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FEDERAL FORECLOSURE BILL PROVIDES FUNDING FOR LOCAL ASSISTANCE

The U.S. Congress has approved the Housing and Economic Recovery Act of 2008 (“the Act”), and the President signed the measure into law this morning. The Act is a comprehensive housing and foreclosure crisis response package. It initiates government-sponsored enterprise (GSE) reform, including a new regulator for Fannie Mae and Freddie Mac, creates tax incentives for first-time home buyers, and provides up to \$300 billion in affordable, fixed-rate mortgages for troubled homeowners.

Significantly, the Act provides \$4 billion in Neighborhood Stabilization Funds for state and local governments to use to purchase and rehabilitate foreclosed homes and assist low- and moderate-income homebuyers. The Act requires that the Secretary of the Department of Housing and Urban Development (“HUD”) devise a funding formula for allocation of these funds with priority given to communities with the greatest need. The Act does not provide for an application process or specify an allocation mechanism. However, HUD must allocate the funds to state and local governments based on criteria such as the numbers and percentages of foreclosures, subprime mortgages, defaults, and delinquencies in each area.

Local government agencies that receive Neighborhood Stabilization Funds may use the funds to purchase and rehabilitate abandoned and foreclosed homes and residential properties for rent or resale and to provide financial assistance for low- and moderate-income homebuyers, such as through “soft-second,” loan loss reserve, or shared appreciation loan programs. All funds appropriated pursuant to the Act must be used to assist households whose income does not exceed 120% of the area median income, and at least 25% of the funds appropriated must directly benefit households that make 50% of the area median income or less. In addition, funds may not be used to fund any project that seeks to use the power of eminent domain for economic development that primarily benefits private entities.

The precise allocation formula of the Neighborhood Stabilization Funds will remain uncertain pending regulations adopted by the HUD Secretary, which the Act requires to be adopted within 60 days of enactment. Once the Secretary devises a funding formula, however, distribution of funds will occur within 30 days. Meanwhile, local governments that anticipate receiving funds may wish to consider what kinds of local programs they would establish for the use of

Neighborhood Stabilization Funds.

FOR ADVICE FROM RW&G CONCERNING THE HOUSING AND ECONOMIC RECOVERY ACT OF 2008, PLEASE CONTACT INDER KHALSA AT GKHALSA@RWGLAW.COM, TRISHA ORTIZ AT TORTIZ@RWGLAW.COM, JIM KARPIAK AT JKARPIAK@RWGLAW.COM, CANDICE LEE AT CLEE@RWGLAW.COM OR ANY OF THE LAWYERS IN THE FIRM'S [PUBLIC LAW](#) OR [PUBLIC FINANCE DEPARTMENTS](#).

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