



Legislative Bulletin.....May 7, 2008

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H.R. 5818—Neighborhood Stabilization Act

Summary of the Bills Under Consideration Today:

Total Number of New Government Programs: 2

Total Cost of Discretionary Authorizations: \$8.6 billion over five years

Effect on Revenue: \$0

Total Change in Mandatory Spending: \$0

Total New State & Local Government Mandates: 0

Total New Private Sector Mandates: 0

Number of Bills Without Committee Reports: 0

Number of Reported Bills that Don't Cite Specific Clauses of Constitutional Authority: 0

H.R. 5818—Neighborhood Stabilization Act (*Waters, D-CA*)

Order of Business: The bill is scheduled to be considered on Wednesday, May 7th, subject to a likely structured rule. The RSC will summarize the rule and any amendments made in order under the rule in a separate document.

Summary: H.R. 5818 would authorize the Department of Housing and Urban Development (HUD) to make up to \$7.5 billion in zero-interest loans to states and localities for them to purchase and rehabilitate certain foreclosed homes. The bill would also create a \$7.5 billion **grant** program within HUD to cover the costs associated with the states and localities buying foreclosed properties under the loan program. Highlights of the bill are as follows:

Loan Program

- Creates a new \$7.5 billion loan program under which states and localities could arrange for the purchase and rehabilitation of owner-vacated, foreclosed homes. States could give the money to housing authorities and **nonprofit groups** (e.g. ACORN, the Association of Community Organizations for Reform Now, widely known for its housing activities, its liberal political activities, and its vote fraud activities) for purchasing, renovating, and selling homes or rental properties.
- Provides that the loans would bear no interest, have a term to maturity of three years for properties renovated for sale and five years for properties renovated for rental, and require payment of the original principal obligation under the loan only after the expiration of the term of the loan.
- Prohibits grant funds from being used for political activities, advocacy, lobbying, counseling, travel, or tax preparation services.
- Requires states to submit to HUD a plan (subject to HUD approval) for the loaned funds before being able to participate in the program. Such funds would have to be targeted at low- and moderate-income neighborhoods with high concentrations of foreclosures.
- Allocates loans to the states based on their percentage of total U.S. single-family-housing foreclosures and subprime mortgage loans delinquent for at least 90 days over the past four quarters. States would then have to allocate funds to their cities and urban counties using the same formula.
- Allows for repeat eligibility for recipients of loaned funds if the entity has repaid at least 90% of its previous loans under this program, subject to waiver by the HUD Secretary for borrowers making “satisfactory progress” with its loans.
- Prohibits the making of any new loans under this program four years after the enactment of this legislation.
- Authorizes “such sums as may be necessary” for the costs of administering the loan program.

Grant Program

- Creates a new \$7.5 billion grant program to cover the costs associated with the states and localities buying foreclosed properties under the loan program. Qualified grant-fund uses include closing costs, administrative and planning costs, demolition costs (under certain circumstances), and rehabilitation activities (but not more than 20% of any grant could go for rehab). At least a quarter of the grant funds must be targeted at the very poor (as defined in the bill).

- States could give the money to housing authorities and **nonprofit groups** (including ACORN).
- Prohibits grant funds from being used for downpayments, political activities, advocacy, lobbying, counseling, travel, or tax preparation services.
- Requires states to submit to HUD a plan (subject to HUD approval) for the grant funds before being able to participate in the program. Such funds would have to be targeted at low- and moderate-income neighborhoods with high concentrations of foreclosures.
- Allocates grants to the states based on their percentage of total U.S. single-family-housing foreclosures and subprime mortgage loans delinquent for at least 90 days over the past four quarters. States would then have to allocate funds to their cities and urban counties using the same formula.

Other Matters

- Prohibits excluding Section 8 voucher families from the housing rehabilitated under this legislation.
- Prohibits existing rental contracts from being voided simply because of rehabilitation activities under this legislation.
- Prohibits using any funds under this legislation to demolish public housing.
- Requires that the federal government receive 20% of the difference between the net proceeds from a sale and the cost of initially acquiring the housing.
- Sets forth time requirements for fund recipients spending the funds, so that states and other recipients cannot just “sit” on the funds, and provides for the reallocation of unused funds.
- Holds states harmless for any misuse of funds by the localities to which they allocate funds under this bill.
- No property could be purchased that exceeds 110% of the average purchase price for single family housing in the area, as determined by the Secretary. Multifamily housing caps would be the same as under current law for mortgage insurance for rental properties under Section 207 of the National Housing Act (12 U.S.C. 1713).

Committee Action: On April 16, 2008, H.R. 5818 was introduced and referred to the Financial Services Committee, which, on April 23rd, marked up the bill and ordered it reported to the full House by a vote of 38-26.

Possible Conservative Concerns: Some conservatives may be concerned about H.R. 5818 for at least the following reasons:

Constitutionality. Some conservatives may question whether the provision of taxpayer dollars for the purchase and rehabilitation of private housing qualifies as a proper role of the federal government under the U.S. Constitution.

Cost. Some conservatives may object to the price tag for this legislation, which CBO puts at \$8.6 billion over five years. The bill contains no offsets.

Moral Hazard. Some conservatives may believe that H.R. 5818 would essentially be a bailout for the lenders, loan servicers, and real estate speculators who made risky bets on an ever-increasing housing market and who will now be able to offload their foreclosed properties on to the federal government. Some would argue that this approach subsidizes risky investments and contributes to moral hazard by signaling to future market participants that their risks in rocky times will be assumed by the government if their investments go bad. The bill could thus incentivize foreclosures, rather than reduce them.

Fungibility: Although the bill explicitly prohibits grant and loan funds from being used for political activities, advocacy, lobbying, counseling, travel, or tax preparation services, money is fungible. Every dollar that a nonprofit like ACORN receives under this bill is one existing dollar that is freed up for political and other activities. Some conservatives may be concerned at yet another attempt to use taxpayer dollars to prop up liberal private-sector entities.

Demolition. Some conservatives may be concerned at the bill's explicit prohibition on using any funds under this legislation to demolish public housing. Thus, even the most dilapidated public housing in the most distressed areas could not be demolished, while more valuable, private-sector housing in better areas could be demolished and replaced.

Administration Position: Although a Statement of Administration Policy (SAP) was not available at press time, reports indicate that the SAP will include a veto threat.

Cost to Taxpayers: CBO estimates that H.R. 5818 would authorize \$8.415 billion in FY2009 and a total of \$8.590 billion over the FY2009-FY2013 period. The bill would not affect mandatory spending or revenues, thus there is no PAYGO "problem" with this bill. Nevertheless, the bill terminates no programs or authorities or otherwise offsets the large authorizations in the bill.

Does the Bill Expand the Size and Scope of the Federal Government?: Yes, the bill would create one new loan program and one affiliated grant program for the purchase and rehabilitation of foreclosed homes.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: The Financial Services Committee, in [House Report 110-616](#), asserts that,

“H.R. 5818 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI.”

Constitutional Authority: The Financial Services Committee, in [House Report 110-616](#), cites constitutional authority in Article I, Section 8, Clauses 1 (the congressional power to provide for the **general** welfare) and 3 (the congressional power to **regulate** interstate commerce).
[emphasis added]

Note: Article VI, Clause 3 of the U.S. Constitution states that, “The Senators and Representatives...and all executive and judicial Officers...shall be bound by Oath or Affirmation, to support this Constitution.”

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