United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

January 22, 2008

The Honorable Harry Reid
Majority Leader
528 Hart Senate Office Building
Washington, DC 20510

Dear Mr. Leader:

The collapse of the housing market is a prime cause of the economic problems that we are facing today. As you know, housing prices are falling on a national basis for the first time since the Great Depression. Delinquencies are growing, and foreclosure rates are at historic highs and likely to grow further, affecting as many as 2 million families directly and millions more through depressed housing prices and reduced home equity. It is shrinking the revenues of state and local governments, reducing their ability to deal with local challenges, and it is undermining the stability of neighborhoods. In light of these facts, I believe that any stimulus package must address the problems that confront the housing market, distressed homeowners and their communities. I also believe that a stimulus package should address some of the labor market problems caused by the massive layoffs and downturn in the housing market. One way to stimulate this vital sector of our economy is to invest in targeted infrastructure projects.

As Chairman of the Senate Banking Committee, I suggest that we include in a stimulus bill the following provisions that fall under the Committee's jurisdiction:

Housing

Any housing solutions should include at least these elements: help existing homeowners avoid foreclosure; provide funds to local governments to get foreclosed and abandoned properties off the market; modernize the FHA; and raise the conforming loan limits on a temporary basis, consistent with the safe and sound operations of Freddie Mac and Fannie Mae.

1. Avoiding foreclosure: I am working on a proposal to create a *Federal Homeownership Preservation Corporation* to purchase outstanding mortgages at the steep discounts at which they are currently valued in the marketplace, ensuring that lenders and investors take a "haircut" and are not being bailed out. The discounts would then be passed on to homeowners in the form of new, lower-

balance mortgages insured by FHA or backed by the housing government-sponsored enterprises (GSEs). Thus, the program would take advantage of the existing mortgage distribution system. The new mortgages would be 30-year fixed-rate mortgages, ensuring long-term stability for homeowners and housing markets. The difference between the old mortgage and the new mortgage would be sufficient, after initial capitalization, to fund the program and cover possible losses. I propose $10 billion to $20 billion for initial capitalization of this entity.

2. CDBG for Purchase and Rehabilitation of Foreclosed Properties: I respectfully request that the stimulus package include $10 billion for the CDBG program to allow local governments to buy foreclosed homes, rehabilitate them, resell them to homeowners, use them for rental housing, or demolish them and bank the land for future development, as local conditions require. CDBG is a formula program that can be distributed very quickly. Foreclosed and abandoned homes are decimating many communities around the country. They lead to a cycle of disinvestment, crime, falling property values and property tax collections, thereby leading to service cuts and further disinvestment. CDBG fund can help stop this devastating process.

3. FHA: The FHA Modernization Act should be included in the stimulus package. A revitalized FHA could provide many distressed borrowers with new sources of mortgage capital, helping many save their homes.

4. Conforming Loan Limits: Currently, mortgage lending other than loans insured by FHA or sold to Fannie Mae or Freddie Mac has ground to a virtual halt. Even creditworthy borrowers cannot get financing, or must pay very high rates. Raising the conforming loan limits temporarily, and consistent with safety and soundness, would start to bring liquidity back to these segments of the market, helping to restore housing markets around the country.

Infrastructure

Inject Funds into Existing Transit Projects: As economist Lawrence Mishel from the Economic Policy Institute testified before the Joint Economic Committee in support of a stimulus proposal that included $40 billion in infrastructure spending: "*Managed wisely, federal investment in infrastructure can be both well-targeted and timely.*" An additional $2 billion invested into transit projects that are currently under construction or part of existing maintenance backlogs would create almost 100,000 jobs, according to the U.S. Chamber of Commerce. The funding would be targeted to those transit systems that could spend the money immediately, and these infrastructure projects (expediting new transit lines that are already under construction and building additional buses and rail cars) would employ workers in the two sectors hardest hit by the economic slowdown, manufacturing and construction. Finally, while the actual expenditures would be temporary and targeted, these projects would produce a lasting result that would increase future economic activity.

Thank you for your consideration of these proposals. I look forward to continuing to work with you and our other colleagues to enact an effective stimulus package.

Sincerely,

Chris

CHRISTOPHER J. DODD
Chairman