

Congress of the United States
House of Representatives
Washington, DC 20515

September 29, 2008

Honorable Steve Preston
Secretary
U.S. Department of Housing and Urban Development
451 7th Street S.W.
Washington, D.C. 20410

Dear Secretary Preston,

We are writing to express our extreme dissatisfaction with the recent release of your department's allocation of Community Development Block Grant (CDBG) funding as directed by H.R. 3221, the Housing and Economic Recovery Act. The distribution of these funds does not take into consideration the fact that California has the vast majority of all foreclosures in the country. In addition, the allocation grossly overlooks communities in California that have the nation's highest foreclosure rates and are being devastated by the housing crisis. These errors call into question the soundness of the methodology of allocation and force us to demand that no funds be disbursed until the formula has been revised to one that more justly distributes resources to California and its hard-hit communities.

The Housing and Economic Recovery Act called on your office to appropriate funds to states and localities for the purchase, rehabilitation, and sale of homes abandoned or foreclosed upon. This funding was to be distributed to the states and localities with the "greatest need" according to a formula devised by your office based on the number and percentage of home foreclosures in each state, the number and percentage of homes financed by a subprime mortgage in each state, and the number and percentage of homes in default or in delinquency in each state. By each of these measures, California distinguishes itself as a state of "greatest need" and, therefore, should have received the lion's share of CDBG funding to help stabilize its devastated housing market. Instead, the methodology of allocation used by your office vastly underserves the state of California.

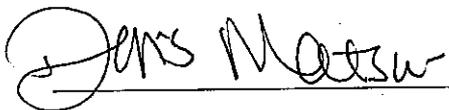
One indicator of this improper allocation is the total amount of funding distributed to each state. California, the state with the greatest number of foreclosures and one-third of foreclosures nationwide, will receive approximately \$12 million less than the state of Florida, which at the end of the second quarter had half as many foreclosures as California. While we recognize the severity of the foreclosure crisis in Florida, we believe the state of California was given an unjustly low percentage of the CDBG funds, which may hamper our state's recovery from the housing market crash.

Beyond its sheer volume of foreclosures, California distinguishes itself as ground zero of the foreclosure crisis by many other measures. At the end of August 2008, RealtyTrac statistics showed that California had the nation's second highest foreclosure rate behind Nevada, and cities in our state accounted for eight of the top 10 foreclosure rates in the country. The loss of equity in California homes also far exceeded that of all other states. According to the Office of Federal Housing Enterprise Oversight, California's home values have dropped by 15.8% in the last year. In addition, our unemployment rate has skyrocketed as a result of the economic turmoil and stands at 7.7%, well above the national average and surpassed by only Michigan. These statistics readily demonstrate that California is a state of "greatest need" and as such deserves a share of the CDBG funding proportional to its share of the nation's foreclosure crisis.

In addition to inequitably distributing money among the states, your formula did not provide direct funds to some of the hardest-hit areas in California. The city of Merced, for example, was not allocated any funding by your office, despite the fact that RealtyTrac identifies it as the city with the nation's second highest foreclosure rate. Merced has been devastated by the foreclosure crisis and has a homeowner vacancy rate of 4.5%, the most recorded for any California county included in the 2006 American Community Survey. It also has the fourth worst unemployment rate in the nation, which, at 12.1% , is nearly double the national rate and threatens to worsen as more foreclosures drag the city's economy down. Merced, like other overlooked communities in California, is clearly a locality of "greatest need," yet it was not awarded any CDBG funding by your office.

The fact that your allocation methodology has not only under-awarded California but has also ignored cities with some of the nation's highest foreclosure rates suggests there are fundamental flaws to your formula. Because the foreclosure crisis is so dire in our state, we request that you revisit the allocation formula to ensure that California receives funding levels appropriate for a state that has more foreclosures than any other and one-third of the nation's total. We demand that no funding be distributed until the methodology of allocation has been adjusted and California's "greatest need" status is appropriately recognized.

Sincerely,



~~Richard M. Amb~~

Lynne Walsley

Ausan Davis

Barbara Lee

Grace J. Neapolitano

Jay M. Norrey

Jellie Speer

Sam Lan

Bob Felner

Tom Ann

Ellen Tauscher

Luelle Roybal Allard

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Howard L. Berman

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Joe Bara

Linda J. Eick

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Loretta Sanchez

Hilda L. Solis

Michelle Stromper

Nancy Peluso

Pete Stark

Zoe Fry

Zsuzsanna

Cheryl

Paul Green

Diane E. Watson

Signature Key

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| 33. Diane Watson | |