



Housing Finance System Reform

The housing finance system has undergone changes in recent years that helped to foster a record rate of homeownership. Unfortunately, federal regulation to protect the interests of homeowners in the mortgage process failed to keep pace with the market. As a result, millions of families are losing and could lose their homes to foreclosure. Cities, in turn, are being forced to maintain housing now vacant due to foreclosures; losing property tax revenues due to declining home values; and incurring higher issuance costs for municipal bonds to fund worthy public projects due to the effects the subprime crisis is having on the broader financial markets.

Message to Congress

- *Homeownership is the foundation for stable communities and a strong economy.* For every 1000 single-family homes under construction, 2,100 full-time jobs are created. In 2005, the housing sector accounted for 16 percent of national economic activity. Conversely, in 2006, the drop in homebuilding shaved more than a full percentage point off national economic growth.
- *Unsound and predatory lending continues to threaten family self-sufficiency.* Unsound and predatory lending practices continue to place financial burdens on families that are impossible to overcome, and strip families of equity that has been built over years. Predatory mortgage lending costs Americans more than \$9.1 billion each year; the social costs are likely higher.
- *Foreclosures are rising and neighborhoods are in distress.* In the first six months of 2007, foreclosures increased more than 55 percent over the same period in 2006, reflecting one home foreclosure for every 134 U.S. households. In addition to driving down real estate values, vacant housing also creates an unsafe and unhealthy environment.
- *Cities need federal action to fix the housing market.* Cities and towns stand to lose an estimated \$6.6 billion in tax revenues due to foreclosures. Moreover, local budgets will need to be adjusted to accommodate the increase in crime-prevention and sanitation needs associated with vacant housing. Finally, losses on Wall Street due to mortgage default drive up interest rates and make it more expensive and difficult for cities to raise the necessary capital in the form of low-interest municipal bonds.

Request to Congress

- **Enact** legislation that would protect homebuyers from predatory lending by ensuring that mortgage loans are well-suited to the financial means of the homebuyer.
- **Enact** legislation that would ensure the availability of capital for mortgage financing and refinancing and continue to encourage lenders and loan servicers to work-out unsound loans as an alternative to foreclosure.
- **Fully fund** programs that will help our cities minimize the damage caused by the national foreclosure crisis, such as the Community Development Block Grant program.