Easter, Stacy

From: Killian, Chris <(b)(6)@sifma.org>
Sent: Friday, March 08, 2013 6:57 PM
To: Pollard, Alfred
Cc: Dorfman, Richard
Subject: Eminent domain - update on multitude of cities exploring its use
Attachments: 2012.12.18 El Monte Council - MRP Proposal.pdf; 2012.12.18 El Monte Council Agenda (w-o attach).pdf; 2012.12.18 El Monte Council Minutes.pdf; 2013.01.08 La Puente Agenda.pdf; 2013.01.08 La Puente Council Minutes.pdf; 2013.01.08 MRP-CARES_PowerPoint to La Puente.ppt; 2013.02.06 La Puente - MRP Advisory Services Agreement.pdf; 2013.02.06 La Puente Agenda Report - for 2.12.2013 Meeting.pdf; 2013.02.12 La Puente Agenda.pdf; 2013.02.26 Richmond Council - Agenda.pdf; 2013.02.27 MRP Presentation__richmondconfidential.pdf; 2013.02.28 N. Las Vegas - Agenda Item - 3.6.2013 Meeting.pdf; ATT00012.htm; 2013.02.28 N. Las Vegas - MRP Advisory Services Draft - 3.6.2013 Meeting.pdf; ATT00013.htm; 2013.02.28 N. Las Vegas__www.ralstonflash.pdf; ATT00014.htm; 2013.03.06 MRP Plan Hearing__www.lasvegassun.pdf; ATT00015.htm; 2013.03.06 N.LasVegas Consider Plan__LasVegasJournRev.pdf; ATT00016.htm

Hello Alfred,

Below are 2 updates my contacts sent me last night primarily focused on the goings on in California and NV. This is not intended to start your weekend on a sour note, forgive me if it does.

The organization of MRP's efforts and their strategy has changed a bit. They have found more traction in enlisting local well-known folks to serve as their proxy in advocating for the use of eminent domain as opposed to the ex-Wall Streeters pitching the towns. We were in Brockton MA yesterday meeting with folks there – that is not a situation I am confident about right now as the current "committee" carries many markings of a charade. They have followed a similar track there.

My instincts are telling me that one of these places where there is smoke will soon catch fire. On a practical level, we have reached a point where were are not able to be local advocates on the ground in opposition to these plans in all of these places, and it is not necessarily the case that we have as strong local advocacy organizations like we did in San Bernardino. That said we will of course do our best.

Due to this we are going to reassessing our intervention strategy to be prepared in the event that one of these towns makes a move. I expect the investor groups who have been organizing with counsel will do likewise. We think everyone with an interest at the Federal level needs to think along these lines; especially given the continued claims of Federal regulatory support for their plans.

Might it make sense to catch up early next week? As you know we have strong views as to the importance of this issue and much to discuss.

Have a good weekend.

-Chris

Chris Killian
Managing Director - Securitization
Sifma

O:
M: (b)(6)

1. **California Update**

As ... has reported, there is indeed a collaboration afoot in several cities in the San Gabriel Valley of California between the William Velasquez Institute (a well-known Latino advocacy group) and Mortgage Resolution Partners to implement the MRP plan to acquire underwater mortgages using eminent domain.

It took quite a bit of digging (including tracking down several false leads) to collect some of the details of the collaboration and the names of the cities that have signed agreements with MRP.

This is what I have discovered thus far –

1. The cities of El Monte and La Puente have entered into agreements with MRP for initial studies.

o The El Monte / MRP agreement was first discussed at a city council meeting on December 18, 2012, and the agreement was approved by El Monte on December 19, 2012.

o The La Puente / MRP agreement was first discussed at a city council meeting on January 8, 2013, and the agreement was approved by La Puente on February 12, 2013.

o In both cities, Antonio Gonzalez, the President of the William Velasquez Institute, made joint presentations with Graham Williams of MRP about the need and desirability of entering into the MRP agreements.

2. MRP told the City Council of La Puente that in addition to El Monte that the cities of Orange Cove and San Joaquin (both located Fresno County in the Central Valley of California) had also entered into agreements with MRP. Due to problems with the websites of both of these cities, I have not been able to download the actual MRP City Council documentation to confirm these agreements.
3. MRP told the City Council of La Puente that the southern California cities of Azusa, Baldwin Park, Lynwood, and South Gate were also expected to consider entering into similar agreements with MRP... Despite exhaustive searches of the City Council agendas for these four cities, I have not found any evidence of agenda items relating to the MRP plan or potential agreements with MRP.

4. The discussion before the La Puente counsel (which is available in an audio file on the city's website) included information on how MRP felt the eminent domain process would proceed once a final agreement was reached with a city... Mr. Williams stated that MRP expected there would be one lawsuit with multiple defendants covering all the mortgages in the city that would be the subject of the eminent domain proceedings, rather than a one mortgage by one mortgage process.

Despite these relatively major events, I was unable to find any press coverage of these cities' entering into agreements with MRP.

On February 26, 2013, MRP made a presentation to the Richmond, California city council about its underwater mortgage proposal. At this time the minutes for the meeting are not available, but a blog posting reported that the council was unanimous in its support of an agreement with MRP.

In non-California news, the North Las Vegas city council had a preliminary meeting with MRP on March 6, 2013 to discuss the eminent domain plan for underwater mortgages. A similar agreement (to those entered into by El Monte and La Puente) between MRP and N. Las Vegas was considered at the meeting. Mr. Gluckstern and others from the national MRP board attended the meeting, as did the four main Nevada MRP partners. At this meeting Wednesday, Mr. Gluckstern said that MRP had four agreements in hand, that MRP was meeting with the private label securities holders for mortgages in those cities at the present time, and expected to have reports to the cities in the next 60 days on the status of the negotiations with the securities holders. The Council requested that city staff hold an informal workshop within the next 30 days to collect additional information.

2. **Summary of North Las Vegas Hearing from an attendee**

The MRP team of twelve (local investors with MRP-Nevada, lawyers, lobbyists, and National MRP Board Members) came with their guns blazing and were quite disappointed when the item was continued for 30 days to allow for additional "workshops" to address the concerns we raised. However, their PowerPoint Presentation (attached) was fairly successful in convincing some members of the council of the nobility of their intentions to "help underwater homeowners and make a little money in the process of helping the greater community."

It is important to note that the MRP scheme is VERY juiced in Nevada politics! First, they hired the lobbying firm R&R Partners which has close ties to Governor Sandoval and President Obama. The lead investor in MRP-Nevada and the individal who made the sales pitch to the council was Byron Georgiou an attorney appointed by Senate Majority Leader Harry Reid to the Financial Crisis Inquiry Commission. Some of the other investors present included: Daniel Greenspun, Chairman of the Greenspun Media Group (Las Vegas Sun) and Vice Chairman of the Greenspun Corporation; Michael Saltman, real estate developer and Council for a Better Nevada Board of Director (BOD); and Richard Plaster, President of Signature Homes, Southern Nevada Home Builders BOD, Smith Center for the Performing Arts BOD. Additionally, representatives from the Culinary Union, Service Employees International Union, and the Legal Aid Center (Former Speaker of the NV Assembly Barbara Buckley) spoke or provided written comments in favor of the MRP proposal. Moreover, MRP has retained Kermit Waters, noted Eminent Domain attorney and author of the Nevada PISTOL Constitutional Amendment, who believes that the MRP proposal does not violate PISTOL. GLVAR was the only group present to speak in opposition to the proposal and I have attached below the letter I submitted for .

While some council members (Mayor Buck, Councilman Wagner) echoed some of our concerns and raise ones of their own, some members of the council (Councilwoman Anita Wood, Councilman Robert Eliason, Councilwoman Goynes-Brown) voiced that they thought the proposal was one that was "needed and warranted at this time to help our community." Councilwoman Wood said, "while I understand some of the concerns raised by GLVAR and SIFMA, at least MRP has brought forward solutions to our troubled market." I pointed out that our current market has seen a 27% increase in value over the past year and with only 5-6 weeks of inventory we are near all-time lows. The real estate market was starting to stabilize and passage of the MRP scheme would only serve to destabalize our market.

The date of the workshop has not been established. I will be sure to let you know once it has. I anticipate it occurring sometime the first week of April.

Below are two links from today's press coverage of the council meeting:

http://www.mynews3.com/content/news/story/North-Las-Vegas-homeowners-wary-of-eminent-domain/fNyH5QeYlkq9mPRHtCU8tQ.cspx

http://www.lasvegassun.com/news/2013/mar/07/unconventional-approach-lift-underwater-homeowners/

CITY OF EL MONTE

OFFICE OF THE CITY ATTORNEY
CITY COUNCIL AGENDA REPORT

CITY COUNCIL MEETING OF DECEMBER 18, 2012

December 14, 2012

The Honorable Mayor and City Council
City of El Monte
11333 Valley Boulevard
El Monte, CA 91731

Dear Mayor and City Council:

RECEIVE AND FILE A REPORT BY CITY STAFF AND PRINCIPALS OF MORTGAGE RESOLUTION PARTNERS REGARDING A PROPOSAL FOR EVALUATION OF A SPECIAL MORTGAGE MODIFICATION PROGRAM FOR "UNDERWATER MORTGAGE" HOMEOWNERS IN EL MONTE AND DIRECTION TO CITY STAFF TO FINALIZE THE TEXT OF AN ADVISORY SERVICES AGREEMENT BETWEEN MORTGAGE RESOLUTION PARTNERS AND THE CITY OF EL MONTE FOR FINANCIAL CONSULTING SERVICES FOR SUBSEQUENT APPROVAL BY THE CITY COUNCIL

IT IS RECOMMENDED THAT THE CITY COUNCIL:

1. Receive and file the report of the City staff and Mortgage Resolution Partners regarding a proposal to provide the City of El Monte with financial consulting services relating to the preparation of a mortgage modification program for underwater mortgages (mortgages in imminent risk of foreclosure).

2. Direct City staff to finalize the text of an advisory services agreement with Mortgage Resolution Partners for certain mortgage modification financial consulting services and return the proposed final text of the agreement for subsequent approval by the City Council as of January 8, 2013, or as soon thereafter as practicable.

BACKGROUND

As part of the general discussion on economic development strategies for the community, the topic of the adverse effects on El Monte of the continuing mortgage foreclosure crisis was briefly considered during the City Council retreat on November 29, 2012. High mortgage foreclosure rates persist and the large number of "underwater mortgages" which have resulted from an unprecedented and lingering economic downturn, confront the community with a serious set of challenges. Many underwater mortgages in El Monte have been already foreclosed over the past five (5) years and many more are currently subject to active foreclosure proceedings.

The efforts of some of the major lenders to offer meaningful mortgage modifications or grant permission for "short sales", in appropriate situations, as part of a prudent response by private lenders to avoid further losses to their loan portfolios, is still very limited. To further compound this crisis, it is almost certain that in the foreseeable future many, many more underwater mortgage borrowers, who are not in default today, will nonetheless lose their homes to mortgage foreclosure.

Not all mortgages or borrowers are "underwater" and not all defaulted mortgages can or should be modified to prevent foreclosure or short sale. But, there is a growing recognition that mortgage lenders can mitigate financial losses both to themselves as well as their borrowers and the communities in which their borrowers live, through the mortgage modification process.

The former Chair of the Federal Deposit Insurance Corporation (the "FDIC"), Ms. Shelia Bair, in her current best-selling book "Bull By the Horns" focuses on the need for mortgage lenders to modify mortgages where appropriate, in lieu of these same mortgage lenders simply bumbling along with foreclosures and big talk of helping defaulted borrowers, but meanwhile waiting for more too-big-to-fail taxpayer bailouts of the imprudent mortgage security industry. Unfortunately, as Ms. Bair observes in her memoir of her service as Chair of the FDIC, there are a number of thorny structural barriers which prevent the mortgage loan industry from getting a fair and effective mortgage modification process going on a significant national scale.

As part of the City Council discussion on November 29, 2012, reference was made to an innovative proposal for a local solution to the problem of meaningful mortgage modification. In basic terms, the proposal includes the use of the power of eminent domain by a local agency (for example, a housing authority or a joint powers authority) to acquire certain underwater mortgage loans from the investors who own the mortgage securities. Then, in turn, the local agency restructures or modifies the mortgage loan with the borrower who lives in the home so that the borrower can avoid foreclosure and remain in the home.

The City Council indicated an interest on November 29, 2012 in learning more about this particular proposal. The City staff have contacted a firm of investment advisors, Mortgage Resolutions Partners, who are consulting with a number of other local agencies, and non-profit community organizations who, like the City of El Monte, are also engaged in efforts to prevent the spread of foreclosure blight and who seek to explore reasonable proposals to respond to the on-going adverse impacts of the mortgage foreclosure crisis. A representative of Mortgage Resolution Partners is scheduled to be available at the December 18, 2012 City Council meeting to make a brief presentation to the City regarding the program which they believe offers great promise to communities who are trying to assist residents to save their homes from foreclosure.

FACTS AND NARRATIVE SUPPORTING RECOMMENDATION

Attached to this City staff report are some written materials which provide an overview of the mortgage foreclosure mitigation program which is being proposed by Mortgage Resolution Partners. At the lower right-hand corner of each of the attached pages of text, a document control or page number appears inside a square box. So, for example, a reference to "page 36" means and refers to the first page of a report, dated October 14, 2012 prepared by the Center for Responsible Lending which provides an estimate to the external costs to the community for a home foreclosure. At page 37, the Center of Responsible Lending presents its conclusion that families or neighboring homeowners who are not in default under their mortgages, but who nonetheless live in proximity to a foreclosed home, also suffer very large direct economic losses as a result of living in a neighborhood which is burdened by foreclosure activity. The attached materials also include a couple of recent news stories about the program being proposed for consideration by Mortgage Resolution Partners (see pages 3 - 8).

The general outline of the program being proposed by Mortgage Resolution Partners is set forth between pages 29-35 of the attached materials.

As can be seen in the news story accounts, the proposed program has generated a high degree of interest, especially from financial institutions which own or hold large portfolios of mortgage securities which have sometimes been referred to a "toxic assets." Accordingly, the program being proposed by Mortgage Resolution Partners is not free from controversy. Most of the controversy is centered on one of the elements of the proposal which includes the use of eminent domain powers.

However, the power of eminent domain is not directed against the owner of the home which has lost value since the owner purchased it. Instead, the power of eminent domain is used to compel a financial institution which owns, or is responsible for managing the "underwater mortgage" for the investors, to transfer the mortgage which it owns at its current value (not the value of the property in 2005 when a particular mortgage was originated, but the value of property in 2012) to the local agency. Once the transfer of the mortgage asset has been accomplished under the program being proposed by Mortgage Resolution Partners, the local agency can then undertake the loan modification process directly with the individual homeowner who lives in the house. The homeowner remains in the home, and has a reduced monthly mortgage payment which more closely corresponds with the value of the home.

The proposal is innovative. The proposal also is subject to a number of hurdles going forward. Nevertheless, there is a degree of solid support and recognition that the long delayed systemic mortgage modification process, which is a necessary ingredient for national economic recovery of the housing market, may need to be implemented at the local level precisely because of the institutional barriers and obstacles thrown up by the too big to fail mortgage industry policies of the past. Indeed, the letter from Lieutenant Governor Gavin Newsom (see pages 84-90 of the attached materials) both underscores this point and also contains a cautionary note about the challenges of going forward.

FISCAL IMPACT

The initial stages of the implementation of the proposal are covered in a draft of an Advisory Services Agreement by and between Mortgage Resolution Partners and the City (see pages 10 – 13 attached). The text of the draft agreement provides that Mortgage Resolution Partners shall undertake the preparation of a specific mortgage modification program proposal tailored to conditions in El Monte, at the sole cost and expense of Mortgage Resolution Partners. Any compensation which may eventually be payable to Mortgage Resolution Partners shall be obtained from available program revenues, if any, and from no other source. Mortgage Resolution Partners cannot commit the City of El Monte to any financial undertaking or expense unless such a financial undertaking or expense is first separately authorized by action of the City Council in its sole discretion. In addition, each element of a mortgage modification program which may be developed by Mortgage Resolution Partners, in consultation with the City staff, shall be subject to the separate review and approval by the City Council in its sole and absolute discretion.

RECOMMENDATION

It is respectfully recommended that the City Council receive and file the report of the City staff and Mortgage Resolution Partners regarding a proposal to provide the City of El Monte with financial consulting services relating to the preparation of a mortgage modification program for underwater mortgages (mortgages in imminent risk of foreclosure). City staff should also be directed to finalize the text of an advisory services agreement with Mortgage Resolution Partners for certain mortgage modification financial consulting services and return the proposed final text of the agreement for subsequent approval by the City Council as of January 8, 2013, or as soon thereafter as practicable.

Respectfully submitted,

DAYLE KELLER
Interim City Manager

JESUS M. GOMEZ
Assistant City Manager

DAVID F. GONDEK
Senior Deputy City Attorney

Attachment:
- Mortgage Resolution Partners program materials

DATE: December 18, 2012
PRESENTED TO EL MONTE CITY COUNCIL
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CHIEF DEPUTY CITY CLERK

Mortgage Resolution
PARTNERS

Community at a glance

Name	City of El Monte	
County	Los Angeles	
CBSA Name	Los Angeles—Long Beach—Santa Ana, CA	
Population	90,977	(2011 CoreLogic)
Total Households	22,707	(2011 CoreLogic)
Home ownership rate	42%	
Total Mortgages	11,001	(est as of Sept 2011)
% of Underwater homes	17%	(Q1-2012)
% of Underwater homes - CBSA	23%	(Q1-2012)
% of Underwater homes - State	31%	(Q1-2012)

Foreclosure statistics

Foreclosures in most recent month	33	month of Sep 2012
Foreclosure rate fraction 1 of every	719	properties received FC notice in Sep 2012

Mortgage stats breakdown	Total	Current		Delinquent		Underwater	
Total Mortgages (GSE, Banks, etc)	11,001					1870	17%
All PLS Mortages	1,084	705	65%	379	35%	536	49%
PLS Single-family, Owner-Occ, 1st	759	493	65%	266	35%	413	(est)

City of El Monte PLS Loans by Zip (July 2012)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
91731	8,007	305	$296,591	143	47%	89	62%	22	32
91732	14,700	779	$297,549	393	50%	257	65%	65	71
	22,707	1,084	$297,279	536	49%	346	65%	87	103

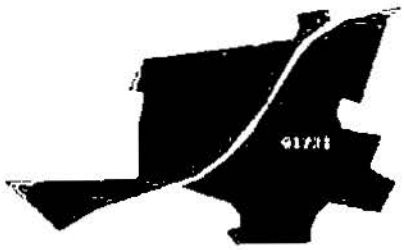
Zip codes 91734 and 91735 have no residential loans

015.500.000

Foreclosure statistics by zip code

33 new foreclosures filed in September 2012

September 2012 Foreclosure Rate Heat Map



Foreclosure Actions to Housing Units

1 in every 719 housing units received a foreclosure filing in September 2012

Exclusive: Investors tout controversial "condemnation" for housing fix

By Matthew Goldstein and Jennifer Ablan
NEW YORK | Fri Jun 8, 2012 5:36pm EDT

(Reuters) - Here's a controversial but intriguing approach to the U.S. housing crisis: keep cash-strapped residents in their homes by condemning their mortgages.

A mortgage firm backed by a number of prominent West Coast financiers is pushing local politicians in California and a handful of other states hardest hit by the housing crisis to use eminent domain to restructure mortgages that borrowers owe more money on than their homes are actually worth.

San Francisco-based Mortgage Resolution Partners, in a presentation reviewed by Reuters, says condemning so-called underwater mortgages and taking them out of the hands of private lenders and bondholders is "the only practical way to modify mortgages on a large enough scale to solve the housing crisis."

Eminent domain is a well-tested power by local government to get a court order to take over a property it deems either blighted or needed for the public good.

Over the years, governments have used eminent domain authority to clear urban slums or seize land to build highways and bridges.

The power to do this is often controversial because landowners don't have much negotiating power. And in this case, potentially even more controversial since it has never been used to sieze mortgages held by private investors or financial institutions.

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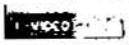

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Under the ambitious proposal, Mortgage Resolution Partners would work with local governments to find institutional investors willing to provide tens of billions of dollars to finance the condemnation process to avoid using taxpayer dollars to acquire millions of distressed mortgages.

A local government entity takes title to the loans and pays the original mortgage owner the fair value with the money provided by institutional investors.

Mortgage Resolution Partners works to restructure the loans, enabling stressed homeowners to reduce their monthly mortgage payments. The restructured loans could then be sold to hedge funds, pension funds and other institutional investors with the proceeds paying back the outside financiers.

Mortgage Resolution Partners, which up until now has tried to keep private its discussions with local politicians and the two investment banks it is working closely with, would collect a negotiated fee on every loan that is condemned and restructured.

The plan by Mortgage Resolution Partners to keep people in their homes by condemning underwater mortgages comes as many institutional investors are raising money for funds to acquire foreclosed single-family homes with an eye toward renting them out until housing prices recover.

Meanwhile, Mortgage Resolution Partners got caught up in a controversy earlier this year after Reuters reported that Phil Angelides, the former chairman of a Financial Crisis Inquiry Commission, was the executive chairman of Mortgage Resolution Partners. Angelides left the firm soon after, when some on Capitol Hill began raising questions about potential political influence by Mortgage Resolution Partners. [ID:nL2E8DDGCT]

The firm's condemnation proposal, which is getting a receptive hearing from some public officials in San Bernardino County, California, could also prove controversial because eminent domain traditionally has been used by municipalities to take ownership of blighted properties and buildings - not loans.

In a condemnation proceeding, the owner of a property is entitled to be compensated at fair market value, which often can be much less than the initial purchase price. That means banks or investors in mortgage-backed securities could face losses, if many underwater mortgages were condemned at a steep discount to their face value.

"We are intrigued," said Gregory Devereaux, chief executive of San Bernardino County, which is east of Los Angeles and has one of the highest unemployment rates in the state. "Our economy in this county can't be turned around until a large proportion of the mortgage crisis has been addressed."

Devereaux said the idea of using private money to condemn underwater mortgages was first brought to him by Mortgage Resolution Partners several months ago. He said if the county goes ahead with the idea, it isn't definite it will work with the firm to manage the program.

But Mortgage Resolution Partners would appear to be further along than any other firm in putting the pieces together to use private money to fund public condemnations of underwater mortgages.

The firm is working with investment banks Evercore Partners Inc and Westwood Capital to find institutional investors interested in providing the billions of dollars necessary to fund the condemnation process on a significant scale, according to the firm's marketing documents and people familiar with the matter. The investment banks are talking to big bond fund managers, hedge funds and insurers about providing the financing.

The documents also note that San Bernardino County and some of its municipalities are the closest to moving forward with the idea.

Mortgage Resolution Partners is also having discussions with politicians in at least one other California county and in Nevada and Florida, said people familiar with the situation.

"The private sector provides all the financing and all the risk with this program," said Steven Gluckstern, the firm's chairman and a former money manager and former owner of New York Islanders hockey team. "We have watched state (and) national government try to fix this and it hasn't worked."

Gluckstern acknowledges that using eminent domain for mortgages is untested but said the firm's lawyers believe the strategy would withstand a legal challenge from bondholders or banks. He also said he thinks most bondholders would not oppose eminent domain because the market prices for

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many mortgage-backed securities reflect the fact that millions of borrowers are underwater on those loans.

"The loss for many bondholders has already been baked into this," he said.

A person familiar with the matter, who was not authorized to speak publicly, said condemnation of underwater mortgage creates a "liquidity event" for many mortgage-backed securities that have been cobbled together largely from distressed home loans.

The problem of underwater mortgages may be the most lasting impact of the U.S. financial crisis. Recent estimates by real estate information firm CoreLogic found that roughly 22 percent of U.S. homeowners owe more on their mortgages than their homes are worth.

In San Bernardino County, an estimated 100,000 homeowners have mortgages that are underwater, according to county officials.

Two California municipalities in the county, Fontana and Ontario, have agreed to work with the county on that study. But a third community, Hesperia, voted on June 5, not to join the effort.

The use of eminent domain to help underwater homeowners has gotten some attention from the local press in San Bernardino County. But until now, Mortgage Resolution Partners behind-the-scenes role had not surfaced.

Devereaux said Mortgage Resolution Partners has not come up in the public discussions about the eminent domain proposal because no decision has been made to work with them.

But the lack of openness has concerned some in the local real estate community.

"In two months and four public meetings, the critical details of how this might work have been left out of the discussion," said Paul Herrera, government affairs director for Inland Valleys Association of Realtors.

(Editing by Steve Orlofsky)

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Arguments over eminent domain mortgage seizure program ramp up for 2013

Joe Nelson, Staff Writer
Posted: 12/01/2012 06:13:41 AM PST

A proposal to use eminent domain to seize underwater mortgages in San Bernardino County appears to have quieted in recent months, but the proposed program is expected to make major headway in 2013.

"In 2013 we will clean up this mess, and we'll fix this problem," said John Vlahoplus, a founder and chief strategy officer for the San Francisco- based venture fund Mortgage Resolution Partners, which pitched the idea to San Bernardino County, where roughly 150,000 homeowners in the county owe more on their homes than they are worth, and municipalities across the country hardest hit by the subprime mortgage crisis.

"We're going to have strong success . . . in 2013," Vlahoplus said.

He said Mortgage Resolution Partners, or MRP, has been getting a lot of positive response from the cities and counties where it has proposed the idea, including San Bernardino County and the Northern California cities of Berkeley and Sacramento, as well as Suffolk County in New York.

"There's very strong interest on all fronts," Vlahoplus said.

MRP has proposed that the county use eminent domain, typically used by government to acquire, via court order, private property for redevelopment or capital improvement projects, to seize underwater mortgages. The loans would then be modified to current market value so people could afford their monthly mortgage payments and establish equity.

The loans would then be sold to hedge funds, pension funds or other investors, with the proceeds being used to pay off outside financiers, secured by MRP, who are funding the eminent domain process. MRP would take a $4,500 fee for each loan seized and modified, and the original bondholder would be left eating the difference between what was owed on the original mortgage and the renegotiated loan at current market value. The county would retain the mortgage notes.

The county has formed a joint-powers authority with the cities of Ontario and Fontana to consider MRP's proposal and any others on how best to fix the county's housing crisis. Roughly 150,000 county residents owe more on their properties than what they are currently worth.

The next meeting of the JPA will be held at 9 a.m. on Jan. 24.

MRP's proposal has Wall Street, the mortgage industry and even the federal government circling the wagons.

The federal government has threatened to redline cities and counties that engage in the practice, saying it could make it harder to get loans and force lenders to levy additional fees as a safeguard against government mortgage seizures.

And in September, U.S. Rep. John Campbell, R-Irvine, introduced federal legislation to make real that threat. The Defending American Taxpayers from Abusive Government Takings Act, or H.R. 6397, proposed prohibiting the nation's top four mortgage lenders - Fannie Mae, Freddie Mac, the Federal Housing Administration and the Veteran's Administration - from purchasing or guaranteeing loans in counties or cities that use eminent domain to seize underwater mortgages.

The bill has since died in session, but will likely be reintroduced during the next Congressional session, said Christopher Bognanno, Campbell's spokesman.

But continued efforts to block the proposed program do not appear to be faltering.

b

On Tuesday, a public relations company serving the mortgage finance industry released results of an Internet survey of 113 Californians, 86 percent of who said they oppose eminent domain to seize mortgages because they didn't believe it would stabilize housing prices. In addition, the majority of those surveyed felt that borrowers understood the risks they assumed when they bought their homes.

Matt Strickberger of OnPoint PR and Consulting in Warren, N.J., said he conducted the survey independently and it was not commissioned by any client.

"I decided it was something the marketplace needed to understand the issue better," Strickberger said. "I was surprised what the numbers suggest - by and large that they don't see (eminent domain) as a solution to this very difficult problem."

He acknowledged that the survey, at only 113 surveyed Californians, was anything but scientific.

"Is it a straw poll? You'd probably be on point with that," Strickberger said. "But if you expanded it out to 1,500 or 3,000 people, my sense is I don't think the numbers or attitudes will change all that much. I think it will capture what homeowners think."

Vlahoplus gives no credibility to the survey and calls it biased.

"One of the biggest points in this poll is . . . that the borrower knew the risk he/she was taking when buying their home. This is a fundamental lie and misdirection by Wall Street," Vlahoplus said. "It is Wall Street's agenda to demonize the borrowers. Their goal is to prevent any solution and simply to foreclose on people and buy their houses cheap because they say people were aware of the risk."

Mark Dowling, CEO of the Inland Valley Association of Realtors, which has voiced strong opposition to the proposal, said the local real estate and mortgage community is standing back and waiting to see what the county's next move is.

"We're all kind of waiting to see what their next steps are. We're not sure," Dowling said.

Reach Joe via email, call him at 909-386-3874, or find him on Twitter @SBCountyNow.

FACT✓CHECK

How did we do? If you found an error or a gap in our reporting on this story, please let us know.

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The mortgage crisis is far from over

- Since 2006 4 million families have been foreclosed in the United States.
- 3.5 million families are delinquent on their mortgages today.
- 10 million future foreclosures are predicted.

Foreclosures negatively impact communities and local governments

- Property values decline
- Property taxes decline
- The cost of law enforcement and fire services increase
- Vacancies and blight increase
- Estimated cost to local governments is $34,000 per foreclosure

30% of all future foreclosures will be from the 10% of mortgages that are owned by private trusts (PLS).

- Fannie forecasts that 3 million PLS loans will default in the future
- Fannie forecasts investor foreclosure recoveries of 35 cents per $1

The average underwater PLS mortgage is worth less than the home

- Bank of America, July, 2012 – The value of a $300,000 PLS mortgage on a $200,000 home is between $144,000 and $186,000

Mortgage principal reductions prevent foreclosures

- "Most economists see principal reductions as central to preventing foreclosures." *Alan Blinder, former Vice Chairman at the Federal Reserve (Oct. 20, 2011)*
- "Government should reduce mortgage principal when it exceeds 110 percent of the home value." *Martin S. Feldstein, former Chairman of the Council of Economic Advisers under President Reagan (Oct. 12, 2011)*
- Example: JP Morgan Chase and Bank of America unilaterally reduce principal on option ARM portfolio loans in order to reduce defaults and losses

Communities can enforce principal reductions on underwater PLS mortgages

- Securitization agreements and tax laws prohibit the sale of PLS mortgages except when the mortgages are condemned
- Local government, using their constitutional power of eminent domain,
- Can condemn PLS mortgages **(not homes)** when "public purpose" exists by paying "fair value" which is less that home value
- Then local governments can reduce the principal balance on the condemned PLS mortgages via refinancing or modifying them, thereby eliminating toxic underwater PLS in their community
- *Local governments do take homes and do not transfer property to private parties*

[8]

Communities can then make a menu of solutions available for underwater PLS families

Families can refinance at no cost and have a new mortgage that is less than the value of their home. Here is an example where the community purchases the loan for a fair value that is less than the home value

	Original Loan	Today	After Purchase
Home Value	$400,000	$200,000	$200,000
Mortgage Balance	$320,000	300,000	$190,000
Home Equity	$80,000	($100,000)	$10,000
Loan to Value Ratio (LTV)	80%	150%	95%
Monthly Payment	$1,798	$1,798	$907

For those families unable to refinance immediately then the community can:

1. Modify monthly mortgage payments to those that the family can afford
2. Forgive mortgage debt in excess of home value over three years
3. Family has 75% of home appreciation

For those families that can't afford mortgage payments the community can

1. Rent the home to the family
2. Provide the family with an option to buy the home
3. Credit some portion of rent to the family's down payment

Mortgage Resolution Partners is a community advisory firm

MRP clients are state, county, and city governments that purchase underwater PLS mortgages and resolve them to the benefit of their communities. In order, MRP provides, under contract with the community, the following services:

1. Identify and value PLS mortgages
2. Educate the community
3. Arrange the communities acquisition financing
4. Advise community in filing eminent domain motion
5. Demonstrate the public purpose
6. Determine fair market value of mortgages
7. Arrange servicing of acquired mortgages
8. Arrange resolution of acquired mortgages
9. Communities may engage MRP at no cost, then MRP will bear all costs of the program. If successful MRP will receive $4,500 per loan resolved. This is the same fee that the Federal government pays banks to modify loans
10. *The community does not pay this fee.*
11. MRP does not offer mortgage banking or other transaction services which conflict with our mission of keeping owners in their homes.

ADVISORY SERVICES AGREEMENT

This Advisory Services Agreement ("Agreement") is entered into by and between Mortgage Resolution Partners LLC, a Delaware limited liability company ("MRP") and the City of_____ (the "City") and is effective as of _____, 2012 (the "Effective Date").

RECITALS

A. MRP is a community advisory firm advising public agencies on ways to assist the agency in reducing the impact of the mortgage crisis with its communities including, if necessary, by acquiring mortgage loans through the use of eminent domain, in order to restructure or refinance the loans and thereby preserving home ownership, restoring homeowner equity and stabilizing the communities' housing market and economy by allowing many homeowners to remain in their homes.

B. America in general and the City in particular are each experiencing an historic home mortgage crisis and as a result of the home mortgage crisis, many homeowners in the City have lost significant portions of their disposable income, and some have been unable to make timely mortgage payments on their homes. This has resulted in unprecedented rates of default and foreclosure, loss of homeowner equity, loss of family wealth, and even loss of shelter for some families. The home mortgage crisis has resulted in other adverse impacts within the City such as job losses, reductions in income, consumer demand, and investment, a spiraling reduction in property values, a reduction in property and payroll tax revenues, vandalism, abandoned homes and a general decline in the economy and the quality of life for residents. Restructuring or refinancing mortgage loans will benefit the City's residents by preserving home ownership; restoring homeowner equity; and likely also increasing income, property values, consumer demand, investment, and property and payroll tax revenue.

C. The City is interested in retaining MRP to act as its advisor to assist the City in exploring potential solutions to the mortgage crisis; to assist the City by negotiating on the City's behalf with entities which will provide the necessary funding to the City in order to allow the City to acquire loans; and to assist the City in negotiating contracts with third parties including owners of loans, attorneys, lenders, data companies, other government agencies and others as necessary to implement a program or programs to benefit the City's residents.

NOW THEREFORE, in consideration of the foregoing, MRP and the City agree as follows:

1. PURPOSE. The purpose of this Agreement is to enable the City and MRP to work together to assess and implement a program or programs designed to ease the impacts of the mortgage crisis on the residents of the City.

2. SERVICES. MRP agrees to provide the following services ("Services"), and the City authorizes MRP to represent the City as described:

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(a) to advise the City on various alternatives in order to provide assistance to its residents who are burdened with mortgage loans including assessing the possibility and benefits of the formation of a joint powers authority;

(b) to identify and negotiate with companies acceptable to the City, in its sole and absolute discretion, to lend funds to the City on a fully secured, non-recourse basis if such funds are required in order to provide the necessary relief;

(c) to provide extensive legal research acquired by MRP on all aspects of the acquisition and refinancing of mortgage loans including each of the legal steps necessary to implement the necessary programs;

(d) to identify and negotiate with law firms acceptable to the City, in its sole and absolute discretion, to work with the City to implement the programs which the City elects to implement;

(e) to negotiate with other local, state and federal governments and agencies as necessary to implement programs chosen by the City;

(f) to negotiate on behalf of the City with the holders of mortgage loans secured by property owned by residents of the City (and with trustees, servicers, investors and other parties having a relationship with the holders of the loans);

(g) to work with the City to identify mortgage loans to target based upon the City's criteria;

(h) to negotiate on behalf of the City with any other third party as necessary to implement programs which the City elects to implement; and

(i) to work with the City to establish education and communication programs to address residents' questions about a program or programs the City implements.

Provided, however, in no event shall MRP have the authority to enter into any contracts on behalf of the City.

3. COMPENSATION. As its sole and exclusive compensation for the performance of the Services (the "Advisory Fee"), MRP shall receive the sum of $4,500 per loan for each loan ultimately acquired by the City or otherwise resolved in a manner which results in the restructuring or refinancing of a loan through a program implemented by the City. The Advisory Fee shall be paid only through the programs implemented by the City and shall not be paid directly by the City.

4. ASSIGNMENT. MRP shall not have the right to assign and/or delegate its duties hereunder without the prior written consent of City, which consent may be withheld in the City's sole and absolute discretion.

5. COOPERATION. Each party agrees to cooperate to carry out the purpose of this Agreement and to perform all acts and execute all documents reasonably required to institute the

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programs chosen by the City pursuant to the terms of this Agreement or as are or may become necessary or convenient to effectuate and carry out this Agreement.

6. RELATIONSHIP OF PARTIES. The relationship of MRP to the City shall at all times be that of an independent contractor. MRP expressly acknowledges and agrees that it does not have the authority to bind the City by contract or otherwise.

7. TERM. This Agreement shall be in effect for a period of one (1) year from the Effective Date and will be renewed automatically for successive terms of one (1) year each unless either party gives notice to the other at least sixty (60) days prior to the termination of any term. This Agreement will continue in effect after the end of the term of this Agreement with respect to all programs which the City has implemented or is in the process of implementing as of the end of the term of this Agreement.

8. GENERAL PROVISIONS.

(a) Execution. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original. A signature transmitted via scanning and emailing or facsimile shall have the same effect as an original signature.

(b) Modification of Agreement. This Agreement may be modified only by a writing signed by MRP and the City.

(c) Entire Agreement. This Agreement together with any Nondisclosure and/or Common Interest Agreements entered into between the parties either prior or subsequent to the Effective Date constitute the entire understanding and agreement between the parties concerning this subject matter.

(d) Severability. If a court of competent jurisdiction finds or rules that any provision of this Agreement is invalid, void, or unenforceable, the provisions of the Agreement not so adjudged shall remain in full force and effect. The invalidity in whole or in part of any provision of this Agreement shall not void or affect the validity of any other provision of this Agreement.

(e) Governing Law. This Agreement is governed by and shall be interpreted according to the laws of the State of California.

(f) Waiver of Breach. No waiver of breach of any term or provision of this Agreement shall be construed to be, or shall be, a waiver of any other breach of this Agreement.

(g) Arms-Length Transaction. This Agreement is a product of arms-length negotiations and each party has had an opportunity to receive independent legal advice from attorneys of its own choosing. Thus, neither party can claim that any ambiguities in any term of this Agreement should be construed against any other party.

(h) No Third Party Beneficiaries. This Agreement will not confer any rights or remedies upon any person other than the parties hereto and their permitted successors and permitted assigns.

9. NOTICES. All notices under this Agreement shall be in writing and shall be transmitted by personal delivery or reputable overnight courier service such as FedEx to the parties at the following addresses:

MRP:	The City:
Mortgage Resolution Partners, LLC 33 Pier South Embarcadero, Suite 201 San Francisco, CA 9411 Attn: CEO	_____ _____ _____

Such notice shall be deemed given upon personal delivery to the appropriate address or on the next business day if sent by overnight courier service.

WHEREFORE, the parties indicate by their signatures below their entry into this legally-binding Agreement.

The City

_____
(signature) (date)

Name (printed): _____

Mailing address: _____

Telephone no.: _____

E-mail address: _____

Date of Signing: _____

Mortgage Resolution Partners LLC

Representative: _____
(signature) (date)

Name (printed): Graham Williams

Mailing address: 33 Pier South Embarcadero, Suite 201, San Francisco, CA 94111

Telephone no.: 415-795-2031

E-mail address: gwilliams@mortgageresolutionpartners.com

Date of Signing: _____

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DEC 30-FHFA- 63

Mortgage Resolution
PARTNERS

Saving Homes, Saving Cities
Solving the Mortgage Crisis Locally

Processes and Cash Flows

Key Steps To The MRP Process

1. The City hires MRP at no cost per the terms of the MRP Advisory Agreement as modified by the City and agreed to by MRP. At each step in the process the City has the option to terminate the Agreement and must approve the next step before it is taken. The City does not pay any costs of the program. Nothing in the Agreement obligates the City to file an eminent domain motion.

2. The City pre approves all communications with the homeowners and the community.

3. Before or after the City files an eminent domain motion the Homeowner may opt out of the program and their mortgage will be dropped from the motion before it is purchased.

4. Qualified homeowners who opt into the program may elect to refinance for less than the current value of their home.

5. Qualified homeowners who opt into the program may elect to sell their home in full satisfaction of their mortgage and lease back their home with an option to purchase it in the future.

6. Homeowners who opt into the program, but do not qualify for a refinance or a lease will be dropped from the eminent domain motion before their mortgage is purchased.

Step 1. City Controls The Process

Mortgage Resolution
PARTNERS

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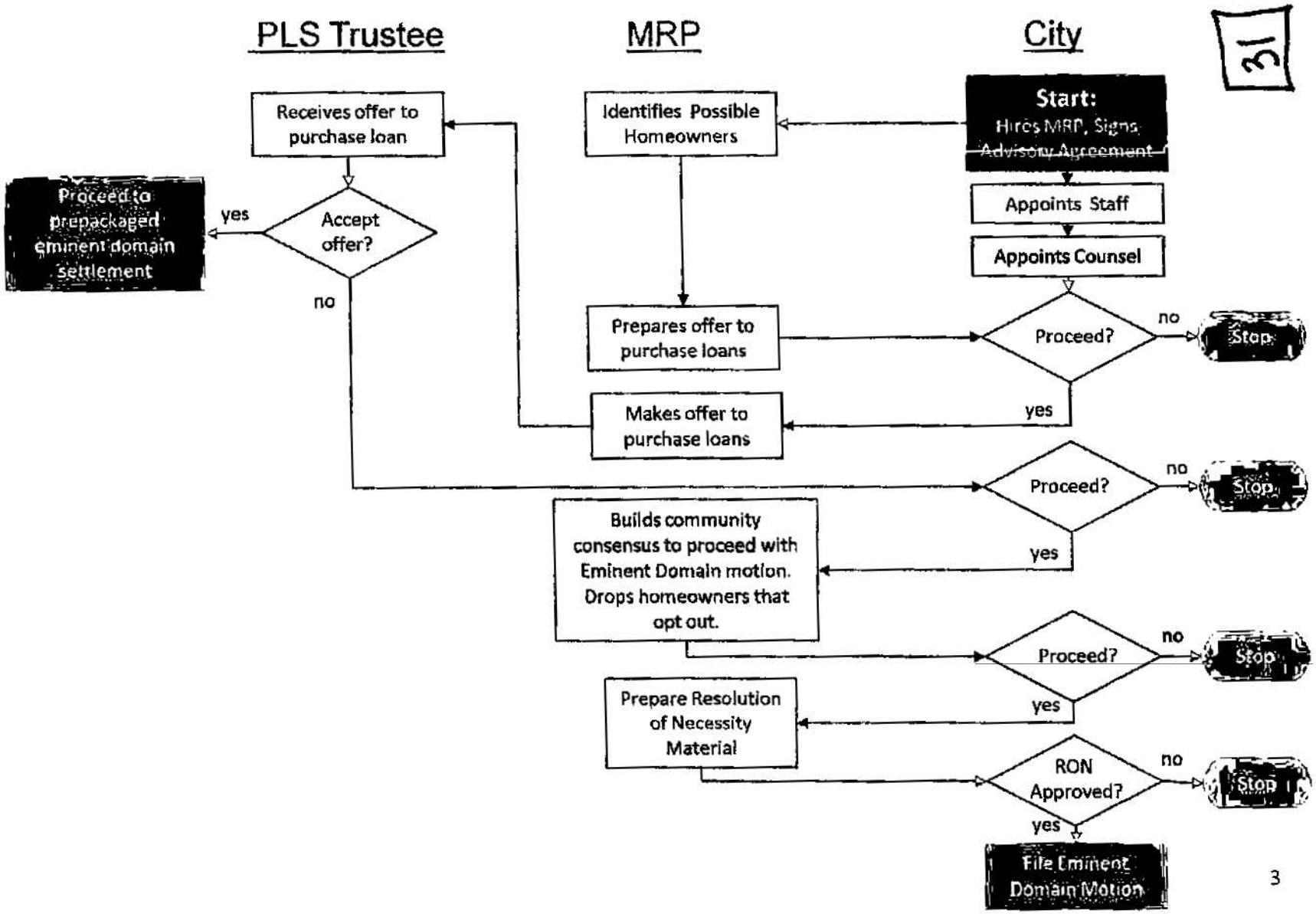

Step 2. Home Owner May Opt Out

Mortgage Resolution PARTNERS

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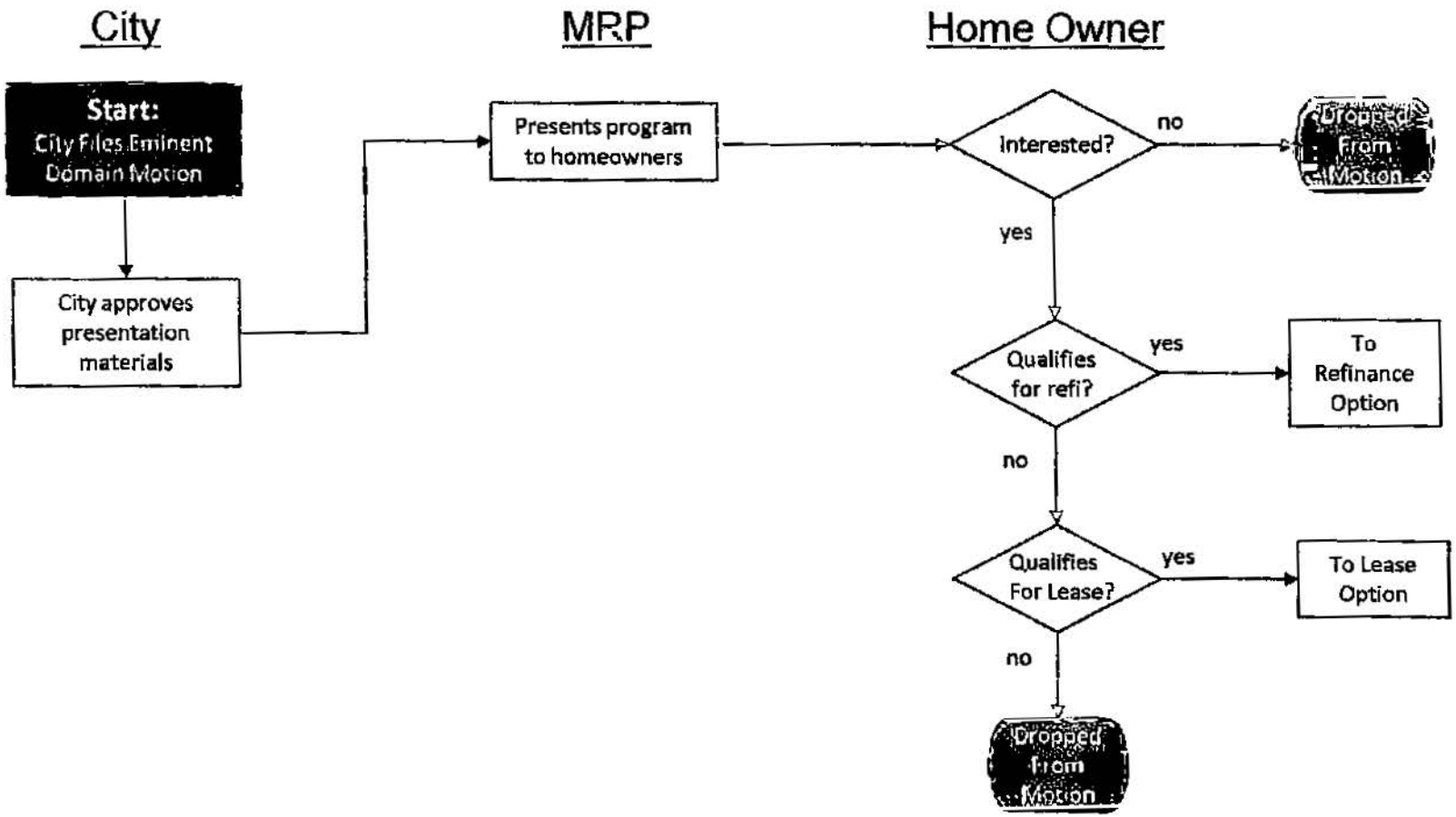

Step 3: Refinance Option

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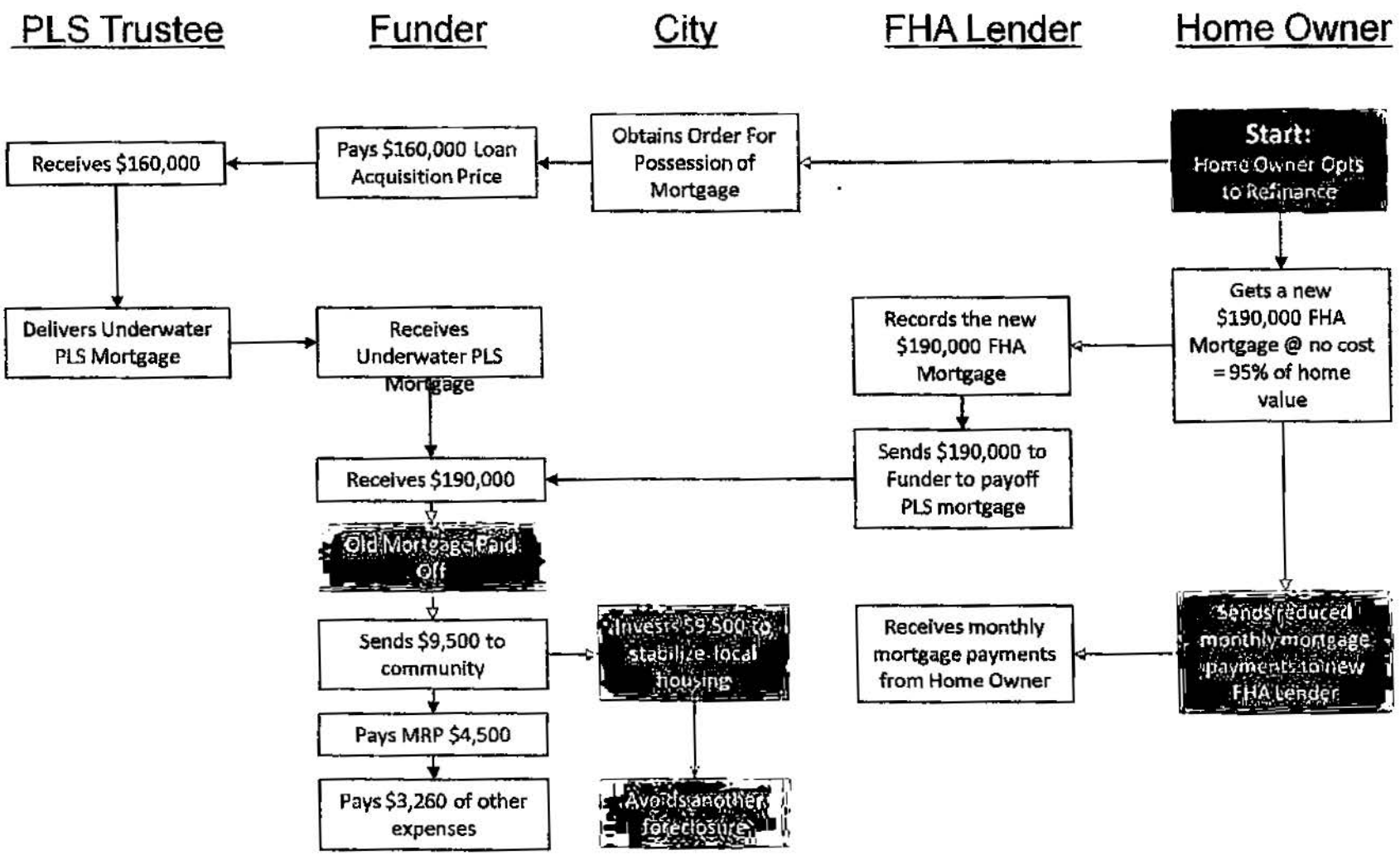

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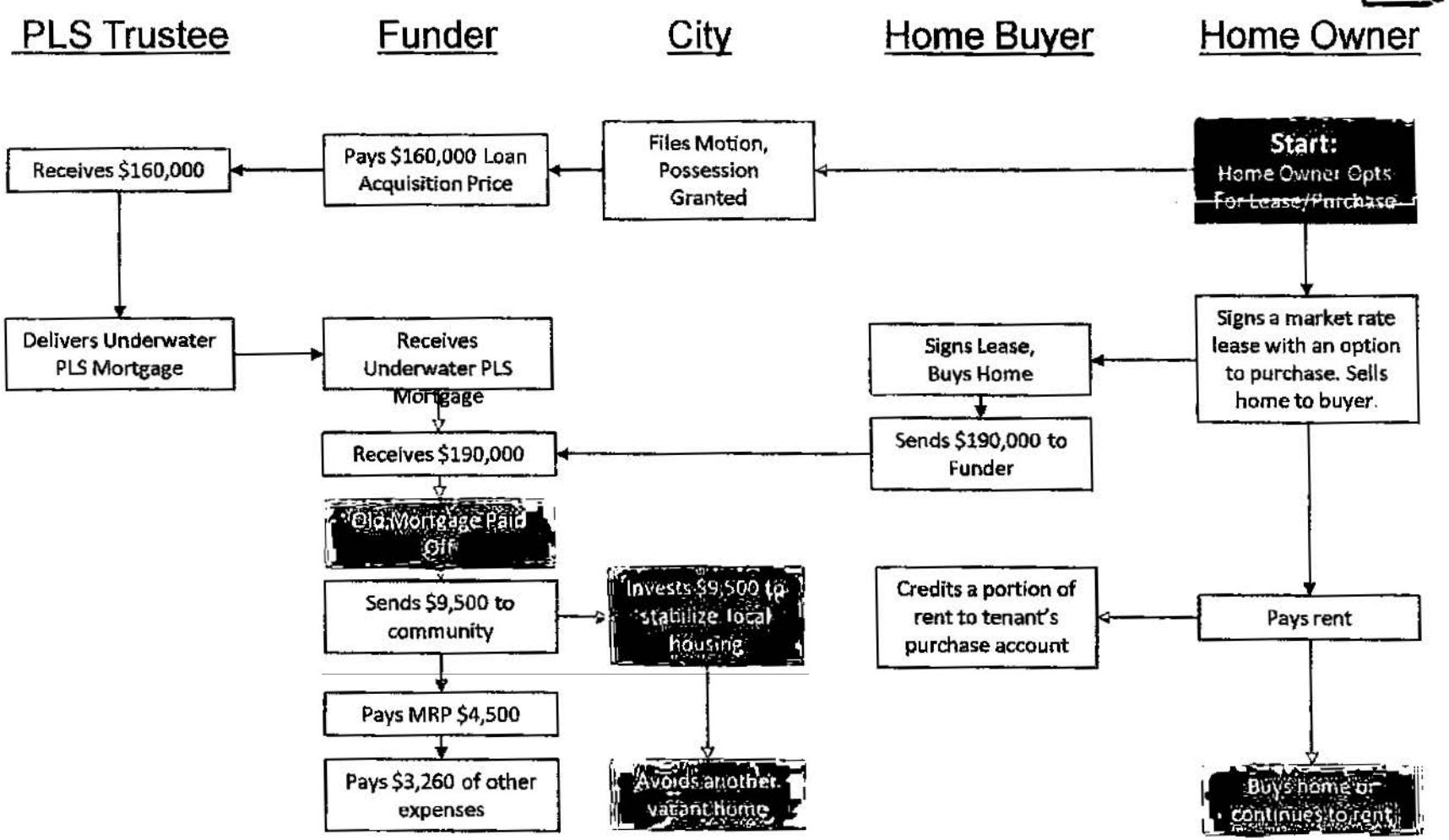
PARTNERS

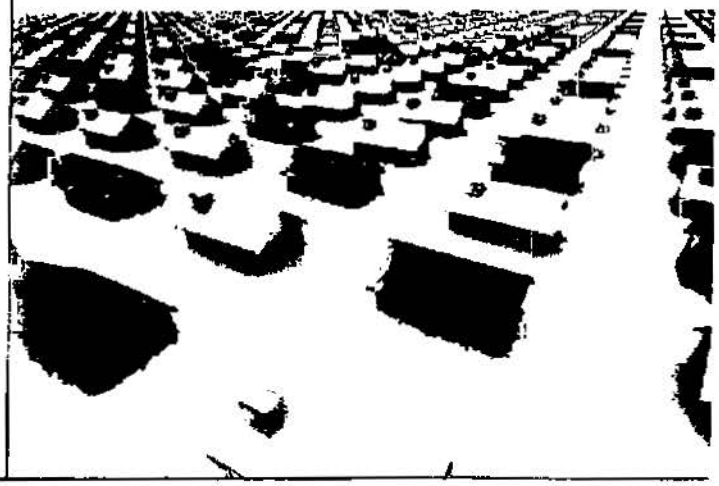
Step 3: Lease/Purchase Option



Mortgage Resolution
PARTNERS

Follow the Money

Proceeds From Refinance Of Each Loan or Home Sales Proceeds	$190,000
Fair Value Paid for Each Loan (If 80% of home value)	($160,000)
Gain On Each Loan	$30,000
Where does the $30,000 Gain On Each Loan Go?	
Paid to Community For Each Loan	$9,500
Paid to Funder For Each Loan	$20,500
MRP Fee Paid By Funder	($4,500)
Eminent Domain Legal Expenses Paid By Funder	($2,000)
Cost of Homeowner Education Paid By Funder	($600)
Mortgage Servicing Costs During Holding Period Paid By Funder	($100)
Fees Paid to Investment Bankers Paid By Funder	($560)
Funder Net Income Per Loan	$13,540 (8%)



Collateral Damage:

The Spillover Costs of Foreclosures

By Debbie Gruenstein Bocian, Peter Smith and Wei Li

October 24, 2012

CENTER FOR RESPONSIBLE LENDING

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Between 2007 and 2011, 10.9 million homes went into foreclosure.[1] These foreclosures not only have harmed the families that experienced them, they also have had negative effects that extend to the neighborhood, community and wider economy. There are myriad indirect costs of foreclosures, but in this report we focus on one: the economic impact on neighboring homeowners who lose property value as a result of being in close proximity to foreclosures.

This brief is the fourth in a series, updating our last report that was issued in 2009. In this report we estimate not only the total "spillover" cost, but that portion of the cost borne by neighborhoods of color. Our key findings, based on loans that entered foreclosure between 2007 and 2011:

- $1.95 trillion in property value has been lost or will be lost by residents who live in close proximity to foreclosures.[2] These losses include both the spillover impact of homes that have completed the foreclosure process and future losses that will result from homes that have started but not yet completed the foreclosure process.

- Over one-half of the spillover loss is associated with communities of color.[3] Minority neighborhoods have lost or will lose $1 trillion in home equity as a result of spillover from homes that have started the foreclosure process, reflecting the high concentrations of foreclosures in neighborhoods of color.[4]

- On average, families affected by nearby foreclosures have already lost or will lose $21,077 in household wealth, representing 7.2 percent of their home value, by virtue of being in close proximity to foreclosures. Families impacted in minority neighborhoods have lost or will lose, on average, $37,084 or 13.1 percent of their home value.

Importantly, these losses represent only the wealth that has been lost or will be lost as a direct result of being in close proximity to homes that have begun the foreclosure process. We do not include in our estimate the total loss in home equity that has resulted from the crisis (estimated at $7 trillion[5]), the negative impact on local governments (from lost tax revenue and increased costs of managing vacant properties) or the non-financial spillover costs, such as increased crime, reduced school performance and neighborhood blight.[6]

I. BACKGROUND

The massive number of foreclosures that have occurred during the current economic crisis has undercut the economic progress and security of families across the country. When families lose their homes, the resulting damage is multi-faceted. First, there are the immediate financial consequences for those who lose their houses. These costs include physical displacement, drained savings and retirement accounts and devastated credit. Second, there are the longer-term financial consequences of foreclosure for these families. Families who lose a home cannot tap home equity to start a new business, pay for higher education or secure their retirement. Loss of a home also removes a financial cushion against unexpected financial hardships, such as job loss, divorce or medical expenses, and eliminates the main vehicle for transferring wealth inter-generationally.

In addition, foreclosures have ramifications that extend beyond the families who lose their homes. Communities with high concentrations of foreclosures lose tax revenue and incur the financial and non-financial costs of abandoned properties and neighborhood blight, while homeowners living in close proximity to foreclosures suffer loss of wealth through depreciated home values. In this report, we estimate the cost of this latter loss.

II. DATA AND METHODOLOGY

According to CRL's calculations of the Mortgage Bankers Association's National Delinquency Study (NDS), there were 10.9 million foreclosure starts[7] across the country from 2007 to2011.[8] Although the NDS contains information at the state-level, in order to accurately calculate the spillover impact of these foreclosures it is necessary to understand their geographic distribution on a more granular level. To do so, we rely on two data sets. The first is the mortgage data collected by the federal government under the Home Mortgage Disclosure Act (HMDA), which is the largest publicly-available database of U.S. home lending activity. HMDA contains loan-level information on mortgages at origination, including the census tract in which the property is located. Although HMDA data covers information on almost all mortgage originations in any given year, it does not contain information on loan performance—that is, HMDA doesn't report whether loans are current, delinquent, in default or foreclosure. We therefore rely on a second data set compiled by a private company, Lender Processing Services (LPS). LPS is a proprietary, loan-level database that does contain performance information for foreclosure information. However, while LPS has information on a wide swathe of loans, its coverage is not as extensive as HMDA's[9] and its geographic information is not as specific as HMDA's.[10]

In combination, these two datasets give us the information we need to estimate the distribution of foreclosure starts. We first calculate the zip code-level foreclosure start rates of loans originated between 2004 and 2010 from the Lender Processing Services database.[11] We convert these to census tract-level foreclosure rates[12] and multiply these tract-level rates by the total number of 2004-2010 first-lien originations in each census tract using data from HMDA. These tract-level foreclosure estimates are then used to apportion each state's foreclosure starts based on the quarterly NDS from 2007 and 2011.[13]

Once we estimate the total number of foreclosure starts for each census tract, we calculate the loss of value to neighboring homes by using census tract-level housing densities and median prices.[14] To do so, we apply Harding, Rosenblatt, and Yao's 2008 estimate of a 0.744% house price depreciation to

every home within 1/8 mile of a foreclosed property (see Appendix for more information).[15] We then aggregate this depreciation amount at various geographic levels to arrive at our total spillover losses. We calculate the estimated percentage of equity lost per home at the tract level by dividing the total equity lost in the tract by the estimated total value of affected properties (i.e., median value times number of affected properties).[16]

III. LIMITATIONS

Like any analysis, ours has limitations. First, since our analysis comes out before all 2010 Census information has been released, not all data are available by new Census boundaries. Therefore, while we use current housing price and housing density information, our geographic allocations are based on the 2000 Census boundaries. Second, we assume that both foreclosures and housing units are evenly distributed throughout census tracts. While the distributions of both are likely to be uneven within a given tract, it is unlikely that our assumption of uniform distribution would systematically bias our results.[17] Third, research suggests that the spillover impact increases during the year leading up to the foreclosure sale, after which the negative effect stabilizes.[18] Given that there is variation in the magnitude of the spillover impact depending on what stage of the foreclosure process a property is in, we recognize that the full spillover impact of all of the foreclosure starts may not have materialized yet.[19] Finally, spillover loss, like any loss in home equity, may be temporary and there is some evidence that property values may eventually rebound months or years after foreclosed properties are purchased by new owners.[20] Despite the likelihood of this eventual rebound, we believe it is important to capture the aggregate loss in wealth incurred by nearby homeowners throughout the crisis, even if some of that equity may be restored at some point.

APPENDIX: DISTRIBUTION OF HOUSING

In order to conduct the analysis, we must make an assumption about the distribution of houses and the distribution of foreclosures. We assume that both are evenly distributed throughout the tract and that the contagion effect is linear.[21] Therefore:

For a census tract, let A be the area size in square miles, B be the number of foreclosed loans, C be the number of housing units, D be the median house price, E be the number of African Americans, and F be the number of Latino Americans. Let $G=64A/\varpi$. Then the number of neighboring homes experiencing devaluation is given by

$$H = \begin{cases} C, \text{ if } B \geq G \\ C \times B \div G, \text{ if } B < G \end{cases}$$

The dollar amount of decrease in house value/tax base from foreclosure effect is given by

$$I = 0.0074 \times C \times D \times B \div G$$

The number of African American experiencing devaluation is given by

$$J = \begin{cases} E, \text{ if } B \geq G \\ E \times B \div G, \text{ if } B < G \end{cases}$$

The number of Latino American experiencing devaluation is given by

$$K = \begin{cases} F, \text{ if } B \geq G \\ F \times B \div G, \text{ if } B < G \end{cases}$$

END NOTES

1 CRL calculation based on MBA National Delinquency Survey, scaled to reflect market coverage. Per MBA's claims, we assume 85% market coverage for 2007q1-2010q2 and 88% coverage for 2010q3 and after.

2 We estimate that 93 million properties are affected or will be affected by the spillover impact of a nearby foreclosure.

3 "Minority Neighborhood" is defined as a census tract where more than 50 percent of the residents are not non-Hispanic White.

4 Bocian, Li, Reid and Quercia. "Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures." Center for Responsible Lending, November 2011. Available at http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf.

5 Federal Reserve Board, "The U.S. Housing Market: Current Conditions and Policy Considerations" (2012), available at http://federalreserve.gov/publications/other-reports/files/housing-white-paper-20120104.pdf.

6 G. Thomas Kingsley, Robin Smith and David Price, "The Impacts of Foreclosures on Families and Communities." Urban Institute, p. 18 (May 2009).

7 We use foreclosure starts as our basis for analysis because research suggests that the spillover impact is evident in the year leading to the foreclosure sale. See Harding, Rosenblatt and Yao, "The Contagion Effect of Foreclosed Properties," p. 4 (July 2009).

8 We multiply the number of loans serviced times the percentage entering the foreclosure process in each quarter, and adjust to reflect the NDS's 85-88% market coverage.

9 We estimate LPS's coverage to be equal to approximately 70% of the first-lien mortgages reported to federal regulators in HMDA data from 2005 through 2008.

10 LPS has zip code but not census tract information.

11 Foreclosure rate is calculated as of February 2012. Originations are limited to 2004-2010 because this is when LPS becomes sufficiently representative of the market.

12 We use University of Missouri's MABLE system to match census tracts to zip codes. For census tracts that are fully encompassed with a single zip code, that census tract is assigned the corresponding zip code's foreclosure rate. For census tracts that overlap multiple zip codes, we create a weighted foreclosure rate using the foreclosure rates of all of the zip codes, with weights equal to the proportion of the tract's housing units that are located in each zip code.

13 That is, we allocate the state-level, market-adjusted NDS foreclosure starts from 2007-2011 to census tracts based on the distributions of our calculated HMDA/LPS foreclosures for that state. Because the HMDA/LPS data is based on 2004-2010 originations, we assume that any loans originated before 2004 or after 2010 that began the foreclosure process between 2007 and 2011 have the same geographic distribution.

14 We use census-tract level housing units from the 2005-2009 American Community Survey (ACS) and tract size from the 2000 Census. We assume uniform distribution of housing units and foreclosures within census tracts. Our tract-level median housing prices also come from the 2005-2009 ACS.

15 Harding et al. estimate the spillover impact for two concentric rings around a foreclosed property: 0-300 feet and 300-660 feet. We determined the share the total circle encompassed by each ring and weight each ring's spillover impact by its share of the total area. Therefore, the expected decline for the entire 1/8 mile circle (both rings) is calculated as 25/121 * 1.3% expected home value decline (.269) plus 96/121 * 0.6 expected home value decline (.476) = .744 percent. Harding et al. also find that a relationship between foreclosures and spillover effect is roughly linear and we therefore apply a linear relationship when there are multiple foreclosures affecting a single property.

16 Tract-level percentage estimates are weighted by the number of affected properties to get higher-order geographic estimates.

17 If, in reality, housing units are evenly distributed within a tract but foreclosures are concentrated, we may be overestimating the number of homes affected but are underestimating the spillover impact per affected unit, and the effect on the total spillover cost would be unknown. If, on the other hand, foreclosures are evenly distributed but housing is concentrated, the impact on number of houses impacted, loss per house and total spillover are unknown. If both housing units and foreclosures are concentrated in the same areas, we are underestimating the number of units affected, the impact per affected unit and the total spillover. Only if housing units and foreclosures are concentrated in different areas within a given tract will our estimates of spillover loss per affected unit and total spillover loss be overestimated. In any event, because census tracts are small enough geographic entities that there is unlikely to be great variation in housing or foreclosure distribution, and because any variation is unlikely to be systematic across tracts, we feel comfortable that our assumption of even distributions does not bias the results of our analysis. For a more detailed analysis of the impact of distributions, please contact the authors.

18 Harding, Rosenblatt and Yao find that, for properties closest to foreclosures, the contagion effect peaks around the time of the foreclosure sale and stabilizes between the initial foreclosure sale and the sale of the REO property by the lender. They find that, although the impact lessens somewhat after the REO sale, it lasts for at least a year post-REO. They find a slightly different pattern for properties that are further from the foreclosed properties, with the contagion impact peaking closer to the REO date. In both cases, however, the negative impact on neighboring properties lasts for at least a year post-REO sale by the lender.

19 Furthermore, a small percentage of properties that begin the foreclosure process may "cure" prior to foreclosure sale and, therefore, their maximum spillover impact on neighboring will not be reached. In 2010, Amherst Securities estimated that 14% of non-performing loans (defined as those 60 days or more delinquent or in some stage of the foreclosure process) were "re-performing," either through self-cure or modification (see "The Housing Crisis—Sizing the Problem, Proposing Solutions," Amherst Securities Group, LP, October, 2010). This percentage is likely dominated by loans that were delinquent but not in the foreclosure process and therefore would likely be much lower had the analysis been limited only to those already in foreclosure. As a result, any overestimate in our spillover estimate that results from not adjusting for re-performing loans is likely to be very small. In addition, any overestimate is likely counteracted by the fact that our analysis does not include loans that were seriously delinquent but did not start the foreclosure process, though these loans likely had spillover consequences.

20 How long the contagion effect of a foreclosed property lasts is unclear. Harding et al. find that the "contagion" effect lasts for at least a year after the REO sale by the lender, and new research suggests that the spillover impact may be reversed by a year post-REO sale. See Gerardi, Rosenblatt and Willen "Foreclosures Externalities: Some New Evidence," Working Paper 2012-11 (August 2012).

21 Harding et al. test whether the spillover impact increases linearly with multiple foreclosures and finds this assumption to be safe.

About the Center for Responsible Lending

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

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Economic Impact Analysis of the FHA Refinance Program for Borrowers in Negative Equity Positions

Summary of Impact Analysis

Modifications to the Federal Housing Administration (FHA) refinance program (FHA Refinance) to assist borrowers in negative equity positions will permit borrowers who owe more on their mortgages than their homes are worth to refinance into an FHA insured loan that more appropriately corresponds to the present value of their home. The program will require lenders to reduce first lien mortgages by at least 10 percent. The benefit of this program is to make mortgage payments more affordable and congruent with actual property values in order to prevent foreclosures that impose costs on borrowers, lenders and neighboring property owners.

HUD estimates the expected net benefit of the program to be $24,000 per refinanced loan. With an anticipated 1 million participants in Fiscal Years 2011-2013, the program will generate $24.5 billion of aggregate net benefits to society.

Overview of FHA Refinance of Borrowers in Negative Equity Positions

On March 26, 2010, the Department of Housing and Urban Development (HUD) and the Department of the Treasury (Treasury) announced enhancements to the existing Making Home Affordable Program (MHA) and Federal Housing Administration (FHA) refinance program that will give a greater number of responsible borrowers an opportunity to remain in their homes. These enhancements are designed to maintain homeownership by providing borrowers, who owe more on their mortgage than the value of their home, options to refinance into an affordable FHA loan. This opportunity allows borrowers who are current on their mortgage to qualify for an FHA refinance loan provided that the lender or investor writes down or off the unpaid principal balance of the original first lien mortgage by at least 10 percent.

Participation in the FHA Refinance program is voluntary, requiring the consent of lien holders. Additionally, in order for a loan to be eligible for refinancing through this initiative, the following conditions must be met:

- The homeowner must be in a negative equity position;
- The homeowner must be current on the existing mortgage to be refinanced;
- The homeowner must occupy the subject property (1-4 units) as their primary residence;
- The homeowner must qualify for the new loan under standard FHA underwriting requirements and possess a FICO® based "decision credit score" greater than or equal to 500;
- The existing loan to be refinanced must not be a FHA-insured loan;
- The existing first lien holder must write down or write off at least 10 percent of the unpaid principal balance;
- The refinanced FHA-insured first mortgage must have a loan-to-value ratio of no more than 97.75 percent;

- Non-extinguished existing subordinate mortgages must be subordinated and the new loan may not have a combined loan-to-value ratio greater than 115 percent; and
- For loans that receive a "refer" risk classification from TOTAL Mortgage Scorecard (TOTAL) and/or are manually underwritten, the homeowner's total monthly mortgage payment, including the first and any subordinate mortgage(s), cannot be greater than 31 percent of gross monthly income and total debt, including all recurring debts, cannot be greater than 50 percent of gross monthly income.

Economic Impact on Participating Lenders

The changes to the FHA Refinance program to assist borrowers in negative equity positions have the potential to act as a stabilizing force in a mortgage finance market that continues to experience volatility. This program is intended to maintain affordable homeownership, prevent foreclosures and mitigate the potential for "strategic defaults" wherein a homeowner determines that it is personally beneficial to default on his or her home loan rather than continue paying for a negative equity asset. The expected net benefits of the FHA Refinance program are substantial. We estimate that, with an estimated one million participants, the program will generate $24.5 billion of net benefits to society.

First-lien Lenders

The impact of the rule will be greatest for the original (1st lien) lenders that could lose the most from a foreclosure. Standard & Poor's (2008) has described the loss to lenders arising from loan/property, property maintenance, appraisal, legal fees, lost revenue, insurance, marketing, and cleanup. Market trends will affect loan loss severity: foreclosure costs vary by loan amount and property value. Interest and principal costs depend on the loan amount. Property taxes and broker fees depend on the value of the property. There are fixed costs such as legal and court fees but the major costs, interest and loss in property value, vary with the real estate market. The loan loss severity on a foreclosed loan to the 1st lien holder can be expressed as:

Loan Amount + Interest Costs – Sales Price of Foreclosed Property + Transaction Costs

Standard and Poor's (2008) estimates a 45 percent loan loss severity on subprime loans. The average loss rates on FHA loans are similar to this estimate. Exhibit E-1 of the Actuarial Report[1] provides a time series of loss rates. The 2000s began with loss rates as low as 32 percent, but reached 56 percent by 2008. Current baseline estimates for FHA loans are 44.94 percent. UBS (2008) presents a table of estimates that begin at 23 percent and range as high as 92 percent.

The loan amount less the sales price of the foreclosed property represents the loss on the unpaid balance of the loan. The unpaid balance is, on average, 104% of the original loan. The sales price of foreclosed property will have suffered from market-wide depreciation and a stress discount as a result of the foreclosure at the time of the sale. The original loan-to-value ratio for

[1] Actuarial Review of the Federal Housing Administration Mutual Mortgage Insurance Fund (Excluding HECMs) for Fiscal Year 2009. See http://hud.gov/offices/hsg/comp/rpts/actr/2009actr_exhecm.pdf

participants of the refinance program is assumed to be 80 percent. Housing price depreciation is estimated to be 17.67 percent from the NAR median sales price of existing single-family homes (a decline from $217,900 in 2007 to $179,400 in May 2010).[2] In this scenario, the amount of outstanding indebtedness owed to the 1st lien lender (83.2 percent of the original property value or 80 percent X 104 percent) would be greater than the current market value (82.3 percent of the original property value).

UBS (2008) uses a stress factor of 15 percent to estimate the additional decrease in value from selling a foreclosed property. This is consistent with NAR's estimates that distressed properties sell for a discount of between 15 percent and 20 percent.

Interest costs are a function of the unpaid balance. The UBS (2008) report assumes an interest cost of 10 percent of the loan amount. This is consistent with Standard and Poor's (2008) assumption of 13 percent.

Transaction costs are a mix of fixed costs and other costs that may vary with the loan amount, current appraised value, and sales price at foreclosure. UBS (2008) models transaction costs as a function of the property value and uses a cost ratio of 20 percent. UBS makes the caveat, however, that there is a minimum fixed cost of $20,000 for transactions cost. Standard and Poor's (2008) models the transaction costs as a function of either the loan amount and sales price: property taxes are 4 percent of property value; legal fees are 2 percent of the loan balance; broker fees are 6 percent of the property value; and maintenance is 3 percent of the loan balance.

Cutts and Merrill (2008) describe transaction costs as a proportion of total foreclosure costs. While the report is informative, it should be used with caution in estimating the actual amount of foreclosure costs in each category because as the amount of one changes so will the relative. The report is useful, however, to corroborate the other sources used in this analysis. One category of transaction cost in the Cutts and Merrill report and not in Standard and Poor's (2008) report is "utilities and other." Since the share of utilities is equal to that of preservation and maintenance according to Cutts and Merrill, it is assumed to equal 3 percent of the loan balance for the purposes of this analysis. The sum of the individual transactions costs is equal to 8 percent of the loan balance plus 10 percent of the property value.

The loss severity can more formally be expressed as:

$$L - (1 - s) \times (1 - d) \times V + i \times L + C_V \times (1 - s) \times (1 - d) \times V + C_L \times L$$

The current loan amount, or unpaid balance, is L. The property value at its original valuation is V. The rate of market-wide depreciation rate since purchase is d. The current market value of the home is thus $(1-d) \times V$. The reduction in value as a result of the foreclosure sale occurs at the stress factor rate s. The sales price at foreclosure is $(1-s) \times (1-d) \times V$. The proportion of principal and interest costs is i. Costs are expressed as a proportion, C_V, of the foreclosure sales price and as a proportion, C_L, of the loan balance.

[2] The FHFA national price index declined by 13.1 percent over the last three years (from 221.87 in 2007:Q1 to 192.85 in 2010:Q1). The Case-Shiller index declined by 28.4 percent over the last three years — this index covers only the twenty largest metropolitan areas.

An alternative means of expressing the loss severity is as a ratio, dividing through by the loan amount, L, yields:

$$1 - \left[\frac{(1-s)\times(1-d)}{LTV}\right] + i + C_L + C_V \times \left[\frac{(1-s)\times(1-d)}{LTV}\right]$$

This formulation is loosely based on the UBS (2008) report formulation, as presented in Kiff and Klyuev (2009), but with modifications to the manner in which the transaction cost and the stress factor are expressed. Substituting the estimated parameter values yields a loan-loss severity ratio of 42 percent. This analytical estimate of the loss severity ratio is not far from the one used by FHA for modeling purposes: 44.94 percent as a percent of acquisition cost.[3]

The original property is assumed to have been $217,900 from the NAR median sales price for 2007. The original first mortgage is $174,320 (80 percent X $217,900). The size of the unpaid balance is $181,293 (104 percent X $174,320). The loss severity of foreclosure is $76,685 (42 percent X $181,293).

The gain to the lender of participating in the FHA refinance program is not equal to the benefits of avoiding a foreclosure because there is a cost to participating. To enter the program, the lender must accept, as payment in full, an amount equal to no more than 90 percent of the current property value. The average new mortgage would be $163,164 (90 percent of $181,293), which is below the 97.75 percent LTV ratio and does not require an additional reduction. The net value of the new mortgage after subtracting the FHA Mortgage Insurance Premium (1 percent of the new mortgage amount, $1,632) and closing costs (2 percent[4] of the new mortgage amount, $3,263) is $158,269. The lender loses $25,571 on the original loan ($201,334-$175,775) by participating.

The loss to the lender from participating in the refinance program is smaller than the loss from a foreclosure. The net benefit from participation is $53,660 (loss from participation less the loss from foreclosure, or -$23,024 + $76,685).

[3] The loss severity ratio as a proportion of acquisition cost is smaller than when it is expressed as a proportion of the unpaid balance: an inflation factor of 1.17 so that the loss severity ratio would be 52.5 percent.

[4] FHA policy regarding closing costs has traditionally capped origination fees at 1 percent. Mortgagee Letter 2009-53 eliminated this cap on origination fees; however, it is reasonable to continue using this figure for the present exercise. The origination fee compensates the lender for administrative costs in originating and closing the loan. The origination fee covers administrative costs for taking the loan application and evaluating, preparing and submitting a proposed mortgage loan. The origination fee cannot be supplemented by other fees to cover these administrative costs, such as "application or processing" fees or broker fees.

Cost Category	Cost
1. Original Property Valuation	$217,900
2. Original 1st Mortgage (80% of 1.)	$174,320
3. UPB of 1st Mortgage (104% of 2.)	$181,293
4. Current Property Value (17.67% decline of 1.)	$179,400
5. Loss if Mortgage Forecloses (42% of 4.)	-$76,685
6. New mortgage (90% of 3. or 97.75% of 4.)	$163,164
7. FHA Upfront MIP (1% of 4.)	$1,632
8. Closing Cost (2% of 4.)	$3,263
9. Net to Lender (6. - 7. - 8.)	$158,269
10. Lender Loss from Participation (9. - 3.)	-$23,024
Benefit of Refinace versus Foreclosure (10. - 5.)	*$53,660*

The benefits to the lender from participating could exceed the estimate of $53,660. It is possible that the loss of property value via foreclosure in target areas of the program will be substantially more than the $76,685 estimate. First, in a distressed market, the loss of value on the property could be higher. Vacant homes in distressed neighborhoods are also more likely to suffer vandalism, forcing the lender to incur property-rehabilitation expenses. Thus, the final loss to the lender from foreclosure would be greater than the $76,685 estimate.

Impact on Second Lien Leaders

Impeding a refinancing deal may be in the second-lien lender's interest. A subordinate lender stands to lose the entire value of the loan from a foreclosure because repaying the first-lien lender takes precedence. The second-lien loan is assumed to be 20 percent of the original property value ($217,900) or $43,580. The average unpaid balance is 98 percent of the original balance for junior liens, or $42,708. The decline in value of the property from the time of the original sale is assumed to be 17.67 percent (a reduction of $38,500), which is almost as great as the second-lien loan amount. Facing such a situation, second-lien lenders may prefer to keep delinquent loans on their books in the hope that the housing market will recover in the near future.

The program offers participation incentives to second-lien lenders in order to make the refinancing deal more attractive than a foreclosure. Existing second mortgage lien servicers will be entitled to a one time incentive of $500 for each successful closing. Existing subordinate lien investors will be entitled to an incentive based on the combined loan to value of the existing lien and all senior liens associated with the mortgage.

The investor incentive payment is based on the CLTV ratio of the property prior to the FHA Refinance. The CLTV is the ratio of the current total UPB of the existing first lien and the current total UPB of the second lien divided by the current market value of the property. Current market value will be determined by using the FHA appraisal obtained by the originating FHA Refinance lender. Investors will receive incentive payments based on the delinquency status of the loan, the CLTV ratio and the amount of the principal extinguishment as described below.

CLTV Range	Compensation Per Dollar of Extinguishment
105% to <115%	0.21
115% to 140%	0.15
>140%	0.10

With respect to loans which were less than or equal to six months past due at all times during the 12 month period prior to the FHA Refinance closing date, second lien investors will be entitled to receive $0.21 per dollar of principal extinguishment equal to or greater than 105 percent and less than 115 percent CLTV ratio; $0.15 per dollar of principal extinguishment equal to or greater than 115 percent and less than or equal to 140 percent CLTV ratio; and $0.10 per dollar of principal extinguishment in excess of 140 percent CLTV ratio. With respect to loans which were more than six months past due at any time during the 12 month period prior to the FHA Refinance closing date, irrespective of CLTV range, second lien investors will be paid $0.06 per dollar of principal extinguishment and will not be eligible for incentives in the above extinguishment schedule.

In the example provided in this analysis, the CLTV before the write-down of the first mortgage is 125 percent so that the incentive for principal reduction would be 15 cents for every dollar. Assuming that the second lien holder elects to extinguish the entire principal, the transfer to the second lien lender would be $6,406 (0.15 X $42,708).

Benefits: Avoidance of Deadweight Loss

A benefit of the program is the prevention of foreclosures, which have economic costs. The Joint Economic Committee of the U.S. Congress (April 2007) estimates the cost per foreclosure at $80,000 by adding the impacts on consumers, lenders, property markets, and local governments. Some of these impacts are more appropriately classified as a transfer in that the gain of one party matches the loss of another. A detailed description and discussion of the Joint Economic Committee analysis is provided below.

Lender loss

In the scenario described above, there is a net gain to the lender of $53,660 by paying a cost of $23,024 to avoid a $76,685 loss[5]. While the participation of the lender is necessary to achieve the benefits of the goals of the program, the gain by the lender cannot necessarily be counted as social surplus. Much of this benefit is a transfer. If there had not been a foreclosure, the interest would have been paid by the borrower and not the lender. The same logic applies to taxes, insurance, utilities, and perhaps to a lesser extent preservation and maintenance (discussed below). The foreclosure affects the determination of which party bears the burden of a specific cost, but not the aggregate cost.

Transaction costs borne by the lender that *should be* considered as deadweight loss include legal fees, court fees, and broker fees. Commissions and court and legal fees would not have been paid, and do represent transaction costs that decrease social welfare. The deadweight loss from transaction costs is thus the sum of 2 percent of the loan balance for legal fees and 6 percent of the housing price for brokers' fees. The total of deadweight loss avoided per loan is $12,775, or approximately 7 percent of the unpaid balance. The estimates from Cutts and Merrill (2008) imply that 49.1 percent of other costs to the lender represent a deadweight loss, which is similar to the 41.3 percent share developed in this analysis using estimates from Standard and Poor's (2008).

The reduction in property value from being forced to sell a home because it is foreclosed upon (stress discount) could be a source of deadweight loss. It is not obvious, however, whether or why the stress discount should be counted as a cost rather than a transfer. While the seller will lose from a reduction of value, there will be another investor who may gain from the opportunity to purchase at a lower price.

There is evidence that properties lose value that they would not have if they had been traded in another circumstance. Pennington-Cross (2006) finds that REO properties suffer a 22 percentage point discount in appreciation as compared to the metropolitan average. One obvious explanation for this result is one of reverse causation: a default may occur because appreciation in a particular submarket lags behind the metropolitan average. There are two other theoretical explanations for this empirical result that provide insights into economic behavior.

First is the possibility that in an environment of asymmetric information, a foreclosure is a signal of a "lemon" property, in which case the buyer is compensated through a lower purchase price for taking a risk. One could argue that this discount should be small when investors are savvy. In the case of a housing market with a large inventory of foreclosed homes, this discount may become larger as the market is thinner and as a property spends more time on the market (delaying the receipt of surplus for the buyer).

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[5] The Joint Economic Committee (2007) study cites an analysis from the Federal Reserve Bank of Chicago that reports that lenders alone can lose $50,000 per foreclosure (Hatcher, 2006). This estimate of the $50,000 loss on GMAC-RFA loans predates the housing market crisis. This is critical because one of the largest factors leading to lender loss is the loss in equity.

A second explanation of the stress discount involves an avoidable deadweight loss. Frequently, before owners sell a home, they invest a great deal in the structure, at least in cosmetic aspects of the property. An owner who knows that he or she will default will cease to maintain and upgrade the property, and may even actively disinvest (sell appliances or fixtures, for example). The depreciation to the property is structural and real: the new owner must invest resources to restore the property to its pre-foreclosure state. Harding et al. (2000) find evidence of this externality: borrowers with high loan-to-value ratios spend, on average, 19 percent less on maintenance than those with lower LTV ratios. Knowledge of impending default would increase the overuse of housing. By refinancing, the program could eliminate some of the loss associated with the depreciation of the structural value. We assume that this structural damage at one-half of the stress discount on the property, which yields $13,455 (1/2 X 15% X $179,400).

We have estimated two sources of real social benefits: preventing transaction costs that would not have been paid without the foreclosure and preventing the real structural loss surrounding a foreclosure. The social surplus per lender for a foreclosure avoided is $26,230 ($12,775 + $13,455) or 48 percent of the total gain to the lender.

Neighborhood Effects

Foreclosures resulting in long-term vacancies have a negative impact on the value of neighboring properties by reducing the physical appearance of the neighborhood, attracting crime, and depressing the local economy. The Joint Committee of the U.S. Congress (2007) cites an estimate of $1,508 by Immergluck and Smith (2006) of the negative externality of a single foreclosure on a neighboring property. This figure of $1,508 is included in the oft-cited total cost of foreclosure of nearly $80,000 from the Joint Committee. If, however, one were to take the Immergluck and Smith study seriously the external cost of a foreclosure on surrounding properties would be much greater. Their study reports a reduction of 0.9 percent of value for all properties within one-eighth of a mile. Given that there are 31.4 acres in a radius of one-eighth of a mile and a reasonable density is 3 units per acre, this effect would extend 94 properties. For example, if the average sales price were $179,400[6], then the aggregate externality would be $152,095. Immergluck and Smith report aggregate impacts of a similar size ($159,000).

A similar study by Leonard and Murdoch (2007) in Dallas County, Texas found a negative one percent impact on properties within 250 feet of a foreclosed property. There are some obvious difficulties with a hedonic estimation of the impact of a foreclosure. Although it is reasonable to expect that a neighboring foreclosure will negatively affect property values, it may be just as correct to interpret the foreclosure as an excellent indicator of a declining property submarket. Foreclosures, after all, are not independent events but are caused by economic stress and price depreciation. The causality may be reversed. Thus, we should be cautious in applying these results. In an attempt to resolve this reverse causality, Schuetz et al. (2008) control for past trends in sales prices, and find evidence of discounts in home sales in proximity to foreclosures. They also find that the effect may depend on the number of foreclosures and thus may not be linear.

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[6] The median price of existing homes sold for May 2010 as reported by the National Association of Realtors® (NAR).

Kiefer and Kiefer (2010) apply a simultaneous equation system to model the co-movement of foreclosures and house price changes and examine the spatial pattern of the relationship between home foreclosure rates and house price appreciation across states in the U.S. Their estimates indicate that a 1% negative national foreclosure shock leads to a 16.73% increase in U.S. house prices. These findings support the local studies described above and provide a rationale for federal programs to stabilize property and mortgage markets.

One approach to using the results from this literature would be to limit the negative externalities to close neighbors (ones directly adjacent and across from the foreclosed property: two on each side of the property and five across the street). Doing so would limit the aggregate effect to $14,531 (0.9 percent X $179,400 X 9).

Consumer loss

The foreclosed-on household pays moving costs, legal fees, and administrative charges of $7,200 (Moreno, 1995). These transaction costs represent a loss for the foreclosed upon household. One could argue that the individuals who earn income at a foreclosure benefit from the foreclosure. While this may be the case, the size of the producer surplus will be small, or nonexistent (depending on marginal costs), relative to the price of the service itself. Additional costs include the emotional stress imposed on affected family members and the higher cost of housing in the future due to a poor credit rating. Because the analysis of Moreno was completed in 1995, we increase the estimate of $7,200 to $10,300 to account for inflation from 1995 to mid-year 2010 (43.05 percent).

Costs of Program

While the refinance program is expected to generate a high level of benefits per refinancing, there will also be costs associated with the program: administrative costs (both private and public) and the inefficiencies of moral hazard.

Administrative Costs

The administrative costs of the program include the private costs of originating the new loan. These transaction costs are equivalent to the closing cost fee of $3,263 to pay for appraisal, paperwork, and legal fees. The FHA mortgage insurance premium is not included as a cost of the program. Instead, it is considered as a transfer to the FHA and is accounted for in the credit subsidy rate. An additional cost is a servicer incentive of $500 to pay for administrative costs. The cost per refinance to the private sector is thus $3,763. The net efficiency ($47,298) from the lender's refinancing is the avoidance of deadweight loss ($51,061) less administrative costs.

There will be minor costs borne by the government as a result of this program. Data collection will be one of those costs. In addition to the data collected at insurance application, FHA will collect the following information on the first lien being refinanced: unpaid principal balance and the write-down/write off amount. Modifications to existing information systems will be needed

to accommodate the extra fields. The average cost per refinancing is expected to be negligible given the forecasted level of participation.

Incentive Effects: Moral hazard

There are potential costs of this program in terms of encouraging risky behavior on the part of banks and borrowers. With the knowledge that the government may intervene to reduce the costs of foreclosure, both banks and borrowers may be less careful in the future about loans that they undertake. This particular program, however, is not likely to have a significant effect on the public's general perception of the government's willingness to rescue households and firms in financial distress because it is only one of many federal efforts to stabilize housing and credit markets.

Transfers

Transfers to Lenders

As described in the previous section concerning deadweight loss, a large portion (48 percent) of the gain to the lender represents a benefit to society. The remaining 52 percent, or $27,430, is counted as a transfer to the original lender. This portion, although a gain for the original lender, does not result in a welfare gain for society because for every dollar gain there is a corresponding loss for another party. The entire incentive payment to second lien lenders is counted as a transfer.

Transfers to Local Governments

The local government faces direct costs from a foreclosure through lost property taxes from the foreclosed property, unpaid utility bills, property upkeep, policing, legal costs, building inspections, an increase in demand for social services, and, in some cases, demolition. The public administrative costs of a foreclosure borne by local governments can be seen as a deadweight loss of public resources that could have been used for different purposes. The Joint Committee (2007) uses an estimate of $19,227 for the average direct cost per foreclosure to local governments from a study by Apgar and Duda (2005). This figure is based on Scenario 6 from the Apgar and Duda (2005) study in which the structure is demolished by the local government. A more typical situation would be Scenario 4 in which the property is vacant for a period of time, there is modest criminal activity and the property is sold at auction, resulting in costs to the local government of an average of $6,200 (Scenario 4).

Local governments provide public goods such as environmental amenities, public safety, roads, and school quality to remedy classic market failures. Many of these local public goods would be provided at a suboptimal level during a foreclosure crisis by a jurisdiction with a strong reliance on property tax revenue and a balanced budget requirement. An increase in provision should yield a surplus for the community. Data from the Census of Governments provide a means of estimating the proportion of expenditures on public goods: libraries, parks and recreation, highways, sewerage, hospitals, fire protection, police protection, and education add up to 69.4 percent of local public expenditures. By preventing a foreclosure, this program allows local governments to spend revenue in a manner that generates social surplus. Rather than making a

statement as to whether an increase in local government spending (or a decrease in local taxes) represents an increase in efficiency, the $6,200 is counted as a transfer to local governments.

Transfers from Taxpayers

The cost of the FHA Refinance program to the taxpayer is the subsidy paid by Treasury to cover FHA's losses on conveyance claims (calculated on a net present value basis excluding administrative costs). FHA's standard mortgage insurance program currently operates at a negative subsidy rate, meaning that it generates sufficient revenues to cover all costs. However, for the negative equity refinance program, HUD estimates a *positive* credit subsidy rate because of the high forecasted program claim rate resulting in higher expected costs. Based upon FHA's forecasts for program participation and expected claim rates, the estimated credit subsidy for the program for FY 2011 is 2.58%.[7] The estimated subsidy to the FHA, in terms of net present value of all program cash flows, per refinancing is thus $4,083 (2.58 percent times the new mortgage net of costs, or $158,269).[8]

Expected Benefits, Costs, and Transfers per Refinancing

The sum of all benefits per refinance (deadweight costs avoided by the prevention of a foreclosure) is $51,061. This benefit will not be realized, however, for every household assisted. First, not all borrowers would have defaulted without the assistance from this program. There are significant losses for a consumer to a foreclosure (described above). A household will always need shelter and may be attached to their current home and neighborhood. A household may be able to recover the loss in equity by delaying the sale of their home until the market has recovered. Depending on trends in housing prices, a strategic default may be a foolish decision: a household would have to be significantly underwater for a default to occur purely for investment purposes. We expect, however, that negative equity is a contributing factor to default along with other factors, most notably a decline of household income.

It is expected that 35 percent of all borrowers would not have gone into foreclosure. Only 65 percent of the participants of the program can be considered to be rescued from a foreclosure[9]. Second, some households will default on their new FHA loan and eventually lose their homes in foreclosure even after the loan writedown. Although the program maintains FHA's requirement that new loans be based on a family's long-term ability to repay the mortgage, some foreclosure is experienced on all types of FHA loans. Those households that are foreclosed upon after refinancing cannot be considered to be generating benefits.

The expected benefit per refinancing is equal to our estimated benefit multiplied by the probability that there will be a foreclosure without the program (65 percent) times the probability that the property does not go into foreclosure after the writedown (80 percent), or by a factor of 52 percent. The expected benefit is $28,252. The costs of a refinancing are paid at origination

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[7] As of June 25, 2010, this credit subsidy rate has not been approved by OMB.

[8] Treasury is to make the program budget neutral via a TARP allocation for this purpose.

[9] J.P. Morgan Securities estimated that there were roughly 50% to 60% of prime borrowers with positive incentive to walk away and as high as 80% to 90% of option ARM and subprime borrowers would actually default. The estimate of 65 percent is a conservative estimate based on the JPM analysis.

and are not affected by whether a borrower eventually defaults. Costs remain constant at $3,763 and so the net expected benefit per refinancing is $24,489.

The first lien lenders will retain their full benefit of $53,660 per loan sent through the program because these benefits are not affected by foreclosures on the new loans. However, the components (benefits and transfers) of the lender gain will vary with the foreclosure of a loan. Because the amount of the lender gains that consists of social benefits declines with foreclosures, the amount that consists of pure transfers will increase.[10] For example, consider the welfare gain from preventing the stress discount resulting from physical depreciation to the property. The original lender gains because preventing the stress discount limits the loss on the unpaid balance. Society gains because resources that would otherwise have had to be invested in rehabilitating the property can be used for other purposes. If the borrower defaults on the new loan and is foreclosed upon, then only the original lender will gain. The transfer to the lender declines with the probability that the borrower would not have defaulted without the program. At a rate of 65 percent, the expected gain of the lender is $34,879 and the transfer is $21,239.

Category of Impact	Impact per Assisted Household ($)	Expected Benefit per Refinancing at Program Foreclosure Rate of 20% ($)
Gain to Lender	53,660	34,879
[illegible]		
Original Lender	26,230	13,640
Consumer	10,300	5,358
Neighboring home value	14,531	9,258
Total Benefits	51,061	28,252
[illegible]		
Closing Costs	3,263	3,263
Servicer Incentive	500	500
Total Costs	3,763	3,763
[illegible]		
Transfer to Original lender	27,430	21,239
Transfer to Local Governments	6,200	4,030
Transfer to Second Lien lender	6,406	6,406
Subsidy to the FHA	4,083	4,083
[illegible]		
Net Benefit	47,298	24,489
Net Transfer to Public	8,523	6,353

[10] Transfer to lender = total lender gain – efficiencies generated by lender gain

The net expected transfer to the public is equal to the sum of the transfer to the local governments plus the transfer to the second lien lender less the subsidy to the FHA, or $6,353. The transfer to the lender is not included in this calculation because it is composed of transfers among the public. For example, one of the lender's gains is the avoidance of loss on the unpaid balance as a result of market-wide price depreciation. However, a foreclosure can be an opportunity, which they would be denied through this program, for another investor to purchase a property at a reduced price.

Aggregate Impact

While the benefits per refinance transaction under this program are substantial, the aggregate impact depends upon participation. The success of the FHA Refinance program will largely depend upon the interest of consumers in refinancing their underwater mortgages and the willingness of servicers and investors to permit such refinancing via this program.

Based upon a recent report from CoreLogic (2010), Treasury estimates that nearly 11.2 million borrowers in negative equity positions could potentially be helped through the FHA Refinance program, but that only about 9 percent, or approximately one million households, will actually refinance through this program due to various factors, some of which are discussed below.

Despite HUD's confidence in the methodology used for determining its program participation estimate, it should be noted that due to the voluntary nature and unique requirements of the program a definitive estimate of the level of participation can not be made. In addition, participation will be influenced by external factors: for example, a positive turnaround in the housing market would dampen the demand for the program. Therefore, HUD has also evaluated program impacts based upon a low end participation level of 500,000 and a high end level of 1,500,000.

There remain reasons that program participation may be less than that forecasted by HUD. Lenders may not find sufficient incentives to participate, even compared with the costs of foreclosure. Some lenders may determine that enduring the risk of potential foreclosure is preferable to assuming a loss of at least 10 percent of a mortgage's principal balance. Additionally, foreclosure and the FHA Refinance program are not the only alternatives available to a lender. The lender also has the option of proposing to the borrower a workout plan of the lender's own design.

Some features of the program could discourage homeowners from participating as well. First and foremost, participation in this program will likely result in adverse impacts on borrowers' credit ratings. As a result, some borrowers, especially those that intend to remain in their homes for a longer duration and are only marginally underwater, may determine that maintaining their credit rating is preferable to the revaluing of their home for market conditions.

If the Hope for Homeowners program were to be used as a guide, the predicted number of refinances via this program would be negligible. There are reasons to expect that this program will be more popular. First, the number of borrowers in negative equity positions has increased since the time when H4H was introduced. Second, this refinance program doesn't include the

shared equity provisions that were unattractive to potential H4H participants. Third, the LTV of the first lien and CLTV for this program are higher than for the H4H program. Fourth, unlike the loans refinanced through this program, the Hope for Homeowner loans are pooled separately from standard MBS in Ginnie Mae II pools so that the interest rate would be higher on H4H loans.

If the level of participation proves to be that estimated by Treasury, then the gross benefits of the program would be approximately $28.3 billion, the total costs $3.7 billion, and the net benefits to the public would be $24.5 billion at a 20 percent program foreclosure claim rate. Exhibit 3 displays the aggregate benefits, costs, transfers to lenders, and transfers to the FHA of program participation based on various estimated participation levels.

Exhibit 3: Aggregate Expected Savings, Costs, and Transfers (not discounted in millions of 2009 $) at 20 percent foreclosure rate

Number of Participants	Total Efficiencies Generated	Total Costs	Net Benefits	Transfers to Lenders	Transfer to FHA
100,000	2,825	376	2,449	2,124	408
500,000	14,126	1,882	12,244	10,620	2,042
1,000,000	28,252	3,763	24,489	21,239	4,083
1,500,000	42,378	5,645	36,733	31,859	6,125

In the above estimate, it is assumed that all participants of the program refinance in the first year of the program. The present value of these amounts will be different, however, as later years are discounted when participation is dispersed over the total number of years in which the program is active. HUD anticipates that 60% of the total endorsements under this program will occur in FY 2011, 20% in FY 2012 and 20% in FY 2013. Participation is expected to be front-end loaded because borrowers will find immediate participation optimal to delaying participation in the program. The housing market shows signs of a weak recovery: although housing prices are beginning to appreciate, home sales are still sluggish. As home prices and incomes rise, fewer borrowers will qualify and fewer will want to refinance through the FHA program. Discounting the second and third years by 7 percent (according to OMB guidelines) yields a slightly reduced estimate of the aggregate impact: at one million participants over the course of the program, the gross benefits of the program would be approximately $27.1 billion, the total costs $3.6 billion and the net benefits to the public would be $23.5 billion at a 20 percent program foreclosure claim rate. Exhibit 4 displays the aggregate benefits, costs, transfers to lenders, and transfers to the FHA of program participation based on various estimated participation levels. The total transfer to lenders would be $20.4 billion and the transfer to the FHA $3.9 billion. The total transfer to second lien lenders would be $6.2 billion and to local government $3.9 billion. The net transfer to the public would be $6.1 billion.

Year	Number of Participants	Total Efficiencies Generated	Total Costs	Net Benefits	Transfer to Lenders	Transfer to FHA
One Million Participants Scenario						
1st Year	800,000	16,951	2,258	14,693	12,744	2,450
2nd Year	200,000	5,281	703	4,577	3,970	763
3rd Year	200,000	4,935	657	4,278	3,710	713
Total	1,000,000	27,167	3,619	23,548	20,424	3,927
500,000 Participants Scenario						
1st Year	300,000	8,476	1,129	7,347	6,372	1,225
2nd Year	100,000	2,640	352	2,289	1,985	382
3rd Year	100,000	2,468	329	2,139	1,855	357
Total	500,000	13,584	1,809	11,774	10,212	1,963

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GAVIN NEWSOM
LIEUTENANT GOVERNOR

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U.S. Department of Justice
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Washington, DC 20530-0001

Joseph Wayland
Acting Assistant Attorney General
Antitrust Division
950 Pennsylvania Avenue, NW
Washington, DC 20530

September 10, 2012

Dear Mr. Attorney General and Acting Assistant Attorney General:

It has come to my attention that investors in private label securitization (PLS) trusts may be colluding to restrain trade and to redline communities in California since they became broadly aware of the proposal to use eminent domain to purchase loans from PLS trusts. While I am aware that this issue may be affecting other areas of the country, I am most concerned with my communities in San Bernardino County, California, where more than half of the homes have underwater mortgages or are in process of foreclosure.

I am most disturbed by the threats leveled by the mortgage industry and some in the federal government who have coercively urged local governments to reject consideration of any proposal that would exercise the powers constitutionally granted local governments to use eminent domain to help stem the intractable mortgage crisis in America.

As you may be aware, the Homeownership Protection Program Joint Powers Authority (JPA) formed in San Bernardino County, California, is set to call for proposals later this year for programs to help local governments deal with this mortgage crisis. Among those solutions is likely to be a proposal for the JPA to implement a program whereby homeowners who are underwater or in process of foreclosure can opt into a program that would use eminent domain to reset the principal balance of those homes to fair market value, refinance the debt and remove the yoke of unbearable debt from the homeowner.

It has been six long years since the housing bubble burst. In the most distressed areas of the country – those most seriously considering taking action – housing prices have fallen by more than 50% from their highs. Across the country, more than 12 million homes (nearly a quarter of homes with mortgages) are underwater. The housing crash has caused years of economic crisis and stagnation, has made it impossible for any housing market recovery to restore solvency to most of those 12 million homeowners, and has left everyone with the wreckage of trillions of dollars of household debt that cannot be repaid.

STATE CAPITOL, ROOM [illegible], SACRAMENTO, CALIFORNIA [illegible] • PHONE [illegible]

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Despite this, most holders of the nation's $10.5 trillion of residential mortgage debt have been unwilling or unable to grant meaningful principal relief even when doing so would ultimately recover more for lenders than would the lengthy and costly process of foreclosure and liquidation. This is especially the case with mortgages held in private securitization trusts that do not benefit from any form of government or agency insurance, whose trust agreements make it extremely difficult to meaningfully reduce loan principal absent (and often even after) a default.

I recognize and appreciate the actions of this Congress, the Administration, and government agencies to attempt to remedy the mortgage crisis. But the fact remains that, especially in the more severely affected areas and for the most severely underwater homeowners, the federal government is unable to be of much help in keeping homeowners out of default and in reversing the decline of their communities. The recent spate of expected municipal bankruptcies in California provides a vivid example of this.

In the absence of mortgage industry action and federally or state mandated and funded solutions to restructure the principal of underwater mortgages, distressed local governments – acting in the best interests of their citizens – are left with no choice but to seek local solutions. This includes using their powers under state court supervision to purchase and fix local mortgage loans while their borrowers are still qualified and creditworthy, rather than wait until they are eventually forced to default, suffer the loss of their homes, and cause continuing harm to their communities because of the intolerable weight of a loan that for the foreseeable future will always remain higher than the value of their home.

The proposals are clearly a matter of local law, governed by the constitutions of the several states, all of which provide due process, require a demonstrable public purpose, and require payment of fair value. It is equally clear that under our federal system, the federal government respects the authority of each state within its jurisdiction, including the authority to use eminent domain to acquire private property for the public good.

Laurie Goodman, an analyst for Amherst Securities, wrote a private sales and trading report on June 28, 2012, detailing collusion among PLS investors to stop municipalities from using eminent domain to acquire mortgage loans. She notes widespread investor concerns "that the price paid under [eminent domain] will be low (although we don't know the price), and [that PLS] investors have little real protection."[1] Under the headline "What Actions Can be Taken at this Point?" she reports that PLS investors have discussed ways to try, "through non-legal channels, to stop municipalities from using eminent domain in this context." On information and belief, representatives of Fannie Mae and Freddie Mac participated in these discussions and in collusive actions that followed, as did other major PLS investors including members of SIFMA and the ASF. Goodman lists specific actions that PLS investors discussed. Following are items from that list, and actions that PLS investors have taken in furtherance of their collusion.

"Investors can seek to apply business pressure to stop the [eminent domain] program—they will not work with any of the servicers, originators, investment banks involved in the program."

[1] "Creative Uses of Eminent Domain – Implications for PLS Trusts," Amherst Securities Group LP (June 28, 2012). Excerpts from page 13 quoted below.

This is a boycott, and it is a per se violation of the Sherman, Clayton, and Robinson-Patman Antitrust Acts.[2] Consistent with Goodman's report of collusion, PLS investors have in fact threatened companies that are involved in the program. Fannie Mae threatened a backlash against one participant that is heavily dependent upon PLS investors for its business. A major New York based hedge fund threatened another participant, stating in an email that "this move to pick the pockets of investors in the mortgage market will have far reaching implications on your business. I am sure others feel the same way." The hedge fund copied 21 other investment firms on the email.

The Securities Industry and Financial Markets Association (SIFMA) and its members are fully aware that antitrust violations are illegal. SIFMA's own policy on the antitrust laws states:

> This compliance booklet focuses on ensuring that, especially in the context of SIFMA activities, nothing occurs that might lead to the perception that any SIFMA members or their employees have violated the antitrust laws.
>
> Such communications could arise in many contexts – from a formal discussion at an SIFMA committee meeting to a casual conversation in a taxi or over lunch . . . Why is antitrust compliance important? The penalties for violating the antitrust laws can be severe. As the statement of policy adopted by the SIFMA Board of Directors indicates, compliance with the antitrust laws is essential to preserving the vigorous competition that exists in the securities industry today. Competitive markets enhance public trust and confidence in the securities industry and help to ensure that the U.S. securities market is the most liquid and efficient in the world.
>
> Violating the antitrust laws can be a felony offense. Individuals involved in some antitrust violations can, and do, go to jail. In addition to imprisonment, criminal prosecutions for antitrust violations can result in severe financial penalties for companies and individuals. In addition, the costs and burdens involved in defending a government antitrust investigation can be exorbitant, as can the costs of defending a private antitrust class action, where plaintiffs can seek to recover triple their actual damages as well as their attorneys' fees.

SIFMA and its members are also fully aware that boycotts are per se illegal and must not be discussed. SIFMA's policy states:

> A group boycott exists when a group of competitors agrees to take some form of joint action to exclude someone from the market, such as by agreeing to refuse to deal with another competitor, or with a supplier or customer. Group boycotts are per se illegal, and no discussion about forming a boycott should take place.

Thus the participants in the collusive discussions have violated SIFMA's own policies in knowingly violating the antitrust laws.

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[2] See, e.g. *United States v. Association of Retail Travel Agents (ARTA)*, http://www.justice.gov/atr/cases/f209100/209152.htm.

"Investors and dealers, through SIFMA (Securities Industry and Financial Markets Association, the trade organizations for the securities industry), can conceivably . . . make FHA short refi-loans ineligible for GNMA TBA delivery."

Goodman states that the purpose of this collusion is to raise the price of credit in participating communities to "thwart" the eminent domain program. This collusion would target borrowers who seek to refinance loans that a city acquires by eminent domain. The goal is to increase the refinancing cost to the borrower by excluding his new FHA guaranteed loan from the normal process of pooling federally guaranteed loans for sale through the to be announced (TBA) market. There is no legitimate reason for this exclusion, meaning that its sole purpose is that of coercion – a clear-cut abuse of market power. Condemning private loans from PLS trusts has no effect on federally guaranteed loans. There might have been a legitimate reason for exclusion if a city had condemned federally guaranteed loans, but no city has ever proposed to do so – and the collusive proposal would apply to cities that condemn only private loans. The only purpose, as Goodman explains, is to raise the price of credit in order to put pressure on local governments to stop them from using eminent domain to purchase private loans.

On July 16, 2012, Timothy Ryan, the CEO of SIFMA, disclosed that SIFMA was in fact considering following through on this collusive and coercive plan. He described the market power that SIFMA has over this market and raised the possibility of exclusion: "We run the TBA market. SIFMA does. We make a decision who is in the TBA market and who is not. The industry does. And I can tell you, this is a serious question whether these re-securitized loans would be TBA eligible."[3]

Standard setting is subject to the antitrust laws and redlining laws like other behavior.[4] SIFMA's own policy states:

> Product standards development refers to the process of identifying and agreeing upon a specific set of criteria to which a particular type of product should conform . . . Standards development may create antitrust problems where, for example, they preclude certain entities from competing in the sale of that product, or features are added to a product for no reason other than to increase the price of the product. Care must be taken to ensure that any such standards can be supported by legitimate business justifications.

The proposal lacks any legitimate business justification. PLS investors discussed it solely to exclude municipalities from participating in the market for purchasing mortgage loans. It would apply solely to raise prices for the illicit purpose of preventing municipal use of their constitutional authority to purchase private property.

Notwithstanding these illicit motives, Goodman noted that merely excluding the refinanced loans "cannot change the economics enough to thwart the program." In other words, fully realizing the aim of coercing municipalities out of exercising their constitutional authority would require yet more extreme abuses of market power. Therefore, the participants discussed a broader plan to exclude from normal TBA trading all federal agency-guaranteed loans originated in a jurisdiction that uses eminent domain to purchase private loans.

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[3] See http://video.cnbc.com/gallery/?video=3000103238 (July 16, 2012).

[4] See, e.g., *National Society of Professional Engineers v. United States*, 435 U.S. 679 (1978). *United States v. Association of Retail Travel Agents (ARTA)*, http://www.justice.gov/atr/cases/f209100/209152.htm

"Investors and dealers, through SIFMA (Securities Industry and Financial Markets Association, the trade organizations for the securities industry), can conceivably determine that loans from affected areas would not be good delivery for TBA agency pools going forward. This would require Fannie and Freddie to build screens in their systems to filter out certain zip codes. The loss of TBA eligibility would raise the cost of all future borrowings from affected areas."

The reference to "filter[ing] out certain zip codes" is particularly chilling. Such "filtering" is nothing less than redlining. Again, there is no legitimate reason for excluding a borrower's federally guaranteed loan from trading the normal way just because a local government acquired another borrower's private loan through eminent domain. Goodman implies as much by stating that investors and dealers "could conceivably" exclude the loans – it is barely conceivable that any self-regulation would exclude these loans, because there is no legitimate reason for doing so. Goodman makes the purpose of this collusive plan clear – to raise the cost of all borrowings throughout the community in order to intimidate municipalities out of employing eminent domain. This violates the antitrust rules as described above for the narrower proposal to exclude refinanced loans.

Consistent with Goodman's report of planned collusion, investors working through SIFMA did in fact implement a rule to boycott jurisdictions that use eminent domain to acquire private loans by excluding all of their residents' federally guaranteed loans from normal trading (those in Fannie Mae, Freddie Mac and Ginnie Mae pools).[5] This violates the antitrust laws. To the extent Fannie Mae and Freddie Mac implement the screens described, they too will be responsible for collusion in violation of the antitrust and antidiscrimination laws.

In addition to being a restraint of trade, this action is geographic redlining, which violates consumer protection laws. San Bernardino County, which is furthest along in considering the use of eminent domain, has a predominately minority population that suffered a disproportionate amount of subprime loan origination during the bubble – an illicit practice known as "reverse redlining." Redlining the county by limiting credit there because the local government acts to acquire and refinance these homeowners' loans is geographic redlining.

"The final possibility is that the GSEs step in on the side of PLS investors . . . If FHFA and the GSEs announced that the GSEs will be unwilling to insure loans in municipalities which are using eminent domain in this manner, it would stop the program immediately."

Again, there is no legitimate reason to redline a community and boycott all of its borrowers by denying Fannie Mae and Freddie Mac guarantees on their loans just because the local government uses eminent domain to purchase private loans. Condemning private loans has no impact on federally guaranteed loans. The purpose of any GSE action is, as Goodman reveals, simply to stop eminent domain programs immediately. Consistent with Goodman's report of collusion, the FHFA as conservator for the GSEs recently announced that it is considering action to stop the eminent domain proposals.[6] In its notice of rulemaking, the FHFA specifically takes the side of PLS investors, stating its concerns about "the effects on holders of existing securities . . . and, in particular, critical issues surrounding . . . valuation by local governments." This is a direct result of the collusive discussions that Goodman reports – PLS investors discussed the possibility "that the GSEs step in on the side of PLS investors" in order to "stop the

[5] See http://www.sifma.org/news/news.aspx?id=8589939537 (July 19, 2012).
[6] See FHFA notice No. 2012-N-11 (August 9, 2012): http://www.fhfa.gov/webfiles/24147/77_FR_47652_8-9-12.pdf.

program immediately" because they are worried that the price PLS trusts will receive in an eminent domain action will be "low."

It is important to note that Amherst Securities agrees with the fundamental justification of using eminent domain to acquire and refinance loans held in private label securitizations:

> We are sympathetic to the basic premise that it is very difficult to get loans out of the private label trusts to allow them to be restructured and more actively managed. In particular, there is no mechanism for restructuring a performing loan within a PLS trust, and we have no doubt that many performing underwater loans will eventually proceed through foreclosure without some form of restructuring. Based on a very careful analysis of the total credit profile of the borrowers, it can be determined which of these loans are most likely to default, and taking select loans out of a trust could conceivably result in a higher realized value for PLS investors.[7]

Notwithstanding the above, PLS investors seek to use "non-legal" (in fact illegal) means to stop governments from using their constitutional powers to acquire private property simply because they do not trust state courts, the securitization trustees, and servicers.

> [W]e suspect this program is being done without a careful analysis of which borrowers need the write down, and we also suspect that the parties are incented to purchase the loans below fair market price. Moreover, [there is a] lack of a "protector" for the PLS loans, potentially allowing for a purchase at less than fair value . . .[8]

It is outrageous that PLS investors – including Fannie Mae and Freddie Mac, aided by the FHFA – are violating the antitrust laws and anti-redlining laws by conspiring against local governments, their citizens, and their service providers. PLS investors bought securities in trusts knowing the roles and responsibilities of trustees and servicers, and knowing that trust assets generally are subject to eminent domain. All property holders are subject to the sovereign power of eminent domain, and none is above the law. None can violate the law because they do not trust the managers they hired or because they think that they know more about the value of property than state courts and state juries.

I urge you and your respective divisions to join with me in recognizing the importance of local action, consistent with state law, to resolve difficult local economic problems without undue direct or indirect federal interference. Furthermore, I urge you to reject attempts by private financial interests to seek the assertion of federal control over these matters to the detriment of the authority and interests of local and state governments.

Central to the claims of industry interest groups is the argument that private lenders will eschew lending in communities that seek to solve their mortgage crisis locally. The farcical notion that there is, at this time, any real private mortgage lending going on in these communities is, on its face, expedient and the argument is likely meant to be coercive.

Private mortgage lenders are currently irrelevant in the hardest hit communities and unwilling to make loans because of the lingering uncertainty that the underwater mortgage crisis presents to the market.

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[7] Amherst report p. 2.
[8] Amherst report p. 2.

The proposals being considered in places like San Bernardino County, California would bring stability back to the private lending market by clearing the specter of underwater mortgages and stabilizing housing prices, making these communities more attractive to lenders – not less.

The global lending market is not monolithic. It is deep, broad and competitive when home prices are stable. When we eliminate the shadow inventory of underwater mortgages, housing prices will stabilize and private lending will return. Using eminent domain in this crisis will not affect lending in a normal market, in which there will be no public purpose for acquiring mortgage loans.

Additionally, I note again the declarations and intentions of several influential private financial services groups to collude and retaliate against communities considering the use of eminent domain. I find those actions morally reprehensible and legally questionable. I ask the Department of Justice, and its Antitrust Division, to consider whether such actions constitute illegal acts including, but not limited to, redlining, restraint of trade, and deprivation of the right of due process enjoyed as much by municipalities as by the holders of private property.

To the extent these acts remotely suggest illegality, I hope that the Department of Justice will both condemn them and take enforcement action to prevent such reprehensible activity.

Finally, let me state unequivocally that this letter in no way constitutes an endorsement of any proposal currently being developed. I simply want communities in my state to have the ability to explore every option as they seek to address the lingering mortgage crisis without fear of illegal reprisal by the mortgage industry or federal government agencies.

Sincerely,

Lieutenant Governor Gavin Newsom

cc

Director Gene B. Sperling, National Economic Council
The Honorable Timothy F. Geithner, Secretary of the Treasury
Chairman Ben S. Bernanke, Federal Reserve
The Honorable Shaun Donovan, Secretary of Housing and Urban Development
Acting Director Edward DeMarco, Federal Housing Finance Agency
Chairman Martin J. Gruenberg, Federal Deposit Insurance Corporation

MINUTES
LA PUENTE CITY COUNCIL/SUCCESSOR AGENCY REGULAR MEETING
REGULAR MEETING OF
January 8, 2013

A Regular Meeting of the City Council/Successor Agency Regular Meeting of the City of La Puente was held in the Council Chambers of City Hall, 15900 East Main Street, La Puente, California, on January 8, 2013, at 7:00 p.m.

REVISED 1-04-2013

CALL TO ORDER

Mayor/Chair Holloway called the meeting to order at 7:00 p.m.

ROLL CALL

Members present: Holloway, Klinakis, Argudo, Lewis, and House (Arrived at 7:02 p.m.)
Members absent: None
Staff Members present: City Manager Plumlee, City Attorney Casso, City Clerk Jacquez-Nares,Director of Development Services Di Mario, City Engineer Pagett, Police Chief Lt. Cacheiro, Recreation Manager Lerma, and Management Assistant Galvan

PLEDGE OF ALLEGIANCE

Council Member House led the Pledge of Allegiance.

PRESENTATIONS

CERTIFICATES OF RECOGNITION FOR HOLIDAY HOME DECORATING CONTEST WINNERS

Recreation Manager Lerma provided a brief summary of the Holiday Home Decorating Contest and introduced the winners in attendance. Elizabeth Ortiz was the winner of the best use of lights category. Gilbert Acosta was the winner for the best holiday spirit category. Not present was Rebecca Jaramillo the winner for the best use of animation category and her certificate would be mailed to her.

Council Member Argudo arrived at 7:04 p.m.

PRESENTATION MORTGAGE RESOLUTIONS CARES PROGRAM

Mortgage Resolution Partners - CARES Program

Antonio Gonzalez, President of Williams C. Velasquez Institute, provided a brief summary of this item and introduced Graham Williams who would present the PowerPoint Presentation.

Graham Williams, Chief Executive Officer, Mortgage Resolutions, provided a summary and presented the

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PowerPoint Presentation.

Council Member Lewis requested clarification on the acquisition financing. Mr. Williams stated that their firm would find the funding sources for the program.

Mayor Holloway requested that Mr. Williams explain for the Public's benefit the use of eminent domain. Mr. Williams explained that it is exercised on the mortgage loan not the house. There is an option to lease the home if the homeowner does not qualify for the loan. Mayor Holloway asked for the number of cities that have implemented this process. Mr. Williams answered two cities and they are El Monte and San Joaquin.

Mayor Pro Tem Klinakis stated that the use of eminent domain is required due to the Federal Laws the regulate the loan process. Mr. Williams confirmed his statement and provided a summary of the legislation.

Council Member Argudo supports this program but he wanted clarification on the funding to be used, the ownership of the loan and home, the cost to the City for this program. He also requested the underwriting guidelines that would be used for these loans. Council Member Argudo requested the length of time given to the owners that become renters. Mr. Williams stated that there would be no cost to the city that the note would be owned by the trust and the home would still be owned by the property owner the underwriting guidelines are the Federal Housing Administration (FHA) guidelines for a short refinance. Mr. Williams stated that they are looking at three years but it can be customized to what the City is willing to do.

Mayor Holloway requested clarification on the cost to the City if it has any staffing cost or other costs associated with this program. He would like to group several cities within the San Gabriel Valley in order to purchase more of these homes. Mr. Williams stated there is no cost to the City and that his company would reimburse the City for any costs associated with this program.

Council Member Argudo stated his opposition with joining other cities in the San Gabriel Valley to pool their resources.

Council Member House asked the Mayor to please recognize the people that participated in the judging of the Home Decorating contest. Mayor Holloway stated that it would be addressed during the agendized item.

PRESENTATION BY THE LOS ANGELES COUNTY DEPARTMENT OF PUBLIC WORKS REQUESTING CITY SUPPORT OF GRANT APPLICATION FOR BIKEWAYS ALONG AMAR ROAD AND THE PUENTE CREEK CHANNEL - COUNCIL TO DISCUSS AND PROVIDE DIRECTION

LACDPW Valinda Community Bikeway Project

Director of Development Services Di Mario introduced John Burton of the Los Angeles County Public Works Division.

John Burton, LACDPW representative, provided a brief summary on the PowerPoint presentation.

A Council discussion ensued with the concerns with the funding and the safety of the proposed bike path. Mayor Holloway requested that their concerns be addressed before the letter of support is provided to the County.

City Attorney Casso suggested that if the City Council was going to move forward with the support letter that

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they give this direction after the public has had the opportunity to comment during Oral Communications.

By Council consensus, their direction to staff on this Item would be given after the Oral Communication period.

PRESENTATIONS

Fire Chief Stone provided the Mayor and City Council with the Los Angeles County Fire Department's Strategic Plan book and provided a brief summary.

ORAL COMMUNICATIONS

Leonard W. Rose Jr. provided an update on his weight loss.

John Solis stated that he hoped the Council had happy holidays and his support for the youth coalition waiver. He complained about a code enforcement issue that has not been resolved for over a year concerning his neighbors tree impeding his fence. Mr. Solis stated that his neighbor at 422 Ferrero did not receive any correspondence on the outcome of the Holiday Decorating Contest and requested that staff have more interaction with the contestants.

Recreation Manager Lerma stated that staff called the participants confirming their participation, provided several letters informing them of the judging date, the outcome, and lastly thanking them for their participation. Mayor Holloway requested that Ms. Lerma contact the participant at 422 Ferrero Lane and inform them of the outcome.

City Manager Plumlee stated there was an active code enforcement case on Mr. Solis' issue and he and staff would review the case and get back to Mr. Solis. Mayor Holloway stated that the concern was that this issue was brought to the attention of two Mayors and this issue had not been resolved and he requested that action be taken on this issue and a report back to Council how it was resolved.

Leslie Costea requested assistance with the nightly train noise, with the visibility to make left and right hand turns from Dalesford and Ferrero onto Main Street, and with the removal of the tarps on 352 Dalesford Drive. She congratulated the winners of the Holiday Decorating Contest and requested that the Committee involved with this award be invited to help present the certificates at the Council Meeting.

Council Member House stated that he has observed the trains and they honk their horns even if there are no crossings.

Max Leyva asked whether the gas for the running Sheriff's car parked in front of City Hall was at the expense of La Puente or Sheriff Baca. Mayor Holloway stated it was Sheriff's Baca's.

Ken Medeiros stated his concerns with the School District, street parking, street trees, and the trees on Temple Avenue.

Frank Sanchez stated his support for the youth coalition waiver. He stated that the train issue was brought up at the meeting with Grace Napolitano. Mr. Sanchez stated that it was a great Christmas parade and commended the new Council for working with the downtown businesses. He supports the bike path but stated his concerns with the bike path behind houses because he believes it will invite crime. He commended the

Council on their travel policy, allowing speakers to go past their five minutes during oral communications, and thanked the new Council for being receptive to the people of the community. Mr. Sanchez stated that his business is on the train tracks and he does not hear any noise during the daytime.

Mayor Holloway stated that the Council get complaints about the length of the oral communications being too long. We try to accomodate everyone but please keep in mind that there is a five minute limit.

Marty Paz requested that the meeting be adjourned in the memory of Angie Munguia, longtime resident of La Puente. He asked who hired the City Manager, because it was the same people that are complaining about the City Manager and the Council renewed his contract at the end of the year. Mr. Paz stated that the way he heard it was that two of the Mayors were not happy with the City Manager and the employees are not happy with the City Manager so what does the Council do keep the City Manager and make everyone unhappy.

Mayor Holloway stated that the City Council hires the City Manager and that his contract was not renewed.

Council Member House requested that the meeting also be adjourned in the memory of former City Council Member Alan Lefever.

PRESENTATION BY THE LOS ANGELES COUNTY DEPARTMENT OF PUBLIC WORKS REQUESTING CITY SUPPORT OF GRANT APPLICATION FOR BIKEWAYS ALONG AMAR ROAD AND THE PUENTE CREEK CHANNEL - COUNCIL TO DISCUSS AND PROVIDE DIRECTION

Mayor Holloway provided staff with the Council direction to prepare and send a letter of support to the County without any monetary committment from the City.

RECESS THE SUCCESSOR AGENCY

Mayor/Chair Holloway recessed the Successor Agency at 8:55 p.m.

BOARDS/COMMISSION/COMMITTEE REPORTS

Council Member Argudo stated that City Manager Plumlee requested to attended the League of California Cities on his behalf on Thursday, January 3, 2013 and the he would provide a summary of what transpired at that meeting.

City Manager Plumlee confirmed that he attended the League meeting last Thursday.

Mayor Holloway asked City Manager Plumlee if there was any items of concern that the City may need to be aware of.

City Manager Plumlee stated that there was a presentation on transportation, other projects, and the impact on the ports of Los Angeles and Long Beach.

Mayor Holloway stated that the Sanitation District provided a letter addressing the concerns of the Puente Hills Landfill closure. The County Supervisors made the decision to close the landfill in 2013 not the Sanitation District.

A. MINUTES OF PREVIOUS CITY COUNCIL MEETING

A-1 READ AND APPROVE THE MINUTES OF THE REGULAR MEETING OF DECEMBER 11, 2012 AND SPECIAL MEETING OF DECEMBER 18, 2012

12/11/2012 Minutes

12/18/2012 Minutes

Council Member Argudo requested that the December 11, 2012 meeting minutes be continued to the next City Council meeting to allow him time to review the audio recording.

Violeta Lewis moved to waive the reading and approve the Minutes of the Special Meeting of December 18, 2012.; seconded by Charlie Klinakis.

The motion unanimously carried by the following roll call vote: AYES: Charlie Klinakis, Vince House, David Argudo, Dan Holloway, and Violeta Lewis. NOES: None.

B. PUBLIC HEARINGS BEFORE THE CITY COUNCIL - None.

C. UNFINISHED BUSINESS OF THE CITY COUNCIL - None.

D. CITY COUNCIL CONSENT CALENDAR

Charlie Klinakis moved to approve Consent Calendar Items D-1 through D-3; seconded by Violeta Lewis.

The motion unanimously carried by the following roll call vote: AYES: Dan Holloway, Charlie Klinakis, David Argudo, Vince House, and Violeta Lewis. NOES: None.

D-1 CONSIDERATION OF A RESOLUTION APPROVING WARRANT REGISTER NO. 1332 FOR FISCAL YEAR 2012-2013

D-1 Warrant Register #1332

D-2 CONSIDERATION OF A RESOLUTION APPROVING AN AMENDMENT TO THE AGREEMENT WITH CIVIC SOLUTIONS, INC. FOR ADMINISTRATION OF THE DEVELOPMENT SERVICES DEPARTMENT IN AN AMOUNT NOT TO EXCEED $135,200.00, AND ADOPTING FINDINGS TO DISPENSE WITH THE CITY'S COMPETITIVE BIDDING PROCEDURES

D-2 Staff Report

D-2 Attachment A

D-2 Attachment B

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D-2 Attachment C

D-3 CONSIDERATION OF A RESOLUTION APPROVING A SUBORDINATION AGREEMENT BETWEEN THE CITY OF LA PUENTE, SALEH M. SALEH, AND GMAC MORTGAGE BANK, WITH RESPECT TO THE CALHOME LOAN PROGRAM

D-3 Staff Report

D-3 Attachment A

D-3 Attachememt B

E. NEW BUSINESS TO BE CONSIDERED BY THE CITY COUNCIL

E-1 CONSIDERATION OF AUTHORIZING THE SUBMISSION OF AN APPLICATION FOR THE SOBRIETY CHECKPOINT GRANT PROGRAM

E-1 Staff Report

E-1 Attachment A

Council Member Argudo requested that Item E-2 be heard before Item E-1 due to members in the audience present for this item.

ITEM E-2 WAS TAKEN OUT OF ORDER BY COUNCIL CONSENSUS

E-2 CONSIDERATION OF A RESOLUTION APPROVING A REQUEST FOR A FEE WAIVER FOR THE LA PUENTE YOUTH COALITION'S 2013 COMMUNITY CARNIVAL

E-2 Staff Report

E-2 Attachment A

E-2 Attachment B

Recreation Manager Lerma provided a brief summary on this Item.

Council Member Argudo asked if any changes have been made from last year's event. Dan Ayala, Youth Coalition President, stated that no changes had been made.

Mayor Holloway stated that the only negative comment he heard was the number of pot-a-potties available. Mr. Ayala stated he was not aware that was an issue. Mayor Holloway asked if the $5,841 cost was the actual cost to the City or just the items that the City would waive. Recreation Manager Lerma confirmed that that the $5,841 was the total cost to the City which included the waived fees and that this item had been included in this year's budget.

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David Argudo moved to adopt the attached Resolution No. 13-5059 approving a request for a fee waiver for the Coalition's Carnival.; seconded by Charlie Klinakis.

The motion unanimously carried by the following roll call vote: AYES: Charlie Klinakis, Vince House, David Argudo, Dan Holloway, and Violeta Lewis. NOES: None.

E-1 CONSIDERATION OF AUTHORIZING THE SUBMISSION OF AN APPLICATION FOR THE SOBRIETY CHECKPOINT GRANT PROGRAM

Management Assistant Galvan provided a brief summary of this item.

Council Member Argudo requested that of the requested 12 checkpoints the number of checkpoints during the Winter Holiday and Labor Day Mobilization periods be increased to two each and have eight for the remainder of the funding period.

Mayor Holloway asked if it would create an approval issue if the City ran two checkpoints during these holiday periods.

Management Assistant Galvan stated that previously only one checkpoint had been submitted on the application for the mobilization periods but the City is able to submit two with this application.

Council Member House stated his opposition to the checkpoints.

Council Member Lewis asked if the funding is dependent on the number of checkpoints.

Management Assistant Galvan stated that the application process allows for the City to request as many checkpoints it feels it can conduct; the Office of Traffic Safety (OTS) makes the final decision on the amount they will fund.

David Argudo moved to authorize the submittal of an application for the Sobriety Checkpoint Grant Program, for a total of 12 checkpoints, with 2 checkpoints during the Winter Holiday and 2 checkpoints during the Labor Day Mobilization periods and the remaining 8 checkpoints during the grant period of October 1, 2013 through September 30, 2014.; seconded by Dan Holloway.

The motion carried by the following roll call vote: AYES: Charlie Klinakis, David Argudo, Dan Holloway, and Violeta Lewis. NOES: Vince House.

E-3 CONSIDERATION OF A RESOLUTION COMPLYING WITH SENATE BILL 1186 TO IMPLEMENT A ONE DOLLAR STATE FEE ON ALL BUSINESS LICENSES ISSUED BY THE CITY

E-3 Staff Report

E-3 Attachment A

City Manager Plumlee provided a brief summary of this Item.

Mayor Holloway stated his opposition to the State fee. He requested that this additional charge be properly

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identified on the business license application to inform the business license applicant that it is State mandated fee not a City fee.

Council Member House stated his opposition to the State fee. He suggested that the City send a letter to Governor Brown refecting the City's opposition to this fee.

City Attorney Casso stated that either way the City would have to send this fee to the State whether or not the City charged the applicant for this fee. The function of the fee is to improve accessibility to disabled patrons.

Mayor Pro Tem Klinakis stated his opposition to the State fee.

Mayor Holloway asked what would happen if the Council did not approve this Item because the City is still going to collect the fee because it is mandated by the State. The City would just not have nothing memorializing this fee. City Attorney Casso confirmed Mayor Holloways statement.

Council Member Lewis stated that the fee is to assist businesses become ADA compliant.

The Item died due to a lack of a Motion.

E-4 DISCUSSION AND DIRECTION REGARDING A PARTNERSHIP WITH THE CALIFORNIA STATE BOARD OF EQUALIZATION FOR FREE INCOME TAX PREPARATION AND FAMILY SERVICES (Council Member Argudo)

E-4 State Board of Equalization Letter

Council Member Argudo stated his support of this Item as it is very beneficial to the City's residents and requested that Council approve the Resolution.

Mayor Holloway asked if there are tax preparation services currently being provided at the Senior Center and if it fulfills the needs of the residents. Recreation Manager Lerma confirmed that there has been a free service one day a week and it does not fulfill the needs of the residents.

Council Member House asked if it included both State and Federal. Recreation Manager Lerma confirmed that it does include both.

Council provided direction to have staff work with the Equalization Board on the dates and location for this program.

Dan Holloway moved to adopt Resolution No. 13-5060 partnering with the California State Board of Equalization 4th District, and Franchise Tax Board approving a Volunteer Income Tax Assistance program. ; seconded by David Argudo.

The motion unanimously carried by the following roll call vote: AYES: Charlie Klinakis, Vince House, David Argudo, Dan Holloway, and Violeta Lewis. NOES: None.

E-5 DISCUSSION AND DIRECTION REGARDING RECEIVING AND MEMORIALIZING FEEDBACK FOR HOLIDAY HOME DECORATING CONTEST TOUR AND OTHER SPECIAL EVENTS (Council Member House)

Council Member House would like to memorialize the different events to ensure continuity. This would assist any staff that would have to undertake these assignments. This would also assist with connectivity to our constituents. The City needs to communicate with the residents to keep them appraised of what is happening in the City and if any changes are made. The City needs to fully utilize the City's website and other forms of communication to disseminate this information.

Mayor Holloway stated that he was a member of the Puente Pride Committee and that the Committee did drive around the whole city three times a year for these different awards and that he does not support having the residents fill out applications to enter their homes for these awards. He stated the members of the Puente Pride Committee have indicated that their charter had been seriously affected by the new change in the format for these awards. Mayor Holloway requested that all the Committees be fully utilized and the Puente Pride Committee should be used for these awards and other events.

Council Member Lewis agrees with Council Member House on the City's advertising and internet communications, she feels the City needs to fully utilize all of its internet communication tools.

Council Member Argudo thanked staff for undertaking these events. He believes that staff is having debriefing meetings to assess what worked and how to improve these events. He supports the use of the Puente Pride Committee and other Committees be active participants at all these events.

City Manager Plumlee stated that he appreciated all the feedback from the Council, Committees, and residents. He reiterated that there have been significant staffing changes within the City. Staff is currently working on receiving feedback from the Puente Pride Committee. Staff is also working on documenting the processes for future reference. Staff has implemented a preplanning meeting and post debriefing for all special events. He stated that it was a work in progress and that the new IT support is making significant progress with the issues that needed to be addressed.

Recreation Manager Lerma stated that the event processes are being documented and staff has prepared timelines for these events and are setting deadlines for the completion of steps for each event.

Mayor Holloway requested that the City Council be apprised of any changes to the events and that this communication be done early in the process.

RECESS THE CITY COUNCIL AND RECONVENE THE SUCCESSOR AGENCY

Mayor/Chair Holloway recessed the City Council and reconvened the Successor Agency at 9:55 p.m.

A. MINUTES OF PREVIOUS SUCCESSOR AGENCY MEETING

A-1 READ AND APPROVE THE MINUTES OF THE REGULAR MEETING OF DECEMBER 11, 2012

12/11/2012 Minutes

David Argudo moved to waive the reading and approve the Minutes of the Regular Meeting of December 11, 2012.; seconded by Dan Holloway.

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The motion unanimously carried by the following roll call vote: AYES: Dan Holloway, Charlie Klinakis, David Argudo, Vince House, and Violeta Lewis. NOES: None.

B. PUBLIC HEARINGS - None.

C. UNFINISHED BUSINESS - None.

D. CONSENT CALENDAR

Action Taken: All matters listed under Consent Calendar are considered to be routine in nature and may be enacted by one motion approving the recommendation listed on the Agenda. One or more items may be removed from the Consent Calendar so that said item(s) may be discussed and considered individually by the Successor Agency, if a motion to remove the item(s) is approved by an affirmative vote of a majority of the members of the Successor Agency. Those specific item(s) will be considered as the first item under New Business.

D-1 CONSIDERATION OF A RESOLUTION APPROVING THE WARRANT REGISTER FOR THE SUCCESSOR AGENCY OF THE LA PUENTE COMMUNITY DEVELOPMENT COMMISSION FOR JANUARY 8, 2013

Warrant Register #7

David Argudo moved to adopt Resolution No. 13-13 approving the Successor Agency Warrant Register No. 7 for January 8, 2013.; seconded by Vince House.

The motion unanimously carried by the following roll call vote: AYES: Dan Holloway, Charlie Klinakis, David Argudo, Vince House, and Violeta Lewis. NOES: None.

E. NEW BUSINESS TO BE CONSIDERED BY THE SUCCESSOR AGENCY - None.

ADJOURN THE SUCCESSOR AGENCY, RECONVENE THE CITY COUNCIL

Mayor/Chair Holloway adjourned the Successor Agency and reconvened the City Council at 9:57 p.m.

RECESS TO CLOSED SESSION

Mayor Holloway recessed into Closed Session at 9:57 p.m.

City Attorney Casso recessed into Closed Session to discuss Item No. F-1 as listed on the agenda.

F. CLOSED SESSION

F-1 CONFERENCE WITH LEGAL COUNSEL- ANTICIPATED LITIGATION Initiation of litigation pursuant to subdivision (b)(1) of Section 54956.9 (one potential case).

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RECONVENE TO OPEN SESSION

Mayor Holloway reconvened to Open Session at 10:09 p.m.

REPORT OUT OF CLOSED SESSION

City Attorney Casso reported that Council recessed into Closed Session as to Item F-1, direction was given to legal counsel and no final action was taken.

ADHOC COMMITTEE REPORTS

Mayor Pro Tem Klinakis stated that the Beautification Ad Hoc Committee met with staff and discussed the surveys, this update will be provided at the next Council meeting.

Mayor Holloway requested that the City Manage set up a meeting with the IT Ad hoc Committee for next week.

City Manager Plumlee stated that the Information Technology (IT) support consultant would be in primarily on Wednesday's and that he will be updated on their progress and then he would report it to the IT Adhoc Committee. He would have the IT support person attend the meeting with the Adhoc Committee.

Council Member Argudo requested that at the IT Ad hoc Committee meeting an update be given on the changes that have been made to the City's computer systems.

AB 1234 REPORTS - None.

ORAL COMMENTS FROM COUNCIL

Council Member Lewis advised everyone that this current flu season has hit very had and it is still not too late to get a flu vaccination.

ORAL COMMENTS FROM STAFF

City Manager Plumlee stated that he was going to regenerate the letter that was done last year by the previous Mayor and have the current Mayor sign it to address the railroad issue.

Council Member House stated that both the Union and Pacific railroads should be contacted. He mentioned that he heard the horns during the meeting in the Chambers.

City Attorney Casso reported that on December 18, 2012 the Council held a special meeting at which time they heard a matter in Closed Session of anticipated litigation, there was direction from the City Council in its entirety to the City Manager and the City Attorney with regards to the resolution of the possible anticipated litigation. There were several possible issues that arose out of that one matter, and to report that a settlement agreement was entered into at the direction of Council with former Director of Administrative Services Ward Komers. Mr. Komers resigned and waived any and all known and unknown claims against the City and in return he would receive three months' severance pay. He is available via telephone during the

month of January under this agreement for transition purposes in communication with the City Manager for any transition purposes other than that nothing further to report.

ADJOURNMENT

There being for further business to come before the City Council, the Mayor adjourned the meeting at 10:15 p.m. in the memory of Angie Monguia, longtime resident of La Puente and former Council Member Alan T. Lefever.

AVAILABILITY Any writings or documents provided to a majority of the City Council regarding any item on this agenda will be made available for public inspection at the City Clerk Department at City Hall located at 15900 E Main Street and the Reference Desk at the Library located at 15920 E. Central during normal business hours. In addition, such writings and documents will be posted on the City's website at http://www.lapuente.org

MEETING TIMES Meetings of the City Council shall be adjourned no later than 10:30 p.m., unless a motion to supersede the 10:30 time limit to consider some or all of the remaining items listed on the Agenda, or to consider items which have been added to the Agenda in accordance with the provisions of the Ralph M. Brown Act, Government Code Section 54950, et seq., is approved by a majority of the members of the City Council. (Ordinance No. 95-727).

Dated this 3rd day of January, 2013.

Official Minutes for CC 01-08-13

Official Minutes for SA 01-08-13

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CARES

Community Action to Restore Equity and Stability

Saving Homes, Saving Cities

Solving the Mortgage Crisis Locally

Summary

- An average foreclosure costs the local government $19,277 (HUD)
- An average foreclosure costs adjacent neighbors $13,455 (HUD)
- 569 first mortgages in La Puente are in Private Label Securities
- 337 of these will be foreclosed (Fannie Mae estimate)
- These foreclosures will cost La Puente $11.4 million
- Reducing principal to below home values will stop foreclosures
- La Puente has the power to reduce principal
- ***No one else has any incentive to prevent foreclosures***
- Mortgage Resolution Partners can help

Mortgage Resolution
PARTNERS

The Cost of a Foreclosure*

- Lost Property Taxes
- Unpaid Utility Bills
- Property Upkeep
- Policing
- Legal costs, building inspections
- Demand for social services

Borrowers	$10,300**
Close Neighbors	$14,531***

Mortgage Resolution Partners LLC
Pier 22, South Embarcadero, Suite 201 San Francisco, CA 94111 415.795.2032

*HUD Economic Impact Analysis of the FHA Refinance Program for Borrowers in Negative Equity Position
**Household moving costs, legal fees and administrative charges
***Negative impact on the property value of close neighbors

La Puente Foreclosures

Housing	# of Units*	Private Label Mortgages	Future Foreclosures Of Private Label Mortgages**	La Puente	Adjacent Neighbors
Owner-occupied	5,693	569	337		
Renter-occupied	3,758				

**Fannie Mae Predicts that 60% of PLS Will Result in Foreclosures

*Source: 2010 Census
** Source: Fannie Mae 2011-10k

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Pier 22 South Embarcadero, Suite 201 San Francisco, CA 94111 415.795.2032

Problem → Mortgages Held In Private Label Securities

- 5 million loans placed in securities not guaranteed by U.S. Government
- Loans not eligible for 15 federal programs created since the housing crash
- Loans are much more likely to be underwater.
- Riskier loans created in 2004 to 2007 helped create housing boom
- Have not been originated since 2007
- ***Securities prohibit principal reduction***

"If we are going to stabilize the housing market, we have to address" PLS loans.
Federal Housing Finance Agency 2009

Result → Fannie Predicts that 60% of PLS Will Result in Foreclosures

The Solution – Principal Reduction

"Most economists see as central to preventing foreclosures." *Alan Blinder, former Vice Chairman at the Federal Reserve (Oct. 20, 2011)*

"Government should when it exceeds 110 percent of the home value." *Martin S. Feldstein, former Chairman of the Council of Economic Advisers under President Reagan (Oct. 12, 2011)*

"Surely there is a strong case for experimentation with " *Lawrence Summers, former Treasury Secretary under President Clinton and former Economic Adviser under President Obama (Oct. 24, 2011)*

Example: JP Morgan Chase and Bank of America on option ARM portfolio loans in order to reduce defaults and losses

Principal reduction will prevent future defaults and foreclosures

Why Does Principal Reduction Help?

This is an illustrative example for the level of benefits that participating families may realize. Communities benefit from greatly reduced probability of foreclosure.

	Original Loan	Today	After Program
Home Value	$400,000	$200,000	$200,000
Mortgage Balance	$320,000	300,000	$190,000
Home Equity	$80,000	($100,000)	$10,000
Loan to Value Ratio (LTV)	80%	150%	95%
Monthly Payment	$1,798	$1,798	$907

Assumes a 6%, 30 year, fully amortizing mortgage is refinanced by a 4%, 30 year, fully amortizing mortgage. Some loan programs may also require insurance, which may add $175 per to the After Program monthly payment.

Probability of Default Drops from ~80% to ~7.5% (FHA actuarial assumption, 95%LTV)

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Pier 22 South Embarcadero, Suite 201, San Francisco, CA 94111, 415.795.2032

Method of PLS Principal Reduction → Communities Take Action

Securitization agreements and tax laws prohibit the sale of PLS mortgages

Local government, using their constitutional power of eminent domain, can purchase PLS mortgages when public purpose exists by paying fair value

Then local governments can on the condemned PLS mortgages, thereby reducing underwater PLS in their community

Governments Can Use Eminent Domain To Avoid Unnecessary Foreclosures

Who Supports the Program?

Broad community-focused support for the program

- AFSCME
- Americans for Financial Reform
- Center for Popular Democracy
- National Community Reinvestment Coalition
- Federal Banking Regulators

Representing

- 1.6 million state and local government employees
- 600 local housing focused organizations
- 250 national, state and local groups working on financial industry reform

Program Addresses Concerns Of Local Homeowners And Community-focused Organizations

Communities Publicly Considering Action

- El Monte, CA
- San Bernardino County CA
- Ontario CA
- Fontana CA
- Sacramento County CA
- Elk Grove CA
- Berkeley CA
- Suffolk County NY
- Chicago IL
- Los Angeles CA
- Salinas CA
- San Joaquin, CA

MRP is in active discussions with these communities and many more

MRP is a Community Advisory Firm

MRP clients are state, county, and city governments that purchase underwater PLS mortgages and resolve them to the benefit of their communities. In order, MRP provides, under an advisory contract with the community, the following services:

- Identify and value PLS mortgages
- Educate the community
- Arrange acquisition financing
- Advise community in filing eminent domain motion
    - Demonstrate the public purpose
    - Determine fair market value of mortgages
- Arrange servicing of acquired mortgages
- Arrange resolution of acquired mortgages

MRP Provides These Services No Cost To Cities or Homeowners

Next Steps

1. The City retains MRP at no cost per the terms of the MRP Advisory Agreement as modified by the City and agreed to by MRP.
2. The City is in control, at each step in the process the City has the option to terminate the Agreement and must approve the next step before it is taken.
3. The City does not pay any costs of the program.
4. Nothing in the Agreement obligates the City to file an eminent domain motion.

ADVISORY SERVICES AGREEMENT

This Advisory Services Agreement ("Agreement") is entered into by and between Mortgage Resolution Partners LLC, a Delaware limited liability company ("MRP") and the City of _____ (the "City") and is effective as of _____, 2013 (the "Effective Date").

RECITALS

A. MRP is a community advisory firm advising public agencies on ways to assist the agency in reducing the impact of the mortgage crisis with its communities including, if necessary, by acquiring mortgage loans through the use of eminent domain, in order to restructure or refinance the loans and thereby preserving home ownership, restoring homeowner equity and stabilizing the communities' housing market and economy by allowing many homeowners to remain in their homes.

B. America in general and the City in particular are each experiencing an historic home mortgage crisis and as a result of the home mortgage crisis, many homeowners in the City have lost significant portions of their disposable income, and some have been unable to make timely mortgage payments on their homes. This has resulted in unprecedented rates of default and foreclosure, loss of homeowner equity, loss of family wealth, and even loss of shelter for some families. The home mortgage crisis has resulted in other adverse impacts within the City such as job losses, reductions in income, consumer demand, and investment, a spiraling reduction in property values, a reduction in property and payroll tax revenues, vandalism, abandoned homes and a general decline in the economy and the quality of life for residents. Restructuring or refinancing mortgage loans will benefit the City's residents by preserving home ownership; restoring homeowner equity; and likely also increasing income, property values, consumer demand, investment, and property and payroll tax revenue.

C. The City is interested in retaining MRP to act as its advisor to assist the City in exploring potential solutions to the mortgage crisis; to assist the City by negotiating on the City's behalf with entities which will provide the necessary funding to the City in order to allow the City to acquire loans; and to assist the City in negotiating contracts with third parties including owners of loans, attorneys, lenders, data companies, other government agencies and others as necessary to implement a program or programs to benefit the City's residents.

NOW THEREFORE, in consideration of the foregoing, MRP and the City agree as follows:

1. PURPOSE. The purpose of this Agreement is to enable the City and MRP to work together to assess and implement a program or programs designed to ease the impacts of the mortgage crisis on the residents of the City.

2. SERVICES. MRP agrees to provide the following services ("Services"), and the City authorizes MRP to represent the City as described:

ATTACHMENT A

(a) to advise the City on various alternatives in order to provide assistance to its residents who are burdened with mortgage loans including assessing the possibility and benefits of the formation of a joint powers authority;

(b) to identify and negotiate with companies acceptable to the City, in its sole and absolute discretion, to lend funds to the City on a fully secured, non-recourse basis if such funds are required in order to provide the necessary relief;

(c) to provide extensive legal research acquired by MRP on all aspects of the acquisition and refinancing of mortgage loans including each of the legal steps necessary to implement the necessary programs;

(d) to identify and negotiate with law firms acceptable to the City, in its sole and absolute discretion, to work with the City to implement the programs which the City elects to implement;

(e) to negotiate with other local, state and federal governments and agencies as necessary to implement programs chosen by the City;

(f) to negotiate on behalf of the City with the holders of mortgage loans secured by property owned by residents of the City (and with trustees, servicers, investors and other parties having a relationship with the holders of the loans);

(g) to work with the City to identify mortgage loans to target based upon the City's criteria;

(h) to negotiate on behalf of the City with any other third party as necessary to implement programs which the City elects to implement; and

(i) to work with the City to establish education and communication programs to address residents' questions about a program or programs the City implements.

Provided, however, in no event shall MRP have the authority to enter into any contracts on behalf of the City.

3. COMPENSATION. As its sole and exclusive compensation for the performance of the Services (the "Advisory Fee"), MRP shall receive the sum of $4,500 per loan for each loan ultimately acquired by the City or otherwise resolved in a manner which results in the restructuring or refinancing of a loan through a program implemented by the City. The Advisory Fee shall be paid only through the programs implemented by the City and shall not be paid directly by the City.

4. ASSIGNMENT. MRP shall not have the right to assign and/or delegate its duties hereunder without the prior written consent of City, which consent may be withheld in the City's sole and absolute discretion.

5. COOPERATION. Each party agrees to cooperate to carry out the purpose of this Agreement and to perform all acts and execute all documents reasonably required to institute the

programs chosen by the City pursuant to the terms of this Agreement or as are or may become necessary or convenient to effectuate and carry out this Agreement.

6. RELATIONSHIP OF PARTIES. The relationship of MRP to the City shall at all times be that of an independent contractor. MRP expressly acknowledges and agrees that it does not have the authority to bind the City by contract or otherwise.

7. TERM. This Agreement shall be in effect for a period of one (1) year from the Effective Date and will be renewed automatically for successive terms of one (1) year each unless either party gives notice to the other at least sixty (60) days prior to the termination of any term. This Agreement will continue in effect after the end of the term of this Agreement with respect to all programs which the City has implemented or is in the process of implementing as of the end of the term of this Agreement.

8. GENERAL PROVISIONS.

(a) Execution. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original. A signature transmitted via scanning and emailing or facsimile shall have the same effect as an original signature.

(b) Modification of Agreement. This Agreement may be modified only by a writing signed by MRP and the City.

(c) Entire Agreement. This Agreement together with any Nondisclosure and/or Common Interest Agreements entered into between the parties either prior or subsequent to the Effective Date constitute the entire understanding and agreement between the parties concerning this subject matter.

(d) Severability. If a court of competent jurisdiction finds or rules that any provision of this Agreement is invalid, void, or unenforceable, the provisions of the Agreement not so adjudged shall remain in full force and effect. The invalidity in whole or in part of any provision of this Agreement shall not void or affect the validity of any other provision of this Agreement.

(e) Governing Law. This Agreement is governed by and shall be interpreted according to the laws of the State of California.

(f) Waiver of Breach. No waiver of breach of any term or provision of this Agreement shall be construed to be, or shall be, a waiver of any other breach of this Agreement.

(g) Arms-Length Transaction. This Agreement is a product of arms-length negotiations and each party has had an opportunity to receive independent legal advice from the City of La Puente City Attorney. Thus, neither party can claim that any ambiguities in any term of this Agreement should be construed against any other party.

(h) No Third Party Beneficiaries. This Agreement will not confer any rights or remedies upon any person other than the parties hereto and their permitted successors and permitted assigns.

9. NOTICES. All notices under this Agreement shall be in writing and shall be transmitted by personal delivery or reputable overnight courier service such as FedEx to the parties at the following addresses:

MRP:

Mortgage Resolution Partners, LLC
33 Pier South Embarcadero, Suite 201
San Francisco, CA 9411
Attn: CEO

The City:

_____
_____

Such notice shall be deemed given upon personal delivery to the appropriate address or on the next business day if sent by overnight courier service.

WHEREFORE, the parties indicate by their signatures below their entry into this legally-binding Agreement.

The City

_____
(signature) (date)

Name (printed): _____

Mailing address: _____

Telephone no.: _____

E-mail address: _____

Date of Signing: _____

Mortgage Resolution Partners LLC

Representative: _____
(signature) (date)

Name (printed): Graham Williams

Mailing address: 33 Pier South Embarcadero, Suite 201, San Francisco, CA 94111

Telephone no.: 415-795-2031

E-mail address: gwilliams@mortgageresolutionpartners.com

Date of Signing: _____

★RichmondConfidential
(http://richmondconfidential.org/)

Council hears plans from Marin Clean Energy, foreclosure solutions firm; runs short on time

DEC 30-FHFA- 129

The presenter, Joshua Tovar, an intern with the council and UC Berkeley student, spoke about the experience of undocumented young people on behalf of CLOUD and fielded a barrage of questions from Councilman Corky Booze.

Booze sought clarification on one of the definitions of "undocumented," which Tovar defined as entering the country without showing a passport or going through Customs.

"When I go to Cananda, I have to show mine when I come back. I go to Mexico, I have to show mine when I come back. When I go to China, I have to have it there," Booze said. "Anytime you enter the United States or go into another country you have to go through Customs. I did that in China just recently. ... I'm just trying to figure out so we don't lead young people astray ... are you saying there's a new law that no one will have to do that anymore?"

The audience started rumbling. Tovar and Beckles, who agendized the talk, both said they didn't understand Booze's question.

Finally, another CLOUD member jumped in to explain. "You cross the border without the proper documents. That's how you become undocumented, sir," he said.

The council voted unanimously to become an "ally" of undocumented residents, meaning that it would support efforts to help them.

In an agenda filled mainly with proclamations and presentations, the council's most divisive decision of the night proved to be whether to extend the meeting an additional 30 minutes past 11 p.m. They spent 10 minutes debating that point.

"If you guys would stop talking so much we would get this meeting over with in a timely manner," Councilman Nat Bates said.

Councilman Tom Butt agreed, noting this meeting's particularly benign agenda.

"Here's a meeting that's made up of presentations, study sessions, nothing controversial and we just go on and on and on. We've fallen into this habit of no matter how small our agenda is ... we just go on and on and on. We won't get out of here before midnight," Butt said. "We have to learn how to get out of here at a reasonable hour. This is unhealthy ... it's ineffective."

Mayor Gayle McLaughlin moved to extend the meeting. Bates, Butt and Booze voted no, not enough to delay the rest of the agenda for a later date, so the meeting continued past midnight.

The last item the council had time for was a presentation from San Francisco-based Mortgage Resolution Partners (http://mortgageresolution.com/), a community advisory firm that works with cities to stabilize local housing markets. Graham Williams, the group's chief executive officer, asked the council to let his firm design a program to assist foreclosed homeowners who want to stay in Richmond. The partnership would not cost the city any money, he said, and the firm believes it can help 1,400 Richmond homeowners.

MRP currently works with four cities, using a plan that uses eminent domain to refinance underwater mortgages at current property values.

"Only you can prevent foreclosures in Richmond," Williams said.

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Booze was skeptical, saying he thought the group was coming in to take advantage of the city, but several Richmond residents at the meeting who waited hours just to speak on the item supported the idea.

The council unanimously voted to develop a foreclosure assistance plan with MRP.

Despite the extended meeting, one discussion fell through the cracks. The Public Works Department was scheduled to deliver a report on reopening Point Molate Beach Park after 10 years of closure, but the mayor had to push the item for next time.

3 Comments

Concerned Richmond residet February 27, 2013 at 2:08 pm

Got to give it to Corky Booze asking a bunch of nonsensical questions interrupting the City council meeting. that is why they can't even finish a Meeting on time.

Don Gosney February 27, 2013 at 3:33 pm

While Corky may ask a lot of questions, the issue of whether they're nonsensical may be a matter of perspective.

Take a look at so many of the other issues in last night's meeting and then ask why the meeting drug on.

For instance, when discussing the Affordable Care Call Center–an opportunity for more than 200 new jobs in Richmond–the Council debated at length whether to allow Richard Poe enough time to give a comprehensive report. Mr. Poe is considered the leading expert on Richmond's bid since it;'s his property that would be used. The Council spent considerably more time arguing whether he should be allowed to speak than it took him to complete his report.

Also, when we were supposed to hear about Marin Energy's community outreach efforts, the Council spoke for nearly an hour about the merits of MCE's partnership in Richmond. Since these arguments were the kind that should have been voiced BEFORE signing agreements with MCE and had virtually no bearing on the outreach efforts, this may be yet another reason the meeting lasted as long as it did.

And then there were the endless presentations where elected officials get to participate in the rituals of the Mutual Admiration Society where they get to bring some of their friends up before the audience and tell them how great they are. Then other members of the Council get to chime in and sing their praises before junior members of the Society rise to praise the recipients and then praise the members of the Council that spoke in support of their friends. And it goes on and on and on. Thank goodness that politics never enters into the mix.

If this were a business hosting such a meeting, heads would roll as an example to the others to stay focused on the business of the meeting.

Don Gosney February 27, 2013 at 3:44 pm

What concerns me about the Marin Clean Energy presentation is that there was no real presentation. Pretty much all they did was say that they had a 50 page report embedded in the 960 page agenda packet from last week and again in the 160 page agenda packet from last night.

Considering that those in the audience and those watching at home don't get those agenda packets, it would have been nice had the MCE representatives made a presentation to explain exactly what kind of community outreach they're doing.

Come to think of it, I would think that this presentation would be considered community outreach and perhaps that's part of the problem–they're not really reaching out to the community.

Very little of the Council's time was spent questioning the outreach efforts. Most of it had to do with the actual program and how it was going to affect Richmond residents. Excuse me for pointing this out but this is the kind of stuff that should have been asked and brought up BEFORE the Council voted to embrace MCE and sit on their Board of Directors.

I tried to speak on this report and the hidden items included therein when it was slated as a consent calendar item last week. I–and two other speakers–were thwarted, though, when the Mayor refused to allow us our right to speak and personally passed the agenda item (without even asking for a vote from the other members of the Council

Resolving underwater mortgages through eminent domain? The plan comes to Southern Nevada

DEC 30-FHFA- 132

Under the plan, MRP will put up the money for local governments to seize the mortgages out of securities owned by private investors at fair market value using eminent domain powers.

MRP would help determine which loans to select. It would handle writing down the appropriate amount of principal and getting the mortgage refinanced into a new one backed by the Federal Housing Administration, though agency officials have said they have concerns about the plan.

Investors in MRP would profit from the difference between what is paid to seize the loan and the revenue gained from the refinanced mortgage, plus a $4,500 advisory fee MRP will charge local governments per loan.

The concept is innovative, and nowhere could it be more useful than the place where the biggest housing boom in the country's history went bust about five years ago. But it is also controversial as The Wall Street Journal (http://online.wsj.com/article/SB10000872396390443295404577547243807191280.html), Mother Jones (http://www.motherjones.com/politics/2013/01/eminent-domain-mortgage-gluckstern) and others have reported.

Just the phrase "eminent domain" will raise hackles in some quarters. As Josh Harkinson pointed out in Mother Jones, "Politicians are understandably reluctant to resort to what is essentially the nuclear option for rescuing beleaguered homeowners."

On the other hand, some might argue that if bankers hate it, how can it be all bad? As Harkinson wrote, the mortgage investors who wrote to San Bernardino officials considering the idea sounded like Occupy protesters, saying the idea was "simply a wealth transfer from everyday Californians to a handful of wealthy, well-connected investment bankers."

San Bernardino seriously considered the plan before a lack of public support scuttled it (http://articles.latimes.com/2013/jan/24/business/la-fi-mo-eminent-domain-20130124). But other California communities La Puente, El Monte, San Joaquin and Orange Cove have signed up, and an estimated 2,700 mortgages have been affected.

I am sure lawsuits will be threatened, financial apocalypses will be foretold. And lobbyists will have a field day, too.

North Las Vegas, which has been devastated by the foreclosure crisis, is a good place to start. So it will be interesting to see whether that city is the first domino to fall in Southern Nevada or becomes the first obstacle to MRP's foray into the valley.

Las Vegas Sun
Real estate:

Plan that aids underwater homeowners through eminent domain to get hearing in North Las Vegas

By Conor Shine (contact)

Wednesday, March 6, 2013 | 2 a.m.

A company with a unique but controversial approach to help underwater homeowners refinance their mortgages using eminent domain will pitch the North Las Vegas City Council on the plan Wednesday evening.

Mortgage Resolution Partners has spent the past year meeting with local governments in states hit hardest by the housing crash to present its plan that would use private money to buy distressed mortgages and help homeowners reduce the amount of principal owed while staying in their houses.

The municipal government would serve as the middleman in the process, using its power of eminent domain to seize the mortgages from trusts that own the mortgage-backed securities. Once the mortgage is refinanced and sold again, the city would receive a small fee for its troubles.

Such use of eminent domain has riled bankers nationwide, who said lending would be discouraged anyplace where eminent domain was used in this manner.

"This would be a taking of property rights of investors in the mortgage," said Bill Uffelman, Nevada Bankers Association president. "If I was writing mortgages that somebody could take away from me at some point in the future, I'd be very concerned."

Mortgage Resolution Partners emphasizes that the process would be "voluntary and consensual" and that eminent domain would be a last resort to acquire any property.

Nevada representatives for Mortgage Resolution Partners — which include prominent Las Vegas attorney Byron Georgiou, developer Michael Saltman and Daniel Greenspun, a member of the family that owns the Las Vegas Sun — argue the benefits are more than monetary. The program would help stabilize housing markets, prevent blight and most importantly keep homeowners in their house with an affordable mortgage payment.

"If you reduce principal, you reduce defaults, you reduce foreclosures. You save money for everybody," said John Vlahoplus, founder and chief strategy officer for Mortgage Resolution Partners. "This is to try and make something happen where nothing's happening right now."

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As an example, Georgiou said a house carrying a $300,000 mortgage but with a market value of only $200,000 would be bought by the city using private funding for less than its market value, in this case $150,000. The below-market value payment would provide cash to any previous mortgage owners and save them any potential losses from the property going into foreclosure.

The city-owned mortgage would then be refinanced with a higher loan, in this case $190,000, leaving the homeowner with a lower principal owed and some equity in the house.

The $40,000 spread between the purchase price and the new loan price would be used to cover costs and to pay back the city and the investors. The city would receive a fee of about 5 percent of the new loan value, Mortgage Resolution Partners investors also would receive a return on their investment. Additionally, Mortgage Resolution Partners would receive a flat fee of $4,500 per transaction.

The representatives have been meeting with officials in each of Clark County's local municipalities over the past months. The city of North Las Vegas will be the first to consider a formal agreement engaging Mortgage Resolution Partners' services.

North Las Vegas City Manager Tim Hacker said Wednesday's presentation would be a chance for the council and residents to learn more about the program.

"The focus is to learn about this potential tool," Hacker said. "Mortgage Resolution Partners approached all the local jurisdictions months ago. They've been working toward these kinds of presentations to elected bodies. My understanding is we're just first in the hopper."

Property devaluations and foreclosures have hammered North Las Vegas, Hacker said, and potential ways to improve the situation need to be investigated.

"I think we need to evaluate any and all programs that appear to strengthen our communities by ... keeping people in their homes," he said. "It's all very speculative because there's still a lot to learn (about Mortgage Resoultion Partners) as far as its usefulness for our particular situation in North Las Vegas."

Approximately 4,700 underwater homeowners in North Las Vegas, 38 percent of whom are delinquent on their mortgages, would qualify for Mortgage Resolution Partners' refinancing plan, according to the company.

The company eventually hopes to involve other local governments in Clark County, which the company says has about 40,000 underwater homes that could be helped through the program.

County Commission Chairman Steve Sisolak said he's met with Mortgage Resolution Partners representatives several times, but he's not sure whether the full board will take up the "complicated issue."

"I think they're going to have to meet with the commissioners individually first before we move forward with it. I've spent literally six, eight, 10 hours with those folks going over it. It's not the kind of discussion you can have in 30 minutes," Sisolak said. "I'm always interested in listening, but I've got an issue using eminent domain for that process. I don't know if I can support that."

If the North Las Vegas City Council approves the item at its Wednesday meeting, it will enter into an advisory agreement with Mortgage Resolution Partners that will allow the company to begin surveying the housing market in North Las Vegas, identify potential targets and estimate the cost to acquire them. The work would be done at no cost to the city, and further council approval would be needed before any mortgages were acquired.

Four cities in California — La Puente, El Monte, San Joaquin and Orange Cove — have made similar agreements with Mortgage Resolution Partners, the company said. If it enters into such an agreement, North Las Vegas would be the biggest city to partner with Mortgage Resolution Partners.

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The use of eminent domain to seize mortgages has sparked controversy and led to questions of whether such a seizure is legal. Eminent domain typically is used to seize land for "public use" such as building roads or other infrastructure. But Mortgage Resolution Partners thinks the law can be read to include a broader interpretation of "property" that would include mortgages.

Mortgages seized through eminent domain could be held by securities that draw investors from a variety of groups besides financial institutions, such as pensions or retirement accounts, Uffelman said.

"It could be your retirement account that's an investor in this mortgage," he said.

Uffelman said a variety of federal and state programs already are targeting aid to underwater homeowners, but Mortgage Resolution Partners argues existing programs aren't doing enough to address the problem.

The company's plan would specifically target loans that are severely underwater and are owned by trusts through mortgage-backed securities instead of bank-owned or federally owned mortgages.

Acquiring a mortgage through eminent domain would require the city to pay "fair-market value," which could be negotiated with the servicer of the mortgage or decided in court.

Once a value is decided upon, Mortgage Resolution Partners' private investors would provide the financing for the city to acquire the property. The city or a city-owned subsidiary would own the mortgage until it was refinanced with a federally guaranteed loan.

The North Las Vegas City Council meets at 6 p.m. in the Council Chambers at North Las Vegas City Hall, 2250 Las Vegas Blvd. North.

DEC 30-FHFA- 136

North Las Vegas to consider the use of eminent domain to save homes

BY CHRIS SIEROTY
LAS VEGAS REVIEW-JOURNAL

Posted: Mar. 6, 2013 | 2:05 a.m.

North Las Vegas homeowners who are underwater on their mortgages could get help from a new program.

The North Las Vegas City Council Wednesday will consider an agreement with Mortgage Resolution Partners to assist the homeowners with private label securitized mortgages, or PLS, to refinance regardless of their current status.

"The focus of the presenting is informational," said Timothy Hacker, city manager of North Las Vegas. "Our mayor and city council are curious to see if this is an appropriate mechanism."

The program would leverage the city's ability to use eminent domain on these mortgages, but not the properties themselves, and refinance them at current values instead of the loan amount.

"The idea is to benefit the community by stabilizing the housing stock and housing prices," Byron Georgiou, a director and investor in Mortgage Resolution Partners in Las Vegas, told the Review-Journal editorial board Tuesday.

Georgiou said the program is only a "piece of the puzzle, not all of it."

There are 5,052 PLS loans in North Las Vegas, he said. Of those, 3,113 are current, while 4,763 are underwater, with the property worth less than the loan. Countywide, 63,000 homeowners could be assisted if other cities and Clark County join the program.

These PLS loans are difficult to refinance because they are held by trusts or hedge funds and sold to thousands of investors, who each might have to approve the refinancing terms.

"No one is addressing this problem," Georgiou said. "We act as advisors at no cost to the city. We attempt to acquire the mortgages out of the trust."

The company proposes that it would collect a $4,500 fee per mortgage acquired by the city.

Contact reporter Chris Sieroty at csieroty@reviewjournal.com or 702-477-3893. Follow @sierotyfeatures on Twitter.

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Find this article at:
http://www.lvrj.com/business/north-las-vegas-to-consider-the-use-of-eminent-domain-to-save-homes-195512201.html

Check the box to include the list of links referenced in the article.