S. HRG. 110–868

CLARK COUNTY, NV: GROUND ZERO OF THE HOUSING AND FINANCIAL CRISES

FIELD HEARING

BEFORE THE

CONGRESSIONAL OVERSIGHT PANEL

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

HEARING HELD IN LAS VEGAS, NEVADA, DECEMBER 16, 2008

Printed for the use of the
Congressional Oversight Panel

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CONGRESSIONAL OVERSIGHT PANEL

PANEL MEMBERS

ELIZABETH WARREN, *Chair*

REP. JEB HENSARLING

RICHARD H. NEIMAN

DAMON SILVERS

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CLARK COUNTY, NV:
GROUND ZERO OF THE HOUSING AND FINANCIAL CRISES

TUESDAY, DECEMBER 16, 2008

U.S. CONGRESS,
CONGRESSIONAL OVERSIGHT PANEL,
Las Vegas, NV

The Panel met, pursuant to notice, at 10 a.m. at the Thomas and Mack Moot Court, Boyd School of Law, University of Nevada-Las Vegas, 4505 S. Maryland Parkway, Las Vegas, Nevada, Elizabeth Warren presiding.

Attendance: Elizabeth Warren [presiding], Damon Silvers, Richard Neiman.

OPENING STATEMENT OF ELIZABETH WARREN, CHAIR, CONGRESSIONAL OVERSIGHT PANEL

The CHAIR. The hearing of the Congressional Oversight Panel will now come to order. This is the first field hearing of the Congressional Oversight Panel of the Emergency Economic Stabilization Act of 2008. I want to begin by thanking our hosts, The Boyd School of Law of the University of Nevada Las Vegas where I count many of my close friends. I want particularly to thank President David Ashley and Dean John White. I think both of them are with us. Would you mind standing so we can say thank you.

Universities and law schools in particular have a unique role to play in civic life. And I think this is a very important example of that. And so I am grateful, the entire panel is grateful, for the willingness of those at UNLV to come in on very short notice and work very hard so that we can put this hearing together. I also want to add that we received generous assistance from the offices of Senator Harry Reid and Congresswoman Shelley Berkley. We're delighted that Senator Reid and Congresswoman Berkley, as well as Congresswoman-elect Diana Titus will be joining us. Sorry. I'm sorry. I'm sorry. Congresswomen-elect Dina Titus will be joining us during the course of today's hearing.

Actually, I'm particularly embarrassed, because I want to be able to say publicly how tickled I am to have the opportunity to meet Congresswoman Titus because she is responsible for doing something that I didn't think anyone could do. And that was to manage to get through when she was still a state legislator, a ban on universal defaults in consumer contracts. And so my particular kudos in that case. It's a remarkable achievement, given how much the

odds were stacked against it. So I'm particularly looking forward to this opportunity.

Chairwoman WARREN. In September 2008, the Secretary of the Treasury, Henry Paulson, issued a strong warning to Congress that without massive government intervention, the U.S. financial system faced the possibility of imminent collapse. In response, on October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008 authorizing the Treasury Department to commit up to 250 billion dollars in taxpayer money, to be followed by another one billion dollars and another 350 billion, if warranted.

The statute also created this oversight panel at a considerably smaller cost. The Act's purposes are, to quote, "restore liquidity and stability to the financial system of the United States in a manner that, A, protects home values, college funds, retirement accounts, and life savings; B, preserves home ownership and promotes jobs and economic growth; C, promotes overall returns to taxpayers of the United States; and D, provides public accountability".

Congress created the Office of Financial Stability within Treasury to implement the Troubled Assets Relief Program, cleverly known as TARP. At the same time, Congress also created the Congressional Oversight Panel with the far better acronym, COP, to review the current state of financial markets and the regulatory system. COP is empowered to hold hearings, to review official data, and to write reports on actions taken by treasury and financial institutions and their effect on the economy.

Through regular reports, COP must oversee Treasury's actions, assess the impact of spending to stabilize the economy, evaluate market transparency, ensure effective foreclosure mitigation efforts, and guarantee the Treasury's actions are in the best interest of the American people.

In addition, Congress has instructed COP to produce a special report on regulatory reform that will analyze, quote, "The current state of the regulatory system and its effectiveness at overseeing the participants in the financial system and protecting consumers".

We are here today to investigate, to analyze, and to review the expenditure of taxpayer funds. But most importantly, we are here to ask the questions that we believe all Americans have a right to ask. Who got the money? What have they done with it? How has it helped the country? And how has it helped every day Americans?

As part of that ongoing effort, we reach out to you. We can read the statistics and we can analyze the data, but we want more. We come to Nevada to learn from you about the current economic crisis and the impact, if any, of the nearly 350 billion dollars that has been committed to the financial institutions and AIG insurance company so far.

One quick word about this panel. We have been in existence as a group for less than three weeks. And instead of spending time to set up our offices, hire an extensive staff, and develop a timeline and a strategic plan, we jumped directly into the task at hand. We have met with representatives of the Treasury Department, the Federal Reserve Bank, and the GAO. We have read documents and requested information. And we now have two things: We have our first report and we have a website. The two are together.

The first report is posted on our website. It's COP, cop.senate.gov. That's cop.senate.gov. And you can go there and download the report, cut and paste it. Do what you want to do, if you would like to read it.

But most importantly, what we also hope to do with that website is not just have us talk to you. We hope that you will use it as an opportunity to talk to us. And that is, we're setting up within the website, it's still in its beginning phases, but an opportunity for you to tell us what's happening to you in this economy, how it is that you're experiencing the current economic crisis, and to talk with us about the questions we are asking of the Treasury Department.

Further to that, we have invited witnesses today and their testimony will be posted on the website so that people all around the country can read it. But we recognize this is an opportunity for a public hearing.

And so we will have out in the lobby, starting, I believe now, a video camera. We have someone out there who will give you the same five minutes the witnesses get here to tell your story. To tell whatever story you want to tell about this economy, about the Congressional Oversight Panel, and about the actions of the Treasury so far. We hope to be able to use some of those. We will look at them when we're not here. We recognize the constraints of time. And we also hope to be able to use them to feature some of them on our website so that others have the opportunity to hear from people in Nevada about what is going on in Nevada. So we hope you will take advantage of that, as many of you as possibly can.

We arranged this first meeting in great haste, imposing on our skeletal staff and, more often, on the kindness of our friends to put together this event in less than a week. We are especially grateful to everyone who contributed to this effort. But I mention the tight deadlines and our quick response to emphasize a different point. We take this task very seriously. Our country is in peril. Taxpayer dollars are flowing into banks, but there is little evidence what effect these hundreds of billions of dollars are having on the very obvious troubles facing us. Mortgage foreclosures, constricted small business lending, and rising unemployment.

We are here to learn from you and to take what we learn back to Washington. We appreciate your coming here in person. And for those of you who join us online, for telling us your stories. And I hope you will join us again on our website.

[The prepared statement of Ms. Warren follows:]

Opening Statement of Elizabeth Warren,
Chair, Congressional Oversight Panel

Field Hearing
Las Vegas, NV
December 16, 2008

This is the first field hearing of the Congressional Oversight Panel Emergency Economic Stabilization Act of 2008.

I want to begin by thanking our hosts, the Boyd School of Law of the University of Nevada at Las Vegas, where I count many close friends on the faculty. Thanks also to Senate Majority Leader Harry Reid and Congresswoman Shelley Berkley for joining us, along with their very helpful staffs who assisted in putting together this hearing. Congresswoman-elect Dina Titus is with us too. I want to extend a very special thanks to the Congresswoman because she led the *successful* effort in the Nevada state legislature to prohibit the use of universal default. Congratulations! That's a remarkable achievement.

In September, 2008, Secretary of the Treasury Henry Paulson issued a strong warning to Congress that without massive government intervention, the U.S. financial system faced the possibility of imminent collapse. In response, on October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008, authorizing the Treasury Department to commit up to $250 billion in taxpayer dollars, to be followed by another $100 billion and another $350 billion if warranted.[1] The statute also created a Congressional

[1] Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343 §115 (Oct. 3, 2008).

Oversight Panel.[2] The Act's purposes are to "restore liquidity and stability to the financial system of the United States . . . in a manner that (A) protects home values, college funds, retirement accounts, and life savings; (B) preserves homeownership and promotes jobs and economic growth; (C) promotes overall returns to the taxpayers of the United States; and (D) provides public accountability."[3]

Congress created the Office of Financial Stabilization (OFS) within Treasury to implement a Troubled Asset Relief Program (TARP). At the same time, Congress also created a Congressional Oversight Panel (COP) to "review the current state of financial markets and the regulatory system." COP is empowered to hold hearings, to review official data, and to write reports on actions taken by Treasury and financial institutions and their effect on the economy. Through regular reports, COP must oversee Treasury's actions, assess the impact of spending to stabilize the economy, evaluate market transparency, ensure effective foreclosure mitigation efforts, and guarantee that Treasury's actions are in the best interest of the American people. In addition, Congress has instructed COP to produce a special report on regulatory reform that will analyze "the current state of the regulatory system and its effectiveness at overseeing the participants in the financial system and protecting consumers."

We are here to investigate, to analyze and to review the expenditure of taxpayer funds. But most importantly, we are here to ask the questions that we believe all Americans have a right to ask: who got the money, what have

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[2] Id., at § 125.
[3] Id., at § 2.

they done with it, how has it helped the country, and how has it helped ordinary people?

As part of that ongoing effort, we reach out to you. We can read the statistics and we can analyze the data, but we want more. We come to Nevada to learn from you about the current economic crisis and the impact—if any—of the nearly $350 billion committed to financial institutions and AIG insurance company thus far.

One quick word about this panel: We have been in existence as a group for less than three weeks. Instead of spending time to set up our offices, hire an extensive staff, and develop a time line and strategic plan, we jumped directly into the task at hand. We have met with representatives of the Treasury Department, the Federal Reserve Bank, and the GAO. We have read documents and requested information. And we now have two things: Our first report to Congress and a website (www.cop.senate.gov) so that we give the American people a chance to participate in our investigation and oversight.

We arranged this first hearing with equal haste, imposing on our skeletal staff and, more often, on the kindness of our friends, to put together this event in less than a week. We are especially grateful to everyone who contributed to this effort. But I mention the tight deadlines and our quick response to emphasize another point: we take this task very seriously.

Our country is in peril. Taxpayer dollars are flowing into banks, but there is little evidence what effect these hundreds of billions of dollars are having on

the very obvious troubles facing us: mortgage foreclosures, constricted small business lending, and rising unemployment. We are here to learn from you and to take what we learn back to Washington. We appreciate your coming here in person, and, for those who join us on line, for telling us your stories at www.cop.senate.gov.

With that, I will be quiet and listen to you.

The CHAIR. With that, I will be quiet and listen to you.

And next, we will have our opening statement from Damon Silvers, one of our panelists. Damon.

OPENING STATEMENT OF DAMON SILVERS, MEMBER, CONGRESSIONAL OVERSIGHT PANEL

Mr. SILVERS. Good morning. I am very pleased to be here in Nevada for this first hearing of the Congressional Oversight Panel. I want to express my appreciation to Senator Harry Reid and Speaker Nancy Pelosi for the opportunity to serve on the panel and to the congressional leadership and their staff, and the good people here at UNLV, and to Congresswoman Berkley and Congresswoman-elect Titus for all their help under the extreme time pressures that we asked people to act under as Elizabeth indicated.

I also want to express my appreciation to our chair, Professor Elizabeth Warren, for her leadership in getting our panel off to such a fast start. Professor Warren has worked tirelessly over the past three weeks, giving voice to the concerns of the American people.

It is also an honor to serve on the panel with my two distinguished fellow panelists; Congressman Jeb Hensarling, who was unable to be here with us today, and New York State Banking Superintendent, Richard Neiman.

In the three week since the panel's first meeting, we have had the chance to meet with many dedicated public servants at every level. In the Treasury Department, the Government Accountability Office, the GAO, and other government agencies who are working as hard as they can to try and stabilize our economy. Whatever the panel's concerns are and may become regarding policy, strategy or execution, they should not be read in any way as to diminish the great respect and gratitude that we owe for those folks, for the public service that they are rendering in their efforts to serve our country in this economic crisis.

Since early October, the Treasury Department has provided banks, private companies, with 165 billion dollars in public money, taxpayer money, in exchange for preferred stock. Plus, an additional 60 billion dollars to two companies; Citigroup and AIG. And they have made commitments to allocate more than 100 billion dollars more to banks and to buy asset backed securities. In total, these very large numbers amount to more than $1000 for every single American.

Each of us has to be concerned about the specifics of these actions taken under the Emergency Economic Stabilization Act of 2008. Actions which every person I know who is not actually involved in the policy making process refers to as the financial bailout.

When Congress created this panel, Congress asked that it report every 30 days on our oversight work. Last week, we issued our first report. The report was, in its essence, a set of ten simple questions, together with some explanations as to why we felt it was necessary to ask each question. These basic questions cannot be answered through a dialogue among Washington insiders. They must be the subject of a national conversation. A conversation that starts off with what is actually happening in our communities. Communities

like yours. Can business people borrow money to run their firms? Are foreclosures getting better or worse? Are employers hiring or laying off workers? Are local financial institutions being fairly treated by our federal government?

The opportunity to get answers to these questions is why I'm so pleased to be here in Nevada today. Because we need to know how the Wall Street bailout looks from here. Has it helped? Is there less fear here in Nevada than there was in September and October? Is the bailout being fairly managed? Is the Treasury Department's plan thoughtful in relation to what has gone on in the economy here? Do Nevadans, whose tax dollars have been used to fund the bailout, feel that you have enough information about how your money is being used? Do you feel that there has been accountability for the financial sector?

Now, some involved in managing the bailout have said that the measure of success is not in what has happened but in what has not happened, that we have averted, we have prevented a complete halt to all financial activity. When Hank Paulson asked Congress to act in September, and then when he chose together with British Prime Minister Gordon Brown to put money directly into the banks in October, he certainly had good reason to believe that we faced the risk of systemic breakdown. But it is difficult to assess this kind of argument. Because while it is true that our economy is in grave trouble, now, today, it could always be worse. And it can be hard to know whether by our actions are actually making it better.

So our panel needs to look deeply in the coming weeks into the extent to which we have stabilized our financial markets and whether we could have done a better job. But when we do so, we must remember that the financial markets do not exist to serve themselves. Markets exist to move resources to productive activities so that all of us are better off. If the financial markets are not achieving that end, if the innovative entrepreneur, the builder, the business person, large and small, cannot obtain financing for viable businesses, then we have not achieved our purposes in seeking to stabilize the financial markets.

If a downward spiral in housing prices driven by foreclosures, falling incomes, and rising joblessness keeps our major financial institutions on the brink of collapse, we have not repaired the real economy and we have not really even stabilized our financial markets.

As we make these inquiries we need to remember that our economic problems are not ultimately about finance. This recession and its associated financial upheavals are driven by structural problems in our economy. And in particular, a long futile effort to maintain high consumer spending while in reality wages stagnate and our productive capacity shrinks. Some of us in the East don't understand about Nevada, that for decades there have been good jobs here. The hotels here in Las Vegas employ tens of thousands of workers who earn a living wage, have health insurance and a pension, doing jobs that in other parts of the country often pay only poverty wages.

Labor and management in Las Vegas built a service sector middle class in the '80s and '90s, which is now under pressure from a national economic model that is not working. The truth is, if

America is in economic trouble, if the American middle class is under pressure, the middle class in Las Vegas will feel the pain. In a very real way our economic fate as Americans is woven together.

But our national strategy in recent years seems to have been to look to the financial sector to borrowing, to leverage, to generate wealth. That strategy has failed. And the vain pursuit of it has made our economic situation far worse than it might have been.

Now, we run the risk as a nation of making the mistake of thinking that if we only cut our incomes we can get through this crisis, that the best employers are those that pay the least. The best bankers are those that lend the least. The truth is that these deflationary strategies will only make things worse, much worse.

So the questions we as a nation should ask about the 225 billion dollars that has been handed out are: Are we really stabilizing the financial system and improving our economy? And second, are we laying the foundation for a financial system that can really work to move capital toward productive uses and appropriately manage risk?

In the pursuit of answers to these questions, I hope our panel will visit every corner of our country. In the weeks and months to come, we need to hear what the public, business people and consumers, workers and home owners have to say about how the public's money is being used to stabilize our economy.

Thank you.

[The prepared statement of Mr. Silvers follows:]

Opening Statement of Damon A. Silvers,
Member, Congressional Oversight Panel

Field Hearing
Las Vegas, NV
December 16, 2008

Good morning. I am very pleased to be here in Nevada for this first hearing of the Congressional Oversight Panel. I want to express my appreciation to Senator Harry Reid and Speaker Nancy Pelosi for the opportunity to serve on the Panel, and to the leadership and their staff for all their generous help in organizing this hearing, less than three weeks after the Panel's first meeting.

I also want to express my appreciation to our chair, Professor Elizabeth Warren, for her leadership in getting our Panel off to such a fast start. Professor Warren has worked tirelessly over the last three weeks, giving voice to the concerns of the American people. It is also an honor to serve on the Panel with two distinguished fellow Panel members, Congressman Jeb Hensarling and New York State Banking Superintendent Richard Neiman. In the three weeks since the Panel's first meeting, we have had the chance to meet with many dedicated public servants at every level in Treasury, the GAO and other government agencies who are working as hard as they can to try and stabilize our economy. Whatever the Panel's concerns may be

regarding policy, strategy or execution, they should not be read to in any way diminish the respect we have for the public service of so many people working to serve our country in this economic crisis.

Since early October, the Treasury Department has provided banks, private companies, with $165 billion in public money, taxpayer money, in exchange for preferred stock, plus additional $60 billion to Citigroup and AIG, and commitments to allocate more than $100 billion more to banks and to buy asset backed securities—in total more than $1,000 for every American. Every American is concerned about the specifics of these actions taken under the Emergency Economic Stabilization Act of 2008—actions which every person I know who is not actually involved in the policy process refers to as the financial bailout.

When Congress created this Panel, Congress asked that we report every thirty days on our oversight work. Last week, the Panel issued our first report. The report was a set of ten simple questions, as Elizabeth has described, together with some explanations as to why we felt it was necessary to ask each question.

These basic questions cannot be answered through a dialogue among Washington insiders. They must be the subject of a national conversation, a conversation that starts off with what is actually happening in our communities—can business people borrow money to run their firms, are foreclosures getting worse or better, are employers hiring or laying off workers, are local financial institutions being fairly treated by our federal government?

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Some involved in managing the bailout have said that the measure of success here is not in what has happened, but in what has not happened—that we have averted a complete halt to all financial activity. When Treasury

Secretary Hank Paulsen asked Congress to act, and then again when he chose together with British Prime Minister Gordon Brown to put money directly into the banks, he certainly had reason to believe we faced the risk of systemic breakdown. However, it is difficult to assess this sort of argument. It is certainly true that while our economy is in grave trouble, it could always be worse, and it can be hard to know whether by our actions we are actually improving matters. So our Panel needs to look deeply in the coming weeks into the extent to which we have stabilized our financial markets.

But the financial markets do not exist to serve themselves—markets exist to move resources to productive activity so that all of us are better off. If markets are not achieving that end—if the innovative entrepreneur, the builder, the business person large and small cannot obtain financing for viable businesses, then we have not achieved our purposes in seeking to stabilize the financial markets. If a downward spiral in housing prices driven by foreclosures, falling incomes and rising joblessness keeps our major financial institutions on the brink of collapse, we have not repaired the real economy, and we have not really even stabilized our financial markets.

As we make these inquiries, we need to remember that our economic problems are not really about the financial markets. This recession and its associated financial upheavals are driven by structural problems in our economy—in particular a long futile effort to maintain high consumer spending while in reality wages stagnate and our productive capacity shrinks.

Something some of us in the East don't understand about Nevada is that for decades there have been good jobs here. The hotels of Las Vegas employ tens of thousands of workers who earn a living wage, have health insurance and a pension doing jobs that in other parts of the country often only pay poverty wages. Labor and management in Las Vegas built a service sector middle class in the '80's and '90's which is now under pressure from a national economic model that is not working. And the truth is, if America is in economic trouble, if the American middle class is under pressure, the middle class in Las Vegas will feel the pain. In a very real way our economic fate as Americans is woven together.

But our national strategy in recent years seems to have been to look to the financial sector, to borrowing, to leverage, to generate wealth. That strategy

has failed, and the vain pursuit of it has made our economic situation far worse than it might have been. And now we run the risk as a nation of making the mistake of thinking that if we only cut incomes, we can get through this crisis—that the best employers are those that pay the least, the best bankers those that lend the least. The truth is that these deflationary strategies will only make things worse—much worse.

So the questions we as a nation should ask about the $225 billion that has been handed out are—first are we really stabilizing the financial system and improving our economy, and second, are we laying the foundation for a financial system that can really work to move capital toward productive uses and appropriately manage risk.

In the pursuit of answers to these questions, I hope our Panel will visit every corner of our country. In the weeks and months to come, we need to hear what the public-- businesspeople and consumers, workers and homeowners, have to say about how the public's money is being used to stabilize our economy. Thank you.

The CHAIR. Thank you, Mr. Silvers.
Mr. Neiman.

OPENING STATEMENT OF RICHARD NEIMAN, MEMBER, CONGRESSIONAL OVERSIGHT PANEL

Mr. NEIMAN. Good morning. And thank you all for appearing here today. Especially those who are here to testify, those who are here to learn. And particularly, those who are here because they care. I also want to especially thank the media here. And there are a number of television and print. Because that way, all citizens and members of the public across the state will have an opportunity to participate in today's event.

I also think it's especially appropriate that we are starting our first meeting here in Nevada, the epicenter of the foreclosure crisis. I don't have to tell anyone in this room that Nevada ranks first in the nation for foreclosure filings, up more than 100 percent since last year. The turmoil in the financial markets has literally hit home here.

Now, we all come from diverse backgrounds as members of this panel. We've been asked to serve as citizens by Congress on this unique experience. I come from the state of New York. We are not nearly as severely impacted as a state as you are. However, pockets of New York are being disproportionately impacted. Whole areas of communities like Brooklyn and Queens, which account for over 30 percent of all foreclosures, are being devastated by a series of foreclosures impacting concentrated areas in those communities. Over 20 percent of foreclosures are on Long Island are being significantly impacted where there is an extreme shortage of affordable housing.

So I can relate to the challenges you are facing here in Nevada. It may seem overwhelming when entire communities risk being destabilized. Unfreezing credit markets is vital. But lasting stability also must address the needs of families losing their most valuable asset, their home.

So a lot of these efforts—foreclosures, are a local issue. They impact states, they impact communities, and they impact families. And much must be done at the state level. In New York, Governor Paterson and I chair an inter-agency task force for over a year and a half that we refer to as HALT, Halt Abusive Lending Transactions. We are addressing foreclosures and the impact of the housing crisis across a continuum of progressive approaches to stem the crisis. From direct outreach to borrowers, connecting borrowers and lenders to sit down and modify mortgages, to new legislation at the state level, to significant grants to home counseling agencies and legal aid groups, and increased enforcement against unscrupulous mortgage originators and other participants in the mortgage crisis.

However, only so much can be done at the state level. And that's why there is such an important need for action at the federal level. And that was the impetuous for the Emergency Economic Stabilization Act which gave rise to this important panel. The panel includes a diverse group, as you can see, among us, as members, with diverse backgrounds from a union, an academic, and consumer interests. As well as myself from an industry at a regulatory agency. But even more importantly, we are out to hear from you as stake-

holders among an even more diverse a group of citizens. From industry, from consumer advocates, from state and local officials, and from academia.

So we're here to hear from you. This is your day. And I'm going to turn it back over to Elizabeth so we can get started. And I look forward to an extremely productive morning. And thank you for giving me the opportunity to give those remarks.

The CHAIR. Thank you, Mr. Neiman. We would like to start with statements from Congresswoman Berkley and Congresswoman-elect Titus. If you can join us. Come to the table.

Congresswoman Berkley, thank you very much for being with us. The chair recognizes you.

STATEMENT OF CONGRESSWOMAN SHELLEY BERKLEY

Congresswoman BERKLEY. Thank you very much. I want to particularly thank you, Chairwoman Warren. And thank all of the panel for traveling to Las Vegas to see firsthand how the nation's economic crisis is affecting our community.

Mr. Silvers, I'm going to help you understand the State of Nevada.

Mr. SILVERS. I tried.

Congresswoman BERKLEY. You tried. Here in Las Vegas, we have become accustomed to leading the nation in many different categories. And that's usually a very good thing. Population growth, economic strength, number of satisfied visitors that come to our community. Las Vegas has been a boom town. Just to give you some idea of what it has been like growing up in Las Vegas over the last several years, many, many decades now.

Unfortunately, the problems caused across the nation by the current economic downturn have been magnified in Nevada. We have had the highest foreclosure rate in the country. For most of the last two years, our unemployment rate was at 7.6 percent. In October, I suspect it's substantially more than that. And Danny Thompson head of the AFL–CIO will speak to the fact that thousands and thousands of his members are out of work and idle.

Our unemployment rate, unfortunately, continues to climb. And the number of people flying into Las Vegas to enjoy our wholesome family entertainment has decreased for the last 12 straight months. The airlines have cut 20 percent of their flights to the Las Vegas valley, which has had devastating consequences for us. Our community is suffering. My constituents are suffering. And there's not much good news on the horizon.

When Secretary Paulson came to Congress requesting unprecedented power and funding to rescue the financial industry and restore the flow of credit, I was extremely skeptical that this strategy would work or that enough conditions were attached to ensure accountability and transparency. I initially voted against the bailout. And I'll tell you why.

There were three reasons. One was, I didn't think there was enough control over executive compensation. There was some language in there, wasn't strong enough. And if you read in the Las Vegas paper yesterday, you would have seen that there's a report saying that executive compensation continues as usual because of a loophole that was included at the last minute in the bailout bill.

The second one was, with all due respect, please know how grateful I am that you are here, I thought the congressional oversight committee was a window dressing, to say the very least. I mean, this is an after the fact thing. The money is gone and there was no oversight. Secretary Paulson gave the money where he wanted to give it. There was nobody, certainly nobody in Congress that had the authority. We gave the authority away, and the money is gone. The authority never existed and—there's no accountability.

The third was the judicial review section, which I thought was, in all due respect, a joke. The only way that Mr. Paulson can be held accountable for his actions through judicial review is not if he violated the intent of Congress, which I believe he has, not if he's violated the statute, but if he violated the constitution. So as an attorney, I was thinking, how does one violate the constitution? It seems to me, unless Mr. Paulson is accused of committing treason or owned slaves or keeps women from voting in this country, there is precious little we can do when it comes to judicial review of his decisions.

I reluctantly supported the final legislation only after being assured that the need was great and the oversight would be vigorous. This is what was said to Congress. And I am quoting almost verbatim. The purpose of this was to buy up toxic paper, unclog the pipes of the financial industry, and get money and credit into the pipeline, get the credit and the money flowing again.

In the two months since I cast that vote, Secretary Paulson has used almost 350 billion dollars to prop up Wall Street banks and investment companies, but little has been done to help the people of Las Vegas and other communities across the country who have already lost their homes or who will fall victim to foreclosure soon.

As an added insult, the government accounting office reported recently that the Treasury Department has no way of knowing whether the billions already allocated are being used merely to pad the financial industries' bottom line rather than increase lending and limit foreclosures—and limiting foreclosures was Congress' intent.

The bottom line is there is no discernible impact from TARP money. TARP was supposed to set the floor. It has not set the floor, and that has not created the necessary stability to give the banks the confidence to lend money.

Now, I keep hearing from people that this is a crisis in confidence. Well, perhaps that is true.

However, it is very difficult to tell someone that has lost their job and their home in the same week that this is a crisis in confidence. It is a little more substantial than that.

And believe me, I understand what it's like to want that American dream of home ownership. When my family moved to Las Vegas, everything we had was in a U–Haul hooked up to the bumper. Now, when we finally bought our first home in Vegas, it gave us a feeling of stability and power. We had roots in this community. We were—we were somebody. We were homeowners. We belonged here. We made Las Vegas our home. I understand how my constituents feel about that. It gives you a piece of the rock. And I cannot even begin to imagine the devastation it would have

caused my family if we would have lost our very small but our very first home to foreclosure.

It's more than that. It's more than people that have lost their homes. And let me give you three very quick vignettes. I met with my car dealers yesterday. They have got millions of dollars of inventory sitting on their lots. They have willing buyers coming into their lots, and they can't get them financing because the pipes are still clogged. So people that are creditworthy still can't get the credit that they need in order to do the second biggest purchase of their lives for most people, and that's a car. That's killing the car dealers. Killing them.

My step-daughter—I'm very proud to say—has just become a doctor and started practicing here in Las Vegas in September. She has signed a multiyear contract. She has an income coming in, and a rather substantial one. She could not get a loan for a house. Because why? Because there's no liquidity. The banks are not lending money, even to creditworthy people.

And finally, another quick example, one of the most successful business people in the Las Vegas area, if not the United States of America, has the second largest timeshare company on the planet, Golden Credit, is having all of his loans called in for absolutely no reason. Nothing has changed other than that lack of confidence and the banks wanting to guarantee their money. And it's creating havoc, I can assure you.

I appreciate the efforts of this Congressional Oversight Panel to highlight exactly what the economic crisis has meant to families of southern Nevada, whether the TARP is actually helping. I also am delighted that you're going to take a tour of Las Vegas. You'll be in my congressional district. You're going to see the devastation of home after home after home in foreclosure. What it's doing to neighborhoods, and what it is doing to property values. The witnesses you will hear from today bring a variety of important perspectives to this hearing. But each are going to deliver the same message. Our community is hurting. We could use some help.

Now, let me say this. And I have a couple of other things I want to say. I remain optimistic. Our nation has survived far worse than this and we've come out stronger. And while it is not under your jurisdiction, I believe that infrastructure stimulus package that we're going to pass in January is going to make a tremendous difference. Because we have a crumbling infrastructure in this country. And if we are going to remain a super power with a future, we're going to need to shore up that.

Number two, energy legislation. We need to get away from foreign oil and start tapping into renewable energy sources. It's an economic imperative, an environmental imperative, and I believe a national security imperative too. And it's good for the future of this nation.

Also, the way we do health care in this country is backwards. We spend billions of dollars in end of life care rather than pouring those billions into early detection and prevention of disease, research, and development. This crisis may be the catalyst for making those necessary changes for the 21st century. But before we do any of that, we have to solve our financial crisis.

Let me give you four things that I have found would help a lot. My homeowners still have no one to renegotiate their loans with. And at the end of this month, a lot of—millions of loans across the country are going to be reset higher up, people are going to be losing their homes. There is nobody to talk to. There is no telephone number. There is nobody on the other end of the line that can say, alright. You can afford to stay in the house for $1100 a month, your current mortgage payment. You're reset to go up to $1600 a month. Let's renegotiate this loan.

Who are these people going to talk to? There is nobody yet. And we need to provide that for them. I'm sure the blanks would rather have somebody paying a mortgage, even at a lower amount than nobody in the house. It's certainly good for the municipalities and the states as well.

I believe there is no consistency between the Treasury and congressional intent and the FDIC in what they are doing. The regulators are overcompensating. And that's why creditworthy people like my stepdaughter can't get a loan. They're putting—really putting the thumb down on the banks. We're giving them the TARP money. And there are so many rules and regulations to overcompensate for what they did or didn't do that created this crisis, that they're not freeing up the liquidity that we need.

Number three, short selling. I mean, it's killing us. And suspend mark-to-market. And there hasn't been a businessman that I've spoken to that hasn't begged for those things and the banks as well. Because if it's at the current—if it's valued at 500,000 but it's only worth 300,000, then the banks have to write off the 500,000. They're using the TARP money for that instead of putting it in the pipeline so that my consumers can get that credit.

I thank you very much for your kind attention. I know I went a little long. I've got much to say, and I need to take care of my constituents because they depend on me.

The CHAIR. Thank you. Thank you very much, Congresswoman. I applaud your enthusiasm and thank you for hosting us here. We really do appreciate the help you gave us so that we could be here——

Congresswoman BERKLEY. Well, you're here at my alma mater, and I'm very happy to have you here.

The CHAIR. Thank you.

Congresswoman-elect Titus, it's a pleasure to welcome you. Please, give us your statement.

STATEMENT OF CONGRESSWOMAN-ELECT DINA TITUS

Congresswoman-Elect TITUS. Well, thank you very much, Madam Chair. That's always a hard act to follow, I can tell you. Madam Chair, members of the committee, for the record, I'm Dana Titus. I'm the newly-elected member of Congress from Nevada's third congressional district and a former minority leader of the state Senate since '92. And I very much appreciate, Professor Warren, your comments about some of my work in the legislature.

I'm pleased to join my colleagues in welcoming you to Las Vegas. And I'm encouraged by your presence here to gather information on our very serious housing and mortgage foreclosure problem. As you know, as you've said, and as you will hear repeatedly, Las Vegas

has the worst foreclosure rate in the country. And the third congressional district is the worst of the worst. The third district includes the suburbs and the surrounding communities where the greatest growth has occurred in the recent decade. In the numerous developments that ring this valley that have just sprouted up like mushrooms over the past ten years, speculation has run rampant. And we see the result of that in the high foreclosure rate.

Companies and individuals scooped up lots of houses with mortgages that were too good to be true, anticipating that they could sell the houses off at a profit before they had to pay the piper. Unfortunately, it didn't work that way. There were other individuals who, as Congresswoman Berkley mentioned, who were just trying to realize the American dream at a time when the economic prospects looked really good. Never did they dream that within a few months or a year or so they would be without a job. Nor did many people understand the complex financial instruments, and terms, and ARMS, et cetera that were part of the lease—or the mortgage that they signed. Who can read and understand that—those terms in the fine print when many of those haven't even been recognized or defined in the financial world and certainly have not even been regulated?

As a result, it's been estimated that maybe as many as 1 in 40 houses in this district is in some form of foreclosure. Now, you take that problem and you couple it with the highest unemployment rate that Nevada has had in 25 years. In addition to that, we have a national economy that has hurt our gaming industry, because there is no disposable income for people to use for taking a holiday.

In addition to that, the revenues at the state and local level are down because property tax is down, sales tax is down, real estate transfer tax is down. And the result is those governments have had to cut services that would help the people who are now in trouble. So you overlay that with this foreclosure disaster and southern Nevada is on the brink of an economic crisis.

We used to pride ourselves on being recession proof, but that is no longer the case. People used to feel like if they had two nickels to rub together, they would go to Las Vegas, gamble it, and perhaps change their fortune. Not so much anymore. Now, we are in trouble and we need your help.

I understand. I wasn't there. But I have tried to study that the Emergency Economic Stabilization Act that was passed by Congress with the best of intentions to encourage the banks to free up credit, to invest money back into the economy, and to allow the Treasury to buy those troubled assets. As yet, however, we have seen very little help on our main street level here in District Three.

And now the message has changed. As I understand it, Secretary Paulson now says he is not going to buy up mortgage related securities. One day it's one thing, the next day it's the next. I believe that until the Treasury Department uses it's authority to more aggressively and directly address the housing problem, hard working families in CD3 will continue to face the problem of foreclosure. We need for banks to use the money that they have to refinance mortgages, to restructure loans in meaningful ways that don't foster reforeclosures within a short time, because we have seen that happening. To get involved before delinquencies in payments occur, so

you get on the front end of things and not the back end, and to pursue rent to buy options as certain possibilities. And we need to focus first on those owner occupied homes. Those are the people who are there who need our help.

And as you have said, Madam Chair, and as the recent GAO report pointed out, we need more transparency. The taxpayer needs to know who is getting the money, how much are they getting, where is it going, what are the state and local governments really doing with their neighborhood stabilization funds, and why is it taking so long?

In short, we cannot allow financial institutions to ignore the intent of the law to aid in the reduction of foreclosures, because I believe that addressing the housing situation and creating jobs are the keys to turning our economy around. That is certainly true in Nevada.

While individual lenders, investors, builders, and borrowers must accept the responsibility for their actions, we also have to remember that this crisis not only affects that family that loses its home but it also affects the neighborhood. From lower property values to forgone revenue, the entire community suffers. We have seen that throughout District Three. A house is vacant, the lawn dies very quickly here without water, then the graffiti comes, the vandals come, the windows are broken, the swimming pool turns into a feeding ground for West Nile Virus and mosquitoes. You see the whole neighborhood goes downhill instantly. And we just cannot allow that to happen.

So thank you very much for being here and for giving me an opportunity to tell you how critical this problem is and how much we need your help to diversify Nevada's economy, keep people in their houses, get people back to work, and turn this country around. Thank you so much.

The CHAIR. Thank you, Congresswoman. Thank you both for joining us.

And now I ask that the first panel could be seated. Thank you.

Today's hearing will consist of two panels of witnesses. The first panel will address the causes of the current foreclosure crisis in Clark County and their relationship to the broader financial crisis gripping the country. The second panel will focus on the impact of the crisis on the local economy and how it has affected working families in Clark County.

We're joined on the first panel by George Burns, a Commissioner of the Financial Institutions Division of the Nevada Department of Business and Industry. William Uffelman, President and CEO of the Nevada Bankers Association, and Dr. Keith Schwer, Director of the Center for Business and Economic Research here at UNLV.

Thank you all for being here today. I ask you to please limit your oral remarks to five minutes. Your full written statements will appear in the official record of the hearing.

Mr. Burns, could you start, please.

Mr. BURNS. Thank you. Good morning, Chair Warren and members of the panel. My name is George Burns. I am the Commissioner of the Nevada—am I on?

Mr. NEIMAN. I think the speaker over to your right. You have one right in front of you. Okay.

Mr. BURNS. Is that better? How is that? Sorry. I'll start again.
The CHAIR. Thank you.

STATEMENT OF GEORGE BURNS, COMMISSIONER, NEVADA FINANCIAL INSTITUTIONS DIVISION

Mr. BURNS. Good morning, Chair Warren and members of the panel. My name is George Burns. And I am the Commissioner of the Nevada Financial Institutions Division. I am honored to have the opportunity to testify on the banking and economic environment in the State of Nevada and the Treasury's Troubled Asset Relief Program.

This panel provides an important mechanism for oversight and accountability of this program in the future of our regulatory structure. I am very pleased that my colleague, Richard Neiman, has a critical role in this process. As state regulators, we play an important role in ensuring local economic development while protecting consumers. As we evaluate the effectiveness of the various government programs and contemplate our future regulatory structure, it is important for Congress and the Administration to hear and learn from the experience of state officials.

Today, I will share my perspective on the effect of the mortgage and financial crises on state chartered banks and bank customers in Nevada, the strategy behind the Nevada banks and the Treasury Department's use of TARP funds through its Capital Purchase Program, and my recommendations on the use of future TARP funds to help the banking industry in the State of Nevada.

I would also like to share my thoughts on the broader issues surrounding the TARP and regulatory restructuring. Nevada, as the rest of the nation does, finds itself in one of the most challenging financial situations since perhaps the 1930s. Two studies, one done by the National Conference of State Legislators, and another completed by The Rockefeller Institute, state that Nevada has suffered significantly more than the rest of the nation in the current economic crisis. In short, our economy has gone from the fastest growing in the nation to amongst the worst.

Nevada, like the rest of the nation, is experiencing both a foreclosure problem and a credit availability crisis. In Nevada, the financial crisis is strongly related to the unavailability of capital. The lack of investment funds for projects has literally killed economic growth, while just a few years ago this state led the nation in the creation of small businesses.

Not only are many financial institutions not extending new credit, but they're also reducing or eliminating existing lines of credit for many customers, which only exasperates the problem. Making capital available for institutions to loan to credit worthy customers is an essential step in the right direction of turning this financial crisis around.

Our nation's banks are operating in a challenging economic environment, the severity of which is probably greatest in Nevada. A downturn in economic conditions often results in a weakening of the banking sector and an increase in bank failures. Nevada has seen the voluntary liquidation of two banks, the closure of two other banks, and the merger of two nationwide financial institutions into others.

The declining real estate market of almost 30 percent in values, rising foreclosures to a level of the highest in the nation, slower economic growth, and an unstable energy crisis have both exposed and contributed to weaknesses in the portfolios of numerous Nevada banks. The industry now has to manage these risk exposures over an ever weakening economy.

Our job as regulators is to ensure that risks are identified in a timely manner and proactively managed to minimize destabilization of individual institutions, as well as the financial institution's industry as a whole. Nevada, particularly southern Nevada, has two major economic engines; gaming and real estate development. The overall economy has dampened gaming, and the mortgage crisis has stagnated real estate development with huge inventories of foreclosed properties. State chartered banks in Nevada are being affected by these circumstances indirectly but significantly. Most Nevada community banks do not originate much, if any, residential real estate mortgage loans. If they do, they are not held in portfolio in any significant amounts. However, the mortgage crisis has begun to spill over into the commercial real estate market, which Nevada community banks specialize in with small to medium size businesses.

As residential real estate values have declined, so have commercial real estate values, specifically, in the acquisition and development categories. If there are no residential rooftops going up, supporting commercial development of grocery stores, retail strip malls, et cetera do not go up either. This has led to increasing nonperformance in substantial segments of Nevada community bank loan portfolios. The need for——

The CHAIR. Mr. Burns, if I can just ask you to wrap up, so that we can be sure we hear all three people. I'm sorry how fast five minutes goes.

Mr. BURNS. That's quite all right.

The CHAIR. And we will, of course, have your entire statement in the record.

Mr. BURNS. Thank you.

With the announcement of the Capital Purchase Plan, 27 of the banks—state bank charters indicated their interest in applying. Nine of these have submitted applications. Two applications have been forwarded to federal regulators in Washington D.C. headquarters. And two applications have been forwarded and approved by the Treasury. To date, only three Nevada institutions have received any of the TARP funds. And that is from funds that were supplied to their multi-state, multi-bank holding companies. All the rest of those that have been submitted so far are primarily from privately or closely held institutions, which the Treasury Department has only just begun to entertain the approval process.

It seems that the larger institutions have avoided poor examination ratings that would have vexed them from consideration because of timing. However, the smaller community banks have continued to deteriorate putting them at a competitive and regulatory disadvantage to publicly traded institutions because they maybe no longer meet the federal regulatory definitions of a healthy institution.

The CHAIR. Thank you very much.

Mr. Burns.
Mr. BURNS. Thank you.
The CHAIR. I appreciate it.
Mr. BURNS. Thank you.
[The prepared statement of Mr. Burns follows:]

TESTIMONY OF

GEORGE E. BURNS

COMMISSIONER, FINANCIAL INSTITUTIONS DIVISION

STATE OF NEVADA

On

TROUBLED ASSET RELIEF PROGRAM (TARP)

Before the

CONGRESSIONAL OVERSIGHT PANEL

UNITED STATES CONGRESS

December 16, 2008, 10:00 a.m.

William S. Boyd School of Law

University of Nevada – Las Vegas

Introduction

Good morning Chairwoman Warren and members of the panel. My name is George Burns, and I am the Commissioner of the Nevada Division of Financial Institutions. I am honored to have the opportunity to testify on the banking and economic environment in the State of Nevada and the Treasury's Troubled Asset Relief Program (TARP).

This panel provides an important mechanism for oversight and accountability of this program and the future of our regulatory structure. I am very pleased that my colleague, Richard Neiman, has a critical role in this process. As state regulators, we play an important role in ensuring local economic development while protecting consumers. As we evaluate the effectiveness of the various government programs and contemplate our future regulatory structure, it is important for Congress and the administration to hear and learn from the experience of state officials.

Today, I will share my perspective on the effect of the mortgage and financial crisis on state-chartered banks and bank customers in Nevada, the strategy behind and effect on Nevada banks of the Treasury Department's use of TARP funds through it's Capital Purchase Plan (CPP), and my recommendations on the use of future TARP funds to help the banking industry in the State of Nevada. I would also like to share my thoughts on the broader issues surrounding the TARP and regulatory restructuring.

Nevada Economy

Nevada, as the rest of the nation does, finds itself in one of the most challenging financial situations since perhaps the 1930's. Two studies, one done by the National Conference of State Legislators and the other completed by the Rockefeller Institute, state

that Nevada has suffered significantly more than the rest of the nation in the current economic crisis. In short, our economy has gone from the fastest-growing in the nation to among the worst.

To demonstrate this: Nevada's unemployment rate has, for the better part of the last year, exceeded the national unemployment averages. In fact, in one year alone, the Nevada unemployment rate has increased by over half. Many economists have projected that it could rise to 8.5% or even higher in the coming months. This only underscores the contrast. For many years, the State of Nevada led the nation in economic growth and our unemployment rate was well below the national average. New residents moved here in unprecedented numbers for our seemingly unlimited employment opportunities. Today, one recent study states that one in ten Nevadans are receiving food stamps.

Nevada's economy is strongly tied to the tourism and construction industries. The global economic crisis has caused our world-wide tourism to take a significant hit. To demonstrate the dramatic drop in Nevada's tourism business, one economic analyst essentially noted "take the number of people who come here to celebrate New Year's Eve every year, which is about 300,000 visitors, and that will give you the approximate decrease in visitation this year." Statistics show that visitation continues to decrease. The construction industry has also taken a major hit during the past year. Businesses saw credit for projects evaporate, and the construction industry that makes up such a large part of our employment ground to a virtual standstill.

When our economy was thriving and our population soaring, the demand for additional housing also soared and a housing bubble formed. At one point, housing was so scarce that people literally lined up over night to secure lots when new developments were

being announced and homeowners were receiving multiple offers on homes for sale -- even before the "for sale" sign was in the ground. Prices skyrocketed while mortgage money was easy to get. Today, Nevada leads the nation in foreclosures. While approximately 10,000 homes were foreclosed on last year, some estimate that number will increase to 30,000 dwellings by the end of 2008.

There are numerous factors that caused the Nevada housing market to deteriorate. First, as demand soared, so did prices. This essentially priced many people out of home ownership, particularly using standard mortgage terms and qualification standards. Fear of forever being "priced out" of home ownership, many people resorted to using specialty mortgage products, such as interest only mortgages and various forms of adjustable mortgages. With housing values increasing and employment opportunities abounding, the mortgage payment increases that were built-in appeared to be unimportant to borrowers. Second, when the economy began to sour, the numbers of job opportunities began to decline and real income began to fall; many people then found themselves in situations where the homes they had purchased were no longer financially affordable. Third, as the values of homes started to decline due to lack of demand, many people found themselves essentially "underwater" without the ability to make their payments, refinance their properties, or sell them. In many cases, both homeowners and real estate investors alike walked away from properties that had at one point seemed to show unlimited appreciation.

Nevada, like the rest of the nation, is experiencing both a foreclosure problem and a credit availability crisis. In Nevada, the financial crisis is strongly related to the unavailability of capital. The lack of investment funds for projects has literally killed economic growth, while just a few years ago, this state led the nation in the creation of

small businesses. Not only are many financial institutions not extending new credit, but they are also reducing or eliminating existing lines of credit for many customers, which only exacerbates the problem. Making capital available for institutions to loan to credit worthy customers is an essential step in the right direction.

Condition of the Nevada Banking Industry

Our nation's banks are operating in a challenging economic environment the severity of which is possibly greatest in Nevada. A downturn in economic conditions often results in a weakening of the banking sector and an increase in bank failures. Nevada has seen the voluntary liquidation of two banks, the closure of two banks, and merger of two nation-wide financial institutions into others. The declining real estate market of almost 30% in values, rising foreclosures to a level of the highest in the nation, slower economic growth, and unstable energy prices have both exposed and contributed to weaknesses in the portfolios of numerous Nevada banks. The industry now has to manage these risk exposures in an ever-weakening economy. Our job as regulators is to ensure that risks are identified in a timely manner and proactively managed to minimize destabilization of individual institutions, as well as the financial institutions industry as a whole.

Nevada, particularly southern Nevada, has two major economic engines – gaming and real estate development. The overall economy has dampened gaming, and the mortgage crisis has stagnated real estate development with huge inventories of foreclosed properties.

State-chartered banks in Nevada are being affected by these circumstances indirectly, but significantly. Most Nevada community banks do not originate much, if any, residential real estate mortgage loans. If they do, they are not held in portfolio to any

significant amount. However, the mortgage crisis has begun to spill over into the commercial real estate market which Nevada community banks specialize in with small to medium sized businesses. As residential real estate values have declined, so have commercial real estate values, specifically in the acquisition and development categories. If there are no residential rooftops going up, supporting commercial development of grocery stores, retail strip malls, etc. do not go up either. This has lead to increasing non-performance in substantial segments of Nevada community bank loan portfolios. The need for higher loan loss reserves has taxed capital and earnings positions, with commensurately declining regulatory examination ratings.

With the announcement of the Capital Purchase Plan, the Nevada Financial Institutions Division immediately distributed information to its state-chartered banks, encourage them to review the plan and determine whether it would serve their needs, and encouraged them to apply if it did so. Upon survey, almost half of Nevada's 27 state-chartered banks indicated their intent to apply. Nine of these have submitted applications, two applications have been forwarded to the federal regulator's Washington D.C. headquarters, and two applications have been forwarded and approved by the Treasury. To date, only three Nevada institutions have received funds which were provided by the Treasury to their two publicly traded multi-state / multi-bank holding companies. To our limited knowledge, CPP funds to at least one of the holding companies has been used primarily to offset bad investments in their securities portfolio, not to allowance for loan loss or increases in lending.

It is said that timing is everything. The larger publicly traded institutions got in on the Capital Purchase Plan first; the closely or privately held are just now being given

consideration. The larger institutions have avoided poor examination ratings that would have vexed them for consideration; however, the smaller community banks have continued to deteriorate, putting them at a competitive and regulatory disadvantage to publicly traded institutions because they may no longer meet the federal regulatory definitions of a "healthy" institution.

It seems to have become a matter of "too big to fail" vs. "too small to matter". Cost is potentially greater to the FDIC Insurance Fund to allow community banks to fail, than to provide them with Capital Purchase Plan funds now to survive. Most institutions have indicated they would use these funds to augment their allowance for loan losses, which essentially performs the original intent of the TARP in purchasing troubled assets, but in a more cost efficient and effective manner. It is far more efficient to use viable bank resources to work out loan recoveries, and more effective to have banks manage the borrowers they know. Utilizing CPP funds in this manner frees up a bank's existing capital and any earnings to continue lending to qualified small to medium businesses.

The Capital Purchase Plan should not exclude banks with recently poor examination ratings because of timing issues. If a bank is determined to be viable in the long run if supported through this current economic downturn with a CPP injection, it should be given serious consideration with input from the state regulator that knows its institutions best. Small business is the greatest engine of the economy. State-chartered community banks serve small businesses.

If the Capital Purchase Plan continues to be orchestrated as it has been so far in its short existence, it will further concentrate banking in Nevada where over 80% of the market is held by three large national banks who where first in line for TARP funds

through the CPP. This will ultimately result in far fewer banks in Nevada, less competition, and fewer choices for businesses and consumers in the state.

If the TARP Program and Capital Purchase Plan is equitably and effectively orchestrated, it can address declining residential real estate values, which will improve commercial real estate values, and both market segments can be stabilized utilizing the knowledge, experience and expertise of the state-chartered bank resources in a cost efficient manner.

Observations on the Troubled Asset Relief Program (TARP)

The original idea of the TARP was to provide a high volume of funding to purchase assets from financial institutions. This would provide price discovery in an illiquid market and move depressed assets to the larger and more long-term balance sheet of the Federal government. Prior to the final passage of the Emergency Economic Stabilization Act, my professional association, the Conference of State Bank Supervisors (CSBS), met with Treasury staff to discuss the role state supervisors could play in implementing the TARP. As part of this discussion, CSBS staff provided an analysis of the industry, dividing it into three groups by asset size. I have provided this document as an appendix. The data clearly shows that construction and land development and commercial real estate lending is the core business for many community banks, particularly in Nevada. The rapidly deteriorating economy, excess inventory of real property and foreclosures have caused many development projects to cease. Community banks and their communities would have benefited greatly from asset purchases or guarantees of these assets. To have a positive impact for community banks, we need programs which address these asset classes.

In October, the plan quickly changed with the fund making direct investments in banks and bank holding companies, under an initiative knows as the Capital Purchase Program (CPP). The Treasury's approval process involves the bank's primary federal regulator, an interagency council made up of federal bank regulators, an investment committee at Treasury, and finally, the Interim Assistant Secretary for Financial Stability. According to Treasury's December 9 report, 88 institutions have received these capital injections. Unfortunately, the application and approval process appears to be unnecessarily slow in arriving at a final decision. As the chartering authority for the majority of this country's banks, we are not directly involved in the process. State regulators have worked as closely as they can with the FDIC and Federal Reserve during the initial phase of the application. We are not involved or informed of the application's status after it is submitted and referred to Washington. Consequently, we know little of where the bank's application is, what issues need to be resolved before approval can be granted, or what actions we can require the bank to take to obtain approval. We are not even notified when a decision is reached on a CPP application. Consequently, we are unable as the chartering authority for these banks to take necessary, timely regulatory actions based upon the approval or denials of CPP applications. The process lacks transparency and actually permits federal regulators with no chartering regulatory jurisdiction over the institution to determine its fate.

The initial phase of the CPP only applied to publicly traded institutions. Based on the publicly announced investments, these banks are still making their way through the process.

A program for privately held institutions was announced in November, but no investment has been made in these institutions. The Treasury has yet to announce a program for banks which operate under a Sub-S tax status or banks which are classified as mutuals. The overwhelming majority of banks--which would fall in these categories--are community banks and have been the source of local market stability during this credit crisis. These banks can use the capital to make loans to small- and medium-sized businesses. Capital injections in this sector will provide the necessary fuel for economic development.

Reviewing Our Regulatory Structure

The U.S. economy is eternally cyclical in nature. Our unique financial structure has sustained market booms and busts for over two centuries. The diversity of our nation's dual banking system has created the most dynamic and powerful economy in the world. The strength of our banking system is that it is comprised of thousands of financial institutions of vastly different sizes.

I would caution that legislative and regulatory decisions that alter our financial regulatory structure or financial incentives should be carefully considered against how those decisions affect the competitive landscape for institutions of all sizes. We need a regulatory structure which supports and stimulates community banking.

Conclusion

Thank you again for the opportunity to address the Oversight Panel and provide one state financial institution regulator's opinion on the essential matters being reviewed here today.

Banks with total assets less than 10 billion - 8,344 Institutions

Exposure Concentration as Percentage of Capital

Number of Banks	Construction 100%	$ Volume (000's)	CRE 300%	$ Volume (000's)	Private Label MBS 50%	$ Volume (000's)	Jr. Lien & HELOC 100%	$ Volume (000's)
3,212	2,358	242,443,701	1,021	153,561,160	282	22,591,757	556	38,084,597
% Portfolio Delinquent (30+ days)								
0%	712	29,948,944	343	41,447,272	Data Not Available			
> 0% to 5%	1,288	179,922,301	618	104,593,700				
5% to 10%	242	23,075,457	53	6,452,362				
10% to 20%	92	6,790,316	6	1,047,622				
20% to 30%	19	2,495,536	1	20,204				
30% to 40%	2	162,367	0	0				
40% to 50%	3	48,780	0	0				
Banks with Concentration								
Volume of Delinquent Loans		6,047,831		1,597,441		NA		NA
Percentage of Portfolio		2.49%		1.04%		NA		NA
All Banks in Asset Class (8,344)								
Total Portfolio		318,507,505		529,032,775		34,226,843		130,922,403
Volume of Delinquent Loans		7,764,643		5,373,850		NA		NA
Percentage of Portfolio		2.44%		1.02%		NA		NA
1-4 Family Residential		456,126,941						
Volume of Delinquent Loans		8,620,799						
Percentage delinquent		1.89%						

Source: FDIC - Call Report Data 6/30/08

Banks with total assets greater than 10 billion and less than 100 billion - 97 Institutions

Exposure Concentration as Percentage of Capital

Number of Banks	Construction 100%	$ Volume (000's)	CRE 300%	$ Volume (000's)	Private Label MBS 50%	$ Volume (000's)	Jr. Lien & HELOC 100%	$ Volume (000's)
49	23	65,700,444	3	15,075,759	11	74,844,350	24	95,233,305
% Portfolio Delinquent (30+ days)								
0%	0	0	0	0	Data Not Available			
> 0% to 5%	20	59,249,102	3	15,075,759				
5% to 10%	3	6,451,342	0	0				
10% to 20%	0	0	0	0				
20% to 30%	0	0	0	0				
30% to 40%	0	0	0	0				
40% to 50%	0	0	0	0				
Banks with Concentration								
Volume of Delinquent Loans		1,948,163		94,143		NA		NA
Percentage of Portfolio		2.97%		0.62%		NA		NA
All Banks in Asset Class (97)								
Total Portfolio		144,566,247		219,883,489		116,084,163		168,941,263
Volume of Delinquent Loans		4,007,967		1,617,638		NA		NA
Percentage of Portfolio		2.77%		0.74%		NA		NA
1-4 Family Residential		542,609,149						
Volume of Delinquent Loans		14,183,617						
Percentage delinquent		2.61%						

Source: FDIC - Call Report Data 6/30/08

Banks with total assets greater than 100 billion - 19 Institutions

Exposure Concentration as Percentage of Capital

Number of Banks	Construction 100%	$ Volume (000's)	CRE 300%	$ Volume (000's)	Private Label MBS 50%	$ Volume (000's)	Jr. Lien & HELOC 100%	$ Volume (000's)
11	1	19,981,641	0	0	4	66,318,243	7	237,032,560
% Portfolio Delinquent (30+ days)								
0%	0	0	0	0	Data Not Available			
> 0% to 5%	1	19,981,641	0	0				
5% to 10%	0	0	0	0				
10% to 20%	0	0	0	0				
20% to 30%	0	0	0	0				
30% to 40%	0	0	0	0				
40% to 50%	0	0	0	0				
Banks with Concentration								
Volume of Delinquent Loans		388,609		0		NA		NA
Percentage of Portfolio		1.94%		0.00%		NA		NA
All Banks in Asset Class (19)								
Total Portfolio		164,096,115		270,191,942		211,430,593		593,057,723
Volume of Delinquent Loans		3,528,913		1,526,428		NA		NA
Percentage of Portfolio		2.15%		0.56%		NA		NA
1-4 Family Residential		909,394,782						
Volume of Delinquent Loans		45,483,724						
Percentage delinquent		5.00%						

Source: FDIC - Call Report Data 6/30/08

The CHAIR. Thank you. Mr. Uffelman.

STATEMENT OF BILL UFFELMAN, PRESIDENT & CEO, NEVADA BANKERS ASSOCIATION

Mr. UFFELMAN. Good morning. My name is Bill Uffelman. I'm president and CEO of the Nevada Bankers Association. Madam Chair, members of the panel, I appreciate the opportunity to testify on behalf of Nevada's bankers on the Troubled Asset Relief Program. I have been asked to focus on the health of the local banking system of the current financial climate, including bank lending to small businesses and whether TARP has had a measurable effect on the community banking industry in Nevada.

Nationally, the TARP program has served to calm the financial markets and does have promise to promote renewed economic growth. However, it's also a source of great frustration and uncertainty to many banks. George has commented on how few Nevada banks actually have seen the money.

Much of the frustration and uncertainty is because of the significant and numerous changes to the program and misperceptions that have resulted on the part of press and the public. Overall, as you know, regulated banks were not the cause of the problem and have generally performed well. Not only did the regulated banks not cause the problem, they can be the primary solution to the problem, as both regulation and markets move towards the bank world. Investment banks, in effect, are no more. They're all becoming bank holding companies with substantially reduce leverage opportunities and with much stricter regulation.

In general, banks across Nevada did not make toxic sub-prime loans. They are strongly capitalized and ready to lend. But they cannot do so if misguided policies increase their regulatory costs and provide disincentives to lend. Banks already face significantly higher costs from deposit insurance premiums. They are almost double now what they were in the past. And banks are already receiving contradictory government signals about lending, being told to use capital to make new loans. And in some cases, being told by bank examiners not to because the risk is too great.

As you all probably recall, banks loan from deposits. You don't lend out your capital. The capital is there to support the lending, but it in fact is not to be—or shouldn't be the source of the loans. There's a broad consensus that the crisis grew out of a housing bubble fed by mortgage loans that never should have been made, which were securitized and sold to investors who did not properly analyze or understand the risk. Excess leverage on Wall Street and other financial centers greatly exacerbated the crisis. The impact on the economy of the dysfunctional housing market is very evident in Las Vegas and in northern Nevada. The dramatic reduction to new home construction has hit the construction development lending, bringing it to a virtual halt. Banks in both areas have also been hit by the decline in the commercial real estate development, which typically lags behind residential construction.

These impacts are further exacerbated in Las Vegas by the decline in retailing, tourism, and gaming. In northern Nevada declines in manufacturing are also contributing to the decline of their economy. Despite it all, banks in Nevada stand ready to lend to

qualified borrowers. However, it's more difficult for potential borrowers to qualify because of tightened credit requirements. At the same time, because of the economic slowdown, potential borrowers are not stepping forward to ask for loans. They have hunkered down to wait and see what the future holds.

A banker at a large bank commented to me that in the old days they might have funded seven deals out of ten that were presented. Now, they're only funding three or four. Some of the other deals were referred to smaller community banks where they might obtain funding or many wither on the vine. To many bankers, the implementation of TARP has been frustrating. Today, nationally, only about 50 banks have received capital infusions in Nevada. Less than a handful, as George has pointed out, two community banks have qualified for the Capital Purchase Program and received funds.

This is due to Treasury's phased implementation program. The program was open to the publically traded banks in mid-October, to small privately held banks in mid-November. Guidelines from mutual banks, Sub S banks, and others that have no way to issue preferred stock have not been issued. My current chairwoman, she actually received the application forms on Thursday. She has to decide whether to convert her bank from a Sub S to a C, so they can even proceed with the process.

As Treasury moves forward, it should assure that TARP will allow all healthy banks, regardless of their corporate structure or charter type to participate in the CPP. Treasury should also ensure that sufficient money remains to fully fund the CPP for community banks accepted into the program. It would be most unfair and result in competitive inequality for the community bank program not to be fully funded.

The CHAIR. Mr. Uffelman——

Mr. UFFELMAN. Because the TARP funds have not really reached most of Nevada's community banks, I cannot say that it has a measurable effect on community banking.

The CHAIR [continuing]. One minute.

Mr. UFFELMAN. To the extent that most community banks have not yet had the opportunity to participate, they are at a disadvantage in competing with banks that have received TARP funds. Nevada banks continue to lend, and the TARP can help to further stimulate expanded banking services by healthy banks. As the economy starts to grow again, the growth will be stunted if adequate credit is not available.

As experience has shown in previous economic slowdowns, it is the banks that end up providing most of the needed credit to support a recovery. Banks are anxious to meet the credit needs of businesses and consumers, and we know that such capital is vital to the economic recovery in communities large and small across Nevada and the country. Thank you.

The CHAIR. Thank you——

Mr. UFFELMAN. I have also provided the panel with an article that was in the Review Journal yesterday. It's an associated press article: "Small Banks Waiting for Rescue Funds." It seemed very on point. I could have read you the article rather than constructing something myself.

The CHAIR. Thank you very much, Mr. Uffelman.
[The prepared statement of Mr. Uffelman follows:]

Testimony of William Uffelman
On Behalf of the Nevada Bankers Association
Before the
Congressional Oversight Panel Field Hearing
UNLV William S. Boyd School of Law
Las Vegas, Nevada
December 16, 2008

Madame Chair and members of the Panel, I appreciate the opportunity to testify on behalf of Nevada's bankers on the Troubled Asset Relief Program (TARP). I have been asked to focus on the health of the local banking system in the current financial climate, including bank lending to small businesses, and whether TARP has had a measurable effect on the community banking industry in Nevada.

Nationally, the TARP Program has served to calm the financial markets and does have promise to promote renewed economic growth. However, it is also a source of great frustration and uncertainty to many banks. Much of the frustration and uncertainty is because of the significant and numerous changes to the program and misperceptions that have resulted on the part of the press and the public.

Overall, the regulated banks were not the cause of the problem and have generally performed well. Not only did the regulated banks not cause the problem, they can be the primary solution to the problem as both regulation and markets move toward the bank world.

In general, banks across Nevada did not make toxic sub-prime loans, are strongly capitalized, and are ready to lend; but they cannot do so if misguided policies increase their regulatory costs and provide disincentives to lend.

Banks already face significantly higher costs from deposit insurance premiums. And banks are already receiving contradictory government signals about lending, being told to use capital to make new loans and, in some cases, being told by bank examiners not to because the risk is too great.

There is a broad consensus that the crisis grew out of a housing bubble fed by mortgage loans that never should have been made, which were securitized and sold to investors who did not properly analyze or understand the risk. Excess leverage on Wall Street and in other financial centers greatly exacerbated the crisis.

The impact on the economy of the dysfunctional housing market is very evident in Las Vegas and northern Nevada. The dramatic reduction in new home construction has hit construction and development lending bringing it to a virtual halt. Banks in both areas have also been hit by the decline in commercial real estate development which typically lags behind residential construction. These impacts are further exacerbated in Las Vegas by the decline in retailing, tourism and gaming. In northern Nevada declines in manufacturing are also contributing to the decline of their economy.

Despite it all, banks in Nevada stand ready to lend to qualified borrowers. However, it is more difficult for potential borrowers to qualify because of tightened credit requirements. At the same time, because of the economic slow down potential borrowers are not stepping forward to ask for loans – they have hunkered down to wait and see what the future holds. A banker at a large bank commented to me that in the old days they might have funded 7 deals out of 10 that were presented -- now they are only funding 3 or 4. Some of the other deals are referred to smaller community banks where they might obtain funding while many wither on the vine.

To many bankers the implementation of TARP has been frustrating. To date nationally only about 50 banks have received capital infusions. In Nevada, less than a handful of community banks have qualified for the Capital Purchase Program (CPP) and received funds. This is due to Treasury's phased implementation program. The program was opened to publicly traded banks in mid-October, and to small, privately held banks in mid-November. Guidelines for mutual banks, Sub S banks and others that have no way to issue preferred stock have not been issued.

As Treasury moves forward it should assure that TARP will allow all healthy banks, regardless of their corporate structure or charter type, to participate in the CPP. Treasury should also ensure that sufficient money remains to fully fund the CPP for community banks accepted into the program. It would be most unfair, and would result in competitive inequality, for the community bank program not to be fully funded.

Because the TARP funds have not really reached most of Nevada's community banks I cannot say that it has had a measurable effect on community banking. To the extent that most community banks have not yet had the opportunity to participate they are at a disadvantage when competing with banks that have received TARP funds.

Nevada banks continue to lend, and the TARP can help to further stimulate expanded banking services by healthy banks. As the economy starts to grow again, the growth will be stunted if adequate credit is not available. As experience has shown in previous economic slowdowns, it is the banks that end up providing most of the needed credit to support a recovery. Banks are anxious to meet the credit needs of businesses and consumers, and we know that such capital is vital to an economic recovery in communities large and small across Nevada and the country.

To be effective, TARP must work in tandem with other programs so as to avoid conflicting messages and incentives to lend.

For example, a community banker runs a well capitalized and profitable bank. The bank's regulator calls to "suggest" that taking CPP capital is a good idea. The banker can see that it might be put to good use to support lending growth. But the banker has many questions about what could well be a decision that dramatically impacts the future of the bank. For example:

- What will the bank's customers think? Will they be mad that the bank took government capital, thinking it is not fair? Or if the bank does not take the capital,

will they think it is too weak to qualify? If the bank does not take it and its competitors do, will customers think those banks must be stronger because the government invested in them or, conversely, that those banks needed government help?

- What will the markets think? Will there be an advantage to higher capitalized banks (at levels above "well-capitalized"), even if the extra capital came from the government?
- What restrictions will be added? The banker can see what is on the table now, but how can he be sure that there will not be changes that severely damage the bank through increased regulatory costs, or counter-productive dividend restrictions, or even attempts to push the bank to make unsafe loans? The people running the program now will not even be in charge in less than two months.

This confusion is compounded by the fact that the Treasury purchase agreement contains a clause, 5.3, which basically allows the Congress to add anything it wants after the fact. This clause will cause a number of banks to avoid participating and should be dropped.

More than anything, bankers need to know exactly what the TARP is, what its purpose is, and what restrictions and requirements will apply. And they need the public to have a better understanding as well. Everyone concerned must try to put the current actions in context. Otherwise, the absence of clarity in this volatile environment exposes banks to the risk of runs from customers who misperceive a bank as either so weak that it needs a "bailout" or too weak to receive one.

We need to distinguish between the bank CPP program – a voluntary program for healthy banks – and the use of TARP and other program funds for direct bailouts of failing institutions, like AIG, in other parts of the financial sector. As stated earlier, it is important to note that the great majority of banks that will receive CPP capital never made the toxic sub-prime loans, are strongly capitalized, are well regulated, and are being requested by their regulators to participate in the program. Requirements and restrictions that may be appropriate for other companies that are being saved are not appropriate in these cases. They would be unfair and counterproductive.

Many of the issues I have raised today will be resolved on the national level. I have pointed them out in an effort to insure that they are on the minds of regulators, members of Congress and this panel.

As stated previously, Nevada's bankers large and small fully intend to help Nevadans weather this storm and emerge with a stronger and more robust economy.

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Small banks waiting for rescue funds

Some private institutions fear they won't be able to compete

By CHRISTOPHER S. RUGABER
THE ASSOCIATED PRESS

WASHINGTON -- Many small community banks are growing frustrated about their inability to access the government's $700 billion financial rescue fund, nearly two months after large banks began tapping the fund for much-needed capital.

Trade groups representing the banks complain that the delay is putting smaller institutions at a competitive disadvantage to publicly traded banks, more than 50 of which have received capital injections.

"They took care of Wall Street first, and it seems like Main Street got left behind," said Cynthia Blankenship, vice chairwoman of Bank of the West in Irving, Texas, which has $250 million in assets. Blankenship is also chairwoman of the Independent Community Bankers of America.

Some small banks, especially in areas such as California and Florida where the housing slump hit hardest, carry troubled real estate loans and likely would benefit from the government cash, Blankenship said.

Publicly traded banks have been eligible since the Treasury Department began the $250 billion capital injection program Oct. 14. The department opened it on Nov. 17 to about 3,800 small, privately held banks. A few publicly traded community banks already have received government money.

But the department has yet to issue the necessary guidelines for about 3,000 additional private banks. Most of them are set up as partnerships, with no more than 100 shareholders. They aren't able to issue preferred shares to the government in exchange for capital injections, as other banks can.

The Treasury Department has come under fire from members of Congress for not ensuring that the capital injections lead to more lending. The ICBA also argues that healthy smaller banks are more likely to use government money to make loans than are big banks that need to shore up their capital after writing down billions in mortgage-

related losses.

Hundreds of the banks have applied for government money, the ICBA said in a letter Tuesday, as a precautionary step. But they can't access the money.

As a result, the government needs to figure out what it can receive in exchange for capital. Treasury officials say they are working on it but that the task is technically difficult.

"I have not seen a good answer yet," Neel Kashkari, director of Treasury's Office of Financial Stability, said last week at a housing conference.

The vast majority of small banks are financially healthy, the ICBA says. Most did not get caught up in the housing meltdown that has so damaged Wall Street banks. But groups such as the ICBA say the rescue fund is supposed to be available to all healthy banks.

Banks that aren't eligible may lose out to other lenders that have received government money, the American Bankers Association added in a letter Dec. 5 to Treasury Secretary Henry Paulson.

"They can only watch while many of their competitors, strengthened by capital injections from the government, seize opportunities to meet credit needs of their communities," the ABA letter said.

Rep. Paul Kanjorski, a Pennsylvania Democrat, urged Treasury Secretary Henry Paulson in a letter Dec. 5 to open the program to the remaining small banks by the end of December.

Bert Ely, a banking consultant, said one possible solution would be for the government to receive some type of debt instrument rather than equity.

The Treasury Department is still struggling to hire enough staff to operate the capital-injection program, the Government Accountability Office, an auditing agency, said in a report earlier this month.

The department has handed out more than $155 billion to 77 banks. Of that sum, $115 billion has gone to the eight largest, including Bank of America Corp., Citigroup Inc. and JPMorgan Chase & Co.

Some smaller banks that haven't yet been able to access the federal money are particularly irked by the efforts of nonbank financial institutions, such as life insurers and credit card companies, to get a slice of the money. At least four life insurers, including Hartford Financial Services Group Inc. and Genworth Financial Inc., are seeking to buy small thrifts to become eligible for the capital injections.

"The law was passed to help banks, and now companies are trying to get in front by becoming a bank," said Paul Merski, chief economist for the ICBA, which has about 5,000 members. "It's a little bit frustrating."

The banks that aren't eligible control just a small slice of the nation's banking assets. They make up about one-third of community banks, which the Federal Deposit

Insurance Corp. defines as banks with less than $1 billion in assets.

Overall, community banks hold 11 percent of the industry's total assets, according to Sheila Bair, chairwoman of the Federal Deposit Insurance Corp. Still, they play a vital role in small business and agriculture lending.

Community banks provide 29 percent of small commercial and industrial loans, 40 percent of small commercial real estate loans and 77 percent of small agricultural production loans, Bair said in congressional testimony last month. The FDIC doesn't have more precise data for the type of banks that aren't eligible for capital injections.

The delay in accessing the rescue money is just one aspect of the program that has frustrated small community banks and their directors.

The government has said the $250 billion it set aside for capital injections is intended for healthy banks. Yet the money has been widely referred to in press reports as a "bailout." As a result, many well-capitalized banks worry that if they take money from Treasury, their customers might see them as weak, Blankenship said.

Conversely, if they don't receive any funds, customers might wonder if they were turned down, she said. Treasury lists banks that have received money. But it won't say which banks have applied.

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The CHAIR. Dr. Schwer.

STATEMENT OF DR. KEITH SCHWER, DIRECTOR, CENTER FOR BUSINESS AND ECONOMIC RESEARCH, UNLV

Dr. SCHWER. Thank you. Madam Chair, members of the panel, thank you for the opportunity to testify this morning. I will be focusing on the economic conditions surrounding the State of Nevada, but will be making most references with respect to Las Vegas. But conditions in Las Vegas are pretty much matched by what is going on in our sister city to the north in Reno. Las Vegas represents 71 percent of the population of the State of Nevada, a population of slightly less than two million people here locally.

There was a myth that was mentioned earlier about the southern Nevada economy, that it was decoupled from the national economy. That myth has destroyed very clearly. But the myth was based upon 25 years of growth and expansion with the population growth rate in excess of 5 percent per year. And that compares with the national rate of 1 percent per year. Last year, we lost a population of near 10,000 people. And that turns into roughly 4,000 additional vacant homes added to the excess supply that we currently have.

Looking at the composition of the economy, it is an economy that very much looks like the Michigan economy, in the sense that it is concentrated in one industry. The location quotient, the measure that economists use to evaluate economic concentration, shows that hotels and accommodations were 17 times the national average. And with autos in Michigan, it is somewhere around 12 or 13 percent.

Over this rapid period of expansion of the last 25 years, housing prices in southern Nevada until 2003 remained at or near the national level with very little price variation. So our economy was growing and providing housing, but it was not in a bubble situation. In 2003, we saw the change. In 2003, we saw that housing prices began to jump. And within a period of one year, housing prices had rose more than 50 percent.

The cause of that is many components that were associated with speculative behavior. I will note only one. That was on television, you could follow the get rich real estate seminars. Take out your mortgage equity, withdraw it, and invest in Las Vegas, and get rich.

We have also had others that followed on, seeing an economic opportunity, that were inexperienced and that added to the economic difficulty associated with price increases. Housing price increases peaked in 2006, and have been going down ever since. I've included the most recent information in graphic form, the Case-Shiller Price Index for Las Vegas.

Housing prices are now returning to the levels that they were prior to the peak, but nobody is buying other than investors. Overall, the economy slowed. I would note that we did not enter a recession here in southern Nevada until October. The economy peaked in October of 2007. So we went for over a year with minimal impacts even though real estate and residential construction were heavily hit. What happened there is, we had workers moving out of residential construction to construction jobs on the strip. If it had not been for the credit crisis of 2007 and the associated dif-

ficulties thereafter, we may, we may have got through that economic downturn without the severity that we now see.

The Las Vegas economy is now one in which unemployment rates are rising. As noted, our unemployment rate has remained above the national rate by 1 percent and continuing to increase. We have every reason to believe that the economy, its unemployment rate will peak next year and could well be at the 10 percent level.

We also included a very important point of the risk during this period. And that is, that 50 percent of homeowners in the State Nevada have negative mortgage equity. And that is a great risk going forward if the economy does not pick up. The housing problems are focused in three key areas: price, for which we have made some progress locall; foreclosures, which continue to be a problem, an increasing problem; and jobs. And we're seeing around those last two, that our economy is suffering significantly.

So in conclusion, what we've seen is that credit has dried up, we had a housing bubble, we've seen flight to safety. And we anticipate that there will be further problems here, serious problems. And that we face significant risk going ahead, and that risk will depend very much on how the national economy performs over the next year.

Thank you for your time and your attention.

[The prepared statement of Dr. Schwer follows:]

Testimony to Congressional Oversight Panel
December 16, 2008

R. Keith Schwer, Professor and Director
Center for Business and Economic Research
University of Nevada, Las Vegas

The State of the Nevada Housing Market and Economy

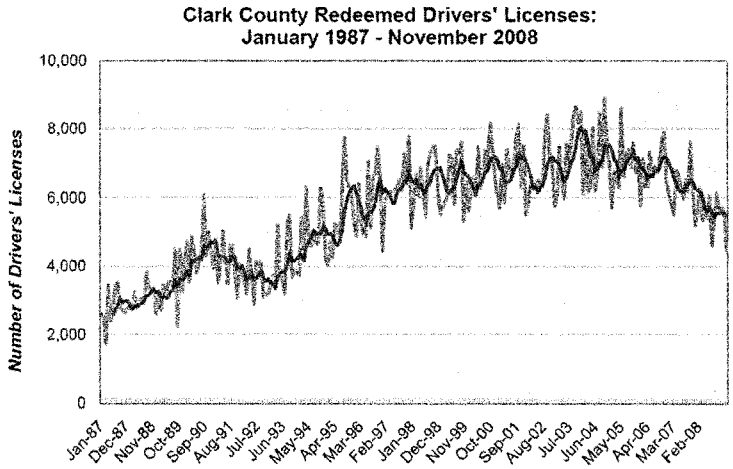
My remarks about housing and economic conditions reflect the predominance of Las Vegas, also referred to as Southern Nevada or Clark County, to the overall well being of the Silver State. The Las Vegas metropolitan area includes two adjacent rural counties of smaller size, Nye County, Nevada and Mohave County, Arizona, than Clark County, Nevada. Clark County represents about 71 percent of the state's population. Comments about Las Vegas also apply to Reno, for which many, if not all, of the observations made here also apply.

Nevada Housing: With Reference to Las Vegas

Southern Nevada's housing market in the go-go years became decoupled from good economic practice. Foolish practices driven by greed put the market in the ditch. Getting out of the ditch and getting the housing market back to good working condition must overcome the sins of the past and set on a foundation of an overall stable economy, in short, sustainable economic parameters. The problems we see in front of us are a surplus of empty houses, difficulty in getting credit, rising unemployment, and falling incomes, which will result in more defaults and delinquencies ahead.

The surge of housing construction after the 2001 recession created a glut of housing units for sale. Having seen strong population growth over the earlier few decades, homebuilders actively operated in the area, resulting in a robust increase in supply for speculative buyers as the takeoff occurred in the housing bubble. See Clark County Redeemed Drivers' Licenses figure for a measure of the strength of in-migration to the area.

Real estate "Get Rich" seminars touted Las Vegas as a good market with expectations of future growth. They plugged a relative limited supply of land, a reflection of the high percentage of land owned by the federal government (more than 80%), and strong growth. Most suggested home equity-withdrawals, wherever they lived, to raise capital and minimum down payments in multiple home purchases to get the biggest payoff after the price rose, which had been occurring at a rapid rate. They laid it on thick. Speculators entered the market; and, irrationality became more dominant in housing sales.

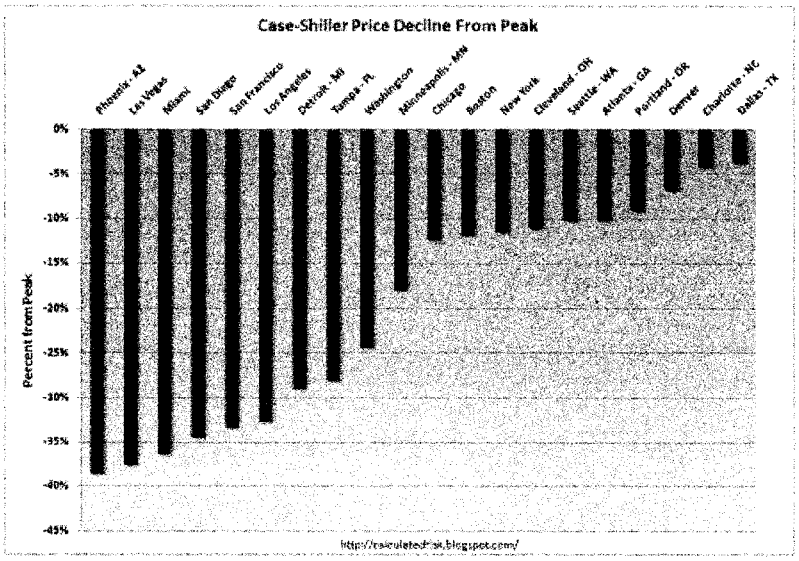


Source: CBER

Once market participants realized that prices were pushed to an unsustainable level, surplus conditions prevailed. Moreover, the anticipation of further price declines kept many on the sideline—it is not a good time to buy. Simple economic principles instruct market players facing a supply glut to lower prices for the market to clear, though some excess could be reduced with strong population growth. Recent data, however, indicate fewer people are moving to Southern Nevada and that Clark County's population declined between 2007 and 2008, although not by much, but no large population increase can be expected. After sharply contracting the rate of housing increases, we still have a large surplus that will remain only if prices are not lowered.

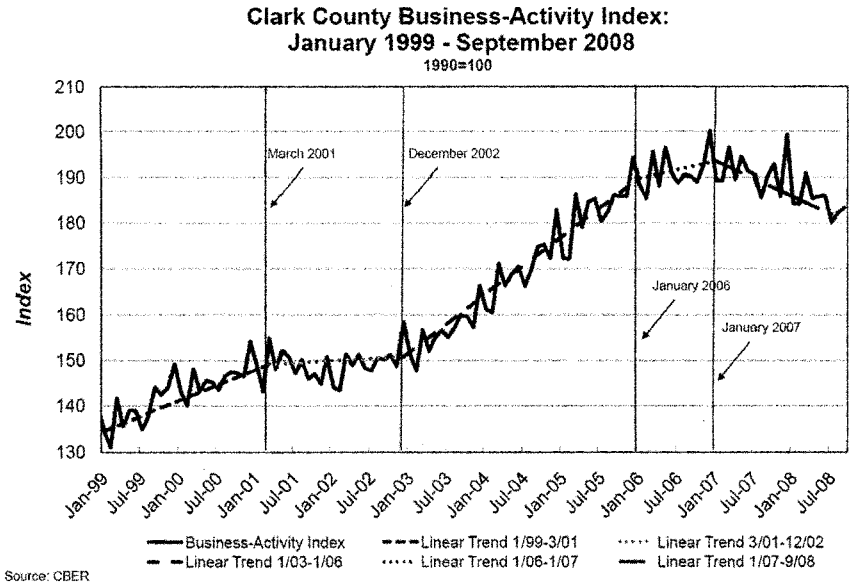
Housing prices in Southern Nevada have been declining, destroying wealth, but also offering some hope that the market is correcting. Las Vegas has experienced the second-largest price depreciation from the price peak among major metropolitan areas. After a period of two years, a "wait and hold" mindset has given way to market forces. Foreclosures and the need for asset liquidity have increased market activity. Housing prices are now down sharply from the 2006 peak. This is based on the S&P Case-Shiller Price Index for Las Vegas and other major metropolitan areas. See the attached figure. Only price declines in Phoenix have declined more than Las Vegas. Though the declines in Las Vegas may be coming to an end, as Las Vegas is nearer price levels seen before the bubble, we still see some price depreciation ahead and do not see a return to rapid price appreciation. The capital gains from housing in past years added to spending, but the capital losses we have experienced over the past two years, and will surely be seen in 2009, only evoke headways on future consumer spending.

The Las Vegas housing market has taken an important first step in recovery, prices have declined and housing is more affordable, but credit conditions remains inadequate and prospects of a national recession only further acerbate necessary conditions for a full recovery.



The Nevada Economy: With Reference to Las Vegas

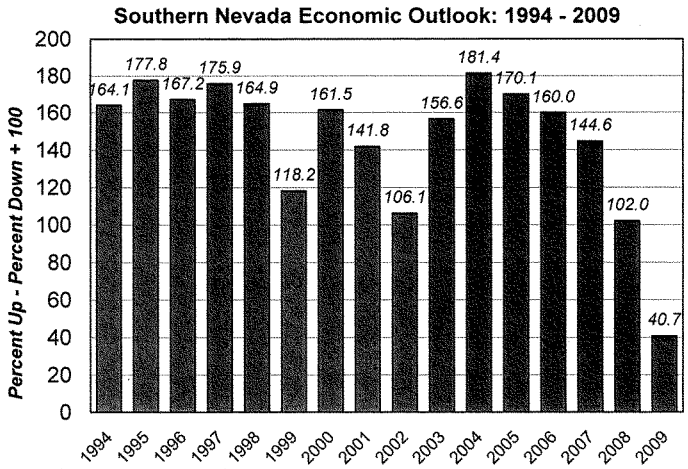
At the Center for Business and Economic Research (CBER) at UNLV we follow the National Bureau of Economic Research (NBER) approach for gauging the status of the business cycle in Southern Nevada. We use four monthly data series—employment, gaming revenue, taxable sales, and visitor volume. From these individual series we look for peaks and valleys. In addition, we found that some indexes we compute for overall activity proved useful in our assessment. Two business-sector indexes, construction and travel and tourism, proved helpful. In addition, we found that the Southern Nevada Index of Leading Indicators had dropped sufficiently to signal a downturn, though we experienced the usual difficulty of making sure that we had sufficient information that would not likely be revised to make our call. The Clark County Business-Activity Index, a measure of overall performance, peaked in late 2007, further supporting our assessment that the economy peaked in October 2007 and slipped into a recession. Though there was a clear peak in October 2007, a trend line shown from January 2007 shows a marked decline. Again, this trend is driven downward by the weak performance of 2008.



Source: CBER

Over the past six months we have seen Southern Nevada's economy take the brunt of a recession, which began in late 2007. Month-over-month job losses have continued to increase over this period, though we find overall May - October employment is up slightly. Data revisions may ultimately show a decline, however. See the accompany Table. With job losses anticipated for the last two months of the year, we could well see a rise in the joblessness rate, jumping by a change of 2 percent, a clear picture of the eroding of the region's fortunes.

The outlook for the Southern Nevada economy is decidedly grim for many. Using both surveys, economic indicators and models, we reach the same conclusion—2009 will be a recession year. Our fate will depend on national monetary and fiscal action. One measure of the state of affairs is shown in the accompanying survey what Nevada executives see for the year ahead.



Source: CBER. 1993 - 2008 Las Vegas

Factors Causing the Housing Market in Nevada to Deteriorate

The Southern Nevada (Clark County, Nevada) economy experienced strong population growth over the past twenty years. This growth fostered a strong homebuilding industry, which actively responded to demand for housing associated with the housing bubble, furthering unsustainable activity. They were able to attract capital and feed the housing bubble—a reflection of national monetary policy, international capital movements, and the failure of the regulatory environment in place, all factors beyond the Silver State.

In late 2005 and early 2006, housing began showing signs of excess; Las Vegas led the nation in housing-price increases using Office of Federal Housing Enterprise Oversight (OFHEO) data during 2005, posting increases in excess of 50%. Our warnings were, however, drowned out by a proliferation of real estate "data pundits" who were making commissions on promoting irrational behavior with less than credible evaluations and information.

By fall 2006, housing sales had topped out and began contracting. The early contraction in housing did not push the Las Vegas economy in to a recession, however. Indeed, the current situation is somewhat similar to past events in which a housing downturn stretches out over a longer period than downturns observed in the general economy since the 1980s. Housing cycles have tended to be longer than the general business cycle in recent events. Moreover, a housing downturn may not necessarily create an overall downturn.

Southern Nevada's nonresidential construction of late, largely associated with hotel construction along the Las Vegas Strip, welcomed many of the workers released from residential construction. The Las Vegas housing market may well have survived its housing excesses, or at least allowed for a more orderly market-based adjustment, had not credit markets dried up.

National credit-market difficulties, largely arising out of excessive, imprudent, and new housing instruments, reached criticality in August 2007. A year later the impacts of the downturn gained momentum when Lehman Brothers went into bankruptcy. National credit problems began taking a heavy toll on the Las Vegas economy thereafter. The recent movement in jobs is shown in the accompany table. The lack of credit halted Las Vegas projects, the most noted was the Echelon project, at the time at the height of extensive nonresidential construction. The Echelon-work stoppage took out about 4,000 jobs and signaled the vulnerability of the Las Vegas economy to credit contractions. Of course, oil prices, reaching $147 a barrel in midyear 2008, added to the difficulties.

Table 2: Southern Nevada Job Conditions for May 2008 to October 2008

	May	June	July	Aug	Sept	Oct
Civilian Labor Force (1)	993.6	997.3	1001.7	1003.1	1005.8	1012.8 (P)
Employment (1)	935.5	932.6	933.2	932.2	932.3	936.4 (P)
M-O-M Change in Jobs		-2.9	0.6	-1	0.1	4.1
Unemployment (1)	58.1	64.6	68.4	70.9	73.5	76.4 (P)
M-O-M Change Lost Jobs		-6.5	-3.8	-2.5	-2.6	-2.9
Unemployment Rate % (2)	5.8	6.5	6.8	7.1	7.3	7.5 (P)
Selected Sectors of Nonfarm Wage and Salary Employment						
Construction	95.9	95.3	94.4	94.9	93.3	91.9 (P)
M-O-M Change in Jobs		-0.6	-0.9	0.5	-1.6	-1.4 (P)
12-Month % Change	-8.8	-8.6	-9.1	-9.2	-8.7	-8.6 (P)
Leisure and Hospitality	274.6	275	273.2	273.9	273.4	273.8 (P)
M-O-M Change in Jobs		-0.4	1.8	-0.7	0.5	-0.4 (P)
12-Month % Change	-0.2	-0.4	-0.3	0.8	0.6	1 (P)

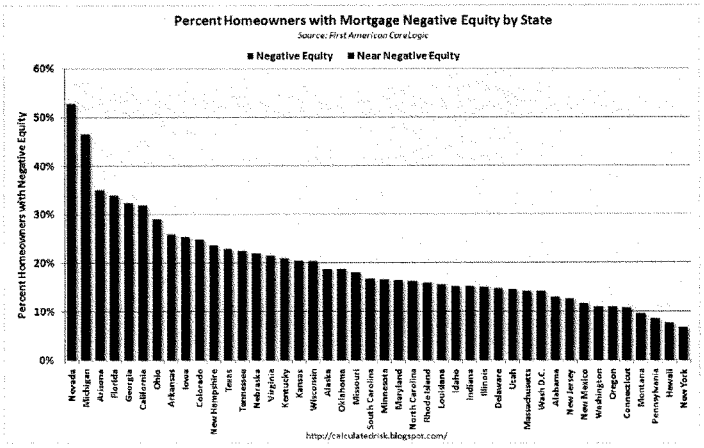
Notes:
(1) Number of persons, in thousands, not seasonally adjusted
(2) In percent, not seasonally adjusted
Source: http://www.bls.gov/eag/eag.nv_lasvegas_msa.htm, as of 12/05/08

A vigorous economy slipped to a modestly weak one, and then as other adversities hit, conditions soon gave way to a full recession with job losses cascading forward and backwards. The Southern Nevada economy went into a recession prior to or about the same time as the U.S. economy did as specified by the National Bureau of Economic Research. Currently, the local unemployment rate (7.5%, October) exceeds the U.S. rate (6.7%, November). It is possible that the Clark County unemployment rate will exceed 10 percent at some time during 2009. In short, housing conditions weakened the Southern Nevada economy, and credit and energy pushed the economy into a full-scale recession.

Extent to Which TARP Is Furthering Congress' Purposes in Its Authorization in Southern Nevada

Neither the Las Vegas Housing market nor the overall economy show positive effects from TARP. To be sure, the effects of monetary and fiscal policy actions occur with lags, most occurring six months or longer. Still, given the magnitude of the TARP program and its reference to housing problems one might have reasonably expected that Las Vegas might have anticipated some positive traction. To date, the data and information available show no signs of a positive influence on Southern Nevada's housing market.

The difficulty associated with a weak or nonresponsive action by Congress to the current situation in Nevada is shown in the percentage of households who owe more on their mortgage than the value of their home. Without action to stabilize housing prices and offer mortgage relief, Nevada faces a big risk and the likelihood of further, serious economic travail. .



Regulatory Reforms Necessary to Ameliorate the Housing and Financial Crisis

Regulatory reform of finance, though having a secondary role to the immediate difficulties we find ourselves, is a precondition to full economic recovery and sustainable development. With respect to the necessary reform in housing conditions in Southern Nevada, regulations on finance would focus on issues outside of most banking areas where controls have been in place, though we have seen two bank closures in Nevada. To be sure, the abuses that have been experienced and noted should be addressed. The failure of TARP monies to reach Nevada would suggest reforms or policy changes.

One area of improvement beyond national banking and finance is improvement in information gathering. Reforms and new programs could help reduce the chances of

future problems. Too many gained monetarily from misinformation. Information remains one of a list of factors for restoring a workable and sustainable housing environment. Advances in data gathering, analysis, and their dissemination should be pursued from a public perspective. Location perspectives dominate housing and real estate. As such, regional centers should be established or supported. National data series may not help people to understand what is occurring in regional bubble markets. I would point to the usefulness of price information developed by OFHEO and Case-Shiller for getting a better understanding, but this is only part of the solution. Regional centers with resources to monitor markets and offer transparent information by individuals without a financial interest needs development.

The CHAIR. Thank you, Dr. Schwer. If you all would remain for just a minute, we have a few questions. And I'm going to start with Mr. Neiman.

Mr. NEIMAN. Thank you. As you all referenced, the Treasury has two programs that it implemented under the TARP. One is directed toward systemically significant failing institutions. The other toward healthy institutions. And that's where the bulk of money has gone to, the Capital Purchase Program. With respect to the Capital Purchase Program, I'm interested in your views on the effectiveness of a strategy that invests taxpayers' money into only healthy banks, the term viable without any additional assistance, and investment in banks without any restrictions on—or requirements that that money be down streamed.

I think Mr. Burns referenced the fact that there is no requirement that money invested at the holding company level be down streamed to individual banks, as well as no restrictions or requirements regarding the use of the funds. And this is really one of the critical questions that we are dealing with. I would like the perspective of both—in fact, of any of the members of the panel that would like to comment.

Mr. BURNS. If the Capital Purchase Program continues to be orchestrated the way that it has been so far in its short existence, I believe that it's going to lead to further concentration of banking in Nevada, where over 80 percent of the market is already controlled by three national banks. This is because, as the smaller banks have taken longer and longer to be able to apply for and possibly receive these Capital Purchase Program funds, their exam ratings are deteriorating and they're now being tagged as nonhealthy banks. Whereas, if this program had moved faster or sooner or further consideration could be given to them regardless of what their most recent ratings are and so forth, their sustainability there over the long run.

Mr. NEIMAN. So the use of the capital into larger banks, the likely use of those funds will be for acquisitions of other banks further consolidating the markets?

Mr. BURNS. Exactly. One of the few banks in this state that has received the funds from their holding company received over 140 million dollars. They just recently announced that they're using 77 million of that in order to write off their bad security investments. That is not contributing to lending, nor the stabilization of the system.

Mr. NEIMAN. Mr. Uffelman.

Mr. UFFELMAN. Last week, when I was invited to appear before this panel, I went out to a number—well, I went to my board and several of my other members, among them a small community bank. I want to quote something that he wrote back to me. "The FDIC just left here yesterday—and George, I forget what bank you're at—we've been impacted with the real estate and economic issues much the same as everyone else. They're just plain overreacting in favor of protecting the FDIC to the detriment of the consumers they're chartered to protect. They talk out of both sides of their mouths and are unquestionably on a mission to take some banks down regardless of their real viability. I will undoubtedly come under some form—some sort of regulatory action, just not

sure which one for now. The TARP program really needs to have its name changed. And I can think a number of good names since they have yet to touch a toxic asset by way of loan purchase or stock purchase."

I will skip a couple other comments here. "All the while, community banks like ours are left hanging in the wind, and due to our deteriorated condition caused by the economic downturn, excluded for eligibility for the CPP. It's just ridiculous. And I hope that the idea that community banks didn't cause the problem and are affected by it are being—are not—excuse me—are not—are affected by it are being dismissed as bad investments. That the FDIC has taken all this effectively discourages banks from taking any risk due to the fear of being downgraded and subjected to harsh treatment as they continue to protect the bank insurance fund. Since everyone knows that the government will step in to bolster the fund, I think they're tossing out the baby with the bathwater. Now, that you've heard it, I'm buried at this point working on an action plan to refocus this bank in a fashion where we're stingy lenders or not lenders at all and will only grow our loan portfolios at a rate commencement with our core deposit of growth. That won't go a long way towards encouraging the banking industry to begin lending again."

The CHAIR. Thank you. Mr. Silvers.

Mr. SILVERS. Well, first, I want to thank all three panel members. I thought that the testimony was extremely valuable and candid. As someone who just got off the plane from the East Coast this morning, it was worth my while just to hear the three of you outlining conditions. I'm really grateful.

I want to ask several questions I believe follow up on Richard's inquiry, which I think, as he indicated, is essential to an aspect of at least our—of our world.

Let me pose a series of questions to you and you can maybe pick which one you want to answer. We have met with the Treasury Department, and we have been present and reviewed much of what they have said about what they are doing. And they repeat, and we have queried them about this, and we've queried the Federal Reserve about this, that their sole decision criteria in the Capital Purchase Program is whether a bank is healthy, absent of the capital infusion. That that's all that they look at. All right.

I'm curious if any of you have a response or an evaluation of the accuracy of that assertion.

Mr. NEIMAN. And the appropriateness, is that what the test should be as to the use of those capital objections?

Mr. SILVERS. And with that addition, my second question to you really comes off of some of the comments in Mr. Uffelman's written testimony, where you discuss the quandary, the problem faced by banks contemplating requesting TARP money. The perception how—how potential depositors will perceive it, how capital—how stockholders will perceive it, a sort of set of game theory problems. Will a bank be perceived as being weaker for asking for money or stronger?

And this of course interacts with the criteria. The sole decision criteria is, are you healthier or not? It's kind of a question you may not want to ask for fear of the answer. My question is kind of one

step up, which is: Does that set of quandaries that you've laid out, which seemed like a sort of no win set of propositions for banks thinking about this, does that suggest that maybe we ought to reconceptualize the way this whole capitalization program works, and perhaps for example give money to everyone? So that it's not—you don't ask, you just get it. Unless, of course, you really can't—you really are nonviable. In which case, you should be closed or sold off.

Third question—and this is very brief—the Congresswoman and the Congresswoman-elect talked a great deal about the problem of mortgage restructurings. And each of you in your testimony eluded to very high foreclosure rates. I'm curious as to what steps are being taken here to address mortgage restructurings by the financial institutions community, and what steps would be helpful for the Treasury to take under the TARP in that regard.

The CHAIR. So a combination of questions there. Perhaps, we'll start at the other end this time, if that's all right. Dr. Schwer.

Dr. SCHWER. Well, I'd like to come back perhaps to the first one and offer some explanation of perhaps what the Fed is doing. And since the question and the devaluation of banks is always that of solvency versus liquidity. And the deep abiding concern and the financial regulators is the question of solvency and the question of bank runs. I would suggest that it is in the DNA of bank regulators not to use the word solvency. They are very much concerned about liquidity. So I think that perhaps reflects some of the comments that they may have made. With respect to structuring mortgage programs, I think it's particularly important to note the magnitude of the problem that we face. I realize that there are questions about how to do that. But waiting a long period of time to figure it out in some way may well result in the problem having grown to great magnitude. There is a question of getting it done and getting it done now.

Mr. SILVERS. If you don't mind my stopping you right there. Do you think it's important, in thinking about this, how much attention should we pay to the question of whether to some, quote, "undeserving" people may receive aid if we act?

Dr. SCHWER. Well, I realize the there is always the question in equity of who gets what. That is the current debate about the distinction between the money that is being used for Wall Street and the money that is being used for Main Street. There is the question of bailing out the banking industry versus the automobile industry. So that equity issue is always in front. Standing and having a long debate on who wins and who loses is contrary to getting the nation's economy back in order. So we need to be moving forward, from my perspective.

The CHAIR. Thank you. Mr. Uffelman, would you like to respond to the questions?

Mr. UFFELMAN. If I can keep them all straight.

The CHAIR. I hope you took good notes, sir.

Mr. UFFELMAN. I did want to comment. You know, Fannie and Freddie, before their failure and their preferred and other—their stock and the impact, it did have an impact on at least one Nevada community bank that I'm aware of. So, you know, immediately, the day before, you're being encouraged, put your money in Fannie and Freddie, you can't lose, by the regulators. You do, and guess what,

it's basically no longer of value. So your capitalization is down. Mark-to-market, in the midst of all the Treasury process over that weekend, the same time we had people in the banking industry working on the mark-to-market issue, again, a kind of a double-whammy.

I'll comment on the mortgage restructuring. As I said before, the banks that I represent, in effect, they got excluded from the mortgage game. I mean, the larger banks, you know, that had a mortgage division, that because they were in the mortgage business, they now are frequently servicers for a number of investors for the mortgage-backed securities. So they have a bigger portfolio to manage. But, in fact, and if you go out here, as we commented before, the community bank in Las Vegas, the community bank in northern Nevada, a minimal number of mortgage loans, and regularly packaged up and sold upstream.

But the whole servicing industry—yesterday afternoon, I was on an extended phone call with people all over the country in the servicing industry, talking about servicing related issues. For whatever reason, I have become their spokesperson. The servicing companies that—you know, you used to have that collection side that made all the calls, those people are now becoming workout specialists. And they have added bodies.

But again, how many thousand properties are we talking about? The other experience that time and time again we're reminded, as many as half—excuse me—as many of half the loans that are in default in this valley, the people will not return a phone call, they won't respond to the letter. They have in effect thrown their hands up and walked away.

Foreclosure in Nevada is typically nonjudicial. Typically, you have missed payments for three months and a letter is sent called a notice of default and intent to sell. That's a 90-day letter. Sometime in that 90 days, we sure hope you would call home and ask about, can we make an arrangement? At the end of that 90 days, I then have a 21 day notice of sale. You still have an opportunity to work it out.

After the sale at the courthouse steps, whoever the purchaser is, they basically have a three day delay before there is an eviction. So in that process, if you missed payments for 90 days, you have the notice of default for 90 days, 21, you start adding it up, we're talking about seven or eight months before there is that final moment that the locks get changed on the door and the new owner, whoever they are, takes over. Maybe the institution got it back, maybe they didn't.

But the net outcome of all of that is, somewhere between 40 and 50 percent of the people who are involved in that, they haven't talked to their lender at any time. It is very discouraging. The homeowners association are upset with the lenders. The lender doesn't own the home until the end. And it is very difficult to deal with. So yes, we are working at it and there are more people available to do the workouts. But it is a very tough situation.

The CHAIR. Mr. Burns would you just have a short answer. We're going to be running a little bit late, but we would like to hear from you on these questions.

Mr. BURNS. To generally answer all of the three questions that you asked, it is indeed the case that for the first time in history we are seeing banks fail, not due to a lack of capital but due to a lack of liquidity of that capital. And that's why the Capital Purchase Program is so important as far as providing capital to institutions, so that they can loosen up the funds aimed at liquidity.

It seems to become a matter of too big to fail versus too small to matter. The larger banks whose actual viability is probably even more in doubt than small community banks are being infused. The smaller community banks are not.

Mr. NEIMAN. Can I just ask—do we have time or——

The CHAIR. We—actually—it would be rude to our next panel.

Mr. NEIMAN. Okay.

The CHAIR. So I am going to play the discipline of the chair here.

I want to thank our first panel very much for coming. As I said, your remarks will be posted in full. We appreciate the time that you have taken. And the first panel is excused. Thank you.

I would now like to invite our second panel of witnesses to come down.

I'm pleased to welcome our second panel of witnesses. We're joined by Gail Burks, who is president and CEO of Nevada Fair Housing, Inc.; Julie Murray, who is CEO of Three Square, a local community food bank; Danny Thompson, who is Executive Secretary and Treasurer of the Nevada AFL–CIO; and by Alfred Estrada, who is a Clark County resident who will share his personal story of the effects of the foreclosure crisis.

Thank you all for being here today. As I asked of our first panel, please limit your oral remarks to five minutes. Your full written statements will be part of the official record.

Ms. Burks, could we begin with you?

STATEMENT OF GAIL BURKS, PRESIDENT & CEO, NEVADA FAIR HOUSING CENTER

Ms. BURKS. Thank you, Madam Chair, members of the committee, for the opportunity to make comments today. I have been asked to focus on the role of lenders in the foreclosure crisis and the prevalence of foreclosure victims and the impact on those victims.

Audience SPEAKER. We can't hear.

Ms. BURKS. Is that better?

I've been asked to focus on the role of lenders in the foreclosure crisis and the impact on victims. Nevada Fair Housing Center is a nonprofit. We have served the valley since 1995. And much of our work involves housing and consumer issues. Over the last two years, we've seen a huge increase in our case load for foreclosure prevention. Currently on average, we are servicing about 600 calls and internet inquiries per day for foreclosure assistance.

In terms of the lender role, in the Nevada community, advocates warn the local government officials as well as public officials about the increase in predatory lending in 2001. As we begin to see what we refer to as predatory lending, we saw an increase in fees, a decrease in retail originations, an increase in loan purchases, and a decrease in the use of such things as down payment assistance,

FHA loans, and fee for service type work that literally represented services provided.

As this increased, we saw a transition from predatory lending to sub-prime lending. With that, we mean consumers who could have received better loans receiving what we consider to be toxic loans or sub-prime loans. So how in effect did that work? In looking at actual data and case files in some of the communities that have been hit the hardest by the foreclosure, over 97 percent of the consumers that received adjusted rate, sub-prime loans, interest only loans or Alt-A loans had credit scores of 640 or greater and could have received a traditional conventional loan or even qualified for an FHA loan.

As the increase in the sub-prime market expanded and the decrease of consumers receiving legitimate loans, we also saw an increase in foreclosure. Now, many of the national reports and studies that have been broadcast in the news have done what we call blaming the victim or literally putting the economic crisis on the backs of low income consumers stating that they caused the mortgage market to fail. This is not true. Many of the consumers that we see on a day-to-day basis are consumers who could have received better loans. The clients that we see are broken down into those who have a delinquency; meaning 30 days or less, those who have received a notice of default; meaning, 90 days or more, and those who have actually received a sale date.

Given the opportunity, many of these loans could be modified because the consumers could afford the homes. Now, earlier it was stated that 50 percent of those in foreclosure don't talk to their lender. What was not stated is that many of the consumers have attempted to contact their servicer to receive help, but because of all of the different programs that are available, the loans are not getting modified without some sort of intervention and assistance on behalf of the consumers.

The CHAIR. Ms. Burks, one minute.

Ms. BURKS. The other thing that we are seeing in terms of the foreclosure crisis is not enough sufficient initiatives to actually address consumer issues. All real estate is local. With the inability to modify loans or to obtain direct assistance or funding to modify those loans or to purchase those loans, these loans are actually going into foreclosure. That's also leading to another type of scam. Consumers are being inundated with requests to pay for foreclosure prevention services. In some instances, consumers have paid upwards of $4,000 to scammers to modify loans, only to find that the foreclosure has not been stopped.

The top funds have not increased lending. Indeed, many lenders have changed their mortgages conventional products. So today, you have to have on average a 680 to a 720 credit score and 75 percent of that loan will be financed, where as the other 25 percent must come from money from your pocket. In order to make TARP effective, we have to give consumers some relief, we have to make modifications mandatory versus voluntarily, and we have to ensure consumers that there is legitimate assistance to help with the foreclosure crisis.

The CHAIR. Thank you, Ms. Burks.

[The prepared statement of Ms. Burks follows:]

NEVADA FAIR HOUSING CENTER, INC.
paving the way to a world of resources

Written Testimony of
Gail Burks
President & CEO
Nevada Fair Housing Center

Submitted to the
United States Congress
Congressional Oversight Panel

732 North Capitol Street, NW,
Rooms: C-320 and C-617, Mailstop: BOC
Washington, DC 20401

Tuesday, December 16, 2008

Role of Lenders in the Foreclosure Crisis: Prevalence of Foreclosure Victims

Introduction

Nevada Fair Housing Center is Nevada Fair Housing Center, Inc. is a non-profit organization formed in 1995. Our mission is to provide, for the communities we serve, education, legal advice, technical assistance, policy research and financial services, related to housing and consumer issues. We also work on housing and foreclosure issues nationally, as a Board Member of the National Community Reinvestment Coalition and the National Low Income Housing Coalition

The agency, since October 1999, has provided assistance to consumers with financial issues. In 2001, the largest issue facing Nevada consumers involved predatory lending. Today, the biggest issue is foreclosure and the community impact of this increasing phenomenon. This issue is so pervasive that the Nevada Legislature appointed an Interim Mortgage Lending Subcommittee to study the problem and develop proposed solutions, to be presented at the next session. Nevada Fair Housing Center has participated in these efforts, as well as the local foreclosure task force.

3380 W. Sahara, Suite 150 Las Vegas, Nevada 89102 (702) 731-6095 Fax (702) 732-9538 TDD (702) 648-0727

NEVADA MORTGAGE PROBLEM / ECONOMIC IMPACT

Like many states, Nevada has experienced an extreme increase in mortgage foreclosures. According to a report issued by Realty Trac[1], one in every 165 households was in foreclosure at the end of last year. This number increased from 2,397 to 6,197. In October 2007, our office received on average 200 calls per day seeking foreclosure assistance; today that number has increased to 607 requests for assistance per day. Counties affected by the crisis are: Clark County, Douglas County; Elko County; Lyon County; Nye County; and Washoe County.

	Total Number	Vacant %
September 2006	4,731	31%
September 2007	1,205	20%
October 2007	28,655	47%

In September 2006, the state reported 4,731 foreclosures. One year later, September 2007, there were 1,205 foreclosure starts in southern Nevada, or about 40 per day. Today, that number has risen to 28,655[2]. Of the total foreclosures, it is estimated that forty seven percent (47%) sit vacant. Approximately eleven (11%) percent were seeking buyers.[3]

According to data issued by the Mortgage Banker's Association, from 2006 to 2007, the total number of loans past due rose from 2.8 percent to 4.41 percent. Although this is below the national average of - 4.37 percent to 5.06 percent - the foreclosure inventory continues to rise an average of 1.57 per quarter. This one / two punch - employment decline[4] plus home price decline - has resulted in an unstable housing market. In short, there can be no return to housing stability absent a plan to deal with vacant property.

Although less than many of our sister states, Nevada has 108,000 subprime non-conforming loans. Nevada, Arizona, California and Florida led the nation in new foreclosure starts in the second quarter of 2007. It is estimated that 32% of Nevada loans in foreclosure are investor properties[5]. As one state Senator so eloquently expressed it, "there is a general concern that wall street investors and corporate builders have significant influence on the mortgage-lending

[1] Realty Trac Report, "U.S. Foreclosure Market Statistics by State".
[2] Applied Analysis, Market Watch, September 2007
[3] Id
[4] Due to a decline in construction jobs
[5] Legislative Subcommittee, December 3, 2007

industry, but assume no responsibility to the communities that have been negatively affected".

An Unfair Trade: Loan Performance Exchanged for Subprime Market Share

Lender actions, along with fragmented delivery systems played key roles in the foreclosure crisis in Nevada and nationally. Prior to 2000, lenders focused on underwriting, using equity programs such as down payment assistance and direct retail lending. In 2001, advocates began to warn government leaders about the increase in predatory lending and undertook a comprehensive campaign to prevent consumers from "borrowing trouble". What specific lender activities signaled trouble for consumers in Nevada? Examples include, but are not limited to an increase in broker loans with excessive fee structures, the elimination of portfolio loans and innovative products that required full documentation, steering borrowers to high cost loans and a decrease in participation in local down payment and FHA loan programs, loan flipping, failure to establish escrow accounts and in some instances, the failure to properly apply payments[6]. As the markets transformed to higher volume but less quality loans, prime lenders, in order to grab market share, abandoned tried and true principals and resorted to purchasing verses originating loans.

PREVALENCE OF FORECLOSURE VICTIMS

Many of the national reports and studies done on the foreclosure crisis infer that those failing were bad, risky borrowers. This is not only untrue about the majority of loans we have investigated in Nevada, but it also demonstrates the failure of these studies to include actual real life file data or distinguish between the stages of foreclosure among clients seeking assistance.

The substantive characterization of consumers seeking assistance with mortgage issues when they arrive at the door of our agency is as follows:

- Delinquency — 30 days late on the mortgage
- Default — 31 plus days/public notice of default
- Foreclosure — Sale date pending
- Post Foreclosure / Pre-Eviction — Unaware of sale[7]

An examination of over 401 case files in our office shows that financial intermediaries have contributed to the destruction and undermining of genuine efforts to reach emerging markets. In examining these files, we look at consumers that received a good product vs. consumers that received a bad

[6] Soreno vs. Fair Banks Capital
[7] Includes those consumers that are renters in a property that is foreclosed on by either the first or second lender.

product. Five other factors were crucial in this analysis, namely:

1. The consumer's credit score at the time of application?

2. Where the transaction was consummated? (lender's office, in home, internet)

3. Where the loan closing occurred (title company vs. in home; who was present)?

4. The consumer's income at the time of the loan application?

5. Past mortgage purchase experience? (trust level, referral source, use of friend or family)

Various forms of lender abuses contributed to otherwise qualified buyers with toxic products. In Nevada, the percentage of consumers that could have afforded a mortgage is set forth below:

	CREDIT TYPE	LOAN TYPE	COMMENTS
85%	Good Credit	Bad Loan	Can Afford Home
7%	Good Credit	Bad Loan	Loan Product Inappropriate
5%	Bad Credit	Bad Loan	Can Afford Lower Priced Home w/ different loan (i.e. FHA)
3%	Bad Credit	Bad Loan	Can't Afford ANY home (should have been denied, referred for education and assistance to prepare for homeownership

The above data does not account for the number of investor loans (clients not served by our agency) that through attempts at market timing simply bet on skyrocketing home prices to their detriment. The investor group experienced difficulty during the second wave of declining prices. The Nevada foreclosure crisis is estimated to affect four out of five households.

Current Initiatives: A Failed Defense

We are all playing in the 'economic super bowl' of the century, yet we've failed to create an effective defensive play; our offensive players have failed to show at all for the big game. On a daily basis, consumers flood the office phone lines and voicemail boxes demanding assistance for what they deem is a quick fix merely because it was recently broadcast on the news. In reality these fixes are just that --- announcements without practical substance. Why are most current initiatives ineffective? First, it's important to remember that **ALL REAL ESTATE IS LOCAL**. Second, many of the initiatives published the most involve calling a toll free number that is inadequately staffed or staffed

with personnel ill equipped to deal with the flood of requests. In many instances, consumers cannot distinguish genuine assistance from the wide array of mortgage scams plaguing the community. Third, loan modifications are predicated on VOLUNTARY lender participation and left to the will of the servicer and/or investors that created the problem (see FHA Secure Plan). Fourth, other plans have all focused only one category of homeowner (i.e. U.S. Treasury November 29, 2007 proposal to assist borrowers with rate resets).

Perhaps the plan with the most unintended consequences is the Neighborhood Stabilization Program. Although local plans were just submitted to the Department of Housing and Urban Development for approval, the proposal specifically **prevents** the use of funds to assist clients with foreclosure prevention.

TARP FUNDS / LENDING LEVELS / MISSED OPPORTUNITIES

Despite the distribution of TARP funds to every major lender in Nevada, lending levels have not increased. Although lending opportunities exist in the mortgage market, products have contracted. The infusion of lending liquidity has not led to more lending. This is evident in the changes in standard conventional product guidelines recently adopted by many lenders, even for qualified buyers with good credit:

	Credit Score	LTV	Comments
Retail Mortgage Products (post meltdown)	640	95%	Conventional product w/down payment
Retail Mortgage Products (post TARP)	680 to 720	75% - 80%	Conventional product w/ government down payment

Consumers account for seventy (70%) percent of the economic market. Defensive remedies have 'blitzed' on every play and left the back field (the field of consumers) open to attack Every defensive play has failed to include what is needed to fix the basis of the broken economy --- the mortgage market. Until this is corrected, until we move to a defense that protects what's right in front of us, we will continue to put the entire economic game at risk.

Changes to TARP and other pending initiatives should be developed:

1. Using practitioners that work on the ground in housing, development and the financial sector and include real viable solutions developed in the context of the housing market;

2. An incentive should be implemented for lenders that conduct appropriate modifications (recorded and finalized);

3. Penalty system for failing to use TARP funds within a lender's service area; and

4. Enforcement to stem the tide of mortgage and foreclosure scams.

The CHAIR. Mr. Thompson.

STATEMENT OF DANNY THOMPSON, EXECUTIVE SECRETARY-TREASURER, NEVADA STATE AFL-CIO

Mr. THOMPSON. Thank you. Thank you, Madam Chairwoman and members of the committee. It's a pleasure to be here today. You know, I think the previous speakers have pretty well laid out what happened here, and that we had this massive housing bubble and a move by everyone to make money quick.

Let me tell you, during that period of time, I was going to buy a rental property, to show you how bad this was. I had found one that was right, that I could afford and make enough money in the rent. When I went to make the offer on the home, the person selling the home told me, "Well, no, that's not enough, you have to offer more because this week the prices went up." The prices went up so quickly and there was such a move by people to get in on this get rich scheme, if you will, that the lenders made loans that normally they wouldn't make.

I have friends who—who got ARM loans that they didn't fully understand. Interest-only ARM loans on a $700,000 home that had been told by the lender that, "Well, don't worry if rates go up beyond," because there is no way they could afford that home, "if the rates go up, you will simply refinance." And then we come to where we are today and you couldn't refinance if you had to.

Today, they're over 30,000 foreclosures in Clark County. One of the problems, quite honestly, is that 50 percent of the people that hold mortgages owe more on the mortgage than the home is worth. Now, that's a direct result of the bubble popping. But it's also—a lot of those people are her clients, where they now have those ARMs and those interest-only ARMs come due. And as they get readjusted, they find themselves in a situation where that is impossible. And so many of them simply walk—walk away. We have a $450,000 house that the house right across the street is worth $200,000. That's what's happening. They—some of them literally walk away. And some of them go and turn the keys in.

Whether the stimulus has helped individuals, I don't know of any help that has filtered down to homeowners. I do know, though, that the lack of regulation or the lack of enforcement of existing regulations on some of these mortgage companies is something that certainly needs some scrutiny. Because, you know, like I say, I know people that have loans that ended up with an adjustable rate mortgage that they didn't fully understand that that's what it was. Whose fault is that? I don't know. But I can tell you that the result of that has put Nevada, as a state, in a place where we have never been before.

Right now, on the Las Vegas Strip, we have the largest privately funded construction job in the world. There are approximately 10,000 workers on that job. And Nevada's economy is dependent, so dependent on a single source, in that almost 50 percent of all the money in the state budget comes from a single source. And so I can tell you what the fix is not. The fix is not to take away wages. The fix is not to take away pensions. The fix is not to take away health care of workers. Because that's a rush to the bottom.

And I have heard so many work people say, "Well, we need to"—in fact, this legislative session, I'm in the fight of my life to protect public employees' pensions. That's not the fix. The fix, I think is creating jobs and good paying jobs and jobs that pay prevailing wages in the community that they are created will get us out of this mess. Thank you.

The CHAIR. Thank you, Mr. Thompson.

We are going to take a break for just a minute in the middle of this panel. I apologize to Mr. Estrada and Ms. Murray. But Senator Reid has come to join us, and we would like to just make a space for him and invite him in so that he can also read a statement. That would be good. The rest of you can just stay there. Stay there, Ms. Murray. I think Mr. Thompson is going to give up his seat. Please, Ms. Burks, stay. That's fine. I think we have the Senator?

Oh, it's—sorry. We do not have the Senator. We will have the Senator soon. I was misinformed.

Ms. Murray, would you like to start your testimony? Yes. Sorry, Mr. Thompson. I'm glad for you to have a little exercise in the middle of this. I appreciate it.

Ms. Murray.

STATEMENT OF JULIE MURRAY, CEO, THREE SQUARE FOOD BANK

Ms. MURRAY. Good morning, Chairwoman Warren and members of the Congressional Oversight Panel. My name is Julie Murray, and I serve as the CEO of the Three Square Food Bank in Las Vegas, Nevada. And I'm honored to have been invited to provide testimony today. My testimony follows that of housing and finance experts who have done an outstanding job discussing the economic conditions of our community and our state. My role in today's proceedings is to focus on what these numbers mean in terms of human lives and how the residents of our city and state are being affected and are suffering due to the downward trends in our economy.

As you know, I run the Three Square Food Bank which started over a year ago at the inspiration of Eric Hilton, youngest son of Conrad Hilton, and numerous other think-outside-the-box leaders in this community who declared that it is was not acceptable for people in our community to go hungry. As the newest member of Feeding America, we're proud to distribute food in southern Nevada to over 211 nonprofit agency partners, including faith-based groups and churches. We also provide weekend food banks, food bank bags to 120 schools with our Backpack for Kids program.

Maslow's hierarchy of needs states that when looking at how a human being's needs are met on a pyramid, the basic needs of food and shelter are at the base of the pyramid, serving as the foundation. Once a person has these basic needs of food and shelter met, they are better equipped to excel in school, to maintain a job, and lead a productive life. When part of that foundation, the core, food and shelter, is absent or has crumbled, it makes it very difficult for a person to survive or exist.

If I would have testified a year ago or even six months ago, I would have said that thousands of families in my home state are living paycheck to paycheck and are just one crisis away from dis-

aster. However, I'm sad that as I testify before you today, those thousands of families have had that one crisis occur. Due to the recession, they're now living their biggest fear, living without a paycheck. Our city, county and state budgets are receiving double digits cuts at a time when people are in most need of services. At the Three Square Food Bank, we see the people affected by these statistics and these numbers every day.

Let me give you three brief examples in the five minutes of my testimony. Number one, children. Children facing hunger. In this Clark County School District here in southern Nevada nearly half of our children, 132,000 qualify for a free or a reduced lunch meal, which means that a family of four makes less than $20,000 a year. Picture that. Five out of ten children crossing the crosswalk on their way to school who are struggling with hunger. When half of our children are suffering, we are living in a crisis mode.

The CHAIR. One minute.

Ms. MURRAY. Thank you. Secondly, families in need. For every child in need, there are members of families struggling to make ends meet. Recently, while filling my gas at a gas station in Summerlin, Nevada, a car driven by a middle aged man with two sweet little girls in the back seat pulled in next to me. The man approached me with an ashamed look on his face and said that he had never been out of work but recently was laid off, lost his home, and could not afford gas or food for his family. My heart broke as the two little girls watched their dejected father beg for money. I gave him some cash and told him how to find a local food bank agency partner where he could receive free groceries.

As Nevada's unemployment rate grows, such stories will only become more common all across the country. So in conclusion, I want to share with you what I testified before the Congressional Appropriations Committee last week, along with Governors from Wisconsin, Vermont, and New Jersey, and an expert on higher education. Congressman David Obey wanted the Congressional Appropriations Committee to hear testimony about how lives are being impacted. And I was delighted to be able to represent our state and share that with him. My input for that committee and my input for this committee is the same. When we are looking at ways to effect change and when you are looking at the effectiveness of TARP, let me say that we have not seen any decreases in the demand for food or services from my food bank and from our 211 nonprofit agencies, partners, schools, and churches. In fact, as we wind down our year, each week brings huge increases in demand for food and longer lines of people who need food at our agency and nonprofit agency partners.

My recommendation is that we all work together. And in the final conclusion is, I want to share with you that, as Damon Silvers said in his opening remarks, we're all woven in this together. And Richard Neiman said, only so much can be done at the state level. And all of you are right. We have to work together. My food bank service providers, cities, counties, states, and the federal government must communicate and be effective.

It is sad—a sad day when a child writes to Santa that all he or she wants for Christmas is food. This recession is frightening, it's

impacting us all, people are suffering. And I thank you for coming to our state to hear about how things are going. Thank you.

The CHAIR. Thank you, Ms. Murray.

[The prepared statement of Ms. Murray follows:]

Testimony by Julie Murray, CEO of the Three Square Food Bank
to the Congressional Oversight Panel
December 16, 2008 Hearing in Las Vegas, NV

Good Morning Chairwoman Warren, and Members of the Congressional Oversight Committee. My name is Julie Murray and I serve as the CEO of the Three Square Food Bank in Las Vegas, NV. I am honored to have been invited to provide testimony today about how the financial crisis and mortgage lending crisis have affected residents in Las Vegas' neighborhoods, including the impact of these crises on the demand for social services.

My testimony follows that of housing and finance experts who have done an outstanding job discussing the economic conditions. My role in today's proceedings is to focus on what these numbers mean in terms of human lives, and how the residents of our city and state are being affected by the ongoing downward turn in our economy.

As you know, I run the Three Square Food Bank, which started over a year ago as the inspiration of Eric Hilton, youngest son of Conrad N. Hilton, and numerous other "think outside the box" leaders in my community, who declared that it was not acceptable for people in our city, to go hungry. As the newest

member of Feeding America, we are proud to distribute food in Southern Nevada to over 211 non-profit agency and faith-based partners. We also provide weekend food bags to 120 schools with our "BackPack for Kids" program.

"Maslow's Hierarchy of Needs" states that, when looking at how a human beings' needs are met on a pyramid, the basic needs of "food and shelter" are at the base of the pyramid, serving as the foundation. Once a person has the basic needs of food and shelter met, they are better equipped to excel in school, maintain a job, and live a productive life. When part of that foundation absent, it makes it very difficult for a person to succeed.

If I would have testified one year ago, I would have said that thousands of families in my home state of Nevada are living paycheck to paycheck, and are just one crisis away from disaster.

However, I am sad that as I appear before you today, those thousands of families **have** had that "one crisis" occur. Due to the Recession, they are now living their biggest fear: living without a paycheck.

Our city, county and state budgets are receiving double digit cuts at a time when people are in dire need of services. At the Three Square Food Bank, we see the people affected by these statistics every day.

1. **Children Facing Hunger:** In the Clark County School District, nearly half of our children—132,000--qualify for a "free or reduced lunch". Picture that, five out of 10 children in a school crosswalk struggle with hunger. When half of our children are suffering, we are living in a crisis mode!

At the beginning of this school year, the Three Square Food Bank launched a weekend feeding program called the "BackPack for Kids" program that provides bags of nutritious, kid-friendly food to 3,000 children weekly.

I recently visited one of our BackPack Partner Schools where every one of the 733 students qualifies for a free or reduced lunch. I asked one second-grade student, Isabelle, what she thought about the food in the bag. She had a huge smile on her face and said how proud she was to be able to take food home for her family. Her mother had recently lost her job, and this eight-year-old girl carried the five pound bag of food home on her back every Friday, and shared the food with her mother, younger brother and the family dog.

2. Middle Class Families In Need: For every child in need, there are family members struggling to make ends meet. The on-going layoffs, in our normally "Recession-Proof" gaming industry are bringing more people to the food pantries we serve. These are often people who have never sought assistance before. Let me tell you one family's story.

While filling my gas tank on a Sunday afternoon, a car driven by a middle-aged, man with two sweet little girls in the backseat, pulled next to me. The man approached me with an ashamed look on his face and said he had never been out of work, but recently was laid off, lost his home, and could not afford gas or food for his family. My heart broke as the two girls watched their dejected father beg for money. I gave him some cash and told him how to find a local food bank agency where he could receive some free groceries.

As Nevada's unemployment rate grows, such stories will only become more common. Indeed, as the unemployment rate grows nationally, you will hear such stories in every Congressional district across the nation.

3. Growing Demand at Charitable Agencies: At the one-year anniversary of our food bank tomorrow, we will announce that we have distributed 10 million pounds of food—representing 8.5 million meals--this year. That food reaches hungry people through our 211 agency partners. These community agencies include food pantries, homeless shelters, rehabilitation homes, and programs for at-risk children and seniors. Forty agencies joined us this year **who had never previously engaged in food relief**, but are doing so in response to this economic crisis. And our existing food pantries are hit particularly hard. Many have seen a doubling of clients over the course of this year.

Conclusion

I testified before the Congressional Appropriations Committee last week along with the Governors from Wisconsin, Vermont and New Jersey; and an expert on Higher Education from Brandise University. Appropriations Committee Chairman David Obey wanted the Congressional Appropriations Committee to hear our testimony about how people in our states are being impacted by the downward trends in the economy. At the end of our testimony, they allowed us to make recommendations for their consideration as they prepare for President Elect Obama's arrival in January 2009 to work on the Economic Stimulus Legislation. My input for that Congressional Committee addressed ways Congress can help ensure people in need have access to a consistent supply of nutritious food, which could be achieved through increases in SNAP/Food Stamps, CSFP, TEFAP and SFSP.

However, for the purposes of this hearing today, where you are looking at the effectiveness of TARP, let me say that we have not seen any decreases in the demand for food and services from the Food Bank and our 211 Non Profit and faith-based partners, and 120 Schools that we service. In fact, as we wind down the year, each week brings increases in demand, and longer lines of people in need at the Agencies and Churches to whom we provide food. As I mentioned

before, many of the people in these food lines are people who just last month, last Summer or last Spring were employed and living with a roof over their head.

My recommendation to you is that we all work together: Service Providers, Cities, Counties, States and the federal government. This Recession that we are in is frightening, is causing people to live their biggest fears of not being able to provide for their families, and can only be solved if we are all work together.

I welcome any questions you might have.

The CHAIR. Now, Mr. Estrada, if you could wait for just a minute, we're going to hear, I believe, from Senator Reid, who's going to join us.

Senator Reid, on behalf of Mr. Neiman, and Mr. Silvers, and myself, the Congressional Oversight Panel, we want to welcome you here today and offer a special word of thanks because, without your insistence, this panel would not exist and certainly not would be in Nevada today. So we welcome your thoughts.

STATEMENT OF SENATOR HARRY REID, U.S. SENATE MAJORITY LEADER

Senator REID. Madam Chair, I appreciate very much all of you being here in Las Vegas. But more importantly, thank you very much for taking this assignment. This is an extracurricular activity that you all didn't have time to do, but you're all uniquely situated to help the American people work their way through the issues that they have, which are significant.

The CHAIR. Senator, could you move the mic just a little bit closer, now that you've finished those kind words.

Senator REID. It's good over the years—it's good over the years, I haven't developed a complex because people always tell me I don't talk loud enough.

The CHAIR. Thank you, sir.

Senator REID. Maybe I do have a complex. I don't know. For those who are listening, I had the unique opportunity to appoint the chair, Elizabeth Warren. And I appreciate your taking this. I worked with Speaker Pelosi, you know, Mr. Silvers, to get you on this board. And it really is a very, very important job that each of you have. I can't think of a more appropriate place in the country than Las Vegas to hold this hearing. No place can demonstrate more the struggles that communities across the country are facing as we work our way through one of the most difficult economic recessions in our entire nation's history. I'm confident this hearing will provide the oversight board important information and insight into the economic crisis to help guide its work in Washington.

Before the election, we passed the Economic Stabilization Act, which created the Troubled Asset Relief Program or as we all refer to it TARP. In acting, Congress believed that working with the administration and the Federal Reserve, that there could be an ad hoc approach to rescuing important financial institutions that at the time wasn't working at all. And we felt confident a legislative solution was needed.

We all believed, and Congress certainly was part of that belief, that the financial system had to be stabilized before a broader economic recovery could follow. The Bush Administration initially believed that they would do this by using TARP to purchase from banks troubled assets which consisted mainly of mortgage backed securities or mortgages.

Now, I'd never heard of an illiquid asset, but that's what Paulson kept referring to—these illiquid assets, these bad loans. These illiquid assets had been rapidly declining in value due to the housing crisis and were causing many institutions to suffer enormous losses. Soon after the law was passed, Secretary Paulson concluded that this approach was too complicated and would take too much

time and frankly too much money. So treasury shifted gears, began buying preferred stock in the nation's largest banks as a way to inject capital into these firms and hopefully into the country's financial problems. This capital could be used to help absorb expected losses on real estate related to securities or mortgages, and also could be used to provide funds for lending which we know is critical to economic growth.

So far, we know that at least 350 billion dollars have been allocated under TARP. Yet, as the economy continues to deteriorate, foreclosures increase and credit continues to contract. Many Nevadans wonder whether TARP is being used appropriately. All America shares this. I do. I see two problems with how TARP has been implemented so far. First, most of the big banks that received capital funding through TARP, some 225 billion dollars, were healthy and should be using the new capital for lending. And they're not. Instead, these firms appear to be contracting their lending activity just when business and consumers across the country need access to credit the most.

This lending contraction exacerbates our country's economic troubles. And if there is anything that I want to make as a point today, it is that these banks have to loosen their grasp on stopping people from borrowing anything. Businesses that have been ongoing for years and years with good credit ratings can't borrow enough to keep their businesses going. People can't buy cars.

I met with a bank president here in Las Vegas yesterday, president of one of the one hundred largest banks in America. He said it's unbelievable what is happening as far as his bank. People can't get—their credit ratings can be very high, but they can't get approval to borrow money for a car loan. Now, as you know, I have spoken to car dealers and of the few cars they have, if they have somebody who wants to buy a car, they can't get it financed. So 225 billion dollars given to the big banks has not helped the problem at all. And it shouldn't be that way.

I took the liberty yesterday to call three large financial institutions. What's going on? And they all had the same answer, "We're working on it." Well, I would suggest they get a new work crew because it's just not helping at all. Underwriting standards became too shoddy before the housing bubble. We all know that. But I believe the pendulum now has swung too far in the other direction. I hear from too many constituents, parents, small business owners or business leaders that need capital but can't get it because it's either unavailable or far too expensive. The banks that received TARP have a unique responsibility due to the fact that American taxpayers now have an ownership stake in these banks. All of us here who pay taxes are shareholders of those banks. We can't force them. But for the good of the country, the banks should be putting their TARP funds to use and lending where possible.

I don't know if this is true. You could find out, that some of these big banks are loaning money to countries in the Middle East. I'm not—countries, I'm sorry—to business propositions in the Middle East, but nothing here in America. And I hope you would follow up on that.

Second, despite Congress' clear intent that TARP be used to stem foreclosures, so far no TARP funds have been used for that pur-

pose. Meanwhile, the number of foreclosures increases by day, by day. Especially here in Nevada. Some of the witnesses here, like Gail Burks, can explain first hand, if she hasn't already, the scope of Nevada's foreclosure problem and the tremendous strain it brings to working families and entire neighborhoods. If we don't confront the problem here more aggressively, experts predict we would see another up to 2 million foreclosures in the next two years.

Oscar Goodman and I went to the number one place in the city of Las Vegas for foreclosures. The average home in the area was eight years old. It was a very nice neighborhood. People have the idea these foreclosures are taking place in slums. They're not. The number one foreclosure district in Las Vegas—neighborhood, I should say—in Las Vegas is a very nice neighborhood. But part of it was exacerbated by the virtue of the fact that here in Nevada, we had a lot of homes that were bought for speculative purposes and not to live in. And that made things worse.

My colleagues and I in Congress know that strong oversight of the Treasury Secretary is critical, given the large funds at stake. The oversight board is just one of several tools included in the legislation to hold the Treasury Secretary accountable to the taxpayers for fulfilling the objectives of TARP. While I had some role in the makeup of this board, everyone should be reminded, this board is independent from Congress. This board will be a reliable resource to Congress and the public, and this administration and the Obama Administration as we learn from you how the Treasury program is performing and whether its helping to put our country's financial system and economy back on track.

And I would say to you, Mr. Neiman, I'm going to go out in just a minute and speak to my number one pal on the telephone. Schumer and I talk—Senator Schumer of New York and I talk several times a day, and he said only nice things about you a few minutes ago.

Mr. NEIMAN. Thank you very much.

Senator REID. Thank you very much.

The CHAIR. Thank you, Senator, we appreciate you coming.

Senator REID. Could I be excused?

The CHAIR. You may be excused, Senator.

Senator REID. Glad to—glad to escape this difficult cross examination.

The CHAIR. Thank you, sir.

Mr. Thompson would you like to rejoin us? Mr. Estrada.

Mr. ESTRADA. Yes, ma'am?

The CHAIR. It was a wait. We appreciate your patience—

Mr. ESTRADA. No problem.

The CHAIR [continuing]. And now it's time for your statement. Please, sir.

STATEMENT OF ALFRED ESTRADA, RESIDENT OF CLARK COUNTY, NV

Mr. ESTRADA. Good morning. My name is Alfred Estrada, and I was referred to you by my realtor who is Leslie Moore. Let me tell you a little story about what happened to me. Okay?

The CHAIR. Yes sir.

Mr. ESTRADA. What happened was that my house, I fell behind on my payments. Okay? The house doubled in price, like this gentleman was saying, the houses doubled in price. So the amount of money that I owed on my house was not what it is worth anymore. So I had found another buyer to purchase the house from me. Right? And this is when I met up with my realtors. And I had asked them, I says, you know, I want to sell the house to a family friend of mine so that I can stay in the house.

I have two little daughters, and I live in a house where I would never need to live in any other home in my life. Okay. This is my dream house, because I can open my garage door and see my daughters playing right directly across the street because that's where their school is at. Okay. And what had happened was, was that my mortgage company, they did everything that they were supposed to do. My wife, she worked on it for two, three weeks. Always on the phone. We had sent a bid in for the house for a fair rate of $75,000 for the house.

All the houses had lost all their equity in the homes. Okay. And this was with Wells Fargo Bank. And what they had told us was that they wanted $89,000—$98,000 for the house. Okay. So I called—I called back my buyer and I told him, I said, "Listen, this is what they want and then we can get the house back." Because the one part—the one part that I never wanted to do was to leave the house. Okay. Well, we did everything that they asked for. We gave them a new bid, the money that they wanted. They told us that if you give us this amount, the house is yours. So after we had did everything we were supposed to do, for two weeks, we couldn't get in touch with anybody. And then about another week or two down the road, and we find out that our house was sold at auction.

I had a realtor come to my house and tell me that I had to move out of my house because—because they had no record pretty much of none of the things that was being done as far as the new bid for the home with our first mortgage company. So at the end, they tell me that I have 14 days to get my children out of the house and take them out of the house that—it's their home really. And so the gentleman tells me that he's going to pay me $500—up to—well, first $1,500, he was going to pay me for something called cash for keys.

Which meant—because my wife, she was—she was working for a lady that was into foreclosed homes and she was cleaning the homes. And so she—we had—I had been with her, and I had seen some of the homes that people that are so distraught they're losing their homes or they're just upset, and they're tearing these houses apart, which is bringing the value down even more.

And I told the gentleman, I said, "Look, that's not our intention." I says, "My intention is this, is that on the day that you told tell me that you are going to put the house back up for sale, I want to be the first person that you call so that I can have what should have been done in the beginning get finished so that I can move back into my home." The thing that really amazed me was that the $98,000 that the bank said that they wanted for the house, well, they sold the house for $85,000 in a auction. So they actually lost money.

So now, Wells Fargo has the house. And now we've had to leave the home. We—I live in an apartment right around the corner from my house because I have five and six year old daughters.

My six year old came home the other day with a full sheet of paper with all of her friends' names on it.

And she told—she told me that these were the people that were going to miss her because we were going to have to be moving. And I told my daughter, I says, "I don't care if I have to live in a van. You're still going to be able to go to this school."

I'm trusting in God that we're going to be able to be back into this home again. But this is what had happened to us. We had the money to buy the house.

It wasn't supposed to go into foreclosure. And four or five days later, they sold it at auction for a reduced price.

The CHAIR. Mr. Estrada, do you have any idea why this happened?

Mr. ESTRADA. I have no idea. We did everything we were supposed to do. My realtors put in the bid for the home. They were dealing with the mortgage company, this and that. They sent back saying that they didn't want the first bid, that they wanted this amount of money, and they would sell the house to us. So that's what we did. We give them everything that they wanted. And in the end, they threw me—threw us—me and my family out of our house.

Mr. NEIMAN. This is often an unfortunately common story, where banks are not moving these short sales along. And I assume when you had that offer to purchase that home at that price, they were going to allow you to remain in that house either through a rental or a loan, personal loan to you?

Mr. ESTRADA. Right. We were going to rent the house from the buyer.

Mr. NEIMAN. Right. This is something, an area that has to be addressed in order to get banks to move that along. Because, as you see, you're not benefiting and the bank is not benefiting.

Mr. ESTRADA. No.

Mr. NEIMAN. So it's a lose/lose. And that really is—and I very much appreciate you bringing this one to our attention, because it highlights a number of the problems in facing and dealing with an institution and the impact that it has on families. So I thank you very much for sharing that with us today.

Mr. ESTRADA. Yes, sir.

The CHAIR. Thank you, Mr. Estrada.

Mr. ESTRADA. You're welcome. Thank you.

Chair WARREN. Mr. Silvers.

Mr. SILVERS. I have two questions. First, I want to pose a question about foreclosures. And I think Mr. Estrada's testimony suggests that foreclosure is kind of the first idea rather than the last. And we in Washington have heard on a number of occasions from the Treasury Department, in the context of the Treasury Department implementing TARP, the bailout, that what they are doing—that they are doing an enormous amount to prevent foreclosures on a voluntary basis.

They have a program that they talk about called Hope Now. And they say that is the appropriate way to deal with foreclosures, is

by voluntarily encouraging the banks that are receiving the hundreds and billions of dollars to work things out in just the—maybe not quite just the way they worked them out with the Mr. Estrada, but that kind of idea.

I'm interested in the panelists' observations about the effectiveness of this voluntary approach and what might be done alternatively if that's not good enough with what remains of the TARP money?

Second question is for Mr. Thompson. There was a mention of the——

The CHAIR. You have multiple chances to ask questions.

Mr. SILVERS. Oh, I do? Okay.

The CHAIR. So if you want to just ask one? I promise——

Mr. SILVERS. Then I'll come back. Thank you.

The CHAIR. Good.

Ms. BURKS. Thank you. The Hope Now program is a program that uses a national toll free number for consumers that need assistance to call in. The difficulty is, it is impossible to truly diagnose a particular loan situation without looking at the case file, taking information from the client, and looking at the neighborhood at large. If you just tell the consumer to call the lender and request a modification, it doesn't work. You have to assist the consumer in calling the lender and show that lender how it's in the best interest of their investors and the consumer, how they can maximize net tangible benefit by keeping the client in that home. It's a lot of work. And on the average, if you do it correctly, you will spend about 200 hours per case.

It's a direct service. There is no way around it. It's like trying to diagnose your medical problem without running a test or without doing any blood work. It cannot be done. So all of what we have done and all of the voluntary initiatives, call a toll free number, get it refinanced through FHA secured, they don't address the fundamental problem. Look at, can the consumer afford the mortgage? Is it in your best interest to take a short sale? And make sure the paperwork goes through and is recorded so that there is no foreclosure. And then the last thing is different lenders, different servicers have different departments and they don't talk to each other. It happens all the time that you're negotiating a deal and the foreclosure goes through. So then you have to start at the top, work down, and rescind that foreclosure.

Mr. SILVERS. Thank you. Ms. Burks, we, as you probably know, in New York we are working with a number of other state banking departments and attorneys general in meeting with servicers on a regular basis. The data that we have collected continues to worsen and shows that eight out of ten seriously delinquent borrowers are in no stage of foreclosure mitigation.

What are you seeing in terms of the largest obstacles? What are the greatest obstacles that you believe are deterring the servicers from modifying these? Is it the volume? Is it the staffing? Is it the fiduciary duty they assert that's owed to—to investors? What is it, in your opinion, that we need to hurdle—that hurdle that we have to address?

Ms. BURKS. It's a little bit of all three. The major thing is the people on the servicing end that answer the phone and talk to the

consumer. And sometimes the same people that talk to the advocates have no authority to make a decision. If that servicer does not have full delegated authority, they cannot give you an answer on that modification. They have to go back to the investor, get permission, and then come back. And so you have to be able to sort of negotiate at a higher level, to go to the top to say, "This is what we need to do." Present an offer and literally do counter offers back and forth. That's the main problem, that the people on the line don't have the ability to——

Mr. NEIMAN. Do you think that one of the other criticisms is that this ad hoc basis of negotiation will never address the millions of foreclosures? Is there a systemic stream line modification program out there that you support as an alternative to move these modifications forward?

Ms. BURKS. Well, it's not out there yet. But we would make it mandatory. There has to be some mandatory modification in order to stabilize the market. It's not going to happen otherwise.

Mr. SILVERS. Okay. As I understand it, and I hope maybe other panelists will respond to this. As I understand it, there's been a dialogue about—about foreclosure moratorium here in this state. It's my understanding that the Governor has asked major services to voluntarily take on a moratorium. Am I correct in that?

Ms. BURKS. That request has been made. It is unclear as to which servicers have agreed to do that and will do that. And so we advise consumers, please don't take a chance on voluntarily moratorium.

Mr. SILVERS. But now to come back for a moment to the issue of what the treasury has said. As we have been providing financial institutions with hundreds of billions of dollars, we have been simultaneously saying that for homeowners, for homeowners such as Mr. Estrada, the solution is a negotiation, perhaps 200 hours, in which the ultimate power as to what to do rests with the bank. They can chose to act arbitrarily or they can chose not to, but it doesn't appear to be the government's business. Right. As far as I know.

Mr. Estrada, have you received any money from the Treasury Department to assist you?

Mr. ESTRADA. No. Not yet.

Mr. SILVERS. Now, there seems to be—it feels like there was some kind of difference in approach here fundamentally. The Treasury Department says to us, "Well we are concerned that people who are undeserving might receive money." Now, perhaps we can request an application form for bank assistance and see if the question, "Are you deserving?", is on the form some place.

Mr. NEIMAN. I think something that would be useful would be some regulation that would be mandatory for these lenders to be more proactive with these people, and often times people who don't—who can't tell you what their loan is, they can't—they don't know that they're in an ARM, they don't know that it's going to be readjusted. But the potential, certainly in Clark County where half of the people owe more than the house is worth, the potential there is disastrous. So if I were in the mortgage business, I would be more proactive in reaching out to those people knowing that at any given moment they could walk away for a better deal somewhere

else. I don't it's unreasonable for the government or the Treasury Department to require them by regulation to be more proactive, in that they are getting the bailout money and seek out these people who—and it's easily identified, they know what their loans are and they know what the value is in the community, seek them out and see if you can't make arrangements with them to keep them in the house.

Mr. SILVERS. There has been a deal between Citigroup and the Treasury Department and the FDIC, that in exchange for—Citigroup received, I think, it's 25 billion dollars in the first set of monies for healthy banks. Then later on, when there was some issues at Citigroup, they received another 20 billion. In the context of that second infusion of cash, there was an agreement that Citigroup would implement the FDIC program for mortgage modifications. The FDIC program is not principal write down program. It's a program that defers payments in certain respects, reschedules things, to make the loan more attractive.

Is it your view, Mr. Thompson or Ms. Burks that that perhaps ought to be across the board for people who receive this money? For banks who receive money from the Treasury Department?

Mr. THOMPSON. I believe that. I believe that.

Ms. BURKS. Yes.

Mr. SILVERS. That's the sort of thing you're talking about?

Ms. Murray and Mr. Estrada, you have an opportunity to respond.

Ms. MURRAY. Yes. Thank you. As we talked about, 50 percent of the people who receive a foreclosure letter are not responding. I just want to remind all of us that often times those same 50 percent of people are people who have lost their jobs, who don't have food, and are just trying to survive. So as we look at the ripple effect that comes from what you're here to investigate and how it flows through the system of you lose your home, you lose your job, vice versa, often times, and you have no food, it's so important for us to get the core fixed so that people can stay in their homes, have jobs, have a healthy economy and be able to have food. These are just the basic needs in life. So I wanted to again to just talk about the human element in all of this. So thank you, Mr. Silvers.

Mr. NEIMAN. In New York, the numbers are even in worse. Over 90 percent of people who lose their homes through the foreclosure process, and we have a judicial process in New York, 90 percent of those individuals lose their homes through a default. Meaning, they never show up. And that's why, they give up hope, they don't understand the process, they don't know how to obtain an attorney. Or they just think that it's—there's no hope.

So I think your point is so well taken, and why the focus has to be on—on not for profits who provide housing, counselors on legal aid to provide assistance on these complex issues involving negotiations, because individuals cannot be expected to understand the complexities. You even heard the Senator talk about the complexities of these illiquid securities and these contracts. These mortgage contracts are even more complex. So I agree with you. And I really appreciate you putting a public face to these complex issues.

The CHAIR. I would like to ask in a different direction, as long as we're talking about mortgage modifications here. As I know you're well aware of at this point, it's possible for a family to declare bankruptcy and deal, in effect, with virtually every debt except the home mortgage. So credit card debts can be written off. Car loans can be written down. Indeed, mortgages can be written down on real estate if they're on vacation homes, if they're on rental property, if they're on business property. But for someone who lives in a home and is trying to save that home, there is currently no bankruptcy protection. One of the alternatives that Congress is currently considering would be to amend that portion of the bankruptcy laws so that bankruptcy is never a happy alternative, but it puts rights in the hands of the family. So that it would not be possible to ignore the phone calls, it would not be possible not to have someone on the phone to negotiate. So that these mortgages could be re-written, at least down to 100 percent of loan to value ratio and put people into 30 year fixed mortgages that would permit them to save their homes.

I wonder if you could speak to the impact of that on not only how it would or would not be useful for families who are in trouble as a direct option for some families to go through bankruptcy, but perhaps more importantly how it might change the structure of the negotiations if the consumer had the option available to the family to declare bankruptcy if nothing could be worked out consensually. Could anyone speak to that? Perhaps, Ms. Burks would be appropriate?

Ms. BURKS. Thank you. When the bankruptcy rules were changed, it became more difficult for consumers to file bankruptcy. And attempts have been made to get mandatory cram down and to look at using bankruptcy to save the foreclosure. That would be very helpful if we could get that passed. Currently, when they file bankruptcy, if they don't litigate the underlying sub-prime mortgage issue, they cannot then go back again and address it. So once the main bankruptcy plan is put in place, guess what, the lender's running out, filing a motion to lift a stay to take the home anyway. So, yes, we need the bankruptcy rules amended in order to help consumers address these issues.

Mr. SILVERS. I want to shift for a moment from mortgages to jobs or the way to jobs. I want to get at the heart of what I think are the reasons why Congress passed the Emergency Economic Stabilization Act, TARP, bailout, why this was passed and what this was trying to be—what Congress was trying to achieve and what I believe the people at the Treasury Department are in good faith trying to achieve.

References have been made to large commercial construction projects in southern Nevada and particularly, on the strip and to projects being canceled. There is an argument that it takes a while for money to flow down through the financial system to home mortgages, to cars, and so forth. Large commercial construction financing which drives jobs, good jobs—to your point, Mr. Thompson—large commercial construction financing moves very fast, if people want to lend it.

I was hoping to ask the prior panel this, but we have a structured time frame here. But, Mr. Thompson, I wondered if you

might be able to enlighten us as to whether or not large commercial construction financing is flowing in southern Nevada or not? And if not, why not?

Mr. THOMPSON. I can tell you that right now, we have the largest privately funded job in the world. When that job is over, and there are about 10,000 people on that one job, I don't know where those people are going to go to work. As a direct result of this financial crisis, builders and developers aren't able to get financing. We have Echelon, which is a massive project, coming out of the ground, and it's closed because it's not able to finance the project.

Mr. SILVERS. Can you describe Echelon? Where——

Mr. THOMPSON. It's a resort development on the Las Vegas Strip. It's partially built and stopped in the middle of construction. It was in the early phases of construction. So there were only about 1,000 workers on that job. But they literally stopped the job because—because of the inability to get the financing. So if you multiply that out, times every job that I can think of, that's either been canceled or been put on hold or postponed, we are heading for some very tough times in Nevada, specifically, because we are so reliant on one source of income in the state, that when they have hard times, we all have hard times. So if you add the fact that now, you know, builders can't build and developers can't develop, to just the general downturn in the economy, we are in real trouble here.

And potentially, this time next year, and I think you heard Dr. Schwer talk about unemployment numbers, this time next year are going to be severe unless something changes. And unless something can be done to loosen up those lines of credit to businesses, we are going to have double digit unemployment and an economy that's going to be very difficult.

Mr. SILVERS. Can I just get more specific with you for a moment?

Mr. THOMPSON. Okay.

Mr. SILVERS. It became clear that the Treasury Department was going to infuse banks with substantial equity capital in mid October. Now, of course, the mechanisms by which the money gets there are a little slower than that. But it became clear in mid October. By mid November, some of largest banks had received that money. Those are the sorts of banks that I would assume would be potential funders for a project of the size of the Echelon project.

Have you seen any indication or are you aware of any indication among developers that construction unions deal with, that there has been any increase in the availability of credit starting in mid October, or starting in mid November?

Mr. THOMPSON. Not to my knowledge. And I would tell you that, you know, the City Center is actually saved by partially being funded from money from Dubai. But I don't see that happening. And as this thing continues to tighten around and people spend less money and, you know, you can't get financing on a car, so the cars aren't selling. It just at some point spins out of control.

Mr. NEIMAN. We're hearing that across the country. In New York, which has traditionally been a very strong commercial development location, we are hearing that there is no money to any loan type, to real estate, that over 400 billion dollars of commercial real estate loans are coming due and are going to need to be refinanced over the next number of years, and there are no banks there to talk

about refinancing. So I appreciate you highlighting it from what it means for Nevada but recognizing that this is going to be an issue that we are going to look at and address across the country. Because these are some of the largest banks that are accepting these funds as capital. And as of now, we want to understand why, what are their lending standards with regard to a large commercial construction development project?

The CHAIR. Mr. Neiman, I think Ms. Murray would also like to comment.

Ms. MURRAY. Yes, thank you. Thank you, Chairwoman Warren. Going back to Mr. Silvers' comment, you recently mentioned unemployment and you shifted the transition to that.

Let me share with you, in Nevada, we are currently at 7.6 percent unemployment rate. And you heard Dr. Schwer say we are on track for what could be 10 percent unemployment rate. And as you know, nationwide, traditionally, we've been a percentage point or more below the national average for decades.

So currently, if we have five out of every ten children in school who need and qualify for a free lunch or if they don't get food in a day, and we go from 7.6 percent unemployment rate to 10 percent unemployment rate, the numbers are going to skyrocket of kids who won't eat and won't have access to food. And so we're bracing for something of crisis proportion next year when the unemployment rate could go as high as double digits.

So again, I come back to the importance of what you all are doing and what you're doing in listening to share with Congress the severity of the situation. And I thank you for that.

Mr. THOMPSON. There is a point that I would like to make that I—unrelated to the banking crisis—that I think when you talk about stimulating the economy, and certainly in this state, one of the things that the federal government could do is to relax the need for matching funds for some—for instance, highway construction is a match. If the government could put a moratorium on matching funds for public works projects for two years so that the state doesn't have to come up with that money, and yet they get the funds to build those projects, I think it would go a long way in creating jobs. Just this last year, we gave money back because we didn't have the matching funds to match for the particular program.

And I think that's something the government can do immediately to help the economy.

The CHAIR. Mr. Thompson, can I just ask, because this is one of the proposals on the table, not specifically for TARP, but in general. The idea of putting money directly back into the states overall with the theory behind it, that the states are well prepared to put this money to use, to put people into jobs, to rebuild infrastructure, and so on. Can you comment on this? Do you think this is a wise move, a foolish move? I'd be interested in your thoughts on this.

Mr. THOMPSON. I can tell you, I served in the Nevada legislature for ten years. Actually, I served with Shelley Berkley and Dina Titus. But I can tell you, absolutely, critically needed, the state is ready—for instance, I'm a commissioner in a high speed train commission, to build a train from here—a train from here to Anaheim, California. So much work has already been done on that job. If we

just had some money, they could start construction soon. And in regards to matching funds, we have mapped out needs to widen I–15, to increase the freeways. That work's already been done, but we don't have the money. And so by relaxing those matches and letting the states keep the money, you would create jobs overnight.

The CHAIR. That's pretty helpful.

Mr. Silvers.

Mr. SILVERS. Mr. Thompson, your comments, I think, go to my opening statement which is the real underlying problem here, which we need to be conscious of as we craft TARP, as TARP moves forward, is that we're not moving resources to productive uses. Right? Enormous housing levels, speculative—speculative boom here but all around the country. Meanwhile, critical needs, the congressman talked about energy and infrastructure, critical needs are unmet. Now part of it—part of addressing that is the issue of moving public money. But part of the issue is why are our private funds, why are our capital markets not funding productive processes and instead funding destructive speculation? That is all over this. And the question of what should the Treasury Department be and the Congress be doing in relationship to TARP, to see to it that TARP moves in the right direction rather than in the wrong direction. By rather than repeating this cycle of destructive and ultimately misleading financial booms, I think is right at the center of things.

I would like to turn again, though, I think, you know, we, as a panel later this week are going to be meeting with the FDIC and we hope to be even meeting with Treasury again. We will have an opportunity to convey what we hear today to the people who are the decision makers, people who will decide what to do with the TARP funds that remain, who will decide what sort of oversight should be over institutions that have received money, that will decide what the rules will be for some of these programs that have been announced that involve buying credit card paper or buying other sorts of paper. There is more money involved here than I think any of us can properly grasp. But this is an opportunity—and as our chair said there are cameras outside for all of you who are here to be heard—but this is an opportunity particularly for the four of you to be heard, for us to be able to carry the direct message back. And I particularly would like Ms. Murray and Mr. Estrada, you know, this is your chance. Imagine, Hank Paulson is sitting right here at this desk, what would you say?

Ms. MURRAY. If Hank Paulson were sitting at the desk, I would say that never in the history of our country has the challenges been so great. But then never has there been a greater opportunity for us to show how strong we are as a country. We're the United States of America. We have to, and we will be able to get this under control. But it starts with the strength of the financial communities and unemployment. Because, as a food bank, I can do all that we can do to keep up with food. But if people don't have jobs, and if there is not strength in the financial markets, we're only being reactive. And that it's so important to be proactive and to work with members of Congress, to work with the states and the cities and the counties to ensure that everyone is doing the best it is that they can be doing.

Mr. ESTRADA. Well, I would like to just say that to me, without putting God first around us, this world, the way that it is right now—unfortunately, I just got laid off from a job that dealt with transportation for tourism. And they couldn't justify moving 32 people in the morning, having 13 drivers, and having a bus that carries that many people in one shot. So I was laid off. And the one thing I thank God about is that I have a commercial license so that I sort of have some leeway. But the one thing that I will not do especially in this town, and I've lived in Las Vegas for 30 years, is take a job that has to do anything with tourism anymore. Because tourism here in Las Vegas is so bad. I have a friend that was working at the airport—and three years ago, I worked an economy lot shuttle from the airport parking to the zero level, and we filled up three different parking lots. This year, they didn't even fill up the first parking lot.

And all I'm saying is that we need help. And some of these people that we're trying to talk to, like our mortgage companies and stuff like that, they're not talking to us. They're waiting until the end, just like what happened with me as far as losing my house, when to me, that never should have ever happened. It should have never happened. They had what they wanted, we agreed to give them the amount, and still a few days later, they tell us, you know, it's not your home anymore.

Ms. MURRAY. Chairwoman Warren, we have an opening in our food bank for a driver. I would like to talk to Mr. Estrada after the hearing.

The CHAIR. Good things can come from hearings.

Mr. ESTRADA. Yes, they do.

The CHAIR. Good.

Remarks——

Mr. NEIMAN. I have a question. We have heard a lot about the servicers and the lenders being overwhelmed. And I know that not for profits, particularly the housing counselors, are overwhelmed as well. And that's why in New York, we've had a specific effort of getting grants. In fact, we've given in the banking department, over 2 million dollars in monies that we've collected from fines, in fact, against predatory lenders to go to housing counselors and legal aid. The state's given 25 million to housing counselors and legal aid, because they're mandating now, prior to a foreclosure, that individuals have a right to counselors. And if it goes into a foreclosure proceeding, they have a right to legal counsel.

Ms. Burks, what is the level of volume and support that your institutions have in terms of providing resources? Can you handle the work? Is there a funding resource or is there an expertise or staffing need for the organizations in this state?

Ms. BURKS. Yes. The nonprofits have been working around the clock and with the local government to do outreach. We could work 24/7 and we couldn't handle the load. There have been some counseling funds that have come down through national. There is no state money to do the work. Staffing is inadequate, and it's going to get worse in 2009.

So while you may have expertise, there may be people you could hire, there are no funds to hire more staff. That is not going to happen. So we have to do the best we can with what we have. And

we have to change the way we modify loans in this country and in this state.

The CHAIR. Thank you. With that——

Audience SPEAKER. Madam Chairwoman, a point of inquiry, if I might?

Ms. WARREN. I'm sorry? Yes.

Audience SPEAKER. Well, it's such a special panel and this is such a special gathering. So nonofficial, so nonspecific. I would beg your indulgence to open to the public to be able to comment to folks. It is a special moment. And you have that discretion. And I think this moment calls for that. And if you give us a certain amount of time. Even three minutes. And I mean this with respect.

Now, there are some things that need to be addressed which are not being addressed here.

The CHAIR. I understand your question. I'm going to deal with the panel first here.

I want to thank the panel for coming. I appreciate the time that you have put in on this. I know this is difficult to come and tell these stories.

I know you work hard to prepare, and I know you work hard every day on what you're accomplishing. So I appreciate it on behalf of the panel.

And the second panel is now excused. Thank you very much.

We still have in our schedule, I believe, we have about eight minutes left.

We are scheduled to leave at 12:30, and we will leave at 12:30. We must leave at 12:30. I'm sorry we don't have more time. I want to remind everyone, we brought, for exactly this reason, a videographer who is out in the hallway so that each of you who wants to talk can talk to the videographer. That gives us a record to take back with us, rather than simply our repeating.

But we are glad to spend our remaining time, perhaps the fairest way to allocate that time, is if we each just took one minute for a person who wants to do that. And perhaps I should start with you, sir.

Audience SPEAKER. First, I would state my position to somebody else more important who might not understand who I am. I'll take that.

The CHAIR. Yes, sir.

Audience SPEAKER. So having conveyed that, here is what concerns me. It concerns me that we're talking all around an issue and we're not being specific. I want to see the plan. I want to see just like I'm sitting at the kitchen table what we're going to do. I want to feel the pain. And there is lots of pain, ladies and gentlemen.

And you are not going to resolve this unless you go to the heart of it. It is about energy. If you do not move towards energy and move now, everything else will be fraud.

When I hear people talking about financial enterprises, I am disgusted. It is those people who got us into this that give these bodies credibility.

It is foolish on top of foolish.

And it is not about——

The CHAIR. Sir, that's one minute.

Thank you very much. I want others to have a chance to talk too.

Audience SPEAKER. It is not about jobs. It is about a vision for the country that brings us back to being American. And I am not here to——

Chairwoman WARREN. Thank you, sir. That is more than a minute. Thank you. Yes, sir.

Yes. In the back in the gray sweater. Will you please identify yourself, please, sir.

Audience SPEAKER. Yes. My name is Raymond G. Herrera. I'm going to make this as quick as I possibly can. I lost my position in May of 2008. We have done everything we possibly could with our own savings to help support the people that are renting the homes that we have rented, including our own which we reside in, which is in Las Vegas. We have since tapped our resources because of the fact that the other individuals who rent those homes have themselves have become victims to this economy. We couldn't do anything towards moving towards trying to address our own loan situation because the banks instructed us that we had to be in default before they would even talk to us. Now, that they're communicating with us, they treat us like we're the culprit. In fact, that we can't pay the loan anymore. And then you hear these outside sources that say, you know what, these people are trying to take advantage of the system by trying to get some kind of loan modifications.

There were two things that were brought up here that could really assist those of us. One is to mandate forbearance until an issue is resolved, even if it does mean the loss of a home. And the second one is do the adjustment on the bankruptcy, so that we can at least address our situation.

I mean, everybody is talking about the three big auto dealers going bankrupt to try to resolve their own issues. Yet we ourselves, in our own homes and residences, we don't have that option. So those are two things that could be addressed and we don't have to worry about where all the other money is going at this point in time.

The CHAIR. Thank you, sir.

Yes, ma'am.

Audience SPEAKER. My name is Aussie Brooks.

And I have written a proposal on real estate and foreclosure and defaults. I know I can upload it, but I do have an extra copy here that I would like to give to you. And it seems like everything is trickling down, not getting to us. I want it to start trickling up. What do we have to do, wait for the new regime or administration to come in or not? But my concern—my great concern is that nothing has been done now. And we do need some help right now. And when I say we, I mean the people who make the banks. Our monies are in the banks. And anyway, can I give this to you, please? Foreclosures, are these lenders receiving mortgage insurance? Is that a motivation for them to let it go into foreclosure? Also, you know the TARP money that is going out, you know, the banks are getting—receiving this money, can this money go through the consumer? To allow them to buy down the loans, and it still goes to the lender anyway. That's something I wanted to state.

The CHAIR. Thank you, sir.

Yes, sir.

Audience SPEAKER. Strictly, three things.

Economics. Economics. Economics. Now——

Chairwoman WARREN. Got them all.

Audience SPEAKER. Now, Obama wants to reissue economics in the middle class of America with dams and bridges, and buildings, and federal funds.

The bailout is waste, because if you bail them out now, you're going to have to bail them out in the future. But if we go back to our founding fathers, the people that came over here from the old country, and they built equity—the word equity has been lost in the rental of survival and low income is $750 a month. How in this God's earth can a wage earner that is making $7.50 to $10.00 an hour afford to live in the economic structure the way it is?

Simply, the unions and all the other factions pushed our economic structure lop sided. I've been told that the Ford motor company worker gets $50 to $70 an hour for goods and services for his work. The basic America is getting back to the low income people that can afford to live and build some equity. The only option is the mobile home industry that can rebuild mobile homes for low income housing and buy equity into the future. That's where it has to go. Back to the grassroots of earning the right to become in life, liberty and the pursuit of happiness. That's what's wrong, and that's what has to be corrected. And if you don't, stop wasting your time.

The CHAIR. Thank you, sir. Yes, ma'am. And then we'll do one more, and we'll be done. The gentleman in the back.

The WITNESS. My name is Linda Abrams.

I'm a counselor with NID Housing. I want to speak on the issue about the loan modification. It is not enough that is being done to help the people that I am working with. The borrowers, they're being offered modifications that the payments are just as high. And in some cases, more than what they were already paying. Which is not helping them. Then they ask for $20,000, $30,000 up front. Well, if they can't make their mortgage payment, how are they going to come up with $20,000 or $30,000? Then they're forced into bankruptcy. And when they're forced into bankruptcy, and you go back to the servicer or the lender to try and get a loan modification so they can take it to the judge, which is what they tell you that you need to do, they don't talk to each other, because you go from one department to another. And this department tells you you need to talk to the bankruptcy department. The bankruptcy department tells you you need to go speak to the attorney. The attorney sends you right back, and then it comes that, well, you know what, we can't do anything for that loan because the loan is bundled. So we don't even have—we don't even know who the lender is. So I'm stuck with borrowers that we can't do anything—we don't have a modification that we can take to the a judge and ask that judge if he could do something to bring that payment back down. So what do we do with those borrowers? There's just not enough. And it's very, very sad. Our hands are just tied.

The CHAIR. Yes, ma'am. Thank you.

Audience SPEAKER. Ron. Resident here in Clark County. Coming back to the courts, everything that has been said here, mandatory loan modification, make them step up. If you are handed a million

dollars, make sure they are handing you a million dollars that they have in existing mortgages that they have done modifications down to loan value.

The CHAIR. I want to close now by thanking all of you. I want to thank you for coming out. I want to thank you for talking with us. I want to thank for your patience for sitting here for two and a half hours as we work through this. Please let me say again if you have not already done so, we're glad to hear and we're glad to make notes but please do talk to the videographer. I really want to make a record of this. I also want to say if you get the opportunity click on the website. Remember it's cop dot senate dot gov. Click on, add your comments, as we begin to post comments feel free to add additional comments. I don't think this is going to be over within the next few weeks. Finally I want to say that the three of us, the panelists, one reason I need to stay on schedule is that we were here today to engage in a formal hearing to have an opportunity to hear from the public. But we are not through trying to learn at least a little bit about Nevada in our short time here. We are leaving to drive around a little and talk to some more people on a more informal basis. So we hope to see more of Clark County while we're here and learn more. Again thank you all for coming. This hearing is adjourned.

Hearing adjourned at 12:32 p.m.

[The written statement of Oscar B. Goodman, Mayor, City of Las Vegas, follows:]

OSCAR B. GOODMAN
MAYOR

December 16, 2008

Elizabeth Warren
Chair, Congressional Oversight Panel for Economic Stabilization
Leo Gottlieb Professor of Law
Harvard Law School
1563 Massachusetts Avenue, Hauser 310
Cambridge, MA 02138

Dear Chairwoman Warren:

First, I want to thank you for leading this very important Oversight Panel and for selecting Las Vegas to hold your first field hearing. Since we were not on the witness list, I want to submit this letter for the record.

The City of Las Vegas and our country are at a unique and alarming time in our history. Never before during my tenure as the Mayor have I felt as compelled to seek Federal assistance to minimize the impacts of our current economic situation. Briefly, our situation can be summarized with the following data:

- One out of 11 homes in the City of Las Vegas are in foreclosure (top three nationally)
- Unemployment is projected to reach 9 percent
- After $46.6 million in budget cuts, the City of Las Vegas is anticipating a $150-200 million budget shortfall over the next 5 years
- The City of Las Vegas is heavily dependent on property and sales taxes, which are both on the decline
- Nevada ranks near the bottom for Federal taxes paid versus Federal dollars received
- The $20.6 million anticipated to be received for the Neighborhood Stabilization Plan (NSP) of the Housing and Economic Recovery Act (HERA) will only assist approximately 300 households but not until March/April of next year (none of which can be used to help families stay in their homes as a preventative measure)

I have attached a copy of our Neighborhood Stabilization Plan as required by the HERA. It provides detailed statistics and information on the foreclosure situation we are facing.

While there are many potential solutions to our economic downturn, in the essence of time I will focus on two for your Panel to consider:

CITY OF LAS VEGAS
400 STEWART AVENUE
LAS VEGAS, NEVADA 89101

VOICE 702.229.6241
FAX 702.385.7960
TDD 702.386.9108
EMAIL ogoodman@ci.las-vegas.nv.us
WEBSITE www.ci.las-vegas.nv.us

- Support for the U.S. Conference of Mayor's Main Street Stimulus Package which directs money to the Cities for public works projects ready for construction
- Dedicated funding to Cities to assist families with foreclosure prevention and/or intervention measures

These represent a place to start to stimulate our economy by creating jobs immediately and helping families prevent foreclosure. We face a long road to recovery but remain dedicated to working with your Panel, the Federal government, and our Congressional Delegation to overcome these troubling economic times. We stand ready to assist and look forward to working together for the good of the community.

Sincerely,

Oscar B. Goodman
Mayor
City of Las Vegas

Attachment

c: Gary Reese, Mayor Pro Tem
Larry Brown, Councilman
Steve Wolfson, Councilman
Lois Tarkanian, Councilwoman
Steven D. Ross, Councilman
Ricki Y. Barlow, Councilman
Doug Selby, City Manager
Elizabeth Fretwell, Deputy City Manager
Orlando Sanchez, Deputy City Manager
Mark Vincent, Director of Finance
Ted Olivas, Director of Government and Community Affairs
Stephen Harsin, Director of Neighborhood Services

City of Las Vegas, Nevada

Substantial Amendment
to
Third Program Year Action Plan
2008–2009

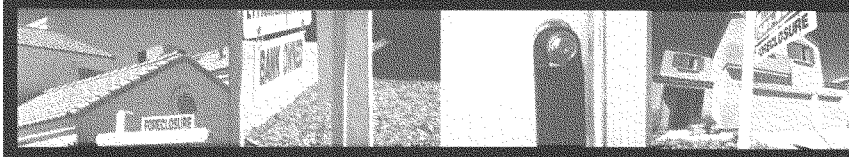
For the Period ~ December 1, 2008 – June 30, 2013

Housing and Economic Recovery Act of 2008

Neighborhood Stabilization Plan

December 1, 2008

Prepared and Submitted by the city of Las Vegas,
Department of Neighborhood Services - Stephen K. Harsin, AICP, Director



Las Vegas City Council: Mayor Oscar B. Goodman • Mayor Pro-Tem Gary Reese, Ward 3
Councilman Larry Brown, Ward 4 • Councilman Steve Wolfson, Ward 2
Councilwoman Lois Tarkanian, Ward 1 • Councilman Steven D. Ross, Ward 6 • Councilman Ricki Y. Barlow, Ward 5
City Manager: Douglas A. Selby • Deputy City Managers: Steve Houchens, Betsy Fretwell, Orlando Sanchez

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2008–2009 Action Plan Substantial Amendment

Executive Summary

Title III of Division B of the Housing and Economic Recovery Act, 2008 (HERA) appropriated $3.92 billion nation wide for emergency assistance for redevelopment of abandoned and foreclosed homes and residential properties and provides under a rule of construction that, unless HERA states otherwise, the grant is to be considered Community Development Block Grant (CDBG) funds. This grant program is referred to as the Neighborhood Stabilization Program (NSP). The program contains alternative requirements to provisions under Title I of the Housing and Community Development Act as authorized through the Secretary of HUD to expedite the use of the NSP funds.

The NSP funds must be used within neighborhoods that have the greatest need; specifically those identified as having the highest percentage of home foreclosures, pre-foreclosures and the highest percentage of subprime loans. The funds may only be used to acquire residential properties that have been abandoned or are foreclosed upon and are located within a targeted neighborhood of greatest need. The program may be used to assist households earning up to 120% of Area Median Income (AMI) with 25% of the total allocation reserved to assist households earning at or below 50% AMI. The NSP funds may not be used to provide rental assistance or foreclosure prevention. Properties acquired through the NSP must be purchased at an aggregate 15% discount from current appraised value. The City has been working with Fannie Mae and has obtained from them a list of marketable, foreclosed homes in our targeted zip codes with a commitment for the 15% discount. All NSP funds must be obligated within 18 months from the time the City contracts with HUD and fully expended by June 30, 2013.

In order to receive the $14,775,270 allocation from HUD through the NSP, the City of Las Vegas must submit a Substantial Amendment to its Fiscal Year 2008-2009 Action Plan. This Substantial Amendment presents the housing activities which will be undertaken by the City through an approved contract with HUD and utilizing $5,920,349 from the State of Nevada for the NSP program. The goal of the housing activities is to make our community's neighborhoods more stable, sustainable, and competitive and to integrate them into the overall community with consideration for transportation, affordable housing, services and employment centers to the greatest extent possible under the implementation rules of the NSP.

City of Las Vegas Available Resources

Neighborhood Stabilization Program	**$14,775,270**
State Housing Division Direct Allocation	**$3,920,349**
State Housing Division Pilot Program	**$2,000,000**
Total NSP Allocations to City of Las Vegas	**$20,695,619**

The City will utilize other federal and non-federal funding sources such as American Dream Downpayment Initiative (ADDI) or RDA 18% Set-Aside to leverage NSP funds where applicable. These other federal and non-federal funding sources can only be used to serve households earning 80% of AMI and have regulations that are more restrictive than the NSP. In addition, as part of the City's efforts to support long term affordable housing; the city will consider transferring abandoned and foreclosed upon homes acquired with NSP funds to the Community Land Trust (CLT) for long term affordable housing opportunities.

2008–2009 Action Plan Substantial Amendment

Affordable Housing Objectives and Outcomes

Program	Budget	Objective	Outcome
Homebuyer Assistance	**$7,349,459**	Home ownership for households earning up to **120% AMI**	Assist **245** households purchase a home
Lease to Own	**$5,349,456**	Home ownership for households earning up to **120% AMI**	Provide **27** households with affordable housing and opportunity to purchase a home
Scattered Site Housing	**$5,193,817**	Affordable rental housing for households earning at or below **50% AMI** and formerly homeless persons who have completed case management and are capable of paying rent.	Acquire and maintain **26** homes to operate affordable rental program
Professional Services	**$1,000,000**	Secure professional services such as certified appraisers, housing and credit counselors, real estate brokers and property managers	Comply with the program rules under the Housing and Economic Recovery Act of 2008 for the NSP.
Administrative	**$1,802,887**	Funding for salaries, supplies and equipment required to administer the NSP program activities	Successfully administer all NSP activities and provide affordable housing for households earning up to 120% AMI
Total	**$20,695,619**		

Geographic Area of the City of Las Vegas

For geographic information about the City, please reference the Consolidated Plan and City of Las Vegas Community Profile publication which may be downloaded from the City of Las Vegas web site at **http://major.lasvegasnevada.gov/website/clvcamps/viewer.htm**

2008–2009 Action Plan Substantial Amendment

A. Areas of Greatest Need
Summary needs data identifying the geographic areas of greatest need in Las Vegas

- The greatest number and percentage of foreclosed homes within the City of Las Vegas occurs in the following Zip Codes: **89108, 89110, 89131, 89129, 89128, 89117**

Zip Code	Foreclosed	Percent foreclosed Homes
89108	1,743	11%
89110	1,580	10%
89131	1,515	11%
89129	1,154	7%
89128	1,093	11%
89117	1,035	8%
October 20, 2008 Realtytrac.com		

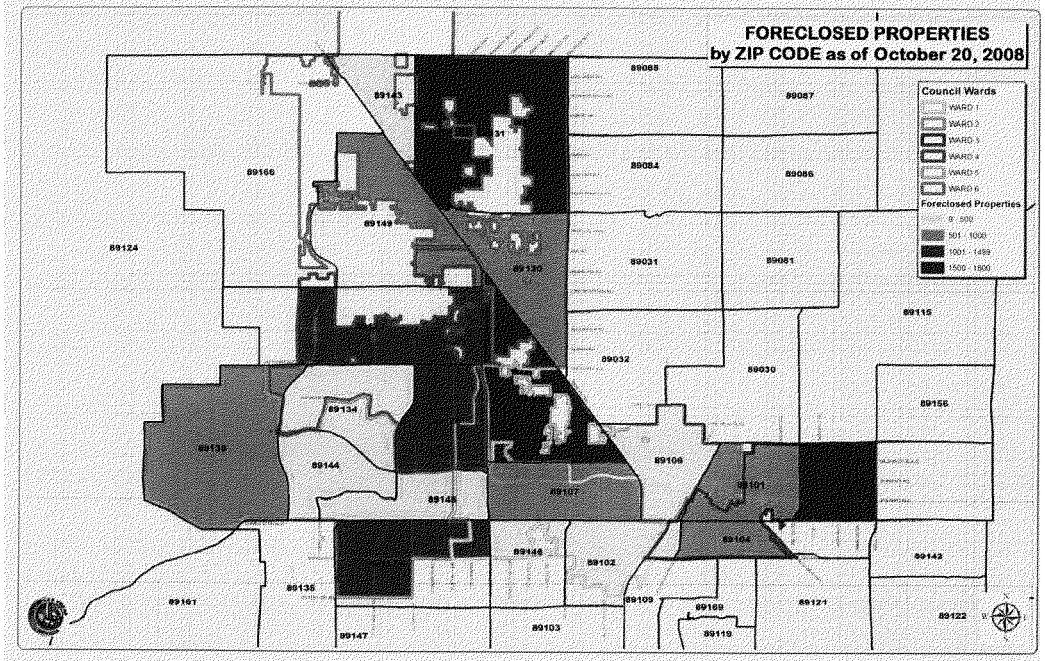
- The highest number and percentage of homes in pre-foreclosure are located in the following Zip Codes: **89101, 89104, 89107**

Zip Code	Pre-Foreclosures	Percent
89101	404	10%
89104	519	7%
89107	515	5%
HUD HMDA High Cost Loan Data		

- The highest number and percentage of homes financed by high cost subprime mortgages within the City of Las Vegas occurs in the following Zip Codes: **89101, 89107**

Zip Code	Number	Percent High Cost Loans
89101	1,000 +	Exceed 40%
89107	1,000 +	Exceed 40%
HUD HMDA High Cost Loan Data		

In addition to the Zip Codes already impacted by a high number and percentage of foreclosed homes; it is anticipated that neighborhoods located within the **89101, 89104**, and **89107** Zip Codes are also likely to face a significant rise in the rate of home foreclosures


FORECLOSED PROPERTIES
by ZIP CODE as of October 20, 2008
Council Wards
WARD 1
WARD 2
WARD 3
WARD 4
WARD 5
WARD 6
Foreclosed Properties
0 - 500
501 - 1000
1001 - 1499
1500 - 1800
89143
89085
89087
89166
89084
89086
89149
89124
89130
89031
89081
89115
89032
89030
89134
89156
89139
89144
89106
89101
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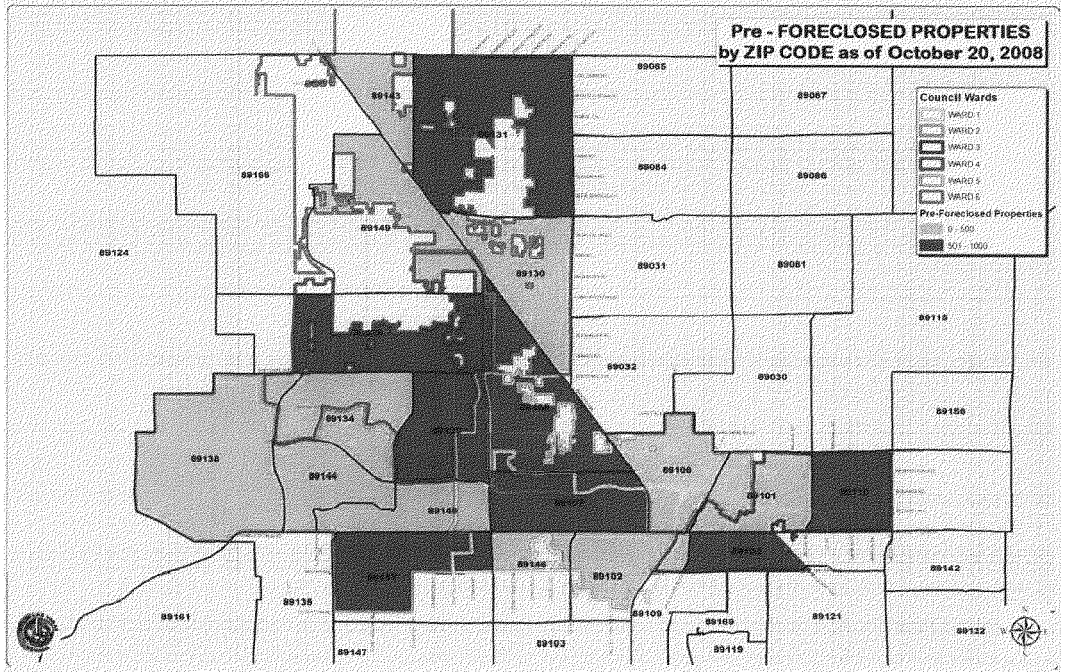
89121
89122
89147
89103
89119


Pre - FORECLOSED PROPERTIES
by ZIP CODE as of October 20, 2008
Council Wards
WARD 1
WARD 2
WARD 3
WARD 4
WARD 5
WARD 6
Pre-Foreclosed Properties
0 - 500
501 - 1000
89085
89067
89143
89054
89086
89166
89149
89124
89130
89031
89081
89118
89032
89030
89156
89134
89138
89144
89100
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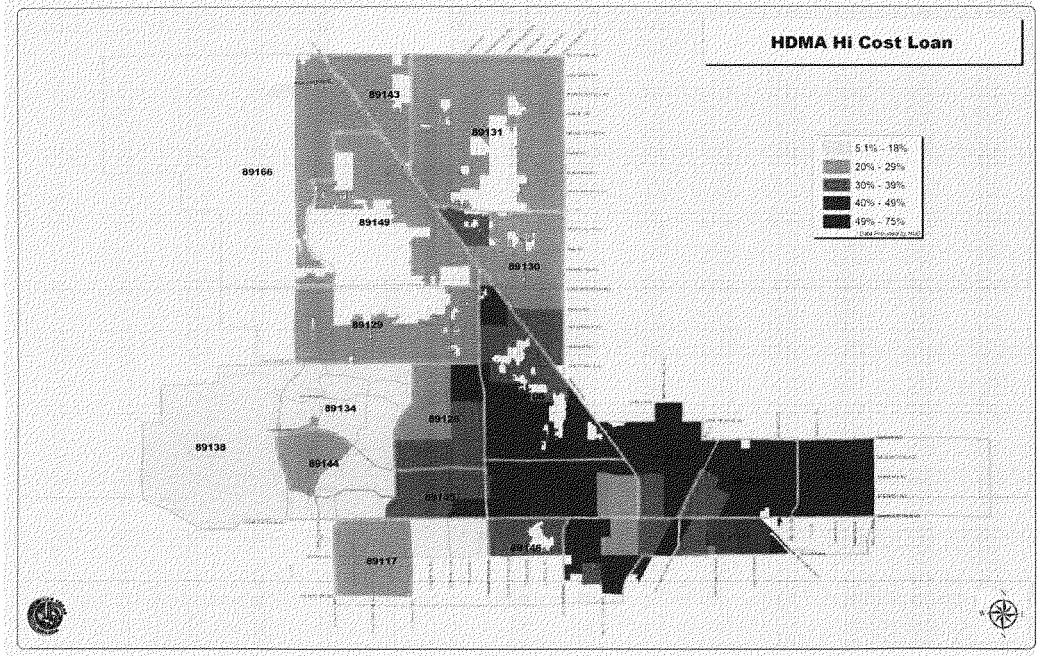
89121
89122
89147
89103
89119


HDMA Hi Cost Loan
5.1% - 18%
20% - 29%
30% - 39%
40% - 49%
49% - 75%
89143
89131
89166
89149
89130
89129
89134
89126
89138
89144
89141
89148
89117

2008–2009 Action Plan Substantial Amendment

B. Distribution and Uses of Funds

Narrative describing how the distribution and uses of NSP funds will meet the requirements of Section 2301 (c)(2) of HERA that funds be distributed to the areas of greatest need.

The City has gathered data from several sources indicating the highest number of foreclosures, pre-foreclosures and high cost loans by Zip Code. To date, the highest number of foreclosures exists in the **89108, 89110, 89131, 89129, 89128, and 89117,** and zip codes. In addition, Neighborhood Planners have conducted site surveys of the neighborhoods within these target zip codes to assess the general condition of abandoned and foreclosed properties. Neighborhoods located within the **89101, 89104** and **89107** Zip Codes are likely to face a significant rise in the rate of home foreclosures based on the number of pre-foreclosures and high cost loans with pending interest rate resets. Therefore, these Zip Codes are also considered to be future areas of greatest need that may benefit from the operation of NSP funded programs. As a result of the data and survey information, the city will implement the following strategies for the distribution and use of NSP funds.

The intent of the Neighborhood Stabilization Plan is to address the negative impacts of abandoned and foreclosed properties on communities with the greatest need as determined by the number and rate of foreclosed residential properties as well as those neighborhoods likely to face an increase in foreclosures. The value of residential properties has dropped over 30% in Las Vegas and will continue this downward trend as the condition of abandoned and foreclosed homes deteriorates due to neglect and vandalism. The foreclosure issue has a tremendous impact on the economy as the tax base is supported in part by property taxes, which will be reduced in conjunction with lower property values. Homeowners' Associations cannot collect monthly HOA dues from foreclosed homes and in turn are unable to financially support the maintenance of their streets and neighborhood amenities resulting in further deterioration of the community. Furthermore, some HOA's are experiencing bankruptcy and looking to the cities to take over maintenance of private streets, parks and other infrastructure. Therefore, the NSP requires cities to develop programs that will reduce the number of abandoned and vacant homes from our existing housing stock rather than constructing more housing in an already saturated market.

Neighborhood Stabilization Program (NSP) Allocation to Serve Households earning at or below 50% of Area Median Income (Minimum 25% Requirement)

- <u>Scattered Site Housing for Low Income – 50% AMI</u> **[26 Households]**
  The City will partner with a non-profit and/or a public agency through a Request For Proposal process to purchase approximately **26** abandoned or foreclosed homes at an aggregate 15% discount from current appraised value scattered within the targeted zip codes. The City will retain ownership of these homes and contract with a non-profit and/or public agency to manage and operate the homes as affordable rental housing for persons and families earning at or below 50% AMI. The selected agency or agencies will use the housing units to serve persons who are not prepared for homeownership, but are capable of paying rent including previously homeless persons who have completed case management and progressed toward self sufficiency. The program income derived from the rent revenue will be used to maintain the properties and pay the management fee to the selected agency or agencies. These homes will be maintained in the City's affordable rental housing stock for a period of 15 years.

2008–2009 Action Plan Substantial Amendment

Neighborhood Stabilization Program (NSP) Allocation to Serve Households earning at or below 120% of Area Median Income

- Homebuyer Assistance Program – 120% AMI **[245 Households]**
  The City will provide NSP funding to non-profit sub-recipients selected through a Request for Proposal (RFP) process to administer a homebuyer assistance program assisting persons earning up to 120% AMI to purchase an abandoned or foreclosed home in any one of the targeted zip codes. This program will allow for mortgage buy down and/or down payment and/or closing cost assistance not to exceed $50,000 although it is anticipated that on average households will only need $30,000 of assistance. The selected sub-recipients will be required to provide a minimum of 8 hours of housing counseling through a HUD certified housing counselor. The City will assist up to **245** qualified households in obtaining home ownership over an 18 month period. Any funds not used in a timely manner for this program will be allocated to the Lease to Own or Scattered Site Housing programs.

- Lease to Own Program – 120% AMI **[27 Households]**
  This program will assist qualified households earning up to 120% AMI with credit problems that prevent them from securing a mortgage. The City will purchase abandoned or foreclosed homes and provide NSP funds to non-profit sub-recipients selected through a Request for Proposal (RFP) process to operate and manage the Lease to Own program. An individual or family will be able to lease a home for up to 4 years while they correct their personal finances. This will allow families to qualify for a loan to purchase the home at a price equal to or less than the cost to acquire and rehabilitate the home including sales and closing costs. At an estimated average purchase price of $200,000 per house (median re-sale home price is $210,000) including the 15 % discount and rehabilitation costs at approximately 5% of the home value; the city plans to facilitate the purchase of approximately **27** abandoned or foreclosed homes for this program. The city may transfer properties acquired for the Lease to Own program to a City sponsored Community Land Trust in an effort to leverage NSP funds to secure long term affordable housing. Any funds not used in a timely manner for this program will be allocated to the Homebuyer Assistance or Scattered Site Housing programs.

- Partnerships to secure Professional Services and Non-Profit Assistance – 120% AMI
  A portion of the funds would be used to leverage with neighboring jurisdictions to secure professional services (i.e., appraisals, housing & credit counselors, building inspectors, real estate brokers and property management) to assist with satisfying the rules and regulations associated with HERA. The City must obtain an appraisal of any abandoned or foreclosed property it proposes to purchase from a certified appraiser. The appraisal may not be more than 60 days old at the time of purchase. In order to comply with this requirement, it may be necessary to contract with a certified appraiser to render these services in a timely manner. In order to comply with the requirement that qualified homebuyers receive at least 8 hours of housing counseling from a HUD certified housing counselor; the city will provide funding to qualified agencies to hire or contract with housing counselors. The existing non-profits providing housing counseling and homebuyer services in the Las Vegas Valley do not have the capacity to meet the current demand of all local jurisdictions to distribute the NSP funds. Any funds not used in a timely manner for professional services will be allocated towards the Homebuyer Assistance or Lease to Own or Scattered Site Housing Programs.

2008–2009 Action Plan Substantial Amendment

C. Definitions and Descriptions

- **Definition of Blighted Structure**:
  Blighted structures shall be considered structures that have less than 51% structural integrity or constitute a public/chronic nuisance.

- **Definition of Affordable Rents**: Rental rates for affordable rental housing shall not exceed 30% of the adjusted household income for households earning 120% of the Area Median Income (AMI) and households earning 50% AMI as adjusted for family size. Households earning 120% AMI shall be measured as 2.4 times the current Section 8 income limit for households below 50% AMI as adjusted for family size (see table 1).

- **Continued Affordability**: Housing stock acquired for the purpose of providing affordable rental housing to persons earning at or below 120% AMI shall comply with the following affordability periods

Rental & Homeownership Affordability Periods

Rental Housing Activity	Minimum Period of Affordability
Rehabilitation or acquisition of existing housing per unit amount of funds Under $15,000	5 years
$15,001 to $40,000	10 years
Over $40,000 or rehabilitation involving refinancing	15 years
New Construction or acquisition of newly constructed housing	20 years

Homeownership Assistance amount per unit	Minimum Period of Affordability
Under $25,000	**Grant** Repayable to City if home is sold within first 5 years
$25,001 to $50,000	10 years 570.503(b)(8)(i) "*Reversion of assets*" requires an additional 5 years for a total affordability period of **15 years**

2008–2009 Action Plan Substantial Amendment

- **Housing Rehabilitation Standards:** Upgrading substandard single- family residential owner-occupied homes by correcting housing deficiencies and addressing items deemed essential for basic health, safety, and welfare. All work shall meet 2006 International Building Code (IBC), 2006 Uniform Plumbing Code (UPC), 2006 Uniform Mechanical Code (UMC), 2005 National Electric Code (NEC) and the 2006 International Energy Conservation Code. New codes will automatically become effective when adopted by the city of Las Vegas Building and Safety Department. It is anticipated that rehabilitation work performed on abandoned or foreclosed homes acquired with NSP funds will be limited to approximately 5% of the home's value.
    - **Eligible rehabilitation activities include but are not limited to:**
        - Roofing
        - Mechanical
        - Electrical
        - Plumbing
        - Insulation (minimum code requirement)
        - Doors (includes hardware)
        - Windows (reglazing, frames, handles and cranks, replace existing windows with dual pane, low e, energy efficient type)
        - Floor Covering
        - Wall Repair (drywall and plaster)
        - Counter Tops and Cabinetry
        - Debris Removal (includes tree removal if necessary)
        - Replacement of appliances to include stove and refrigerator, with Energy Star rated appliances when applicable (allowed per Fed. Reg. Vol 73, No. 194, P. 58338)

FY 2008 Income Limits Summary

Las Vegas-Paradise, NV MSA

FY 2008 Income Limit Area	Median Income	FY 2008 Income Limit Category	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Las Vegas-Paradise, NV MSA	$63,900	Extremely Low (30%) Income Limits	$13,400	$15,300	$17,250	$19,150	$20,700	$22,200	$23,750	$25,300
		Very Low (50%) Income Limits	$22,350	$25,550	$28,750	$31,950	$34,500	$37,050	$39,600	$42,150
		Low (80%) Income Limits	$35,750	$40,900	$46,000	$51,100	$55,200	$59,300	$63,350	$67,450
		Middle (120%) Income Limits	$53,700	$61,350	$69,000	$76,700	$82,800	$88,950	$95,100	$101,200

NOTE: **Las Vegas-Paradise, NV MSA** contains Clark County, NV.

2008–2009 Action Plan Substantial Amendment

D. Low Income Targeting

- *Estimated amount of NSP funds to be appropriated for housing individuals or families whose incomes do not exceed 50% AMI.*
  - The city will obligate HUD and State NSP allocations in the amount of **$5,193,817** to purchase and rehabilitate abandoned or foreclosed homes for the purpose of providing affordable rental housing to households earning at or below 50% AMI.
    [$3,693,817 – HUD] **[$1,500,000 – State]**

E. Acquisitions & Relocation

- *Estimate the number of low – and moderate-income dwelling units reasonably expected to be demolished or converted as a result of NSP assisted activities.*
  - No housing currently serving the needs of households earning at or below 80% AMI are expected to be demolished or converted as a result of NSP assisted activities.

- *Estimate the number of NSP affordable housing units to be made available to households earning at or below 120% AMI by each NSP activity.* **[272 total units]**

  - Homebuyer Assistance **($7,349,459)**
    While the program will provide up to $50,000 of assistance, it is anticipated that each household will need an average of $30,000 in homebuyer assistance such that approximately **245 housing units** will be made available to households earning up to 120% AMI. Any funds not used in a timely manner for this program will be allocated to the Lease to Own or Scattered Site Housing programs.
    [$4,301,963 – HUD] **[$1,047,496 – State]** **[$2,000,000 - State Pilot]**

  - Lease to Own Program – **($5,349,456)**
    At a purchase price and rehabilitation cost of $200,000 per house (median re-sale home price is $210,000) approximately **27 housing units** will be made available to households earning up to 120% AMI. Any funds not used in a timely manner for this program will be allocated to the Homebuyer Assistance or Scattered Site Housing programs.
    [$4,301,962 – HUD] **[$1,047,494 - State]**

- *Estimate the number of dwelling units expected to be made available to households earning at or below 50% AMI by each NSP activity.* **[26 total units]**

  - Scattered Site Housing for Low-Income – 50% AMI – **($5,193,817)**
    The city will use NSP funds to purchase and rehabilitate homes, then partner with a non-profit and/or public agency to manage the units. At a purchase price and rehabilitation cost of $200,000 per house (median re-sale home price is $210,000), approximately **26 rental housing units** will be made available to households earning at or below 50% AMI including persons who have completed case management and progressed toward self sufficiency.
    [$3,693,817 – HUD] **[$1,500,000 – State]**

2008–2009 Action Plan Substantial Amendment

F. Public Comment

The Neighborhood Stabilization Program (NSP) was made available to the public through advertisement in local newspapers, placement at city community and senior centers and on the City's website at www.lasvegasnevada.gov on November 10, 2008 for a 15-day public review and comment period. The draft NSP was also made available in print form at the Neighborhood Services Department. In addition, a public comment meeting was co-hosted by Clark County and the cities of Las Vegas, North Las Vegas and Henderson on November 17, 2008. Each jurisdiction presented their Plan and answered questions as well as accepted written comments for consideration.

G. NSP Information by Activity (Complete for each Activity)

Activity Name and Total Budget

Homebuyer Assistance Program ($7,349,459)

Activity Type
Qualifying individuals will receive financial assistance from the city of Las Vegas (City) toward mortgage buy down and/or down payment and/or closing costs up to a maximum of $50,000. It is anticipated that on average each household will require $30,000 of homebuyer assistance. HERA allows for the establishment of financing mechanisms for the purchase and redevelopment of foreclosed homes and residential properties, including such mechanisms as soft seconds, loan loss reserves and shared equity loans for low and moderate income homebuyers.

National Objective
Low and Moderate and Middle Income (LMMI) 24 C.F.R. 570.208(a)(2).

Program Duration
The Program will start March 1, 2009 and end June 30, 2013.

Responsible Organization
The City of Las Vegas will publish a Request For Proposal (RFP) making available NSP funds to non-profit agencies to operate the mortgage assistance program. The City of Las Vegas, Neighborhood Services Department will administer the NSP funds as related to the Homebuyer assistance program and oversee the agency/agencies operating the program.

Location Description
The program will be offered to households earning at or below 120% AMI who want to purchase an abandoned or foreclosed upon home as defined in the NSP within the following Zip Codes identified as Areas of Greatest Need: **89108, 89110, 89131, 89129, 89128, 89117, 89101, 89104 and 89107**

Activity Description
The Homebuyer Assistance Program will assist families purchase abandoned or foreclosed homes to reverse the trend toward disinvestment and deterioration of properties and property values within targeted neighborhoods impacted by a high percentage of foreclosures. Income qualified

households will attain homeownership through fixed rate mortgages at a monthly payment that is affordable and appropriate for the household income (not to exceed 30% of household annual income). The household must invest a minimum of $1,500 of personal funds or the equivalent of 3.5% of the home sales price consistent with FHA financing rules if the home purchase is to be financed through FHA. This program will serve households earning up to 120% AMI and is not designed to serve those earning at or below 50% AMI.

Tenure of Beneficiaries/Term of Assistance/Affordability Period
The beneficiaries of the program will be households earning up to 120% AMI who are capable of ownership. The homebuyer assistance will be offered one time in the form of a deferred loan for mortgage buy down and/or down payment and/or closing costs up to $50,000 for a single home purchase. The deferred loan will be secured by a Deed of Trust in favor of the City of Las Vegas for a period of up to fifteen years. During the first five years the loan is repayable; however during years 6 through 15 the loan will be pro-rated and after the fifteenth year the deferred loan will automatically convert to a grant and all restrictions placed on the property through the receipt of the funding will terminate.

Discount Rate
Properties acquired through the Homebuyer Assistance Program will be discounted a minimum of 15% from the current appraised value based upon an appraisal by a certified appraiser completed not more than 60 days prior to the purchase date.

Range of Interest Rates
Loans must be 30 year fixed interest rates consistent with the banking industry's daily rate with points and fees corresponding to the borrower's FICA score. Under no circumstance will a variable rate loan be considered.

Total Budget
$7,349,459 will be dedicated to the Homebuyer Assistance Program serving households earning up to 120% AMI. Funding not utilized in a timely manner for this program will be allocated towards the Lease to Own or Scattered Site Housing programs.

Performance Measures
The Homebuyer Assistance Program will serve households earning up to 120% AMI. Based on a projected average assistance per household of $30,000 it is estimated that **245 households** will be able to attain homeownership through the purchase of an abandoned or foreclosed home and retain it for the affordability period stated above. The program allows for minor rehabilitation of homes up to a decent, safe, and habitable condition.

Activity Name and Total Budget

Lease to Own Program ($5,349,456)

Activity Type
Purchase and rehabilitate (if required) foreclosed or abandoned residential properties and homes for the purpose of providing individuals who currently are unable to qualify for a mortgage loan the opportunity to lease the property for up to three years while working to correct the financial

situations barring them from obtaining home mortgages. The lease agreement shall clearly state that the Lessee must either purchase the home at the end of the Lease to Own agreement period, renew the lease or be terminated from the program.

National Objective
Low, Moderate, and Middle Income (LMMI) - 24 C.F.R. 570.208(a)(2).

Program Duration
The Program will start March 1, 2009 and end June 30, 2013.

Responsible Organization
The City of Las Vegas will publish a Request For proposal (RFP) making available NSP funds to non-profit agencies to operate the Lease to Own program. The City of Las Vegas, Neighborhood Services Department will administer the NSP funds as related to the Lease to Own program and oversee the agency/agencies operating the program.

Location Description
The program will be offered to households earning at or below 120% AMI who want to eventually purchase an abandoned or foreclosed home as defined in the NSP but require time to repair their credit within the following Zip Codes identified as Areas of Greatest Need: **89108, 89110, 89131, 89129, 89128, 89117, 89101, 89104 and 89107**

Activity Description
The city will purchase and if necessary rehabilitate abandoned or foreclosed homes and select nonprofit agencies through the Request for Proposal (RFP) process to operate and manage the Lease to Own program in order to help potential homebuyers with incomes up to 120% AMI. The non-profits will provide a lease to purchase option to potential income-qualified homebuyers who are unable to qualify for a mortgage at that time. This program would help those who want to establish or improve their credit while they lease and live in the home of their choice. Program participants would be required to enroll in a HUD-certified credit counseling program and complete a minimum 8 hours of housing counseling. After 48 months, they must exercise their option to purchase the home by assuming the mortgage. Should the homebuyer be unwilling or unable to purchase the property at that time, the property will remain under city ownership and offered to another qualified homebuyer. The lease agreement shall clearly state that the Lessee must either purchase the home at the end of the Lease to Own agreement period, renew the lease or be terminated from the program.

Tenure of Beneficiaries/Term of Assistance/Affordability Period
Program beneficiaries earning up to 120% Area Median Income who desire home ownership but for various reasons require time to repair their credit and/or save for down payment and closing costs. It is estimated that the City will pay up to $200,000 per abandoned or foreclosed home which includes the calculation of the 15% discount and rehabilitation costs up to the estimated 5% of home value to meet the Housing Rehabilitation Standards definition as denoted in Section C.

Discount Rate
Properties acquired for the Lease to Own Program will be discounted a minimum of 15% from the current appraised value based upon an appraisal by a certified appraiser completed not more than 60 days prior to the purchase date.

2008–2009 Action Plan Substantial Amendment

Range of Interest Rates
Loans must be a fixed interest rate consistent with the banking industry's daily rate with points and fees corresponding to the borrower's FICA score. Under no circumstance will a variable rate loan be considered.

Total Budget
$5,349,456 will be dedicated to the Lease to Own Program serving households earning up to 120% AMI. Funding not utilized in a timely manner for this program will be allocated towards the Homebuyer Assistance or Scattered Site Housing programs.

Performance Measures
The Lease to Own program will provide approximately **27 housing units** to households earning up to 120% Area Median Income. These households will repair their credit through participation in credit counseling classes; they will complete a minimum 8 hours of housing counseling and will have an opportunity to save for a down payment and closing costs in preparation for home ownership.

Activity Name and Total Budget

Scattered Site Housing Program ($5,193,817)

[Housing for individuals and families whose incomes do not exceed 50% AMI]

Activity Type
Purchase scattered site abandoned or foreclosed properties (no more than two/three homes per identified neighborhood) for rehabilitation and contract with a non-profit and or public agency to manage and operate them as affordable rental housing to households at or below 50% Area Median Income including previously homeless persons who have completed case management and progressed toward self sufficiency.

National Objective
Low and Moderate Income (LMI) - -24 C.F.R. 570.208(a)(2).

Program Duration
The Program will start March 1, 2009 and end June 30, 2013.

Responsible Organization
The City of Las Vegas will be responsible for selecting, purchasing, owning, and rehabilitating the property and will then enter into an agreement with a non-profit and/or public agency to manage and operate the homes as affordable rental housing.

Location Description
The program will be offered to households earning at or below 50% AMI within the following Zip Codes identified as Areas of Greatest Need: **89108, 89110, 89131, 89129, 89128, 89117, 89101, 89104 and 89107**

2008–2009 Action Plan Substantial Amendment

Activity Description
The City of Las Vegas will purchase abandoned or foreclosed homes, rehabilitate them and retain ownership. Through an agreement with the city, a non-profit and/or public agency will provide property management, market the properties, and enter into annual leases with households at 50% AMI. Rent revenue will be utilized to maintain the properties and cover the cost of the management fees.

Tenure of Beneficiaries/Term of Assistance/Affordability Period
The beneficiaries will be provided with one year renewable leases. The city will retain ownership of the housing for up to 15 years to ensure that the property is utilized as affordable rental housing for households at or below 50% Area Median Income.

Discount Rate
Properties acquired for the Scattered Site Housing Program will be discounted a minimum of 15% from the current appraised value based upon an appraisal by a certified appraiser completed not more than 60 days prior to the purchase date.

Range of Interest Rates
Not applicable

Total Budget
$5,193,817 will be dedicated to the Scattered Site Housing Program serving households earning at or below 50% AMI.

Performance Measures
The City of Las Vegas will purchase and if necessary rehabilitate **26 abandoned or foreclosed homes** (with not more than 2 to 3 houses per neighborhood) for the purpose of providing affordable rental housing to households at or below 50% AMI including previously homeless persons who have completed case management and progressed toward self sufficiency for a period of at least 15 years. Following initial lease-up, at least 95% of the purchased homes will be occupied annually.

Activity Name and Total Budget
Professional Services and Non-Profit Assistance ($1,000,000)

Activity Type
Provide Direct homeownership assistance through HUD-Certified counselors to those included in the activities involving homeownership as well as providing credit counseling, appraisals, building inspections, real estate brokers, and property management

National Objective
Low, Moderate and Middle Income (LMMI)-24 C.F.R. 570.208(a)(2).

Program Duration
The Program will start March 1, 2009 and end June 30, 2013.

2008–2009 Action Plan Substantial Amendment

Responsible Organization
City of Las Vegas
Department of Neighborhood Services
Attn: Tim Whitright
400 Stewart Avenue
Las Vegas, Nevada 89101
Telephone number: (702) 229-2330
Fax number: (702) 382-3045

The City of Las Vegas will be responsible for procuring the professional services delineated above and required to successfully administer the NSP activities. All services will be procured through a Request for Proposal (RFP) process.

Location Description
The activity will be utilized to provide professional services to assist in the implementation of other affordable housing activities within identified areas of greatest need including the Zip Codes **89108, 89110, 89131, 89129, 89128, 89117, 89101, 89104 and 89107**

Activity Description
The City of Las Vegas will enter into partnerships for the professional services provided above while satisfying the rules and regulations outlined in HERA. Appraisals and housing counseling are requirements of HERA. As the city is precluded from acting as a real estate agent or broker by the Nevada State Statutes, broker(s) must be procured through an RFP process.

Tenure of Beneficiaries/Term of Assistance/Affordability Period
Through the Request for Proposal process, the City of Las Vegas will procure all required professional services to expedite the NSP affordable housing activities for the period required by each activity. All agreements will terminate June 2013.

Discount Rate
Not Applicable

Range of Interest Rates
Not Applicable

Total Budget
$1,000,000 of the NSP funding will be allocated for this activity. Funding not utilized in a timely manner for this program will be allocated towards the Homebuyer Assistance or Lease to Own or Scattered Site Housing programs.

Performance Measures
Approximately 298 houses will be appraised prior to purchase offers and 272 potential homebuyers will receive homeownership training through a certified HUD Counselor as part of the Homebuyer Assistance and Lease to Own programs. Additionally, approximately 53 units will be maintained and serviced through property managers for the Scattered Site Housing and Lease to Own programs.