USHCC Issue Brief

December 5, 2008

Foreclosure Prevention and Mitigation

Recommendations to Stabilize the Housing Market in Underserved Communities

United States Hispanic Chamber of Commerce

The US Hispanic Chamber of Commerce makes the following recommendations with respect to remaining available TARP funds and for any Congressional action and implementation with respect to the second tranche of TARP funds, and other recommendations for related policies in order to help expand foreclosure prevention assistance and stabilize housing markets and promote affordable housing for underserved communities.

Loss-Sharing Program for Forclosure Relief

Approve utilization of $25 billion of TARP resources for foreclosure relief under the loan guarantee and credit enhancement model authorized by EESA and as recommended by the FDIC. This program would restructure mortgage loans to large numbers of at-risk borrowers to make them more affordable and keep these borrowers in their homes. Loans would remain on the books of and/or continue to be serviced by the originating financial institutions.

Affordable and Rental Housing Development

Authorize an additional $40 billion for distribution under the Community Development Block Grant for localities to make grants or contracts for additional purchase and rehabilitation of vacant, foreclosed homes to help stabilize neighborhoods and produce affordable homeownership and/or rental housing. The concentration of such foreclosed-upon homes in minority communities has become toxic to neighborhoods. Interventions sponsored by local governments are essential to staunching the bleeding in such neighborhoods and stabilizing these neighborhoods until the national and local housing markets can be righted.

Leveraged Investments for Rental Housing Conversions

Permit New Markets Tax Credit (NMTC) allocations to support ventures that purchase foreclosed units or developments and convert them to rental housing. Ensuring the availability of NMTC allocations for such purposes could contribute to foreclosure prevention efforts and/or make available affordable rental housing to families who have been foreclosed upon. This step would not require any new federal resources or contributions from the TARP program.

Homebuyer Tax Credit

Provide a one year homebuyer tax credit set a 5 percent of the purchase price, not to exceed $15,000, for properties that will be used as a primary residence. Limit the credit to purchases of newly constructed or unfinished or unsold single-family homes. With the Federal Reserve's recent intervention to purchase Fannie and Freddie securities, there is limited new life in the mortgage refinance market. We now need to jumpstart activity in the market for newly constructed or unfinished or unsold single-family homes. Such a homebuyer credit would help do just that.

Small Business Lending

Incentivize Small Business Lending by providing SBA with temporary authority for loans directly to small businesses under the SBA Disaster Loan Assistance Program. With essentially no credit flowing to small business, we need a rapid, existing distribution channel for such credits. The Disaster Loan Assistance Program has demonstrated on numerous occasions its ability to be such a rapid distribution channel to small businesses.

Public Housing Assistance

Immediately increase the number of Sec 8 vouchers available with the increase designated specifically to address qualifying families that lose their home through foreclosure. Sec 8 vouchers have been budget constrained for most of the past eight years with available appropriations simply financing the increased cost of the same number of annual vouchers nationally. With a growing number of families losing their homes to foreclosure who now qualify for Sec 8, an increase in the number of vouchers is badly needed.

Pilot Program for Housing Stabilization in Underserved Communities

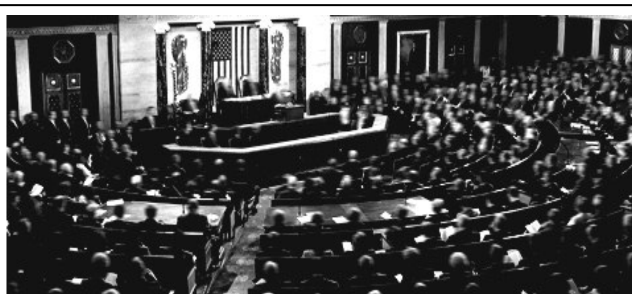
Establish a significant Pilot Program ("Pilot") utilizing Section 107(b) of the Emergency Economic Stabilization Act of 2008 (EESA) which requires the Treasury to develop and implement standards to ensure the utilization of minority financial institutions and minority and women owned businesses in contracting for services under the Act. Such a Pilot could be designed to target low income and minority communities and to contribute to the desired national economic stimulus, help thaw frozen credit markets, prevent foreclosures and/or promote affordable housing for at-risk residents of such communities, engage Community Development Financial Institutions (CDFIs) and other financial institutions serving low income and minority communities in the Pilot Program's efforts to stabilize neighborhoods in such communities, employ many individuals and numerous subcontractors in such communities, and result in no loss to taxpayers.

Features of such a Pilot could include:

- Designating a lead minority financial institution or institutions (preferably a CDFI) to assemble a team of highly qualified subcontractors that would assist in the implementation of the Pilot. The lead minority financial institution ("the Lead Institution") would also receive a line of credit from the Federal Reserve or Treasury (see below) to make available warehouse lines to CDFIs and other financial institutions participating in the Pilot.

- Encouraging financial institutions, particularly CDFIs and others serving low income and minority communities, to participate in the Pilot by selling distressed assets - including home loans and mortgage-backed securities - to the Treasury at current fair market prices.

- Current fair market prices would be determined through sophisticated software available to a Lead Institution that is capable of assessing hundreds of characteristics of loan pools and through sophisticated subcontractors capable of rapid, on-the-ground assessments of mortgage collateral and freestanding whole loans. Such software and on-the ground assessments would also include any parameters, requirements or limitations Treasury might desire.



- Once such distressed assets are purchased, the Lead Institution and/or subcontractors would restructure or refinance mortgages to make them affordable to borrowers.

- Financial institutions selling such distressed assets would receive capital purchase from Treasury in the form of preferred stock (10 year term) to offset any loss they would otherwise be required to recognize from the sale of such assets. This feature of the Pilot would incent participation by financial institutions.

- Financial institutions receiving such capital purchase from the Treasury would be required to use it as Tier 1 capital segregated specifically to support new loans for homes, cars, or any other securitizable assets in conjunction with a warehouse line of credit available to them from the Pilot's Lead Institution based on a multiple of ten times the amount of their capital purchase.

- Participating financial institutions would be required to turn their warehouse lines of credit at least four times a year. Failure to do so could trigger a demand from Treasury to repay or redeem the preferred stock purchased by Treasury. This feature would be designed to ensure new lending activity under the Pilot.

- The Federal Reserve (or, in the alternative, Treasury) would make a line of credit available to the Lead Institution in a substantial amount (perhaps $15 billion) that would be drawn upon only as needed. $11 billion would be available to fund warehouse lines of credit to all CDFIs and other financial institutions participating in the Pilot. $4 billion would be used to fund an aggregation file line sweeping facility which the Lead Institution would periodically use to purchase newly originated loans made by CDFIs and other participating financial institutions utilizing their warehouse lines into accounts. The Lead Institution would then securitize and sell the newly originated loans.

- Distressed borrowers, through arrangements with the subcontractors, would receive credit counseling and, as needed, housing could be provided through multi-family facilities which have been financed by guarantees from various government agencies and also through an initiative sponsored under the Pilot Program through which non-profit CDFIs and CDEs would purchase foreclosed properties and make them available to foreclosed-upon borrowers and other low and moderate income tenants under a multi-year "rent-to-own" program. When local housing markets stabilize and distressed borrowers repair their credit standing through this Pilot Program initiative, they would be assisted to secure ownership of properties controlled by non-profits under the Pilot.

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ABOUT THE USHCC

Founded in 1979, the USHCC actively promotes the economic growth and development of Hispanic entrepreneurs and represents the interests of almost 3 million Hispanic-owned businesses in the United States that generate nearly $400 billion annually. It also serves as the umbrella organization for 200 local Hispanic chambers in the United States, Puerto Rico, Canada, Mexico, Bolivia and Uruguay.