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MEMORANDUM

TO: **Minneapolis City Council**

FR: **Dennis McGrann // Emily Gehrman**
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Washington, DC

DT: **Tuesday, April 29, 2008**

RE: **April 29, 2008 Update**

Community Development Block Grant Update

In early April**, Senator Coleman** and Senator Patrick Leahy (D-VT) began circulating a "dear-colleague" letter to the Chair and Ranking Member of the Appropriations Subcommittee on Transportation and Housing and Urban Development asking them to include $4.1 billion in formula funding for Community Development Block Grants (CDBG) in this year's Trans/HUD appropriations bill. The Lockridge Grindal Nauen Federal Relations Group staff contacted **Senator Klobuchar's** office on this letter to make her staff aware of the importance of the program to Minneapolis. Senator Kloubchar signed on as of Thursday the 24th of April.

In their letter, Senators Coleman and Leahy state that CDBG helps fund a wide range of activities, including homeownership assistance, housing rehabilitation, public improvements, public services and economic development projects. The letter also mentions the fact that since FY2001, when the program was funded at $4.41 billion, the formula allocation has decreased by $820 million, or 18 percent. In President Bush's FY2009 Budget, there would be an additional 18 percent cut, bringing the funding down roughly 37 percent in 5 years. The Senators urge their colleagues on the Appropriations Committee to refund this vital program.

A total of 63 Senators signed onto the final letter that was sent to appropriators on Friday, April 25th.

Lockridge Grindal Nauen will continue to follow this issue as the appropriations process progresses; however, as we have mentioned before, it is likely that the Fiscal Year 2009 spending bills will not be finished until the beginning of the 111th Congress, which begins in January of 2009. We will also continue monitoring any other vehicles which may be used to boost CDBG funding in the future.

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Housing Legislation Update

Housing legislation in the House has continued to move forward. The following is an update on Chairman Frank's housing bills and the outlook of how the bills may be reconciled with the Senate's and the Administration's priorities.

Chairman Barney Frank of the House Financial Services Committee began pushing bills through his panel last week that are expected to be bundled later into a comprehensive housing bill. Chairman Frank said the legislative package is likely to include an overhaul of the Federal Housing Administration (FHA), tax legislation aimed at encouraging home purchases and aiding low-income renters, and a major expansion of the FHA's insurance programs intended to help struggling borrowers refinance their loans.

Frank also said the package would include a long-stalled regulatory overhaul of mortgage-finance giants Fannie Mae and Freddie Mac. In laying out his plans for moving the package, Frank expressed hope it would be drafted by the end of May.

On April 23rd, the committee approved two small bills that are expected to become part of the package. The first (HR 5818) would apportion $15 billion in loans and grants to states based on their percentages of foreclosures. States could give the money to housing authorities and nonprofit groups for purchasing, renovating and selling homes or rental properties. The bill was approved, 38-26 in Committee. The committee also approved by voice vote a bill (HR 5579) that would provide legal protections to loan servicers who make certain loan modifications.

On April 24th, the committee began considering a large component of the plan: an expansion of the FHA's insurance program (HR 5830). The panel voted on several amendments, and the markup is slated to continue April 30th. As the April 24th markup began, the Bush administration announced its opposition to the bill, which Chairman Frank said will complicate passage of housing legislation.

The bill under consideration would set up a voluntary program to encourage lenders to accept losses on bad mortgages. After a lender accepted the write-down on a troubled loan, the mortgage would be refinanced based on a home's current market value and guaranteed by the FHA. The measure would allow the FHA to insure up to $300 billion in loans. To qualify for the program, the lenders would have to accept as payment in full no more than 85 percent of the appraised value of a property, which could represent a significant loss in the case of properties that have dropped substantially in market value.

Frank said he had thought the White House was moving toward the Democrats' position on the need for legislation. Touting a narrower refinancing plan the FHA has undertaken, Roy A. Bernardi, Housing and Urban Development acting secretary wrote that the bill is "an overly prescriptive attempt to legislate FHA's underwriting standards in a way that would force the agency and taxpayers to take on excessive risk and would jeopardize its stability."

During the markup, the committee defeated several GOP-sponsored amendments to change the bill. It rejected, 23-34, a Republican-backed substitute amendment that included an FHA overhaul, increased funding for housing counseling, and a regulatory overhaul of Fannie Mae and Freddie Mac, among other provisions. It also rejected, 27-32, an amendment from Republican Conference Chairman Adam H. Putnam of Florida that would have narrowed eligibility for the program by disqualifying certain borrowers who had recently declared bankruptcy or gone through a foreclosure.

Ranking committee Republican Spencer Bachus of Alabama was quoted as saying that the legislation would "unfairly benefit a few homeowners at the expense of millions of careful borrowers and renters…it will require American taxpayers to assume risks incurred imprudently by mortgage lenders and now overextended borrowers during the run-up in housing prices earlier this decade."

For broad housing legislation to move through both chambers, Chairman Frank will need to move past several legislative blocks that have held up major elements of the package he envisions. For example, lawmakers have been unable to clear legislation that would overhaul Fannie Mae and Freddie Mac. The House passed its regulatory overhaul of the mortgage-finance firms (HR 1427) in May of 2007, but the Senate has yet to act.

The recently passed Senate housing bill (HR 3221) would overhaul the FHA and permanently raise the maximum loan amount the agency could insure to $550,000. Frank has said the exact size of the loan limit is still on the table for negotiation. The Senate housing measure also includes tax breaks for buying foreclosed homes and for money-losing homebuilders. But House lawmakers are moving ahead with a different set of tax breaks (HR 5720) aimed at encouraging home purchases and aiding low-income renters.

Senator Christopher J. Dodd, a Democrat who represents Connecticut and chairs the Banking, Housing and Urban Affairs Committee, has announced a May 6 markup of a Senate housing-rescue package, along with a Fannie Mae and Freddie Mac regulatory overhaul.

As always, Lockridge Grindal Nauen will continue to monitor these and all other pertinent issues that come before the United States Congress and will keep you informed of any developments. Please do not hesitate to contact Dennis McGrann at dmmcgrann@locklaw.com or (202) 544-9840 or Emily Gehrman at ejgehrman@locklaw.com or (202) 544-9896 if you have any questions or need any additional information.