or policies restricted them from declaring dividends, 1 indicated concern about its profitability, and 3 did not provide an explanation as to why they did not declare dividends. According to the standard terms of CPP, after six nonpayments by a CPP institution—whether or not consecutive—Treasury and other holders of preferred securities equivalent to Treasury's can exercise their right to appoint two members to the board of directors for that institution at the institution's first annual meeting of stockholders subsequent to the sixth nonpayment.

As reported in our March 2009 report, from TARP's inception through March 20, 2009, eight participants did not declare or pay approximately $150,000 in noncumulative dividends.[12] Five of the eight were among the 17 institutions that did not declare or pay dividends during the period from March 21, 2009, through June 30, 2009, noted above. Two of the eight paid their most recent dividend payments for the May 15, 2009, quarterly dividend payment date. The other participant subsequently declared and paid the approximately $14,000 in noncumulative dividends previously not paid and its most recent May 15, 2009, quarterly dividend.

Financial Institutions Have Begun to Repurchase Their CPP Preferred Stock and Warrants from Treasury but the Process Lacks Adequate Transparency

As permitted by the act—as amended by the American Recovery and Reinvestment Act of 2009 (ARRA)—participants may repurchase or buy back their preferred stock and warrants issued to Treasury under CPP at any time, subject to consultation with the primary federal banking regulator.[13] According to Treasury records, as of June 30, 2009, 32 institutions had repurchased their preferred stock from Treasury for a total of about $70.1 billion, including 10 of the largest bank holding companies participating in CPP. Table 2 provides additional information about the repurchases. Under the terms of the CPP and ARRA, after all the preferred stock is repurchased, the financial institution may repurchase all or part of the warrants held by Treasury. As of June 30, 2009, 11 of the 32 financial institutions that repurchased their preferred shares from Treasury had repurchased their warrants and 3 others had repurchased their warrant preferred stock from Treasury at an aggregate cost of about $20.3 million. None of the 10 largest bank holding companies that repurchased its preferred stock had repurchased its warrants as of June 30, 2009. In addition, certain financial institutions had informed Treasury that they did not plan to repurchase their warrants. For those institutions that informed Treasury that they did not intend to repurchase their warrants, Treasury may attempt to sell the warrants in the financial

[12] GAO, *Troubled Asset Relief Program: March 2009 Status of Efforts to Address Transparency and Accountability Issues*, GAO-09-504 (Washington, D.C.: Mar. 31, 2009).

[13] Pub. L. No. 111-5, 123 Stat. 115 (2009). Section 7001 provides, in part, that "Subject to consultation with the appropriate Federal banking agency, if any, ... Treasury *shall* permit a TARP recipient to repay any assistance previously provided under the TARP to such financial institution, without regard to whether the financial institution has replaced the funds from any other source or to any waiting period." (Emphasis added.) ARRA also required that Treasury liquidate the warrants when the assistance was repaid. This requirement was amended by the Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, which removed the requirement that Treasury liquidate the warrants when the assistance is repaid.

markets. According to a Treasury official, as of June 30, 2009, Treasury has not yet liquidated any CPP warrants in the financial markets.

Table 2: Capital Purchase Program Repurchases as of June 30, 2009

Dollars in thousands

Institution Type	Repurchase amount for preferred stock initially issued to Treasury	Repurchase amount for preferred stock issued through exercise of warrants	Repurchase amount for warrants
Private Institutions	$31,900	$1,595	N/A
Public Institutions	70,092,689	N/A	18,690
Total	**$70,124,589**	**$1,595**	**$18,690**

Source: Treasury OFS, unaudited.
N/A = not applicable.

Although institutions have repurchased their preferred stock, the regulators' repurchase approval criteria have lacked adequate transparency. The Federal Reserve has provided criteria for the 19 largest bank holding companies, but the other regulators have not consistently provided details about how they have made repurchase determinations and how they will make future determinations. Clearly articulated and consistently applied criteria are indicative of a robust decision-making process, and without them Treasury will face an increased risk that institutions requesting repurchase of their stock may not be treated equitably. In this regard, we recommended in our June 17, 2009, report that Treasury, in consultation with the Chairmen of the Federal Deposit Insurance Corporation and the Federal Reserve, the Comptroller of the Currency, and the Acting Director of the Office of Thrift Supervision, ensure consideration of generally consistent criteria by the primary federal regulators when considering repurchase decisions under TARP.[14] We have begun to receive the criteria from the federal banking regulators and will evaluate their consistency as part of our ongoing TARP work.

Treasury has provided limited information about the warrant repurchase process on its www.financialstability.gov Web site. We recognize the challenges associated with valuing warrants in the absence of readily available markets for these instruments. For this reason, and because the

[14]GAO-09-658.

valuation process can be assumption driven, a well-designed, fully vetted transparent process becomes critical to defusing questions about the warrant valuation process and whether the resulting prices paid by the institutions reflect the taxpayers' best interests. While Treasury has provided some limited information about the valuation process, it has yet to provide the level of transparency at the transaction level that would begin to address such questions. In this regard, we recommended in our June 17, 2009, report that Treasury ensure that the warrant valuation process maximizes benefits to taxpayers and consider publicly disclosing additional details regarding the warrant repurchase process, such as the initial price offered by the issuing entity and Treasury's independent valuations, to demonstrate Treasury's attempts to maximize the benefit received for the warrants on behalf of the taxpayer.[15] On June 26, 2009, Treasury issued a press release detailing certain information about the warrant repurchase process and indicating that Treasury plans to begin publishing additional information on each repurchased warrant. We will evaluate Treasury's disclosure of warrant information as part of our ongoing TARP work.

Closing Comments

Treasury has received billions of dollars from TARP recipients in dividend payments and participants' repurchases of the preferred stock and warrants. While Treasury has been receiving such payments, it also has continued to disburse funds. As of June 30, 2009, Treasury had disbursed almost $339 billion among five programs—CPP, SSFI, TIP, AIFP, and the Term Asset-Backed Securities Loan Facility (TALF). Specifically, according to Treasury records, it has disbursed just about $203 billion under CPP, about $41 billion to AIG under SSFI, $40 billion under TIP, over $54 billion to participants under AIFP, and $100 million under TALF. As of June 30, 2009, Treasury's projected use of TARP funds totaled about $643 billion, without taking into account any repayments.

Mr. Chairman and Ranking Member Bachus, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the committee may have at this time.

[15] GAO-09-658.

GAO Contact

For further information on this testimony, please contact Gary T. Engel at (202) 512-8815 or engelg@gao.gov.

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Statement
by

Brian A. Hudson, Sr.
Executive Director & CEO
Pennsylvania Housing Finance Agency

before the

Financial Services Committee
of the
United States House of Representatives

July 9, 2009

Chairman Frank, Ranking Member Bachus, and members of the Committee, I am Brian Hudson, executive director and chief executive officer of the Pennsylvania Housing Finance Agency (PHFA). Thank you for the opportunity to testify today on behalf of PHFA on the TARP for Main Street Act of 2009, H.R. 3068.

I would also like to recognize and thank two Pennsylvania members of the Committee: Capital Markets, Insurance, and GSE Subcommittee Chairman Paul Kanjorski and Committee member Jim Gerlach. We in Pennsylvania deeply appreciate everything you have done for the Commonwealth, PHFA, and affordable housing.

Mr. Chairman, thank you for your early and persistent efforts to revive with federal help the struggling municipal bond market. Your legislative initiatives, including your previous Troubled Assets Relief Program (TARP) bill, and your appeals to the Administration over the last several months have succeeded in focusing critical attention on the needs of the municipal bond market and particularly the tax-exempt Housing Bond market.

Because of your encouragement, the Administration is now on the verge of announcing a plan to support state and local Housing Finance Agency (HFA) affordable housing lending by purchasing HFA Housing Bonds and providing liquidity to support HFA variable rate debt. With this assistance, HFAs will finally be able to put our Housing Bond resources to work to produce hundreds of thousands of affordable, sustainable homes and jobs, as well as tax revenues in support of our nation's economic recovery.

We understand that the Administration's HFA initiative as currently conceived does not rely on TARP resources. However, since the HFA plan has not yet been finalized, we urge you to leave open the possibility of committing TARP resources to it should that become necessary to the plan's successful implementation.

Mr. Chairman, we would also like to thank you for your leadership in creating the Housing Trust Fund and for dedicating through this legislation TARP funds to its initial capitalization. My agency and my fellow state HFAs are eager to help address with these new resources housing needs we struggle to meet with existing resources, particularly those of extremely low-income families.

Finally, we are pleased that your new TARP legislation reauthorizes and allocates funding to the Emergency Mortgage Relief Program. As you consider the optimal design of this program, we urge you to look at PHFA's Homeowners' Emergency Mortgage Assistance Program (HEMAP) as a model. We also encourage you to consider making HFAs eligible for direct funding under this program, so that programs such as HEMAP may benefit and be replicated around the country.

Also, Senator Casey was successful in getting an amendment accepted in the Senate during deliberations on Neighborhood Stabilization Program funding as reauthorized in the American Recovery and Reinvestment Act of 2009. Mr. Casey's amendment would have allowed the use of NSP funds for foreclosure prevention activities such as HEMAP in the Commonwealth. Opening up NSP for these types of activities may be another option to stem the tide of foreclosures as a result of temporary economic conditions.

Pennsylvania's Act 91 of 1983 authorized PHFA to develop HEMAP to help certain homeowners in danger of losing their homes to foreclosure. Pennsylvania created this program to address a large number of foreclosures, particularly in the southwestern part of the state, resulting from an economic recession in the early 1980s.

HEMAP has been very successful. It has saved 42,700 families from foreclosure by providing over $442 million in loans to at-risk homeowners. Over 20,000 loans have been repaid in full and HEMAP has received over $246 million in principal and interest repayments from homeowners who have benefited from the program. These repayments are recycled into new HEMAP loans, assisting additional Pennsylvanians. State appropriations have totaled $225.5 million.

The average loan to a distressed homeowner is $10,500, much less than the $35,000 it costs to complete most foreclosure actions. Additionally, this estimated average foreclosure cost does not consider the impact of foreclosures on families, neighborhoods and communities.

HEMAP prevents mortgage foreclosures resulting from defaults caused by circumstances beyond a homeowner's control. It provides loans to bring delinquent mortgage payments current and may also provide continuing help with mortgage payments. Total assistance cannot exceed 36 months. Unlike programs that have been created by the federal government and some states to address structurally unsound or predatory lending practices, HEMAP is focused on helping homeowners who are facing a short-term financial setback. The number one reason for an approved applicant's delinquency under HEMAP is the loss of a job. The second reason is illness. In all instances, there has to be a reasonable likelihood that the homeowner will be able to resume making the mortgage payment without state help since HEMAP assistance is temporary.

With over 25 years of experience, PHFA has refined the operation of this primarily "unemployment-driven" program. Lenders in the Commonwealth are some of its most ardent supporters because of the seamless nature of its operation.

These results led Harvard University to recently recognize HEMAP as a top innovation in American Government.

Generally, HEMAP works as follows: if someone with a mortgage in the Commonwealth becomes 60 days or more delinquent, before foreclosing, lenders are required to send an "Act 91" Notice informing the homeowner of the HEMAP program and directions on how to apply.

After receiving the Notice, a homeowner has 33 days to have a face-to-face meeting with a consumer credit counseling agency, which then has 30 days from that date to get the application to PHFA. Ninety-three counseling agencies throughout the state provide this service.

Counseling agencies are under contract with PHFA to prepare applications for HEMAP loans. Their job is to help homeowners present the most complete and accurate applications regarding their financial circumstances. They also counsel homeowners on financial matters and spending habits and often serve as negotiators between homeowners, mortgage lenders, and other creditors in forbearance negotiations.

Upon receipt of the application, the Agency has 60 days to render a decision of eligibility. If an application is made in a timely manner, mortgagees are required to halt any foreclosure action until PHFA has rendered a decision.

The following eligibility criteria must be met to obtain HEMAP loan assistance:

- Homeowners must be at least 60 days delinquent on at least one of their mortgages. If a homeowner has more than one mortgage, not all mortgages need to be delinquent. However, no more than two mortgages can receive HEMAP assistance.
- The home must be located in Pennsylvania and the homeowner must reside in the home.
- The home must be a one or two-family residence.
- Mortgage loans insured by the Federal Housing Administration under Title II of the National Housing Act <u>are not</u> eligible.
- HEMAP loans cannot exceed $60,000 or 36 months of payments.
- There is no income limit, however, the average median income for homeowners served by HEMAP in 2008 was $38,000 (prior to encountering the circumstances which prompted the mortgage default).
- HEMAP loans can be in no worse than a third lien position.
- Homeowners must be suffering financial hardship due to circumstances beyond their control which renders them unable to correct the delinquency within a reasonable period of time--loss of employment from layoffs or plant closings, serious medical problems and spousal abandonment are typical circumstances.

- Homeowners must be able to demonstrate that they have a reasonable prospect of resuming normal mortgage payments within 36 months and paying off the mortgage by maturity. Job skills, employment history, efforts at retraining, etc., are all relevant factors that the Agency will consider in determining whether there is a reasonable prospect of applicants' being able to meet this requirement.

If approved, mortgage payments are made by HEMAP directly to the lender on the homeowner's behalf in the form of a mortgage loan. The HEMAP interest rate is currently 6.5 percent. However, interest does not accrue until the homeowner is financially able to start repayment based on a formula established by statute.

If denied a HEMAP loan, the homeowner may appeal the decision. This appeal process is not part of the law but rather was instituted by the Agency to provide applicants with a second opportunity to resolve misunderstandings. A lender may continue the foreclosure action during the appeal process.

Further information about PHFA programs may be viewed on the internet at *www.phfa.org*.

Again, thank you for the invitation. I look forward to answering any questions you may have.

Testimony of Damon A. Silvers

Associate General Counsel

American Federation of Labor and Congress of Industrial Organizations

House Resolution 3068, the TARP for Main Street Act of 2008

House Financial Services Committee

July 9, 2009

Good morning, Chairman Frank and Ranking Member Bachus. My name is Damon Silvers, and I am Associate General Counsel of the AFL-CIO and Deputy Chair of the Congressional Oversight Panel established under the Emergency Economic Stabilization Act of 2008 to oversee the Troubled Asset Relief Program, or TARP. Though I will make reference to the work of the Congressional Oversight Panel this morning, my testimony today reflects my personal views and in certain respects the views of the AFL-CIO, and is not on behalf of the Congressional Oversight Panel, its staff or its chair.

Let me begin by saying that there is an urgent need for help for American families to address the financial crisis. We can no longer pretend that simply putting money in at the top of the financial system is going to achieve very much without stabilizing the other end of the system—household balance sheets. For that reason, the AFL-CIO strongly supports H.R. 3068, the TARP for Main Street Act of 2009, and applauds Chairman Frank for his leadership in moving this bill forward at this time.

When Congress passed the Emergency Economic Stabilization Act of 2008, Congress understood the manner in which the health of the financial system was not distinct from the health of the broader economy. On the one hand, a financial system in crisis deprives the real economy of investment capital on reasonable, terms, leading to economic decline. On the other hand, a weak real economy will tend to exert a downward pull on the financial system, causing financial firms' balance sheets to deteriorate, which itself threatens a vicious cycle of weakening financial firms pulling back further on lending, causing a further contraction of economic activity.

This Committee has been at the forefront since 2007 in recognizing these dynamics, particularly with respect to the urgent need to address the epidemic of home foreclosures in the wake of the subprime lending bubble. From its inception in November of last year, the Congressional Oversight Panel has consistently focused on the need for effective steps under the TARP to address the foreclosure crisis and halt the downward momentum of real estate prices driven by rising foreclosures. In addition to raising issues associated with the lack of action on foreclosure prevention during the initial months of the TARP in our first two reports, we focused our March, 2009 oversight report entirely on the subject of addressing the foreclosure crisis.[1]

In March, the Obama Administration announced its intention to devote significant TARP resources to assisting families facing foreclosure. The Oversight Panel was supportive of this effort, but noted that it had limitations, particularly around situations where homeowners' mortgages were deeply underwater, and where unemployed families were facing foreclosure.

Specifically, the Administration's Making Home Affordable foreclosure prevention program looked to lenders and servicers to commit to modifications of interest rates that would put mortgage payments in a range of 31% of the borrower's income. From the perspective of making mortgages viable for the employed, this approach to income is well-founded, but it is deeply problematic from the perspective of trying to prevent foreclosures among the unemployed, whose income is likely to be so low that no amount of interest rate reduction can get anywhere near close to producing modified terms resulting in payments of 31% of unemployment benefits.

And it is now very clear today that what began as a foreclosure crisis driven by falling real estate values and exploitative mortgage products is now being very significantly compounded by accelerating rates of unemployment. The official national rate of unemployment is now 9.5%, with higher rates in many states. Estimates of real rates of effective underemployment are now well into the teens, and projections by the IMF and the OECD are for rates going significantly higher and remaining over 10% through next year. The OECD's recent June Economic Outlook shows the U.S. having added 6 million unemployed people since December of 2007, and projects unemployment at the end of 2010 to be 10.1%.

Yesterday, the mortgage insurer PMI group cited rising unemployment as the leading cause of a projected continuing rise in home foreclosures. The result according to PMI is a likely continuing fall in housing prices in the majority of U.S. cities through the first quarter of 2011.[2]

The relationship between unemployment and foreclosures is particularly stark in the data on defaults of conforming, high quality mortgages. The joint report of the Office of Thrift Supervision and the Office of the Controller of the Currency on mortgage metrics for the first quarter of 2009 released last week showed a more than doubling of delinquent prime mortgages over the same period in 2008.[3] And of course unemployment is sharply higher now than in the first quarter.

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[1] The reports of the Congressional Oversight Panel are available at the Panel's website, www.cop.senate.gov.

[2] http://phx.corporate-ir.net/phoenix.zhtml?c=63356&p=irol-newsArticle&ID=1305200&highlight=

[3] http://www.ots.treas.gov/?p=PressReleases&ContentRecord_id=316ad3d4-1e0b-8562-eb75-4ef48e2eae8e&ContentType_id=4c12f337-b5b6-4c87-b45c-838958422bf3

Rapidly rising unemployment, and its consequences for the quality of bank assets, particularly home mortgages, threaten what progress has been made in stabilizing our financial system.

Furthermore, there are real questions as to whether we have really achieved a healthy banking system in terms of the fundamental purpose of the Emergency Economic Stabilization Act to revive the systems providing both household and business credit. The Congressional Oversight Panel has held field hearings over the last eight weeks on the state of credit provision, In Milwaukee, we looked at small business credit, in New York City at large business and commercial real estate lending, and earlier this week we focused on agricultural credit in a hearing in Greeley, Colorado. At each of these hearings, we heard the same story—despite talk of the success of TARP, banks were simply not lending to credit worthy borrowers, and in particular large banks that are the recipients of the bulk of the TARP funds were not lending. Yesterday we heard from the Department of Agriculture that farm lending programs of last resort were seeing double the demand in the second quarter from the same period last year, in substantial part because of the withdrawal of commercial lenders from the agricultural credit market.

The AFL-CIO believes that the continued weakness of our large bank sector is contributing to the intractability of this recession, and that the current strategy of buying time and hoping the banks earn their way into balance sheet strength is contributing to the continued contraction of credit across our economy, and particularly the difficulty of obtaining private credit for job creating business activity.

In these circumstances the AFL-CIO believes there is an urgent need to pursue all paths necessary to halt the rising tide of unemployment and home foreclosures, including a second, more job-targeted stimulus, the restoration of the ability of homeowners in bankruptcy to get relief from mortgage debt, and a more vigorous effort to restructure bank balance sheets to avoid the zombification of our major financial institutions.

H.R. 3068 though is an immediate step that could help this rapidly deteriorating situation, using resources already allocated to the TARP program. While the AFL-CIO believes the scale of funding for the bill could be larger, there are competing concerns that Treasury should continue to have enough headroom in the TARP to act should a crisis situation reassert itself.

In addition to providing $2 billion of funding for emergency relief to the unemployed facing foreclosure, H.R. 3068 would provide $1 billion in funding to assist state and local government in redeveloping abandoned and foreclosed homes, $1 billion in additional funding for the Housing Trust Fund, and $2 billion to aid in stabilizing multi-family housing and protect tenants whose properties are facing foreclosure.

These provisions are targeted toward clear needs with broad economic impact—particularly the aid to the unemployed and the monies targeted toward rehabilitating foreclosed and abandoned properties.

Finally, I want to say a word about what is at stake in a broader sense in preventing home foreclosures and addressing spiraling unemployment. Both long term unemployment and home foreclosure are profoundly destructive phenomena. They damage the people who endure them in ways that go beyond the numbers. The parent who tells their child they will have to leave their home, their school, their friends and neighbors because the family cannot make a mortgage payment suffers in a way that a spreadsheet cannot capture. Study after study has shown that the human and financial cost of long term unemployment goes far beyond the direct losses of income to the unemployed.

H.R. 3068 will not end our economic crisis or even halt the foreclosure epidemic. But it will help the unemployed stay in their homes and deliver help to those communities most affected by the foreclosure crisis. The AFL-CIO urges this Committee move the bill forward. I thank you for the opportunity to appear this morning and look forward to working with the Committee to address this crisis.

Testimony to Committee on Financial Services
United States House of Representatives
H.R. 3068, TARP for Main Street Act of 2009
July 9, 2009

Chris Warren
Chief of Regional Development
City of Cleveland

To Chairman Frank and Members of the Committee:

Thank you for the invitation to testify on H.R. 3068, the TARP for Main Street Act of 2009. I work for Cleveland Mayor Frank Jackson as his Chief of Regional Development. In that capacity I oversee the work of six city departments, including the departments of Community Development, Planning, and Economic Development.

Mr. Chairman, I will cover three points:

1. How the sub-prime mortgage crisis has wrecked havoc in Cleveland and its inner ring suburbs.

2. How our community is responding to the crisis, including our use of Neighborhood Stabilization Program funding made available through the Housing and Emergency Recovery Act of 2008 and our proposal to use Neighborhood Stabilization Program funding made available on a competitive basis through the American Recovery and Reinvestment Act of 2009.

3. Finally, a ringing endorsement, with a few qualifying suggestions, for the idea set forth H.R. 3068, namely that in addition to the bailouts of banks, TARP resources should also help responsible homeowners avoid foreclosure and help communities reclaim devastated neighborhoods and properties.

<u>Foreclosure Crisis in Cleveland</u>

Mr. Chairman, it is not hyperbole to say the sub-prime mortgage crisis has hit Cleveland with a force akin to a horrific natural disaster. I call it Hurricane Greed. The devastation is manifest:

- 24,000 residential foreclosures since 2005, at least 70% attributable to subprime lending. (see map)

- An overwhelming concentration of foreclosure activity in inner city neighborhoods with predominantly African American and Hispanic populations.

- 2,000 sheriff sales a year due to tax delinquencies.
- Over 10,000 vacant and seriously damaged residential structures; a threefold increase since 2004.
- $35 million of public funds spent since 2006 on the eradication of life-threatening public nuisances created by the irresponsible maintenance of vacant properties. Unfortunately, local government is the payer-of-last-resort for demolition or boarding of condemned structures, cutting of high weeds, removal of debris at properties controlled by some of the largest financial institutions in the world.
- Sharp increases in the demand for shelter services due to foreclosures, especially from families with children and the elderly.
- The undermining of redevelopment progress in many Cleveland neighborhoods.
- A City housing code enforcement department pushed to the breaking point as inspectors and prosecutors contend with an enormous spike in unsafe condemned properties.

And, the devastation in our region does not stop at the city limits. Double the foreclosure, abandonment, and public service numbers I just cited and you will have a fair idea of the impacts in Cuyahoga County.

While Cleveland is hardly alone, market dynamics and the nature of Cleveland's housing stock made Cleveland neighborhoods especially vulnerable to sub-prime predatory lending. Cleveland contains a large quantity of low value (less than $50,000) small wood frame one and two family homes. These properties attracted two kinds of buyers susceptible to purchases financed by sub-prime deals: 1. Cash-strapped, low wealth, and credit deficient households lured by the dream of ownership and enticed by low upfront costs; and, 2. Undercapitalized investor-owners attracted by the prospect of making a quick buck through the accumulation of over-appraised one and two family rentals.

As we have all now learned the predatory practices of unregulated mortgage brokers was made possible by the liquidity provided by the largest financial institutions in this country and the world. Most of those titans have either gone under or have received billions in TARP investments to stay afloat. The most active participants in the sub-prime fiasco in Cleveland are among the highest beneficiaries of TARP. Six mammoth financial institutions have initiated nearly 40% of the mortgage foreclosure sheriff sales in Cleveland since 2005. All of these institutions except Deutsche Bank have received TARP investments. The total TARP price tag? A staggering $96.6 Billion!

Institution	Sheriff Sale Actions	TARP Award
Wells Fargo	2624	$25,000,000,000
Bank of America (incl. Countrywide)	668	$15,000,000,000
J.P. Morgan Chase	1274	$25,000,000,000
CitiGroup	826	$25,000,000,000
US Bankcorp	1091	$6,600,000,000
Deutsche Bank	3010	$0
Totals	**9493**	**$96,600,000,000**

Cleveland's Response

Cleveland's response to this unnatural disaster is predicated on three basic strategies:

1. Collaboration

We have organized a countywide coalition bringing under one umbrella the City of Cleveland, suburbs, Cuyahoga County, the county Treasurer's Office, our Municipal Housing Court, our countywide public housing authority, dozens of community based development corporations, housing counseling agencies, universities, local and national philanthropic foundations, banks, and a newly created countywide land bank to fashion a common strategy and mutual commitments of resources and energy. Our $74 million application for NSP II funds, in fact, will be submitted to HUD next week by a consortium comprised of four governmental agencies plus dozens of civic partners.

2. Gaining Control of Abandoned Property

Earlier this year the Ohio General Assembly responded to a proposal set forth by Cuyahoga County Treasurer Jim Rokakis and a chorus of Cleveland supporters by passing legislation enabling the creation of the Cuyahoga County Land Bank. This unique entity (modeled on a similar program in Genesee County, Michigan) has the statutory powers and resources (an estimated $9 million per year funded through penalties and interest charged on delinquent tax collections) to acquire, responsibly maintain, and position for redevelopment thousands of mortgage foreclosed and tax foreclosed properties located throughout the county, including Cleveland.

3. Intense Targeting of Resources

In 2008, the City of Cleveland and its partners launched the Opportunity Homes initiative in six Cleveland neighborhoods. The effort calls for the acquisition and rehabilitation of 150 homes, the demolition of 100 homes, the productive reuse of 200 vacant lots, and pre-foreclosure counseling and debt restructuring for 150 at-risk homeowners. In addition, large scale catalytic real estate developments, including affordable multifamily projects, are being undertaken in each area. Finally, within each neighborhood the City has started an aggressive street-by-street housing code enforcement program in an effort to derail the wholesale dumping of distressed REO properties to irresponsible bulk buyers. Funds made possible through a $25 million NSP I grant and hopefully a successful NSP II application will allow an expansion of this approach to an additional 14 target neighborhoods, including five within inner-rings suburbs.

Comments on H.R. 3068

Mr. Chairman, passage of the TARP for Main Street Act of 2009 will unequivocally advance our efforts to recover in Cleveland and in Cuyahoga County. The Housing Trust Fund and Multi-Family Stabilization provisions will undergird our efforts to reclaim troubled properties and produce safe affordable housing. The Emergency Mortgage Relief Fund will help thousands of borrowers stay in their homes and avoid the blight and costs of abandonment. And, support for a third round of Neighborhood Stabilization Program will advance Cleveland and Cuyahoga County's sensible homegrown recovery program.

On behalf of Cleveland Mayor Frank Jackson, I congratulate Chairman Frank and other sponsors for bringing forward this landmark legislation.

The following are suggestions and recommendations for enhancing the bill:

1. We support a set of technical recommendations submitted to HUD by the National Foreclosure Prevention and Neighborhood Stabilization Task Force (attached for reference). These recommendations identify regulatory changes that would make the Neighborhood Stabilization Program more effective.

2. NSP guidelines should permit the draw down of sufficient NSP funds to facilitate the use of loan loss reserve pools. NSP funded reserves would allow our County Land Bank to maximize the net proceeds produced by bonding recurring revenue streams. All loans generated from the capitalized reserve pools would remain subject to NSP rules.

3. HUD strictly interprets the NSP statute as limiting the use of the 25% low-income set aside to foreclosed properties or properties acquired by Deed in Lieu of Foreclosure. HUD should amend its NSP notices to explicitly allow vacant residential and non-residential properties to qualify for the 25% low-income set aside.

4. TARP recipients should be held to strict standards with respect to the disposition of foreclosed properties. Two troubling practices have emerged in Cleveland and elsewhere in recent months.

    - Financial institutions are unloading unsalvageable REO properties in bulk sales to faceless out-of-town investors at give away prices. As a consequence, the City is put in the position of proceeding with a publically funded demolition with little chance of recovering its costs from the new owner. Financial institutions, especially TARP recipients, should bear the cost of demolition of such properties.

- We are seeing "walk-away" foreclosures. This practice involves a decision by creditors to forego recovery of foreclosed properties through sheriff sales because the costs of abating public nuisances are expected to exceed liquidation value. These "walk-aways" have two effects on a community, both bad. One, responsibility for the property is left in limbo. Two, the financial institutions off-load responsibility for dealing with the condition of the property. TARP recipients should be required to either pursue the sheriff sale or transfer its claim together with a check to cover the costs of abating public nuisances to a responsible party, such as a public land bank.

In closing, I appreciate the opportunity to testify this morning and welcome and inquiries you may have.

ATTACHMENT A

National Foreclosure Prevention and Neighborhood Stabilization Task Force

Outstanding NSP1 and NSP2 Issues

June 23, 2009

We are deeply committed to ensuring that the Neighborhood Stabilization Program (NSP) is as successful and impactful as possible. We know that HUD and Congress share this vision, and we are grateful for the statutory and regulatory changes made in the American Reinvestment and Recovery Act, the HUD NSP Notices of Funding Availability (NOFAs) issued in May and June of 2009, and the Bridge Notice issued last week. However, we have identified a number of outstanding regulatory changes that still need to be made. These changes are vital to the success of NSP and we ask that HUD and Congress act on them immediately.

Issues Specific to NSP2:

1. National Applicants: As currently constructed, the HUD NSP2 program NOFA makes it difficult for national and large regional organizations to submit funding applications that HUD will deem competitive. National and large regional nonprofit organizations have been working for the past year to establish efficient and scalable approaches to NSP activities that could increase NSP2's success. These important existing systems and solutions could be lost, given the NSP2 NOFA requirements, despite the fact that the NSP2 NOFA correction provided some additional flexibility and encouragement for national applicants. These problems can be overcome in either of two ways:
    a. *Establish a set-aside*: The NOFA could be amended to explicitly enable national and large regional organizations to apply for a specific portion of the funds through a "set-aside." This competition would be based on the special assets that the applicants could deliver – e.g. financial resources designed to leverage NSP2 funds, access to foreclosed property, special expertise in the area of acquiring and assembling financing to redevelop properties and undertake direct development, and the organizations' visions as to how such an effort could be administered.
    b. *Clarify rating factors for national and large regional applicants*: Alternatively, HUD could more clearly outline how an application would be scored under the current structure by clarifying its rating factors and their interpretation for national and large regional organizations. Organizations that will be using NSP2 funds to provide services and leveraged resources to support local programs should be given a more flexible opportunity to demonstrate that they will achieve positive results in the areas of Neighborhood Transformation, Energy Efficiency

and Soundness of Approach without having to provide quantitative, area-based information for the entire country or region at the time of application.

2. Land Bank Capacity: Land banking is a relatively new national activity, and it will be very difficult for both national and local applicants to prove prior experience with this specific use as required by the NSP2 NOFA. Applicants proposing land banking activities should be allowed to demonstrate prior experience through similar activities, such as property acquisition, holding, maintenance, and/or disposition.

Issues Pertinent to both NSP1 and NSP2:

1. Loan Loss Reserves: It is important that NSP funds leverage other public, private and philanthropic funding, so the maximum beneficial impact can be achieved in distressed neighborhoods. As such, HUD NSP guidelines should permit the drawdown of sufficient NSP funds necessary to facilitate the use of loan loss reserve pools, as established in HERA, on a local, state and national basis. All loans generated from the capitalized reserve pools would remain subject to the NSP/CDBG rules. In addition, borrowers of loans backed by an NSP-funded loan loss reserve should not be considered subrecipients of NSP, and income and fees from loans backed by an NSP-funded loan loss reserve should not be considered program income.

2. Eligible Uses: HUD has determined that Eligible Uses A (financing mechanisms) and C (land banks) are only applicable to foreclosed properties, not all properties that are otherwise eligible for NSP funds. This narrow application of the original statute compromises the effectiveness of the program. HUD should broaden its interpretation of eligible properties, or the statute should be revised to clarify that financing mechanisms and land banks are to be used in support of the other eligible NSP activities.

3. Use of Funds for Non-Foreclosed Properties: HUD strictly interprets the HERA NSP statute by stating that vacant properties that have not been abandoned or foreclosed upon are not eligible to meet the 25% low-income set-aside requirement. This interpretation severely restricts the types of multi-family properties that can be acquired and rehabilitated for the lowest income group. HUD should amend its NSP1 and NSP2 Notices to explicitly allow vacant residential and non-residential properties to qualify for the 25% low-income set-aside. If HUD continues to assert that the statute prohibits such a regulatory amendment, it can revise its definition of "abandoned" in the notice such that abandonment is not tied to foreclosure proceedings.

4. Previously Acquired Properties: HUD has limited the eligibility of third-party acquisitions to those properties acquired after the date of submission of the NSP action plan (typically December 1st, 2008). The allowable date for these acquisitions should ideally be extended back to the enactment of HERA, or at least to the issuance of the NSP1 NOFA on October 6, 2008. A written agreement prior to acquisition should not be required between a grantee and a third party. Rather, a written agreement should be required only prior to the commitment of NSP funds.

5. Definition of Foreclosed: Properties should be considered foreclosed until they are rehabilitated and reoccupied.
    a. The acquisition of properties by intermediaries using private funds, such as bulk purchasers or other third-party acquisition entities, should be permitted without negating the foreclosed status of the properties.
    b. Environmental review requirements should adhere to the CDBG requirements that prohibit the commitment of funds or "choice-limiting action" prior to the completion of the environmental review, but which do not apply to prior acquisitions made with private financing.
    c. Formal written clarification is required to confirm that other acquisition-related rules (e.g. purchase discount and appraisal) do not apply to projects purchased with private funds and that only receive NSP financing for rehabilitation.

6. Definition of Abandoned: Section 2301(c)(3)(B) of HERA allows NSP funds to be used for properties that have been "abandoned." The current HUD definition of "abandoned" is too restrictive because of its strong connection to the foreclosure process and its requirement that a property be vacant for at least 90 days. This is extremely problematic in localities where the buildings have been abandoned by the owner, but rental tenants remain. Therefore, the definition of "abandoned" should be expanded to explicitly state that abandoned properties include those that have been functionally and financially abandoned by their owners, not necessarily by rental tenants.

7. Continued Affordability: It is necessary to clarify that "affordable rents" for NSP are not limited to the HOME rents as referenced in 24 CFR 92.252(a) (lesser of FMR or affordability for household at or below 65%AMI). It is also necessary to clarify that lease purchase tenants do NOT *have to* buy their home in 36 months (longer lease purchase periods are OK) and that the HOME rents as referenced in 24 CFR 92.252(a) do NOT apply if the home is not transferred to a homebuyer in 42 months. In both cases, affordable rents should be defined as: A rent that does not exceed 30 percent of the adjusted income of a family whose annual income equals 120 percent of the median income for the area, as determined by HUD, with adjustments for number of bedrooms in the unit.

8. Continued Affordability for Tenants of Owner-Occupied Properties: HUD is requiring that rents for small owner-occupied rental properties (2-4 units) must remain affordable for the specified affordability period. As a result, in addition to the affordability requirements placed on the homeowner, the owner must also impose rent restrictions and conduct ongoing income certifications for their tenants. This process can be burdensome on both the owner-occupant and the renters. The HOME regulations allow for a presumption of continued affordability for homeowners in certain markets, but this does not appear to apply to rental units. Therefore, HUD should not require ongoing income certifications for renters in small owner-occupied rental properties in areas where market rents, based on a market study, are expected to remain affordable to 120% of AMI.

What *We* Mean By Housing:
An Open Letter to Congress and the Administration
April 2009

The economic crisis that has beset the United States is rooted in excesses in the home ownership housing market that must be corrected for our economy to recover. But housing is much more than the private market home ownership. The undersigned organizations want to call attention to what *we* mean by housing. We mean enough homes renting at affordable prices so that our nation's lowest income families and individuals are assured of safe and decent places to live.

As the Administration and Congress consider action to stem housing foreclosures and to reform the housing finance system, equal attention must be paid to the long-standing and unmet need for decent, affordable homes for households with the lowest incomes. Despite the surplus of single family homes for sale today, the shortage of rental homes that extremely low income households can afford continues unabated.

Nationwide, 9 million extremely low income renter households compete for only 6.2 million rental homes they can afford. Today, hundreds of thousands of people are on waiting lists for rental assistance, which are only getting longer as unemployment and foreclosures grow. Tonight, more than 745,000 people are homeless.

As the recession progresses, the number of people losing their jobs and subsequently falling below the poverty line is projected to increase by 10 million people over the next two to three years.

A particularly tragic result of increased poverty is increased homelessness. One in 10 people living below the federal poverty level will become homeless at some point over the course of a year. We project at least 800,000 new homeless people, including children, seniors, and veterans, this year unless action is taken now. School districts across the country are already seeing sharp increases in the number of homeless children and youth.

In any recent year, the funds provided for low income housing in the just enacted economic recovery bill would represent significant resources to HUD programs, and we are very grateful for these new investments. We are also quite pleased with President Obama's proposal for $1 billion to capitalize the National Housing Trust Fund. But much more must be done to prevent a surge in homelessness and help the unemployed, low wage workers, low income seniors, people with disabilities, and veterans who are experiencing severe housing affordability challenges.

When we compare the unprecedented attention paid to homeownership and the investment the federal government will make to shore up troubled mortgages to the resources for programs serving the nation's most vulnerable people, we are dismayed and disappointed that those households for whom stable homes are most threatened in today's economy are once again being shortchanged.

The solutions to the housing crisis of the lowest income renters are simpler and less expensive than what is needed to repair the home ownership market. We know what to do: preserve and expand the supply of rental homes that these members of our communities can afford. To do so, we call for dedicated sources of funding for the National Housing Trust Fund that will generate the necessary revenue to produce or preserve 1.5 million homes in the next ten years and 200,000 new housing choice vouchers a year for ten years.

1032 NATIONAL, STATE & LOCAL ORGANIZATIONS (as of July 8, 2009)

NATIONAL ORGANIZATIONS

Alliance for Healthy Homes
American Association of Homes and Services for the Aging
American Association of People with Disabilities
Catholic Charities USA
Center for Community Change
Community Action Partnership
Conference of Major Superiors of Men
Consortium for Citizens With Disabilities Housing Task Force
Corporation for Supportive Housing
Enterprise Community Partners
Evangelical Lutheran Church in America
Family Promise
Friends Committee on National Legislation
Housing Assistance Council
Jesuit Conference USA
Judge David L. Bazelon Center for Mental Health Law
Leadership Conference of Women Religious
Local Initiatives Support Corporation
Lutheran Services in America
Mennonite Central Committee U.S. Washington Office
Mercy Housing Inc.
National Affordable Housing Trust
National AIDS Housing Coalition
National Alliance of Community Economic Development Associations
National Alliance of HUD Tenants
National Alliance on Mental Illness
National Association for the Education of Homeless Children and Youth
National Center on Family Homelessness
National Church Residences
National Coalition for the Homeless
National Council of Churches Poverty Initiative
National Council on Independent Living
National Disability Rights Network
National Health Care for the Homeless Council
National Housing Institute
National Housing Law Project
National Housing Trust
National Law Center on Homelessness and Poverty
National Low Income Housing Coalition
National Policy and Advocacy Council on Homelessness
NETWORK, A National Catholic Social Justice Lobby

Nurse Family Partnership/National Nursing Centers Consortium
PolicyLink
Poverty & Race Research Action Council
Presbyterian Church (U.S.A.) Washington Office
Religious of Jesus and Mary
Sisters of the Holy Names, U.S.-Ontario Province Justice Network
Society of St. Vincent de Paul, National Council of the United States
Sojourners
Stewards for Affordable Housing for the Future
Technical Assistance Collaborative
The Arc of the United States
Union for Reform Judaism
United Cerebral Palsy
United Church of Christ, Justice and Witness Ministries
United Jewish Communities
United Methodist Church – General Board of Church and Society
United Spinal Association
United States Conference of Catholic Bishops
United Way of America
Volunteers of America
YWCA USA

STATE & LOCAL ORGANIZATIONS

Alabama
Empowering Communities Helping Ourselves - Montgomery, AL
Low Income Housing Coalition of Alabama - Birmingham, AL
Partners in Progress - Pine Apple, AL

Alaska
Alaska Coalition on Housing and Homelessness - Anchorage, AK
Anchorage Neighborhood Health Center - Anchorage, AK
Housing First, Inc. - Juneau, AK
United Way of Southeast Alaska - Juneau, AK

Arizona
Andre House of Arizona - Phoenix, AZ
Arizona Coalition to End Homelessness - Phoenix, AZ
Association of Arizona Food Banks - Phoenix, AZ
CEDA Housing - Tempe, AZ
Compass Affordable Housing - Tucson, AZ
Foundation for Senior Living - Phoenix, AZ
Goodwill Industries of Northern Arizona, Inc. - Flagstaff, AZ

Housing America Corporation - Somerton, AZ
Mohave County Housing Authority - Mohave County, AZ
Nogales Community Development Corporation - Nogales, AZ
Protecting Arizona's Family Coalition - Phoenix, AZ
Society of St. Vincent de Paul - Flagstaff, AZ
Southern Arizona AIDS Foundation - Tucson, AZ
The Aberdeen Foundation - Prescott, AZ
The Primavera Foundation - Tucson, AZ

Arkansas
Black River Area Development Corporation - Pocahontas, AR
Webster Corporation - Little Rock, AR

California
Access to Independence - San Diego, CA
Affordable Housing Network of Santa Clara County - San Jose, CA
Alameda County Housing Authority - Hayward, CA
Alexander Tenants Association, Inc. - San Francisco, CA
Alliance for a Better District 6 - San Francisco, CA
Beyond Shelter - Los Angeles, CA
Building Opportunities for Self-Sufficiency - Berkeley, CA
Burbank Housing Development Corporation - Santa Rosa, CA
California Affordable Housing Law Project - Oakland, CA
California Association of Social Rehabilitation Agencies - Martinez, CA
California Catholic Conference - Sacramento, CA
California Coalition for Rural Housing - Sacramento, CA
California Housing Partnership - San Francisco, CA
Catholic Charities of Santa Clara - San Jose, CA
CHAM Deliverance Ministry - San Jose, CA
Coalition for Economic Survival - Los Angeles, CA
Community Economics, Inc. - Oakland, CA
Community Housing Improvement Systems and Planning Association, Inc. - Salinas, CA
Community HousingWorks - San Diego, CA
Consolidated Area Housing Authority of Sutter County - Yuba City, CA
Diocese of Orange - Orange, CA
Dominican Sisters of San Rafael - San Rafael, CA
EAH Housing - San Rafael, CA
East Bay Asian Local Development Corporation - Oakland, CA
East LA Community Corporation - Los Angeles, CA
Gubb & Barshay LLP - San Francisco, CA
Home&Community, Inc. - Los Angeles, CA
Homeless Health Care Los Angeles - Los Angeles, CA
Homeward Bound of Marin - Novato, CA

Housing Authority of the City of Alameda - Alameda, CA
Housing Authority of the City of Santa Barbara - Santa Barbara, CA
Housing Authority of the County of Monterey - Salinas, CA
Housing Authority of the County of Santa Barbara - Lompoc, CA
Housing Authority of the County of Santa Clara - San Jose, CA
Housing California - Sacramento, CA
Housing Leadership Council of San Mateo County - South San Francisco, CA
Housing Now - Sacramento, CA
Housing Rights Committee of San Francisco - San Francisco, CA
Lamp Community - Los Angeles, CA
Lily of the Valley Church - Escondido, CA
Los Angeles Coalition to End Hunger and Homelessness - Los Angeles, CA
Lutheran Office of Public Policy – California - Sacramento, CA
Mental Health Consumer Concerns, Inc. - Concord, CA
Momentum for Mental Health - San Jose, CA
Neighborhood Housing Services of Orange County - Anaheim, CA
Non-Profit Housing Association of Northern California - San Francisco, CA
Northern Circle Indian Housing Authority - Ukiah, CA
Orange County Community Housing Corporation - Santa Ana, CA
Pyatok Architects, Inc. - Oakland, CA
Regional Center of the East Bay - Oakland, CA
Religious Sisters of Charity - Culver City, CA
Resources for Community Development - Berkeley, CA
Rolling Start Inc., Center for Independent Living - San Bernardino, CA
Sacramento Housing Alliance - Sacramento, CA
Sacramento Mutual Housing Association - Sacramento, CA
San Diego Housing Federation - San Diego, CA
San Francisco Council of Community Housing Organizations - San Francisco, CA
San Francisco Housing Justice Network - San Francisco, CA
San Luis Obispo County Housing Trust Fund - San Luis Obispo, CA
Santa Cruz County Homeless Persons' Health Project - Santa Cruz, CA
Self-Help Enterprises - Visalia, CA
Shelter Partnership, Inc. - Los Angeles, CA
Sisters of the Holy Family - Fremont, CA
Sisters of the Presentation - San Francisco, CA
Skid Row Housing Trust - Los Angeles, CA
Southern California Association of Non-Profit Housing - Los Angeles, CA
Tenant Associations Coalition of San Francisco - San Francisco, CA
Turning Point Community Programs - Sacramento, CA
Watts/Century Latino Organization - Los Angeles, CA
WNC & Associates - Irvine, CA

Colorado

ACCESS Housing – Commerce City, CO
Almost Home, Inc. - Brighton, CO
Catholic Health Initiatives - Denver, CO
Church and Society Network, Rocky Mountain Conference-United Methodist Church – Greenwood Village, CO
Colorado Coalition for the Homeless – Denver, CO
Denver's Road Home – Denver, CO
Housing Colorado – Denver, CO
Hunger for Justice – Denver, CO
Lutheran Advocacy Ministry – Colorado - Denver, CO
Rocky Mountain HDC, Inc – Denver, CO
The Gathering Place: A Refuge for Rebuilding Lives – Denver, CO
Urban Land Conservancy – Denver, CO

Connecticut
Applied Behavioral Rehabilitation Institute - Bridgeport, CT
Bethsaida Community Inc. – Norwich, CT
Birmingham Group Health Services – Ansonia, CT
Capitol Region Council of Governments – Hartford, CT
Central Connecticut Coast YMCA – Bridgeport, CT
Collaborative Center for Justice, Inc. – Hartford, CT
Columbus House, Inc. – New Haven, CT
Comfort Keepers – Wallingford, CT
Connecticut Association for Community Action – New Britain, CT
Connecticut Association of Nonprofits – Hartford, CT
Connecticut Association of Not-for-profit Providers for the Aging – Berlin, CT
Connecticut Coalition to End Homelessness – Hartford, CT
Connecticut Community Development Association – Hartford, CT
Connecticut Housing Coalition – Wethersfield, CT
Connecticut Housing Investment Fund – Hartford, CT
Connecticut Legal Rights Project, Inc. – Middletown, CT
Connecticut Legal Services, Inc. – Middletown, CT
Connecticut Puerto Rican Forum – Hartford, CT
Eastern Connecticut Housing Opportunities – New London, CT
Empowering Resources – Bridgeport , CT
Family Services of Greater Waterbury – Waterbury, CT
Friendship Service Center of New Britain, Inc. – New Britain, CT
Gilead Community Services, Inc. – Middletown, CT
Grassroots Community Development Corporation – West Haven, CT
Greater Hartford Legal Aid, Inc. – Hartford, CT
Hartford Homelessness Working Group – Hartford, CT
Housing Authority Insurance – Cheshire, CT
Housing Partnership Committee – Guilford, CT

Interlude, Inc. – Danbury, CT
Journey Home – Hartford, CT
Legal Assistance Resource Center of Connecticut, Inc. – Hartford, CT
Mutual Housing Association of Southwest Connecticut – Stamford, CT
National Association of Social Workers, Connecticut Chapter – Rocky Hill, CT
New Opportunities, Inc. – Waterbury, CT
Partners in Healthy Communities – New London, CT
Partnership for Strong Communities – Hartford, CT
Shelter for the Homeless – Stamford, CT
Southside Institutions Neighborhood Alliance, Inc. – Hartford, CT
St. Vincent DePaul Place, Inc. – Middletown, CT
TEAM Inc. – Derby, CT
Thames River Supportive Housing Program – Norwich, CT
The McCall Foundation, Inc. – Torrington, CT
United Way of Greater New Haven – New Haven, CT
Urban League of Greater Hartford, Inc – Hartford, CT
VLO Group New England, LLC – Hartford, CT
Willimantic Advocates Make it Happen (WAMH): Rays of Hope – Willimantic, CT
Windham Regional Community Council – Willimantic, CT

Delaware
Delaware Housing Coalition – Dover, DE
Lutheran Community Services – Wilmington, DE

District of Columbia
Bread for the City – Washington, DC
Father McKenna Center – Washington, DC
So Others Might Eat, Inc. – Washington, DC
Somerset Development Company – Washington, DC
TENAC – Washington, DC
Washington Legal Clinic for the Homeless – Washington, DC
We are Family Senior Outreach Network – Washington, DC

Florida
1000 Friends of Florida – Tallahassee, FL
Association to Preserve the Eatonville Community, Inc. – Eatonville, FL
Center for Independent Living of South Florida, Inc. – Miami, FL
Depression Bipolar and Support Alliance – Rockledge – Cocoa Beach, FL
Florida Housing Coalition – Tallahassee, FL
Florida Legal Services, Inc. – Miami, FL
Florida Non Profit Housing, Inc. – Sebring, FL
Florida Supportive Housing Coalition – Tallahassee, FL
Homeless Coalition of Central Florida – Lakeland, FL

Homeless Coalition of Hillsborough County – Tampa, FL
Homeless Services Network of Central Florida – Orlando, FL
Homes in Partnership, Inc. – Apopka, FL
Lake Wales Care Center – Lake Wales, FL
Lutheran Social Services of North Florida, Inc. – Tallahassee, FL
Northeast Florida Community Action Agency, Inc. – Jacksonville, FL
Pinellas Village, Inc. – Largo, FL
Polk County Coalition for the Homeless – Lakeland, FL
St. Johns Housing Partnership – St. Augustine, FL
St. Vincent de Paul Resource Center – Port Richey, FL
Sumter County Housing Department – Bushnell, FL
Titusville Housing Authority Resident Advisory Board – Titusville, FL

Georgia
Atlanta Housing Association of Neighborhood-based Developers – Atlanta, GA
Charis Community Housing – Atlanta, GA
Community Development Corporation of Southwest Georgia – Colquitt, GA
EC Community Development Corporation – Blakely, GA
From Jesus Network – Snellville, GA
Gainesville Non-Profit development Foundation, Inc. – Gainesville, GA
Georgia Community Development Association – Atlanta, GA
Georgia Department of Community Affairs – Atlanta, GA
H.O.P.E. Through Divine Intervention, Inc. – Atlanta, GA
Interfaith, Inc. – Atlanta, GA
Interfaith-Troy Street CDC – Atlanta, GA
Living Room, Inc. – Atlanta, GA
Paces Foundation, Inc. – Smyrna, GA
Resource for Residents and Communities of Georgia – Atlanta, GA
Southwest Georgia Housing Development Corporation – Cuthbert, GA
St. Joseph's Mercy Care Services – Atlanta, GA
SUMMECH Community Development Corporation – Atlanta, GA
The IMPACT! Group – Lawrenceville, GA
University Community Development Corporation – Atlanta, GA
West Georgia Consortium – Cuthbert, GA

Hawaii
Affordable Housing and Homeless Alliance – Honolulu, HI
Gregory House Programs – Honolulu, HI

Idaho
Catholic Charities of Idaho – Boise, ID
Idaho Psychiatric Rehabilitation Association – Coeur d'Alene, ID

Illinois
Access Living – Chicago, IL
Advocates for Access - Peoria Heights, IL
Bridge Communities, Inc. – Glen Ellyn, IL
Champaign-Urbana Tenant Union – Champaign, IL
Chicago Community Loan Fund – Chicago, IL
Citizens' Lighthouse Community Land Trust – Evanston, IL
Comprehensive Community Solutions – Rockford, IL
Daveri Development Group – Chicago, IL
DeKalb County Housing Action Coalition – DeKalb, IL
Economic Youth Organization, Inc. – Chicago , IL
Greater Peoria Empowerment Organization – Peoria, IL
Heartland Alliance for Human Needs & Human Rights – Chicago, IL
Housing Action Illinois – Chicago, IL
Housing Authority Tenants Association – Peoria, IL
Housing Choice Partners – Chicago, IL
Illinois/Iowa Center for Independent Living - Rock Island, IL
Interfaith Housing Center of the Northern Suburbs – Winnetka, IL
Interfaith Open Communities – Chicago, IL
Kewanee Social Service Agency – Kewanee, IL
Lakeside Community Development Corporation – Chicago, IL
Lawyers' Committee for Better Housing – Chicago, IL
Lighten-Gale Group – Chicago, IL
Metropolitan Tenants Organization – Chicago, IL
Next Steps, NFP – Chicago, IL
PATH, Inc. – Bloomington, IL
People for Community Recovery – Chicago, IL
Project IRENE – Berwyn, IL
Rockford Area Affordable Housing Coalition – Rockford, IL
Stopping Woman Abuse Now – Olney, IL
Supportive Housing Providers Association – Decatur, IL
United Congregations of Metro-East – Madison, IL
Wardell Yotaghan Resident Management Corporation – Chicago, IL

Indiana
City of Gary Homeownership Opportunity Network – Gary, IN
Fort Wayne Housing Authority – Fort Wayne, IN
Heartland Center/ Office of Peace, Justice and the Integrity of Creation for the Diocese of Gary, Indiana – Hammond, IN
Indiana Association for Community Economic Development – Indianapolis, IN
Leadership Team of the Sisters of St. Francis – Oldenburg, IN
Sisters of Providence – St. Mary-of-the-Woods, IN

Iowa
Anawim Housing – Des Moines, IA
Community Housing Initiatives, Inc. – Spencer , IA
Des Moines Area Interfaith Hospitality Network – Des Moines, IA
Emergency Residence Project – Ames, IA
Scott County Housing Council – Davenport, IA
Waubonsie Mental Health Center – Clarinda, IA

Kansas
Kansas Statewide Homeless Coalition – Topeka, KS

Kentucky
Appalachian Foothills Housing Agency, Inc. – Wurtland, KY
Beattyville Housing and Development Corporation, Inc. – Beattyville, KY
COAP, Inc. – Harlan, KY
Community Housing, Inc. – Winchester, KY
Community Ventures Corporation – Lexington, KY
Federation of Appalachian Housing Enterprises, Inc. – Berea, KY
Hardin County Habitat for Humanity – Elizabethtown, KY
Homeless and Housing Coalition of Kentucky – Frankfort, KY
Kentucky Domestic Violence Association – Frankfort, KY
Kentucky Equal Justice Center – Lexington, KY
Kentucky Interagency Council on Homelessness – Frankfort, KY
Kentucky Mountain Housing Development Corp. – Manchester, KY
LINKS, Inc. – Prestonsburg, KY
Multi-County Clients Council, Inc. – Louisville, KY
Nazareth Campus Service – Nazareth, KY
People's Self Help Housing – Vanceburge, KY
Shepherd's Shelter Inc. – Shepherdsville, KY
Sisters of Charity of Nazareth Central Leadership – Nazareth, KY
The Center for Women and Families – Louisville, KY
The Housing Partnership, Inc. – Louisville, KY
The Shelter for Women & Children, Inc. – Henderson, KY
Volunteers of America of KY – Lexington, KY

Louisiana
Advocacy Center – New Orleans, LA
Avoyelles Progress Action Committee, Inc. – Marksville, LA
Fitness and Praise Youth Development, Inc. – Baton Rouge, LA
HOPE for the Homeless - Shreveport, LA
Hope House of Central Louisiana – Alexandria, LA
Louisiana Housing Alliance – Baton Rouge, LA
Renaissance Neighborhood Development Corporation – New Orleans, LA
UNITY of Greater New Orleans with Common Ground Institute – New Orleans, LA

Maine
Avesta Housing – Portland, ME
Coastal Enterprises, Inc. – Wiscasset, ME
Community Concepts, Inc. – South Paris, ME
Community Housing of Maine – Portland, ME
Developers Collaborative – Portland, ME
Disability Rights Center of Maine - Augusta, ME
Freeport Housing Trust – Freeport, ME

Maine Affordable Housing Coalition - Portland, ME
Maine People's Alliance – South Portland, ME
MaineHousing – Augusta, ME
Northern New England Housing Investment Fund – Portland, ME
Portland Tenants Union – Portland, ME
Rumford Group Homes, Inc. – Rumford, ME
The Caleb Foundation – Saco , ME

Maryland
Bethesda Cares, Inc. – Bethesda, MD
Community Behavioral Health Association of Maryland – Catonsville, MD
Homeless to Homeownership Incorporated – Upper Marlboro, MD
Housing Opportunities Commission of Montgomery County – Kensington, MD
Leadership Conference of Women Religious – Silver Spring, MD
Maryland Affordable Housing Coalition – Baltimore, MD
Mission Helpers of the Sacred Heart – Baltimore, MD
Montgomery Housing Partnership – Silver Spring, MD
P. Francis Murphy Initiative for Justice and Peace - Baltimore, MD
Public Justice Center – Baltimore, MD
Renters United for Change in Maryland – Baltimore, MD
Seton Outreach Center – Emmitsburge, MD
Simon Publications – Bethesda, MD
Sisters of Bon Secours – Marriottsville, MD
Sisters of Mercy of the Americas Institute Leadership Team – Silver Spring, MD
U.S. Psychiatric Rehabilitation Association – Linthicum, MD
Xaverian Brothers – Baltimore, MD

Massachusetts
AIDS CARE/Hampshire Housing – Northampton, MA
Archdiocese of Boston's Planning Office for Urban Affairs, Inc. – Boston, MA
Asian Community Development Corporation – Boston , MA
Barnstable County HOME Consortium – Barnstable, MA
Billan American Community Development Inc. – Roxbury, MA
Boston Center for Independent Living Inc. – Boston, MA
Boston Community Capital – Boston, MA
Boston Resident Advisory Board – Boston, MA
Boston Tenant Coalition – Boston, MA
Cambridge Economic Opportunity Committee, Inc. – Cambridge, MA
Citizens' Housing and Planning Association – Boston, MA
City Life/Vida Urbana – Boston, MA
City of Northampton, MA – Northampton, MA
City of Springfield – Office of Housing – Springfield, MA
Commonwealth Land Trust, Inc. – Boston, MA

Community Healthlink, Inc. – Worcester , MA
Congregation of the Sisters of St. Joseph – Springfield, MA
Cuvilly Arts and Earth Center – Ipswich, MA
Eliot Community Human Services, Inc. – Lexington, MA
Home Funders – Jamaica Plain, MA
HomeStart, Inc. – Boston, MA
Lynn Housing Authority and Neighborhood Development – Lynn, MA
Lynn Housing Authority and Neighborhood Development – Lynn, MA
Massachusetts Alliance of HUD Tenants – Boston, MA
Massachusetts Coalition for the Homeless – Lynn, MA
Massachusetts Council of Human Service Providers, Inc. – Boston, MA
Meredith Management Corporation – Newton, MA
Old Colony Tenants Association, Inc. – Boston, MA
Project Hope – Roxbury, MA
Sisters of Providence – Holyoke, MA
Sisters of St. Anne, St. Marie Province - Marlborough , MA
Springfield Partners for Community Action of Springfield – Springfield, MA
Stavros Center for Independent Living – Amherst, MA
The Mary Ellen Tenant Taskforce – Boston, MA
Valley Community Development Corporation – Northampton, MA
Vinfen Corporation – Cambridge, MA
Women's Institute for Housing and Economic Development – Boston, MA

Michigan
Ann Arbor, MI Housing Commission – Ann Arbor, MI
Avalon Housing, Inc. – Ann Arbor, MI
Center for Civil Justice – Saginaw, MI
Community Housing Network, Inc. – Troy, MI
Detroit MoveOn Councils – Detroit, MI
Disability Advocates of Kent County – Grand Rapids, MI
Disability Network Southwest Michigan – Kalamazoo, MI
Disability Network/Lakeshore – Holland, MI
Dominican Sisters – Oxford, MI
Genesee County Habitat for Humanity – Flint , MI
Home Visitors of Mary – Detroit, MI
Housing Services for Eaton County – Charlotte, MI
Interfaith Strategy for Advocacy & Action in the Community – Kalamazoo, MI
Kalamazoo Collective Housing – Kalamazoo, MI
Leadership Council of the Sisters, Servants of the Immaculate Heart of Mary – Monroe, MI
Michigan Disability Rights Coalition – East Lansing, MI
Mid Michigan Community Action Agency – Farwell, MI
Neighborhood Service Organization – Detroit, MI
Open Door & Next Door Shelters – Kalamazoo, MI

Poe Street Block Club – Detroit, MI
Sisters of St. Paul de Chartres – Marquette, MI
Superior Alliance for Independent Living – Marquette, MI
The Arc of Livingston – Howell, MI
United Cerebral Palsy of Michigan – East Lansing, MI
Washtenaw Housing Alliance – Ann Arbor, MI

Minnesota
Cabrini Partnership – Minneapolis, MN
Care & Share, Inc. – Crookston, MN
Central Minnesota Housing Partnership – St. Cloud, MN
Concrete Energy Homes – Minneapolis, MN
Cornerstone Advocacy Services – Bloomington, MN
Domestic Abuse Intervention Programs – Duluth, MN
Elim Transitional Housing, Inc. – Minneapolis , MN
Families Moving Forward – Minneapolis , MN
Family & Children Service – Minneapolis, MN
Family Housing Fund – Minneapolis, MN
HOME Line – Minneapolis, MN
Housing & Redevelopment Authority of Bemidji – Bemidji, MN
Housing Preservation Project – St. Paul, MN
Integrated Community Solutions, Inc. – Fridley , MN
Island View Resort – Sand Lake , MN
Metropolitan Council on Affordable Housing – Minneapolis , MN
Metropolitan Interface Council on Affordable Housing – Minneapolis, MN
Minneapolis Highrise Representative Council – Minneapolis, MN
Minneapolis Urban League – Minneapolis, MN
Minnesota Catholic Conference – St. Paul, MN
Minnesota Coalition For The Homeless – St. Paul , MN
Minnesota Council of Churches – Minneapolis, MN
Minnesota Housing Partnership – Saint Paul, MN
Minnesota Tenants Alliance – Minneapolis, MN
No Place Like Home Communities – Plymouth, MN
Park Cooperative Apartments – Minneapolis, MN
People Responding In Social Ministry - Golden Valley, MN
People Serving People, Inc. – Minneapolis, MN
Residents for Affordable Housing – Minneapolis, MN
School Sisters of Notre Dame, Mankato Province – Mankato, MN
Sharing & Caring Hands – Minneapolis, MN
Simpson Housing Services, Inc. – Minneapolis, MN
Social Action Committee, First Unitarian Society – Minneapolis, MN
Sojourner – Hopkins , MN
St. Joseph the Worker Church – Maple Grove, MN

St. Stephens Housing Services – Minneapolis, MN
St. Stephen's Human Services – Minneapolis , MN

Mississippi
Mississippi Center for Justice – Jackson, MS
North Gulfport Community Land Trust – Gulfport, MS
Rust College Community Development Corporation – Holly Springs, MS
Beyond Housing – St. Louis, MO
Community Caring Council – Cape Girardeau, MO
Community Housing Network – Kansas City, MO
Diocese of Kansas City-St. Joseph – Kansas City, MO
Intercommunity Housing Association – St. Louis, MO
Kansas City Urban Youth Center – Kansas City, MO
Lutheran Family & Children's Services of Missouri – St. Louis, MO
Missouri Association for Social Welfare – Jefferson City, MO
NorthEast Independent Living Services – Hannibal, MO
Northside Community Housing, Inc. – St. Louis, MO
Places for People, Inc. – St. Louis, MO
Rural Outreach and Immigration Services – St. Louis, MO
Sanctuary In The Ordinary – St. Louis, MO
Sisters of St. Joseph of Carondelet and Associates – St. Louis, MO
Whole Health Outreach – Ellington, MO

Nebraska
Creighton Center for Service and Justice – Omaha, NE
Notre Dame Sisters – Seven Oaks of Florence – Omaha, NE
Sisters of Mercy – West Midwest Justice Team – Omaha, NE

Nevada
Housing Authority of the City of Las Vegas – Las Vegas, NV
Nevada Fair Housing Center – Las Vegas, NV

New Hampshire
Corpus Christi Assistance – Nashua, NH
Diocese of Manchester – Manchester, NH
Greater Nashua (NH) Continuum of Care – Nashua, NH
Harbor Homes, Inc. – Nashua, NH
Marguerite's Place Housing – Nashua, NH
Marguerite's Place, Inc. – Nashua, NH
Nashua Soup Kitchen and Shelter, Inc. – Nashua, NH
Neighborhood Housing Services of Greater Nashua – Nashua , NH
New Hampshire Coalition to End Homelessness – Manchester, NH
New Hampshire Community Loan Fund – Concord, NH
New Hampshire Housing Forum – Concord, NH
Sisters of Mercy – Windham, NH

Southern NH HIV/AIDS Task Force – Nashua, NH
Southwestern Community Services – Keene, NH
United Valley Interfaith Project – Lebanon, NH

New Jersey
ADTI Housing Corporation – Raritan, NJ
Advance Housing, Inc. – Hackensack, NJ
Alpha Supportive Housing – Camden, NJ
Bethel Ridge Corp – Basking Ridge, NJ
Better Future Self-Help Center – Washington, NJ
Bridgeway Rehabilitation Services – Elizabeth, NJ
Broadway House for Continuing Care – Newark, NJ
Camden County Council on Economic Opportunity, Inc – Camden, NJ
Camden County Homeless Network Planning Committee – Pennsauken, NJ
Center for Family Services – Camden, NJ
Cape Counseling Services – Cape May, NJ
Capitol Care Inc. – Sussex County, NJ
Care Plus NJ, Inc. – Paramus, NJ
Cathedral Kitchen – Camden, NJ
Catholic Charities in the Diocese of Paterson – Paterson, NJ
Catholic Charities in the Diocese of Trenton – Trenton, NJ
Catholic Family and Community Services of Paterson – Paterson, NJ
Center for Family Services – Camden, NJ
Center for Independent Living of South Jersey, Inc. – Westville, NJ
Center for Mental Health, Newton Memorial Hospital – Newton, NJ
Coalition of Mental Health Consumer Organizations of New Jersey – Paterson, NJ
Collaborative Support Programs of New Jersey – Freehold, NJ
Community Action Services – East Brunswick, NJ
Community Enterprises Corporation – Freehold, NJ
Community Health Law Project – Trenton, NJ
Community Planning & Advocacy Council – Pennsauken, NJ
Corporation for Supportive Housing- NJ – Trenton, NJ
Couch Braunsdorf Insurance- Social Services Division – Liberty Corner, NJ
Covenant House New Jersey – Newark, NJ
CPANJ c/o Mental Health Association in New Jersey – Verona, NJ
Cumberland County Guidance Center – Millville, NJ
DACKKS Group for Supportive Housing – Ramsey , NJ
DAWN Center for Independent Living – Denville, NJ
Dooley House Inc. – Camden, NJ
East Brunswick Community Housing Corporation – East Brunswick, NJ
Easter Seals New Jersey – East Brunswick, NJ
Edison Housing Authority – Edison, NJ
Episcopal Community Development Inc. – Newark, NJ

Eva's Village, Inc. – Paterson, NJ
Fair Housing Council of Northern New Jersey – Hackensack, NJ
Family Service – Mt. Holly, NJ
FISH Hospitality Program, Inc. – Dunellen, NJ
Hispanic Multi Purpose Service Center – Paterson, NJ
Homefront - Lawrenceville, NJ
Homefront-TLC – Lawrenceville, NJ
Housing & Community Development Network of New Jersey – Trenton, NJ
Housing Authority of Bergen County – Hackensack, NJ
Housing Authority of Gloucester County – Deptford, NJ
Hunterdon County Department of Human Services – Flemington, NJ
Hunterdon Housing Alliance – Flemington, NJ
Info Line of Central Jersey – Milltown, NJ
Jersey City Episcopal- Community Development Corporation – Jersey City, NJ
Jewish Family Service of Atlantic & Cape May Counties – Margate, NJ
Lutheran Office of Governmental Ministry in NJ – Trenton, NJ
Lutheran Social Ministries of New Jersey – Burlington, NJ
Making it Possible to End Homelessness – New Brunswick, NJ
MEND – Moorestown, NJ
Mercer Alliance to End Homelessness – Lawrenceville, NJ
Middlesex County Department of Housing & Community Development – New Brunswick, NJ
Middlesex County Division of Social Work Services – New Brunswick, NJ
Middlesex County Housing Continuum of Care Committee – New Brunswick, NJ
Middlesex County Human Services Advisory Council – New Brunswick, NJ
Mission HealthCare-AtlantiCare Health Services – Atlantic City, NJ
Monarch Housing Associates – Cranford, NJ
Monmouth Advocacy Team – Middletown, NJ
Monmouth Neighborhood Housing, Inc. – Cliffwood Beach, NJ
N.J. State Association of Jewish Federations – Union, NJ
NAMI Bergen County, Inc. – Wood Ridge, NJ
New Jersey Association on Correction – Trenton, NJ
New Jersey Catholic Conference – Trenton, NJ
New Jersey Community Development Corporation – Paterson, NJ
New Jersey Housing and Mortgage Finance Agency – Trenton, NJ
New Visions – Camden, NJ
Newark Now – Newark, NJ
NewBridge – Pompton Plains, NJ
NJ Advocacy Network to End Homelessness – Cranford, NJ
NJ Department of Military & Veterans Affairs, Veterans Haven – Winslow, NJ
North Hudson Community Action Corporation – West New York, NJ
Northwest Essex Community Healthcare Network – Belleville, NJ
Opportunity New Jersey – Collingswood, NJ
Pax Chisti NJ – Union, NJ

Poor Voices United – Atlantic City, NJ
Preferred Behavioral Health of NJ – Brick, NJ
Project Live – Newark, NJ
Project PAUL – Keansburg, NJ
Puerto Rican Family Institute of New Jersey – Jersey City, NJ
Respond, Inc – Camden, NJ
Robins' Nest Inc. – Glassboro, NJ
Salem County Inter Agency Council of Human Services – Salem, NJ
Salvation Army Shelter – Elizabeth, NJ
Samaritan Inn – Franklin, NJ
Senior Citizens United Community Services of Camden County, Inc. – Mt. Ephraim, NJ
SERV Behavioral Health System – Ewing, NJ
Shelley Community Development Corporation – Somerset, NJ
Social Action Committee of the Unitarian Universalist
Congregation of Monmouth County – Lincroft, NJ
St. Dorothea's Friends of the Poor – Eatontown, NJ
St. Joseph Home-Transitional Housing – Jersey City, NJ
St. Joseph's Hospital and Medical Center – Patterson, NJ
Stanley S. Holmes Village Resident Council, Inc. – Atlantic City, NJ
Start Easy Eagle Development, Corp. – East Orange, NJ
Steininger Behavioral Care Services, Inc. – Cherry Hill, NJ
StreetLight Mission – Elizabeth, NJ
Supportive Housing Association of NJ, Inc. – Cranford, NJ
Sussex County Interfaith Hospitality Network – Newton, NJ
Team Management 2000, Inc. – Hackensack, NJ
The Affordable Housing Group, Inc – Eastampton, NJ
The Apostles' House – Newark, NJ
The Arc of Atlantic County, Inc. – Egg Harbor Township, NJ
The Center in Ashbury Park, Inc. – Ashbury Park, NJ
The York Street Project – Jersey City, NJ
Tri-City Peoples Corporation – East Orange, NJ
Triple C Housing, Inc. – Monmouth Junction, NJ
United Cerebral Palsy of Northern, Central & Southern New Jersey, Inc. – Chester, NJ
United Passaic Organization – Passaic, NJ
United Way of Central Jersey – Milltown, NJ
United Way of Hudson County – Jersey City, NJ
United Way of Hunterdon County Center for
Volunteerism, Leadership & Philanthropy – Flemington, NJ
United Way of NJ – Jersey City, NJ
United Way of Passaic County – Paterson, NJ
Vantage Health System, Inc. – Dumont, NJ
Veterans Haven Transitional Housing for Homeless Veterans – Winslow, NJ
Volunteers of America Delaware Valley – Collingswood, NJ

Volunteers of America Northern NJ – Rahway , NJ
Warren County Mental Health Board – Warren County, NJ
YWCA of Eastern Union County – Cranford, NJ

New Mexico
Albuquerque Affordable Housing Coalition – Albuquerque, NM
Barrett Foundation, Inc – Albuquerque, NM
Casas de Vida Nueva – Albuquerque, NM
Community Action New Mexico – Albuquerque, NM
Community Area Resource Enterprise 66 – Gallup, NM
DreamTree Project, Inc. – Taos, NM
Economic Council Helping Others Inc. – Farmington, NM
El Refugio, Inc. – Silver City, NM
Empowering Our Communities in NM – Bernalillo, NM
Lutheran Advocacy Ministry-NM – Santa Fe, NM
New Mexico Coalition to End Homelessness – Santa Fe, NM
New Mexico Conference of Churches – Bernalillo, NM
NewLife Homes – Albuquerque, NM
San Juan Catholic Charities – Farmington, NM
Supportive Housing Coalition of New Mexico – Albuquerque, NM
The Mental Health Association of New Mexico – Las Vegas, NM
Youth Shelters - Santa Fe, NM

New York
Addictions Care Center of Albany, Inc. – Albany, NY
A-HOME – Mt. Kisco, NY
Albany Housing Coalition Inc. – Albany, NY
Arbor Development – Bath, NY
Association for Community Living, Inc. – Clifton Park, NY
Bailey House, Inc. – New York, NY
Barrier Free Living Family of Companies – New York, NY
Bethany House of Nassau County – Roosevelt, NY
Broadway Housing Communities – New York, NY
Catholic Charities Housing Office – Albany, NY
Center for Behavioral Health Services – New York, NY
Christopher Community, Inc. – Syracuse, NY
Church Women United of New York State – New York, NY
Citizens' Committee for Children of New York, Inc. – New York, NY
Citywide Council of Syracuse Low Income Housing Residents – Syracuse, NY
Clinton Housing Development Company – New York, NY
Cluster Community Services – Yonkers , NY
Coalition for the Homeless – New York, NY
Columbia Opportunities, Inc. – Hudson, NY
Common Ground – New York, NY
Community Access, Inc. – New York, NY
Community Action Organization Of Erie County Inc. – Buffalo, NY

Community Service Society – New York, NY
Damon House New York, Inc. – Brooklyn, NY
Delaware Opportunities Inc. – Hamden, NY
DePaul Housing Management Corporation – Albany, NY
ETC Housing Corp – Plattsburgh, NY
Ewing Planning Services – Brooklyn, NY
Family Nurturing Center of Central New York, Inc. – Utica, NY
Fifth Avenue Committee, Inc. – Brooklyn, NY
Gerarde Place HDFC – Buffalo, NY
Goddard Riverside Community Center – New York, NY
Goldstein Hall PLLC – New York, NY
Greater Rochester Housing Partnership – Rochester, NY
Hale House Center, Inc. – New York, NY
Harlem Congregations for Community Improvement – New York, NY
Homeless and Travelers Aid Society – Albany, NY
Housing & Community Development Consulting – Brooklyn , NY
Housing and Service, Inc. – New York, NY
Human Development Services of Westchester – Mamaroneck, NY
Independence Plaza North Tenants Association – New York, NY
Long Island Housing Services, Inc. – Bohemia, NY
Lower East Side People's Mutual Housing Association Inc. – New York, NY
Lower Eastside Service Center, Inc. – New York, NY
Marathon Development Group, Ltd. – Peekskill, NY
Mercy Haven, Inc. – Islip Terrace, NY
Mitchell Lama Residents Coalition – New York, NY
Mott Haven Houses – New York, NY
Nassau-Suffolk Coalition for the Homeless – Long Island, NY
Nazareth Housing Inc. – New York, NY
Neighborhood Preservation Coalition of New York State, Inc. – Albany, NY
New Destiny Housing Corporation – New York, NY
New York State Rural Advocates – Blue Mountain Lake, NY
New York State Rural Housing Coalition – Albany, NY
New York Universal Living Wage Warriors – Medford, NY
Options for Community Living, Inc. – Smithtown , NY
Orange County Housing Consortium – Orange County, NY
PathStone Community & Economic Development – Rochester, NY
Pax Christi Upstate New York – Elmira, NY
Postgraduate Center for Mental Health – New York, NY
Pratt Center for Community Development – Brooklyn, NY
Regional Economic Community Action Program, Inc. – Middletown, NY
Religious of the Sacred Heart of Mary Eastern American Province Provincial Team – Tarrytown, NY
Rochester/Monroe County Homeless Continuum of Care Team – Rochester, NY
Ryer Ave. Housing / San Miguel Residence – Bronx, NY

Sisters of St. Joseph of Rochester Leadership – Rochester , NY
Sisters of the Presentation of the Blessed Virgin Mary – New Windsor, NY
Society of Jesus, New York Province – New York, NY
South Bronx Overall Economic Development Corporation – Bronx, NY
Southern Tier Environments for Living, Inc. – Dunkirk, NY
Supportive Housing Network of New York – New York, NY
Tenants & Neighbors – New York, NY
The Bridge Inc. – New York, NY
The Hudson Planning Group, Inc. – New York, NY
Thorpe Family Residence, Inc. – Bronx, NY
Turning Point – Brooklyn, NY
Two Plus Four Construction Company – East Syracuse, NY
Unique People Services – Bronx, NY
Unity House of Troy, Inc. – Troy, NY
Urban Homesteading Assistance Board - New York, NY
VIP Community Services – Bronx, NY
West Side Federation for Senior and Supportive Housing – New York, NY
Westchester Progressive Forum – White Plains, NY
Women In Need, Inc. – New York, NY
Women of Reform Judaism – New York, NY
Women's Housing & Economic Development Corporation – Bronx, NY
YWCA of Binghamton and Broome County – Binghamton, NY
YWCA of White Plains and Central Westchester – White Plains, NY
YWCA of Rochester and Monroe County – Rochester, NY
YWCA Syracuse and Onondaga County Inc. – Syracuse, NY

North Carolina
Affordable Housing Management, Inc. – Greensboro, NC
Catholic Diocese of Charlotte Housing Corporation – Charlotte, NC
Davidson Housing Coalition – Davidson, NC
Family Promise of Moore County – Aberdeen, NC
Greensboro Housing Coalition – Greensboro, NC
Intercession Inc. – Concord, NC
North Carolina Housing Coalition – Raleigh, NC
Orange Community Housing and Land Trust – Carrboro, NC
Sisters of Mercy South Central Leadership Team – Belmont, NC
United Way of North Carolina – Raleigh, NC
Western Carolina Community Action – Hendersonville, NC
Youth/Adult Care Management – Kannapolis, NC

Ohio
Access Center – Dayton, OH
Cleveland Tenants Organization – Cleveland, OH

Coalition on Homelessness & Housing in Ohio – Columbus, OH
Columbus Metropolitan Housing Authority – Columbus, OH
Community Services of Stark County – Canton, OH
Community Shelter Board – Columbus, OH
Creative Living Systems, Inc. – Delaware, OH
Cuyahoga Metropolitan Housing Authority – Cleveland, OH
Delaware Creative Housing, Inc. – Delaware, OH
Del-Mor Dwellings Corp. – Delaware, OH
Emerald Development and Economic Network, Inc. – Cleveland, OH
Equal Justice Foundation – Columbus, OH
Fairfield Metropolitan Housing Authority – Lancaster, OH
ICAN Housing Solution – Canton, OH
Interfaith Hospitality Network of Greater Cleveland – Cleveland, OH
Jurisdiction-Wide Resident Advisory Board – Cincinnati, OH
Miami Valley Fair Housing Center, Inc. – Dayton, OH
New Beginnings Recovery House – Canton, OH
New Home Development – Defiance, OH
Northside Neighborhood Association – Lima, OH
Ohio Capital Corporation for Housing – Columbus, OH
Residential Capital Corp. – Columbus, OH
Samaritan Homeless Clinic – Dayton, OH
Society of St. Vincent de Paul, Dayton District Council – Dayton, OH
Stark County Homeless Services Collaborative – Canton, OH
Stark County Interagency on Homelessness – Stark County, OH
The Cleveland Housing Network – Cleveland, OH
The Homeless Families Foundation – Columbus, OH
The Women's Connection – Cincinnati, OH
Toledo Fair Housing Center – Toledo, OH
Tri-County Independent Living Center, Inc. – Akron, OH
United Way of Greater Cincinnati – Northern Kentucky – Cincinnati, OH
Volunteers of America of Greater Ohio – Columbus, OH
Wayne County Department of Job and Family Services – Wooster, OH
YMCA of Central Ohio – Columbus, OH
YWCA Columbus – Columbus, OH
YWCA of Central Ohio – Columbus, OH
YWCA of Greater Cleveland – Cleveland, OH

Oklahoma
City of Tulsa- Working in Neighborhoods – Tulsa, OK

Oregon
Bienestar – Hillsboro, OR
CASA of Oregon – Newberg, OR

Community Housing Fund – Beaverton, OR
Community Partners for Affordable Housing – Tigard, OR
Housing Alliance – Portland, OR
Housing Authority of Washington County – Hillsboro, OR
Northwest Pilot Project – Portland, OR
Oregon Opportunity Network – Portland, OR
ROSE Community Development – Portland, OR
St. Joseph Homeless and Migrant Shelter – Mt. Angel, OR
William Temple House, Episcopal Mission Society - Portland, OR

Pennsylvania
1260 Housing Development Corporation – Philadelphia, PA
American Credit Alliance – Morrisville, PA
Bucks County Housing Group, Inc. – Wrightstown, PA
Cameron and Elk MH/MR Program – Rigway , PA
CareLink Community Support Services – Eddystone, PA
Catholic Human Services – Philadelphia, PA
Center for Independent Living of Bucks County – Langhorne, PA
Clarion County Mental Health – Clarion, PA
Columbus Property Management, Inc. – Philadelphia, PA
Community Action Committee of the Lehigh Valley – Bethlehem, PA
Community Human Services – Pittsburgh, PA
Community Lenders Community Development Corporation – Souderton, PA
Community of Caring – Erie , PA
County office of Services for the Aging, Delaware County – Eddystone, PA
Covenant House Pennsylvania – Philadelphia, PA
Depression and Bipolar Support Alliance Pennsylvania – Erie , PA
Dignity Housing – Philadelphia, PA
Disabled in Action of PA – Philadelphia, PA
Greater Carbondale Community Development Corporation – Carbondale, PA
Horizon House, Inc. – Philadelphia, PA
Housing Alliance of Pennsylvania – Glenside, PA
Housing Association of Delaware Valley – Philadelphia, PA
Jerie Stumpf & Associates, Inc. – Willow Street , PA
JRA and the River Church Companies – Philadelphia, PA
Keystone Opportunity Center – Souderton, PA
Liberty Resources, Inc. – Philadelphia, PA
Lutheran Advocacy Ministry – Harrisburg, PA
Mental Health Advocate – Erie , PA
Mental Health Association of Northwestern Pennsylvania – Erie , PA
Mental Health Association of Southeastern Pennsylvania – Philadelphia, PA
Mercer County Housing Coalition – Greenville, PA
Methodist Family Services of Philadelphia – Philadelphia, PA

Nazareth Housing Services – Pittsburgh, PA
NW Philadelphia Interfaith Hospitality Network – Philadelphia, PA
Overington House Inc. – Philadelphia, PA
PA Coalition to end Homelessness – Erie , PA
PathWays PA – Holmes, PA
Pennsylvania Council of Churches – Harrisburg, PA
People's Emergency Center – Philadelphia, PA
Philadelphia Committee to END Homelessness – Philadelphia, PA
Pittsburgh Partnership for Neighborhood Development – Pittsburgh, PA
Project Development & Consulting Associates – Huntingdon Valley, PA
RHD/Woodstock Family Center – Philadelphia, PA
SDHP – Downingtown, PA
Sisters of Charity of Seton Hill – Greensburg, PA
Sisters of Mercy Mid-Atlantic Community Leadership Team – Merion, PA
Sisters of St. Francis of the Providence of God- Generalate – Pittsburgh, PA
Sisters of St. Joseph – Baden, PA
Sisters of St. Joseph, North Western Pennsylvania – Erie , PA
The Affordable Housing Group – Philadelphia, PA
The Erie Tenant Council – Erie , PA
The Good Shepherd Center, Inc – Greenville, PA
The US-East Province- Congregation of the Holy Spirit – Bethel Park, PA
Three Rivers Center for Independent Living – Pittsburgh, PA
TRUST – HOPE for the Hurting – Norristown, PA
United Neighborhood Centers of NEPA – Scranton, PA
UpStreet Architects, Inc. – Indiana, PA
V.I.S.I.O.N, Inc. Emergency Shelter Program – Wilkes Barre, PA
Voices for Independence – Erie , PA
Women Against Abuse, Inc. – Philadelphia, PA

Rhode Island
Fellowship Health Resources, Inc. – Lincoln, RI
Housing Action Coalition of RI – Providence, RI
Housing Network of Rhode Island – Providence, RI
NeighborWorks Blackstone River Valley – Woonsocket, RI
People to End Homelessness – Providence, RI
Rhode Island Coalition for the Homeless – Providence, RI
Rhode Island HUD Tenant Project – Providence, RI
Sisters of Mercy Northeast Community - Cumberland , RI
St. Andrew Lutheran Church – Charlestown, RI
Westerly Area Rest Meals Inc. – Westerly, RI

South Carolina

Affordable Housing Coalition of South Carolina – Columbia, SC
Allen Temple CEDC – Greenville, SC
Grand Strand Housing & CDC – Myrtle Beach, SC
Growing Home Southeast, Inc. – Cayce, SC
Home Alliance, Inc. – Myrtle Beach, SC
Nehemiah Community Revitalization Corporation – Greenville, SC
Southern Carolina Regional Community Development Corporation – Denmark, SC
United Methodist Relief Center – Mt. Pleasant, SC
Wilson Consulting Associates – Rock Hill, SC
Benedictine Sisters – Mother of God Monastery – Watertown, SD
Presentation Sisters of Aberdeen – Aberdeen, SD
The Rural Collaborative – Rapid City, SD

Tennessee
Appalachia Service Project, Inc. – Johnson City, TN
Associated Merchant Services, Inc. – Nashville, TN
Episcopal Metropolitan Ministry – Chattanooga, TN
Freedom Tracks Records – Nashville, TN
Interfaith Homeless Network – Chattanooga, TN
Knox Housing Partnership – Knoxville, TN
Park Center – Nashville, TN
Pilgrim Congregational Church, UCC – Chattanooga, TN
United Neighborhood Health Services, Inc. – Nashville, TN
Urban Housing Solutions – Nashville, TN

Texas
Accessible Housing Resources, Inc – Corpus Christi, TX
Builders of Hope CDC – Dallas, TX
Coalition for the Homeless of Houston/Harris County – Houston, TX
Fort Worth Housing Authority – Fort Worth, TX
Inclusive Communities Project – Dallas, TX
National Center on Domestic and Sexual Violence – Austin, TX
New Hope Housing, Inc. – Houston, TX
RAISE Texas – Austin, TX
Sisters of the Holy Spirit and Mary Immaculate - San Antonio, TX
Sunlight Manor Apartment – Beaumont, TX
Texas Tenants' Union – Dallas, TX
TXS United Housing Program, Inc. – Dallas, TX
UPCDC Texas, Inc. – Dallas, TX
Volunteers of America Texas – Euless, TX
Woodland City Alliance of Tenants – Dallas, TX

Utah

AAA Fair Credit Foundation – Salt Lake City, UT
Barnes Banking Company – Kaysville, UT
Coalition of Religious Communities - Salt Lake City, UT
Community Housing Advocacy Project – Salt Lake City, UT
Crossroads Urban Center – Salt Lake City, UT
Disabled Rights Action Committee – Salt Lake City, UT
Legislative Coalition for People with Disabilities – Salt Lake City, UT
OPTIONS for Independence – Logan, UT
Rural Collaborative – Park City, UT
Salt Lake Community Action Program – Salt Lake City, UT
Salt Lake County Homeless Coordinating Council, Inc. – Salt Lake City, UT
Salt Lake Valley Habitat for Humanity – Salt Lake City, UT
Six County Association of Governments – Richfield, UT
Utah Balance of State Homeless Coordinating Council, Inc. – Salt Lake City, UT
Utah Bankers Association – Salt Lake City, UT
Utah Community Action Partnership Association – Salt Lake City, UT
Utah Community Reinvestment Corporation – Salt Lake City, UT
Utah Homeless Management Information System – Salt Lake City, UT
Utah Housing Coalition – Salt Lake City, UT
Utah Manufactured Homeowners Action Group – Salt Lake City, UT
Utah Poverty Partnership – Salt Lake City, UT
Utah State University Extension – Salt Lake City, UT
Willard City – Willard, UT

Vermont
Addison Community Action/CVOEO – Middlebury, VT
Addison County Community Trust – Vergennes, VT
Battered Women's Services And Shelter – Barre, VT
Brattleboro Area Affordable Housing – Brattleboro, VT
Central Vermont Community Land Trust – Barre, VT
Champlain Housing Trust – Burlington, VT
Chittenden Community Action – Burlington, VT
Coordinated Statewide Housing Services – Burlington, VT
Gilman Housing Trust, Inc. – Lyndonville, VT
Good Neighbors Family Transitional Housing For Homeless Families – Barre, VT
Good Samaritan Haven – Barre, VT
Green Mountain Support Group, Inc. – Montpelier, VT
Housing Vermont – Burlington, VT
Lamoille Housing Partnership – Morrisville, VT
Montpelier Housing Task Force – Montpelier, VT
Rutland County Community Land Trust, Inc. – Rutland , VT
Springfield Housing Authority – Springfield, VT
St. Albans Community Development – St. Albans, VT

The DREAM Program – Winooski, VT
United Counseling Service of Bennington County Inc. – Bennington, VT
Vermont Affordable Housing Coalition – Burlington, VT
Vermont Housing and Conservation Board – Montpelier, VT
Vermont Housing Finance Agency – Burlington, VT
Vermont Legal Aid – Montpelier, VT
Washington County Mental Health Services – Montpelier, VT
Westgate Housing Inc. – Brattleboro, VT
Windham Housing Trust – Brattleboro, VT

Virginia
ASWAN Millennium Future-Present – Richmond, VA
Better Housing Coalition – Richmond, VA
Client Advisory Council- Legal Aid Justice Center – Richmond, VA
Community Housing Partners – Christiansburg, VA
Housing Association of Nonprofit Developers – Reston, VA
Joint Resident Council Inc. – Roanoke, VA
Legal Aid Justice Center- Charlottesville – Charlottesville, VA
Legal Aid Justice Center- Richmond – Richmond, VA
Public Housing Association of Residents – Charlottesville, VA
RPJ Housing – Alexandria, VA
Rural Areas Development Association, Inc. – Gate City, VA
Rush Lifetime Homes, Inc. – Lynchburg, VA
Social Action Linking Together – Vienna, VA
Virginia Housing Coalition – Richmond, VA
Virginia Interfaith Center for Public Policy – Richmond, VA
Virginia Supportive Housing - Richmond, VA
Westhaven Nursing Clinic - Charlottesville, VA

Washington
Building Changes - Seattle, WA
Common Ground - Seattle, WA
Community Detox Services Of Spokane - Spokane, WA
Community Frameworks - Bremerton, WA
Housing Hope - Everett, WA
Housing Resources Board - Bainbridge Island, WA
Housing Resources Group - Seattle, WA
Islamic Civic Engagement Coalition - Seattle, WA
King County Coalition Against Domestic Violence - Seattle, WA
Lopez Community Land Trust - Lopez Island, WA
Low Income Housing Institute - Seattle, WA
Next Step Housing - Yakima, WA
North West Star Association - Longview, WA

Office of Rural and Farmworker Housing - Yakima, WA
Out of the Woods Family Shelter - Olympia, WA
Plymouth Housing Group - Seattle, WA
Seattle/King County Coalition on Homelessness - Seattle, WA
Solid Ground Washington - Seattle, WA
Spokane Community Housing Association - Spokane, WA
Spokane Low Income Housing Consortium - Spokane, WA
Tacoma Dominican Sisters and Associates - Tacoma, WA
Tacoma Housing Authority - Tacoma, WA
Tacoma Pierce County Affordable Housing Consortium - Tacoma, WA
Tenants Union of Washington State - Seattle, WA
Triumph Treatment Services - Yakima, WA
Triumph Treatment Services - Yakima, WA
Washington Low Income Housing Alliance - Seattle, WA
Washington State Catholic Conference - Seattle, WA
Washington State Coalition for the Homeless - Tacoma, WA
Yolo County Housing - Woodland, WA

West Virginia
Almost Heaven Habitat for Humanity - Franklin, WV
Community Works - Charleston, WV
Greenbrier Housing Authority - Lewisburg, WV
HomeOwnership Center, Inc. - Elkins, WV
Partnership for Affordable Housing - Charles Town, WV
Religious Coalition for Community Renewal, Inc. - Charleston, WV
Southeastern Appalachian Rural Alliance, Inc. - Lewisburg, WV
Southern Appalachian Labor School - Beards Fork, WV
West Virginia Affordable Housing Trust Fund - Charleston, WV

Wisconsin
Benedictine Women of Madison, Holy Wisdom Monastery - Madison , WI
Community Action Coalition for South Central WI, Inc. - Madison, WI
Cumberland Court Housing Commission - Oshkosh, WI
Emergency Shelter of the Fox Valley, Inc. - Appleton, WI
Franciscan Sisters of Perpetual Adoration - La Crosse, WI
Hebron House of Hospitality, Inc - Waukesha, WI
Housing For All - Milwaukee, WI
IndependenceFirst - Milwaukee, WI
Menomonie Area Bread for the World - Menomonie, WI
Metropolitan Milwaukee Fair Housing Council - Milwaukee, WI
Oshkosh Housing Authority - Oshkosh, WI
Racine Dominicans - Racine, WI
School Sisters of St. Francis - Milwaukee, WI

Winnebago County Housing Authority - Oshkosh, WI
Wisconsin Community Action Program Association - Madison, WI
Wisconsin Partnership for Housing Development, Inc. - Madison, WI

During our July 9, 2009, testimony *Troubled Asset Relief Program: Status of Participants' Dividend Payments and Repurchases of Preferred Stock and Warrants* (GAO-09-889T), before the House Financial Services Committee, we were asked to submit two responses for the record. Those questions and our responses follow.

Question. Congressman Neugebauer: Was, by and large, the intent of the original TARP legislation to get most of the money back for the taxpayers?

GAO Response. The Emergency Economic Stabilization Act of 2008[1] (EESA) authorized the Secretary of the Treasury (the Secretary) to purchase or guarantee up to $700 billion[2] worth of troubled assets held by financial institutions. Section 118 of EESA authorized the Secretary to fund purchases and guarantees (and related administrative expenses) through the issuance of public debt. No provision in EESA expressly requires the Secretary to recoup all of, or any other defined portion of, the funds expended under the Troubled Asset Relief Program (TARP).

However, EESA does contain several provisions related to minimizing the cost to the taxpayer of carrying out TARP. For example, one of the law's stated purposes is for the Secretary to use such authority to restore liquidity to the financial system in a manner that maximizes the overall returns to the taxpayers, among other things.[3] Another provision requires the Secretary to use TARP authorities "in a manner that will minimize any potential long-term negative impact on the taxpayer."[4]

EESA also requires that all income produced by troubled assets held by the Department of the Treasury (Treasury), such as dividends and interest, as well as the proceeds from the sale of troubled assets or the sale, exercise, or surrender of warrants or senior debt instruments that the Secretary must receive in conjunction with purchasing certain troubled assets, be deposited in the Treasury's general fund for reduction of the outstanding national debt.[5] In testimony before this Committee, then-Secretary Paulson described his interpretation of the asset purchase program that was eventually passed as part of EESA as such:

> The $700 billion program we have proposed is not a spending program. It is an asset purchase program, and the assets which are bought and held will ultimately be resold with the proceeds coming back to the government. Depending on the rate at which our

[1] Pub. L. No. 110-343, div. A, 122 Stat. 3765 (Oct. 3, 2008).
[2] The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, div. A (May 20, 2009), amended EESA and reduced the maximum allowable amount of outstanding troubled assets under the act by almost $1.3 billion, from $700 billion to $698.741 billion.
[3] EESA, § 2.
[4] EESA, § 113.
[5] For troubled asset guarantees, authorized by section 102 of EESA, Treasury is required to charge premiums in an amount necessary to create reserves sufficient to meet anticipated claims based on an actuarial analysis and to ensure that taxpayers are fully protected. Treasury required the issuance of preferred stock, which pays dividends to Treasury, to satisfy the section 102 premium requirement. The dividend payments received through this program are deposited into the Troubled Asset Insurance Financing Fund to fulfill obligations of any guarantees provided to financial institutions pursuant to section 102 of EESA.

housing market and economy recover, the loss to the taxpayers should be much less than the purchase price of the assets.[6]

Section 134 of EESA expressly addresses the possibility that all of the funds expended on asset purchases may not be recovered by the mechanisms present in the law. It requires the Director of the Office of Management and Budget, in consultation with the Director of the Congressional Budget Office, to calculate five years after the enactment of EESA the "net amount" within the TARP. If that net amount reflects a shortfall, section 134 requires the President to submit a legislative proposal to the Congress that recoups that shortfall from the financial industry.

Question. Chairman Frank: What are the figures on the borrowing costs for the TARP?

GAO Response. The federal government's borrowing costs are determined both by the amount of debt and the interest rates paid on the debt. Generally, the federal government's borrowing cost relating to the net disbursements for the TARP is not specifically calculated by Treasury. As such, to respond to your question, we calculated an estimate of the federal government's borrowing cost relating to the net disbursements for the TARP, excluding disbursements for administrative costs (the federal government's borrowing cost for the TARP) through June 30, 2009, based on certain assumptions detailed below. Using other assumptions would result in different estimated borrowing costs. Our analysis does not represent an estimate of the ultimate cost of TARP and does not consider, among other things, the administrative costs for the TARP or intragovernmental interest that the TARP incurs.

To provide an estimate of the federal government's borrowing cost for the TARP, we obtained from Treasury's Office of Financial Stability TARP's cash disbursements and cash receipts (such as dividends and repayments) data, by month, and computed the monthly net cash disbursements or net cash receipts. As Treasury manages its cash position and debt issuances from a governmentwide perspective, it is generally not possible to match TARP disbursements with specific debt securities issued by Treasury. However, Treasury told us that for the months of October and November 2008, it generally covered TARP disbursements with cash management bills. Accordingly, for the October and November 2008 net disbursements, we obtained the weighted average annual interest rate of the cash management bills issued during October and November 2008 from Treasury's Office of the Fiscal Assistant Secretary, Office of Fiscal Projections. For the net disbursements (or net receipts) for the period December 1, 2008 through June 30, 2009, we obtained Treasury's weighted average annual interest rate for all outstanding marketable Treasury securities issued during fiscal year 2009 from Treasury's Office of Fiscal Projections. To calculate an estimate of the federal government's borrowing cost for the TARP, we converted the annual interest rates noted above to monthly rates and multiplied the monthly net disbursements (or net receipts) by the applicable monthly interest rate. We multiplied the results for each month by an estimate of the corresponding period outstanding (in months) up to June 30, 2009. Based on these calculations, the federal government's borrowing cost for the TARP from inception through June 30, 2009, are estimated to be approximately $2 billion.

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[6] Statement of Henry M. Paulson, Jr., Secretary of the Treasury, before the House Committee on Financial Services Hearing on *Turmoil in U.S. Credit Markets: Recent Actions regarding Government Sponsored Entities, Investment Banks and other Financial Institutions* (Sept. 24, 2008).

As noted above, Treasury generally does not specifically calculate the federal government's borrowing cost relating to the net disbursements for the TARP. However, as a result of our coordination with Treasury in addressing this question, Treasury recently calculated an estimate of the federal government's borrowing cost for the TARP. Treasury's estimate of the federal government's borrowing cost for the TARP for the period from inception of the TARP through June 30, 2009 was consistent with the estimated amount that we calculated.

Testimony Submitted by
The Partnership to Preserve Affordable Housing
in Support of
TARP for Main Street Act of 2009 (HR 3068)

Presented to the
House Financial Services Committee

July 9, 2009

First we would like to thank the Committee for consideration of our testimony on the importance of HR 3068, and specifically the critical need addressed by Section 5 of the bill dealing with assistance for troubled multifamily residential projects. The Partnership to Preserve Affordable Housing is strongly in support of HR 3068.

The Partnership to Preserve Affordable Housing (PPAH) is a coalition of six organizations in New York City: The Community Service Society, Legal Aid Society, South Brooklyn Legal Services, the Pratt Area Community Council, NY State Tenants & Neighbors Information Service (Tenants & Neighbors), and the Urban Homesteading Assistance Board. PPAH utilizes direct technical assistance, policy analysis and advocacy, legal strategies, and affordable housing development expertise to preserve existing affordable housing across New York City. Our efforts often have the greatest impact on the city's most affordable privately owned rental housing, serving families well below 50% of the Area Median Income.

At the end of 2006, PPAH identified a new threat facing all types of rent restricted housing in the city. A new breed of real-estate speculators with access to tremendous amount of privately raised capital and the ability to secure massive debt financing, were aggressively buying tens of thousands of units of affordable housing at substantially inflated prices. Almost all of these transactions included profit projections of more than double-- sometimes more than triple-- what a traditional real-estate investment would typically yield. PPAH named this new threat Predatory Equity.

To date, we have identified as many as 70,000 units of housing that may be at risk due to predatory equity investments which have left this housing stock severely over-leveraged. This pervasive practice has led to sharp increases in harassment of low and moderate income tenants, a steady decline in services and conditions in many of these buildings, and a substantial decrease in the aggregate number of affordable housing units that remain available in our city. Moreover, in just the last 6 months we have identified a minimum of 2500 apartments that are now in foreclosure as a result of overleveraging.

Nationally, the rate at which commercial mortgages become delinquent is rising sharply, and analysts predict that it will go much higher. Mortgages on apartment buildings are especially vulnerable to these defaults. In a March 3 report, Richard Parkus of Deutsche Bank found that delinquency rates for apartment buildings had gone above 3 percent in a dozen states, including New York. Tennessee had the highest rate at 8.19 percent, and Georgia, Florida, Michigan, and Nevada all had rates above 5 percent. These delinquencies are occurring during the term of the loans, but another problem looms as interest-only loans mature and cannot be refinanced in the current market. In an April 23 report, Parkus projected that $400 billion in securitized commercial mortgage debt is likely to go into default as it matures over the next few years, and he told the Congressional Oversight Panel for the TARP on May 28 that a similar amount of bank-held commercial mortgage debt is likely to meet the same fate. The Wall Street Journal estimated, in a May 19 article, that losses related to such defaults could cost small and mid-sized banks $100 billion. In many cases, these delinquencies and impending defaults result from risky underwriting decisions, rather than merely from the economic downturn.

In most cases, one of two assumptions, both equally flawed, led speculators to overpay for the acquisition of this housing stock. The first type of predator came into these deals **actually planning** to lose money in the short term. In this scenario, the speculators were mistakenly confident that the market would continue to go up and that they would be able to flip the buildings for still higher amounts to even less sophisticated investors. Like any pyramid scheme, this model falls apart when market forces change and the negative values now attached to these assets are exposed.

The much publicized case of 1520 Sedgwick Avenue in the Bronx, also noted for it's historical significance as the "Birthplace of Hip Hop" clearly illustrates how this "flip" model was structured and how, inevitably it is bound to fail. Sedgwick, now a rent-stabilized building, is a 100-unit formerly state subsidized project located on the access road to the Major Degan Expressway. A decent, but non-descript building, that requires a subway, a bus ride and a 10 minute walk to access if you are without a car. In 2007, a private equity investor known for buying multi-million dollar trophy buildings in Chicago and California entered into a contract of sale to buy Sedgwick for a price tag of $9 million. Because the City of New York had a mortgage on the property they were compelled to do an analysis of the sale. An appraisal completed by the city determined that the building could support a sale price of no more than $7 million. The appraisal determined that Sedgwick rents were already at market levels. To put it simply, the owner's ability to take the units out of rent stabilization would make no difference at Sedgwick, because based on existing market conditions there was no room to increase rental income. When the proposed buyer for Sedgwick was questioned about the financial impracticality of this plan, he stated without hesitation that he intended to lose money until he could "flip Sedgwick for 15 times rent roll".

Now, as that plan becomes even less and less likely, tenants have been left to suffer the consequences of this type of over-leveraging. Conditions and services are being cut, maintenance staff has been substantially reduced, and what was once a decent, safe place to live for 100 low and moderate income New Yorkers is now in a state of slow and steady decline.

The second set of faulty assumptions that fueled the Predatory Equity practice were based on the belief that landlords could displace an impossibly high number of low income tenants, through aggressive and often illegal harassment tactics, with goal of attracting higher income tenants who could afford substantially higher rents. One predatory landlord located in Queens and Manhattan stated in a public SEC security filing that he could rid his building of 20%- 30% of the existing tenants within the first year of operation. This projection is not only unachievable, but also stands in stark contrast to empirical data generated by the New York City Rent Guidelines Board, which pegs natural turnover rates at closer to 6.3 percent a year for that same class of housing.

Predatory Equity has left us with a distressed housing stock in rental markets across the country which is at further risk of disinvestment and a pending foreclosure crisis, both of which are expected to intensify in the near future. This reality holds dire consequences not only for low and moderate income families who live in these buildings, but also the communities that surround these properties. As was clearly illustrated in the single family foreclosure crisis, disinvestment and declining values are contagious and adversely impact entire neighborhoods. Moreover, there is an added cost associated with the pending multi-family crisis which will take a tremendous toll on municipalities whose scares resources will be further stretched, as they struggle to respond to this crisis with additional regulatory oversight, such as code-enforcement, emergency repair units, and tax foreclosures.

It is for these reasons that HR 3068 is critical to preventing another massive housing crisis. Particularly Sections 4 and 5 of the bill will provide desperately needed resources and clear direction to stakeholders. The complicated financial circumstances associated with each of theses deals means we will not be able to treat this problem with a panacea. Rather we will need a flexible program that can respond to this crisis in a concerted and time sensitive manner. This is exactly what HR 3068 accomplishes and it is precisely what we need. Above all, we believe that HR 3068 will ensure that these badly needed affordable housing resources are re-stabilized at supportable debt levels, transferred to responsible ownership and are maintained in decent, safe and sanitary condition.

We encourage the swift passage of HR 3068, and look forward to working with the Committee and members of the Administration on advancing this extremely important program.

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