



Tim Pawlenty
Governor of Minnesota
Chair

Edward G. Rendell
Governor of Pennsylvania
Vice Chair

Raymond C. Scheppach
Executive Director

April 3, 2008

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As Congress and the Administration consider legislative and regulatory responses to the subprime mortgage crisis, governors urge lawmakers to follow several principles applicable not only to the subprime crisis, but also to the underlying housing market turmoil and their impacts on the overall economy.

While the threat of housing foreclosure has affected states to varying degrees, those most affected have executed response plans with a variety of policy tools to help mortgage holders in distress. States have been first responders to the subprime foreclosure crisis and approximately 20 percent now operate some type of emergency mortgage assistance or refinancing program tailored to at-risk homeowners. At present, at least 25 states also have proposed or enacted laws that would protect consumers from deceptive foreclosure rescue schemes. Ultimately, no state is immune from the cascade of negative impacts from this nationwide challenge, and the consequences to citizens, communities and state governments are daunting, which justifies swift consideration of federal action.

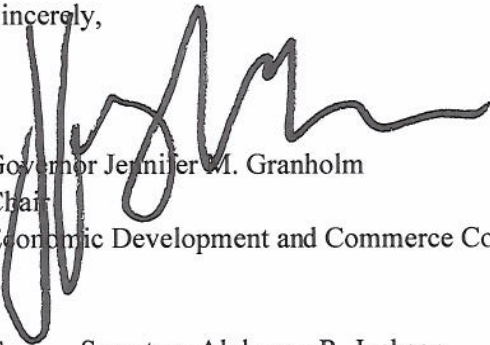
First, governors support a voluntary mortgage refinancing program backed by Federal Housing Administration (FHA) insurance that will prevent further foreclosures. Any legislative and regulatory efforts should target homeowners with a demonstrated ability to repay a refinanced mortgage on terms that avoid foreclosure. Relief efforts should exclude speculators and prevent borrowers from receiving windfalls on future sales, in part to reassure the 93 percent of homeowners who are current in their monthly mortgage payments and not at imminent risk of default. Governors also support statutory and regulatory changes that increase the flexibility and effectiveness of mortgage revenue bond authority to target resources for purchasing such properties and to divert credit-worthy borrowers from risky loan products.

Second, federal grant and loan funds should be made available to help mitigate the subprime foreclosure challenge. We believe sufficient and flexible resources for states should be approved to develop or expand locally tailored strategies to transform foreclosed homes into a new supply of affordable quality housing stock for owner-occupied purchase and rent. While governors acknowledge that any federal action should avoid unintended consequences that could make current conditions worse in the long-term, a one-time federal funding commitment to support the acquisition and rehabilitation of foreclosed properties is vital to help stabilize home values and protect neighborhoods in trouble now. All funds made available should flow directly through states. States should have the flexibility to contract with local government and nonprofit partners to implement these strategies.

Third, any federal action should avoid changes that shift additional costs to states, preempt state authority to protect the public, or impose new unfunded mandates because such actions undermine state efforts to maintain services, balance budgets, and speed economic recovery. While solutions should aim to eliminate unfair and deceptive practices and support reasonable relief to prevent a repeat of the subprime foreclosure crisis, they should not insulate at-risk homeowners, lenders, servicers, and other interested parties from all market consequences. Federal action, moreover, should provide a nationwide standard for prohibiting predatory practices that establishes a floor and does not preempt strong state anti-predatory lending laws.

Governors are pleased that Congress and the Administration are designing and executing solutions to restore public confidence in the housing and credit markets; however, federal action should be sensitive to each state's ability to bring a unique blend of resources and approaches to these common challenges. We look forward to working with the federal government to stabilize neighborhoods, protect the equity of homeowners, and help set the economy onto a path of sustained growth and strength.

Sincerely,



Governor Jennifer M. Granholm
Chair
Economic Development and Commerce Committee



Governor M. Michael Rounds
Vice Chair
Economic Development and Commerce Committee

C: Secretary Alphonso R. Jackson
Secretary Henry R. Paulson, Jr.
Senator Harry Reid
Senator Mitch McConnell
Speaker Nancy Pelosi
Representative John Boehner
Chairman Chris Dodd
Senator Richard C. Shelby
Chairman Barney Frank
Representative Spencer Bachus