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Local Governments Seek Support to Weather Storm

By **Melissa K. Hyman**
The Ferguson Group

The financial crisis is taking a toll on our already squeezed cities, counties and towns. By now, local governments have looked for cost savings by cutting perennial favorites such as arts and recreation, library funding, or reducing trash pickup. They've quickly realized though that these efforts only can go so far and more drastic steps need to be taken.

The word foreclosure means loss of property tax revenue, which correlates to reductions in municipal revenue and declining pension funds for local government employees. Traditionally, local governments turned to the municipal bond market for cheap, fast money, but as we've seen lately, those avenues are quickly drying up.

Congress recognized the need to help communities stabilize the housing market by passing bills that offer assistance to mitigate the home foreclosure crisis.

- Housing and Economic Recovery Act of 2008, P.L. 110-289
- Emergency Economic Stabilization Act of 2008, P.L. 110-343

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Housing and Economic Recovery Act of 2008, P.L. 110-289

The Housing and Economic Recovery Act, P.L. 110-289, was signed into law by President Bush on July 31, 2008. This legislation is a comprehensive housing package designed to offer foreclosure relief to communities and individual homeowners.

Now is the time local governments should be setting their federal funding priorities – well before a new Congress begins and a new President takes office. With credit markets tightening, communities will turn to federal funding opportunities as local governments struggle to find resources for critical transportation, health, law enforcement, and other local priorities.

Resources for State and Local Governments

The Housing and Economic Recovery Act will provide additional federal financial assistance to state and local governments with high concentrations of foreclosed homes, subprime mortgage loans, and delinquent home mortgages. Specifically, the bill uses the framework of the Community Development Block Grant program to channel an additional \$4 billion in assistance to state and local governments.

State and local governments can use these funds to:

- Create financing instruments that would enable them to finance the purchase and redevelopment of foreclosed homes and residential properties;
- Purchase and rehabilitate foreclosed homes and residential properties;
- Purchase and rehabilitate foreclosed homes and residential properties for sale, rent, or redevelopment;
- Establish land banks for foreclosed homes; and
- Demolish blighted structures.

The amount of funding that a state or local government receives was recently determined by the Department of Housing and Urban Development. The Department gave priority consideration to areas and metropolitan cities with:

- The greatest percentage of home foreclosures;
- The highest percentage of subprime loans; and
- The greatest likelihood of facing a significant rise in the number of home foreclosures.

To see how much funding will be allocated to your state or local government, visit:

<http://www.fergusongroup.us/documents/nspallocationgrantedata.xls>

Resources to Help Individual Homeowners Prevent Foreclosure

The Housing and Economic Recovery Act also created an avenue to assist individual homeowners who are having difficulty making their mortgage payments, but can afford a new loan. Specifically, the legislation created a \$300 billion loan guarantee program called the HOPE for Homeowners program, which began on October 1, 2008 and ends September 30, 2011.

The Housing and Economic Recovery Act of 2008 has been called the most significant federal housing legislation in decades. Its provisions will make a mark on homeowners, as well as lenders, communities, Realtors, and housing developers. Nearly 2 million mortgages are delinquent by 60 days or more, putting them at risk of foreclosure. Industry experts say there have been more than 900,000 foreclosures since 2007.

Eligible Borrowers

The eligibility requirements that borrowers must meet to participate in the program are as follows:

- The home is the primary residence, and the borrower has no ownership interest in any other residential property, such as second homes;
- The borrower's existing mortgage was originated on or before January 1, 2008 and the borrower has made at least six payments;
- The borrower is not able to pay the existing mortgage without help;
- As of March 2008, the borrower's total monthly mortgage payments due were more than 31 percent of the borrower's gross monthly income; and
- The borrower can certify that he/she has not been convicted of fraud in the past 10 years, intentionally defaulted on debts, and did not knowingly or willingly provide material false information to obtain existing mortgage(s).

For more detailed information on this program, visit:

<http://www.hud.gov/hopeforhomeowners/>

Emergency Economic Stabilization Act of 2008, P.L. 110-343

On September 20, 2008, the Bush Administration formally proposed a vast bailout of US financial institutions, requesting a blanket authorization for the Treasury Department to buy up to \$700 billion in distressed mortgage-related assets from private firms.

After almost two weeks of negotiations between Congress and the Administration, an agreement was finally reached to authorize \$700 billion for the Treasury Department, to be parceled out in installments, to establish a program to buy "distressed" mortgage-backed securities and other instruments related to such mortgages that were originated before March 14, 2008. Specifically, \$250 billion would be available immediately, with another \$100 billion subject to the president's request. The final \$350 billion would be available if requested by the president, but would be subject to a congressional vote — which itself would be subject to a presidential veto (meaning that a two-thirds majority of each chamber would be needed to prevent those funds from being released).

The Rescue Package Also Includes:

- *Reauthorization of the Secure Rural Schools program through 2011;*
- *Full funding for the Payment in Lieu of Taxes program through 2012;*
- *Extensions of production tax credits for wind, solar and geothermal projects with incentives for clean energy and efficient buildings; and*
- *Two-year extension for the deduction of state and local sales taxes on federal returns.*

The legislation also permits the Treasury to take warrants in a company that participates in the program. The warrants would allow the government to receive a portion of the profits of such company if it becomes profitable after the government buys its troubled assets, essentially acquiring non-voting equity in the participating company

The measure requires the Treasury to implement a plan to mitigate foreclosures and to encourage lenders to modify loans or mortgages and mortgage-backed securities acquired through the program. The Treasury would be allowed to use loan guarantees and credit enhancement to avoid foreclosure, and requires the department to coordinate with other federal entities that hold troubled assets in order to identify opportunities to modify loans.

Oversight Provisions

In addition to authorizing funding, the financial rescue package includes several oversight provisions.

Executive Compensation

Companies that participate in the program, and sell the government more than \$300 million in assets, would be prohibited from providing golden parachutes to new senior executives, and golden parachutes that are paid out on current employment contracts would incur a 20% excise tax.

Oversight Board and Panel

The bill creates an oversight board to review and report to Congress on the Treasury's use of its new authority and the

impact of its purchases on financial markets and institutions. The oversight board would also make recommendations to the Treasury regarding the use of the authority, and report any suspected fraud, misrepresentation, or malfeasance to a special inspector general. The measure also establishes a joint congressional oversight panel to review the current state of the financial markets and regulatory systems.

Deposit Insurance Increase

This measure temporarily increases the Federal Deposit Insurance Corporation and the National Credit Union Administration insurance limit on deposits to \$250,000 from \$100,000. The limit has not been increased since 1980.



For more information, contact The Ferguson Group LLC

David Grenham
(202) 454-3977
dgrenham@tfgnet.com

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Offices:

Washington DC
1130 Connecticut Ave.
Suite 300
Washington, DC 20036
202-331-8500

California
1434 Third St.
Suite 3
Napa, CA 94559
707-254-8400

North Carolina
4315 Woodbourne Drive
Clemmons, NC 27012
336-766-1801

Florida
714 Anastasia Ave.
Coral Gables, FL 33134
305-442-0501