

Summary of H.R. 5818, the Neighborhood Stabilization Act of 2008

On April 23, the Financial Services Committee reported legislation sponsored by Housing Subcommittee Chairwoman Waters to establish a federal government-administered loan and grant program to help States purchase and rehabilitate owner-vacated, foreclosed homes with the goal of reselling or renting them to qualified families. The stated objective of the legislation is to stabilize housing markets that are experiencing high levels of foreclosures.

H.R. 5818 would authorize \$15 billion in grants and loans to States and localities for the purchase and rehabilitation of foreclosed properties and their conversion to affordable rental and single-family homeownership. Each state must submit a plan to HUD for approval. Money would be allocated based on a state's percentage of nationwide foreclosures, adjusted for the state's median home price. States that are home to one or more of the 25 most-populous U.S. cities must reallocate federal funds received to any such city based on its share of the state's foreclosures. Homes can be re-sold to prior owners or occupants of foreclosed properties. Grants may not be used for political activities, advocacy, lobbying (whether directly or through other parties), counseling services, travel expenses, or preparing or providing advice on tax returns. Preference in all grant and loan applications will be given to those plans which offer the lowest income families housing for the longest period of time.

Republican View of H.R. 5818

Though well intentioned, H.R. 5818 represents yet another attempt to use taxpayers' dollars to bail out lenders and speculators who made reckless decisions. The principal beneficiaries of this plan would be private lenders, who are now the owners of the vacant or foreclosed properties. In addition, it may have the unintended consequence of making foreclosure a more attractive option for lenders.

Using taxpayer dollars to purchase properties from lenders who could already be helping to prevent the foreclosures represents a clear moral hazard. A better approach would be to amend the tax code to allow state and local governments to issue tax-exempt bonds to finance new mortgages for first-time home buyers and multifamily rental housing assistance to homeowners. Legislation incorporating this proposal (H.R. 5720) has been favorably reported by the Committee on Ways and Means.