Dissenting Views on H.R. 5818, the "Neighborhood Stabilization Act of 2008"

H.R. 5818, the Neighborhood Stabilization Act of 2008, establishes a $15 billion Federal program to fund $7.5 billion in loans and $7.5 billion in grants to states and localities to purchase and rehabilitate foreclosed properties. While the stated goal of the legislation is to stabilize housing markets that are experiencing high levels of foreclosures, there is no evidence that government intervention in the housing markets and the economy of this kind will do anything to achieve that objective, and we must accordingly oppose it.

For the first half of this decade, housing prices increased at a rate that was clearly unsustainable when measured against household incomes and other economic indicators. The market is now in the midst of a significant correction, which is a painful process for those watching the value of their homes decline, but beneficial to those renters and other Americans seeking affordable homeownership opportunities. Contrary to the claims of its proponents, H.R. 5818 will do little to resolve the root causes of the increase in foreclosures--an excess of housing supply and the depreciation of over-inflated home prices. In fact, for the reasons stated below, the legislation could extend and further exacerbate the current housing downturn and do more harm than good.

While we are committed to the goal of stabilizing communities and addressing the problems associated with the rising number of foreclosures, we do not believe that H.R. 5818 is the right solution to those problems. If enacted, H.R. 5818 would represent a costly bailout for the lenders, servicers and real estate speculators who made risky bets on the housing market and will now be able to offload their foreclosed properties onto the government. Such an approach subsidizes bad investments and contributes to moral hazard by signaling to future market participants that their downside risks will be assumed by the government if their investments sour.

Moreover, rather than reducing the number of foreclosures, H.R. 5818 may actually incentivize lenders to foreclose rather than attempt workouts with struggling homeowners. In a letter from Roy A. Bernardi, the Deputy Secretary of the Department of Housing and Urban Development, the Bush Administration highlighted this concern and went on to note that `an increase in foreclosures [resulting from these incentives] could well prolong the time it would take for the housing market to recover. This new program [established by the legislation] would also be slow to expend money, and thus its effects on the market would be delayed and spread out over time.'

H.R. 5818 also includes overly broad income-targeting provisions that would allow state and local entities to sell properties to individuals who make up to 140 percent of area median income. This represents a government subsidy for families and individuals whose need for federal assistance is questionable. In addition, nothing in the bill prevents the resale of foreclosed properties to a prior owner. Allowing homeowners to repurchase from the government the same homes that they could not afford in the first place would only exacerbate foreclosures and delay a neighborhood's economic recovery.

H.R. 5818 contemplates the expenditure of $15 billion to fund the loans and grants authorized by the legislation, without indicating where the money will come from to pay for this massive expansion of the Federal Government's role in the housing market. During Committee consideration of the bill, Republican Members offered a series of amendments designed to mitigate these costs, but all were defeated on largely party-line votes, including an amendment by Mr. Price requiring that the legislation comply with pay-go requirements; an amendment by Mr. Hensarling to convert the entire $15 billion to loans rather being split equally between grants and loans; and another amendment by Mr. Hensarling requiring that states provide a dollar-for-dollar match for all funds that they receive under the bill in the form of grants.

We intend to continue pushing for much-needed improvements to H.R. 5818 as it moves to the House floor, and, absent such improvements, will continue to oppose it.

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