

Statement of the Honorable Nancy Floreen  
Councilmember, Montgomery County, Maryland

National Association of Counties

Before the United States House of Representatives  
Committee on Oversight and Government Reform

Domestic Policy Subcommittee

On behalf of the

National Association of Counties

United States Conference of Mayors

National Association of Local Housing Finance Agencies

National Community Development Association

Impact of Mortgage Crisis on Neighborhoods

May 21, 2008

Chairman Kucinich, Ranking Member Issa and members of the subcommittee, thank you  
for the opportunity to appear before you today to address the Impact of the Mortgage

Crisis on Neighborhoods. My name is Nancy Floreen; I am a County Councilmember from Montgomery County, MD and a member of the National Association of Counties. I have been a Montgomery County At-Large Councilmember since 2002 and I am also a former Mayor of the town of Garrett Park, MD. Today, I have the privilege of representing the National Association of Counties (NACo) as well as the U.S. Conference of Mayors, the National Association of Local Housing Finance Agencies and the National Community Development Association.

Local officials across this country are pleased that the House of Representatives recently passed the Neighborhood Stabilization Act of 2008, HR 5818. This legislation would provide \$15 billion in urgently needed loans and grants to help cities, urban counties and states deal with the foreclosure crisis that is overtaking the nation. Cities and counties would be able to utilize this funding for the purchase and rehabilitation of vacant and foreclosed homes. This assistance will help stabilize communities by reselling the homes for occupancy as soon as possible.

This legislation is vitally needed to address the growing mortgage foreclosure crisis across the United States, a situation which threatens the billions of federal dollars invested in neighborhood revitalization over the years. We strongly support the \$15 billion authorized under the bill and its administration by the Housing and Urban Development office that also administers Community Development Block Grant funds. This amount recognizes the severity of the problem nationally.

The foreclosure crisis affects, tragically, not only those who lose their homes, but those families who are near foreclosure homes. It is a proven fact that foreclosed homes drive down the value of surrounding properties. The sooner we solve this problem, the less collateral damage we will have with depreciating home values. Recently, over half of the top 150 metro areas saw a decline in the median sales price of existing single family homes. This cuts directly to what is the mainstay of local government revenues, property taxes. Local governments cannot adequately fund schools and essential public services if we have a prolonged decline in property values.

Foreclosed and abandoned properties are blight on too many neighborhoods across America. Some estimates have put the number of foreclosed properties at 600,000 or more. The problem is simply too large for counties and cities to tackle on their own due to their declining tax bases as a result of the problem. Counties and cities desperately need federal assistance to confront this blight.

Montgomery County, MD has not been immune to the housing crisis. Montgomery County's foreclosure rate continues to worsen. Notice of foreclosure sales in the County increased from 68 during the first quarter of 2007 to 918 during the first quarter of 2008 an increase of 1,250%. A total of 611 notices of mortgage loan default were issued in the first quarter of 2008, compared with 103 notices in the first quarter of 2007, an increase of 493.2%. As a member of the Planning, Housing and Economic Development Committee in Montgomery County, I have witnessed firsthand the problems facing our residents and neighborhoods and welcome finding solutions.

To assist in lessening the mortgage foreclosure tide, Montgomery County participates in the Maryland H.O.P.E. hotline for residents facing foreclosure or delinquency.

Residents can receive free confidential information and counseling 24 hours a day, 7 days a week. We have also been offering homeownership and foreclosure solution sessions across the county. Additional information is available at [www.montgomerycountymd.gov](http://www.montgomerycountymd.gov).

Montgomery County has officially partnered with the Maryland State Department of Housing and Community Development to provide assistance to residents. The state and county have contributed money to non-profit organizations to provide counseling to homeowners in the county. The Bridge to Hope program provides zero percent interest loans up to \$15,000 to households who can use the funds to bridge the time needed to refinance and get their overall financial situation in order. The loan will be repaid upon refinancing. The county is also using \$2.5 million from the Housing Initiative Fund (HIF), matching the State's contribution to develop a credit enhancement program to encourage local banks to refinance loans for individuals subject to foreclosure who might require special underwriting criteria.

While counties and cities across this country are taking steps to mitigate the damage from the foreclosure crisis, we cannot do it alone. The federal government has an important role in assisting counties and cities across this country in saving their neighborhoods. Montgomery County, like many local areas across this country, is grappling with budget shortfalls. When a local government is faced with declining revenues, it has basically two choices: 1) increase tax rates, or 2) make cuts in services due to reduced tax

revenues. Residents cannot afford such outcomes and deserve better. Neighborhoods across this country are innocent bystanders in the sub-prime mortgage chaos and it will take more than a local and / or state remedy to curb the decline. This strikes to the competitiveness of our metro economies and by extension, the competitiveness of our national economy. While legally we are a nation of states, economically our nation functions as a group of metro economies. Our 362 metropolitan areas account for over 85 percent of our nation's GDP, employment and labor income. If our metro economies falter, so does the nation. That is why it is imperative that HR 5818 be signed into law as soon as possible to stem the tide and assist neighborhoods and local communities get back on track.

The funding provided by HR 5818 is timely, targeted and temporary. It would enable counties and cities to deal with the foreclosure problem in a straight forward manner by acquiring, rehabbing and reselling these homes. The bill directs the funding to the areas most in need based on a formula that accounts for the number of delinquent (90 days or more) subprime loans. Further, the money must begin to flow within 6 months of enactment, be fully obligated within a year and be fully spent within two years of enactment.

The legislation is a reflection that the foreclosure problem is adversely affecting neighborhoods, often neighborhoods that have already been infused with other federal assistance. That investment is threatened unless action is taken.

We support the legislation's flexibility in the use of funds, i.e. for the Community Development Block Grant-eligible activities, financing mechanisms for redevelopment,

purchase and rehabilitation for sale or rental, land banks, demolition, project-based rental assistance and project operating subsidies and reserves. This flexibility will allow communities to address the foreclosure problem as it uniquely affects them.

As the legislation moves toward conference, we urge modification of HR 5818 to allow the funds to flow through the Community Development Block Grant Program (and its allocation of 70% to metropolitan cities and urban counties and 30 percent to the states). This approach is generally embodied in the bipartisan amendment to H.R. 3221, the “Foreclosure Prevention Act of 2008” passed by the Senate. That legislation relies on the Community Development Block Grant (CDBG), a program that Congress nearly always turns to in responding to a disaster, which is applicable to the mortgage foreclosure crisis. Under the Senate legislation, an emergency appropriation of CDBG funding is authorized to be allocated by a formula developed by the Secretary of Housing and Urban Development (HUD). HUD is directed to develop a formula that allocates funding to areas of greatest need based on the number and percentage of home foreclosures 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 united of local government, and the number and percentage of homes in default or delinquency in each state or unit of general local government. Grantees are intimately familiar with CDBG, and the funds made available under the bill are for the very types of activities that they carry out on a regular basis. We also believe funding for foreclosure relief and mitigation should be in the form of grants and not so much loans for ease of administration.

We do support the use of funds to purchase or finance the purchase of foreclosed housing for resale to families with incomes up to 140% of median income; to purchase or finance the purchase of foreclosed housing for use by qualified tenants as rental housing; to rehabilitate foreclosed housing; for operating and holding costs; and for administrative costs. We also recommend a 5% administrative allowance *for each grantee* receiving this funding. This 5% allowance is consistent with CDBG funding made available to respond to the devastation caused by Hurricanes Katrina and Rita. Grantees receiving foreclosure relief/mitigation funding will be expected to carryout extensive activities in acquiring and disposing of property. They simply do not have the funds to undertake these activities without an adequate administrative allowance.

Thank you for your favorable consideration of our views.