

## **LOCAL PRINCIPAL REDUCTION**

### **MODEL RESOLUTION**

**WHEREAS the economic crisis caused by the big Wall Street banks has devastated our communities:** Nearly five million families have lost their homes to foreclosure; nine million Americans have lost their jobs; 10 million families now owe more on their mortgages than their homes are worth; and state and local governments that have seen their property and sales tax receipts plummet are facing crippling budget crises;

**WHEREAS foreclosures harm all homeowners and erode the property tax base:** The foreclosure crisis has caused a ripple effect where each new foreclosure brings another distressed property on the market, pushing prices lower, and harming the value of all homes within a neighborhood. It is estimated that homes in foreclosure experience a 22% decline in value, but the impact to foreclosed properties themselves is just the tip of the iceberg. It is conservatively estimated that each foreclosed property will cause the value of neighboring homes within an eighth of a mile to drop 0.9%. As housing values decline, property tax revenues decline as well and in turn increase budget deficits and force cuts to services and jobs that support communities;

**WHEREAS resetting mortgages on underwater homes to fair market value to fix the housing crisis is critical to our economic recovery and creating jobs:** The overhang of underwater mortgage debt is one of the primary drags on economic recovery. Underwater homeowners owe nearly \$1 trillion more on their mortgages than their homes are worth, money that would otherwise go into our economy in the form of consumer spending. More and more economists are saying resetting mortgages is the best way to stabilize the housing market, which is critical for a strong economic recovery. Resetting mortgages on underwater homes to fair market value would reduce foreclosures and stabilize the real estate market to create revenue and jobs in our city and nationally;

**WHEREAS underwater mortgages are at significantly greater risk of going into foreclosure:** Research shows that homeowners who are severely underwater on their mortgages are 150% to 200% more likely to default on their mortgages;

**WHEREAS** the foreclosure prevention efforts that have been implemented thus far at the local, state, or federal levels have failed to adequately address the crisis;

**WHEREAS** the City of Richmond, California is boldly advancing a Local Principal Reduction program to acquire underwater mortgages in private label securities at their current market values and then refinance the homeowners into new loans with reduced principal in order to bring their mortgages in line with current market values.

**WHEREAS** the City of Richmond is offering to purchase the loans at fair market value, but may consider using eminent domain to acquire the loans if its offers are not accepted;

**WHEREAS** the City of Richmond would pay fair market value to the investors of the underwater mortgages even if it used eminent domain to acquire them;

**WHEREAS** the City of Richmond's use of eminent domain to acquire underwater mortgages would serve the public purpose of preventing blight and preserving the community and tax base;

**WHEREAS** Wall Street banks and the financial industry's leadership have chosen to threaten the City of Richmond and other cities who are working on this innovative program with retribution if they move forward with their plans in an effort to bully local communities into backing off from utilizing the legal mechanisms at their disposal to address the crisis and to prevent further devastation;

**Therefore Be It RESOLVED** \_\_\_\_\_ (City or other entity) stands united with the Mayor and City Councilmembers of Richmond and any other city or community that attempts to utilize similar lawful methods at their disposal as they work to save homes and save neighborhoods. Further, we call on Wall Street banks, the Securities Industry and Financial Markets Association (SIFMA), and the Federal Housing Finance Administration which oversees Fannie Mae and Freddie Mac, to stop threatening our communities with reprisals and litigation and instead work with them to negotiate principal reduction for underwater mortgages to current market values in order to stop the housing crisis, strengthen local economies and help keep families in their homes.

[and, if the timing is right]

**Also, Be it RESOLVED**, we will explore how a Local Principal Reduction program similar to the one being implemented by the City of Richmond could work here in \_\_\_\_\_[City]. We instruct staff to bring back to Council within no more than 30 days a brief report on what this program would look like in our city, including an analysis of the number of loans that might qualify, an estimate of the average benefit to borrowers and the attendant economic benefit, as well as the names of potential funding partners available for the city to work with.