

Public Witness Testimony for the Record

House Financial Services Committee

Hearing on Using FHA for Housing Stabilization
and Homeownership Retention

April 10, 2008

Submitted by Mayor Oscar Goodman, Las Vegas, Nevada

INTRODUCTION

Chairman Frank, Congressman Bachus and other distinguished members of the Committee, I am Mayor Oscar Goodman of Las Vegas, Nevada. I am honored to appear before you here this morning to discuss an issue of national importance and of pressing need in my city.

Nationwide, 1.5 million subprime adjustable-rate mortgages will reset to higher interest rates this year, and many of those homeowners are at risk of falling behind on their payments. Across the nation thousands of bank owned foreclosed homes already sit vacant. With a record number of mortgages in foreclosure, thousands more are in danger of becoming vacant eyesores, driving down prices in the neighborhoods, and more importantly, families at risk of becoming homeless because they can't find alternative housing. Exacerbating this crisis, last week the largest job loss - 80,000 jobs - since March 2003 was announced and since the start of the year, according to the Bureau of Labor Statistics, 232,000 jobs have disappeared.

Las Vegas, the largest City in the State of Nevada, is located in Clark County. Recent statistics show over 90% of the statewide foreclosures occurring in Clark County. Due to the sub-prime lending practices, the number of foreclosures has tripled in Clark County in just the past year and 60% of our homes are experiencing negative equity. Property values have dropped in Las Vegas by 20% and nearly half of all the homes currently on the market are due to foreclosures. We already feel the impact and are working diligently with extremely limited resources to assist families from becoming homeless. We need federal funding assistance that recognizes our need that goes well beyond a household earning at or below 80% of AMI. The provision to accommodate individuals earning 120% of AMI is critical to any success, and I commend your acknowledgement of this need, as many of our constituents fall within this gap.

The growing inventory of vacant and abandoned properties compounds the negative impact on property values as appraisals and comparable sales affect surrounding properties. Economists estimate a home's value drops by an average of 1% for each foreclosure that takes place within a one-eighth-mile radius. And the negative effect on property values is greatest in areas where foreclosed bank owned properties sit vacant for months, if not years,

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becoming eyesores overrun by overgrown weeds, graffiti, stagnant pools (which become a safety hazard to young children), broken windows, and dumping grounds for trash and debris.

All of this has a tremendous negative impact on existing neighborhoods and cripples my City's efforts to create safe and livable neighborhoods. I am an avid believer in the "broken window" theory and attest to the fact that when properties are left unattended, it has a trickle down effect on the rest of the community and creates blighted conditions that takes years to turn around. These vacant properties put undue pressures on the public sector through service calls like Code Enforcement, Fire and Police. For example, my Code Enforcement Officers are already reporting that lending institutions, who receive Notice and Orders due to foreclosures, are now requesting the City to move forward with cleaning up their properties and submit an invoice accordingly, because they can't keep up with their inventory and lack of property maintenance issues. Vacant and abandoned properties become a haven for crime further reducing the livability of the neighborhoods. I can't begin to tell you how many times my City Council has acted on Code Enforcement cases due to absentee property owners, and the thousands of dollars the City has fronted annually in order to bring substandard properties into compliance. Our only recourse is to lien properties accordingly to recoup our costs. With the foreclosure issue on the table, we anticipate these numbers will increase and exacerbate the problems associated with providing decent and safe neighborhoods as well as affordable housing

There is also an important loss of tax revenue to state and local governments. The construction industry represents 10-12% of the local economy, and the issues created by slumping new and resale home sales, foreclosure sales, and the post-subprime lending credit crunch have impacted all of the City's major revenue sources. The economic downturn, fueled by the housing market and related credit crisis, has resulted in property tax, sales tax, real estate transfer tax, and even license revenues to fall short of the City's fiscal year 2008 budget targets by approximately \$20 million dollars. We have had to lay off City employees and cut our budget impacting valuable services to the community.

FHA HOUSING STABILIZATION AND HOMEOWNERSHIP RETENTION ACT

The proposed "FHA Housing Stabilization and Homeownership Retention Act" is vitally needed to address the ongoing subprime mortgage foreclosure crisis in the United States. I strongly support an expanded role for the Federal Housing Administration in helping qualified borrowers refinance their subprime loans that they cannot afford to an affordable long term fixed rate mortgage. It is crucial for the FHA to play a role like the one you have put forward in addressing this crisis.

The legislation also would provide \$10 billion to states in the form of loans and grants for the purchase and rehabilitation of vacant, foreclosed homes with the goal of occupying them as soon as possible. With these funds, nonprofits and state and local governments can acquire bank and government owned properties below market value, perform any necessary rehabilitation and sell or rent them to qualified individuals. The intention is to help stabilize home prices and to begin to reverse the serious physical deterioration of neighborhoods with high foreclosure rates.

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I would urge you, however, to consider a different or additional approach which would provide a speedier solution. Instead of creating a state based program which will add time and bureaucracy to the response, I would urge you to modify the legislation to consider the approach that my Senator, Harry Reid of Nevada, and others in the Senate are currently sponsoring and considering (in HR 3221, formerly S 2636) which is to use the existing Community Development Block Grant program to deliver this much needed help. As you are well aware, this program allocates 70% of its funds to metropolitan areas and 30% to states. This would require no additional bureaucracy and would provide immediate relief through a tried and trusted method of delivery. As we all know, the foreclosure issue is a crisis throughout our nation. A direct allocation of these much needed funds to metropolitan areas will reduce the bureaucracy and place us in the best position to get the funds operational. The City of Las Vegas stands ready to act if you make these funds directly available to metropolitan areas.

In previous years and in previous disasters, Congress has used the CDBG program to deliver relief with great affect. In the Senate bill, an emergency appropriation for CDBG funding is authorized to be allocated by a formula developed by the Secretary of HUD. HUD would develop a formula that allocates funding to areas of greatest need based on the number and percentage of homes in foreclosure in each state or unit of local government, the number and percentage of homes financed by a subprime mortgage related loan in each state and unit of local government, and the number and percentage of homes in default or delinquency in each state or unit of local government. Eligible activities could be those in your legislation. This would guarantee that I, as Mayor of the City of Las Vegas, would be able to provide relief shortly after enactment of the law to the citizens of my City and I would be accountable for the delivery mechanism of the relief without the additional bureaucracy of a state based program. It would also allow the state to provide relief, through its CDBG program, to smaller communities as well. I would urge you to consider this approach as you move forward either as a substitution for your loan/grant program or in addition to it.

A component of your proposal which I strongly support is the “shared appreciation” provision which requires that borrowers who are assisted by this legislation should repay the federal government 20% of the difference between the net proceeds from the sale of the housing and cost of acquisition of the housing.

CONCLUSION

In conclusion, Chairman Frank, I applaud you and the Committee for bringing forward this much needed legislation and for your commitment to dealing with the subprime mortgage foreclosure crisis in the most efficient and expedient way possible.