

An Orange County congressman has introduced legislation to make it harder for governments from San Bernardino to Chicago's Cook County – and the rest of the nation – to use eminent domain to seize mortgages of loans that are underwater.

Called the "Defending American Taxpayers from Abusive Government Takings Act," the bill proposed by **U.S. Rep. John Campbell**, R-Irvine, would prohibit Fannie Mae, Freddie Mac, the Federal Housing Administration and the Department of Veterans Affairs from making, insuring or guaranteeing mortgages in areas where municipalities are seizing loans under the power of eminent domain.

The federal government has financed a significant portion of the mortgage market since its crash in 2007.

**Campbell** said the legislation would stop reckless city and county governments from enacting profiteering schemes that seek to cash in on the plight of underwater homeowners through the arbitrary seizure of private home loans.

**It puts an end to California's eminent domain heist**, he said.

Reached Friday, **Campbell** said he has opposed the San Bernardino eminent domain plan since its emergence, calling it **"awful policy, an unfair banana republic kind of idea"** that will use federal dollars to achieve loan modifications that will line the pockets of overleveraged cities, private consultants and hedge funds.

If this plan becomes widespread, he said Fannie Mae and Freddie Mac will sustain losses of up to 30 percent on the mortgage bonds in their portfolios while investors and program handlers make a profit.

**Campbell** said he assumed the idea would be quickly cast aside by members of Congress.

**"It hasn't,"** he said. **"In fact, it seemed to be gaining some steam."**

In the hard-hit area of San Bernardino County, a plan has been proposed by the investor group Mortgage Resolution Partners to acquire loans through eminent domain at fair-market value – rather than the original assessed value -- and refinance them into a government-backed mortgage.

Homeowners' loan payments would be lowered as a result.

Steven Gluckstern, executive chairman of San Francisco-based Mortgage Resolution Partners, on Friday lashed out at **Campbell** for his remarks.

"No. 1, it's based on felonious fact and misunderstanding of the program," he said. "You won't get both houses of Congress to sign it."

The company has not formally submitted a proposal to the county yet, but Gluckstern said it is lining up private investors to acquire loans. Mortgage Resolution Partners has said it would collect a fee of \$4,500 per loan, if chosen to run a program of this nature.

Gluckstern accused **Campbell** of ulterior motives, saying, "It is a political positioning for a congressman who is obviously heavily supported by the financial services industry."

The Mortgage Bankers Association has backed the bill **Campbell** introduced Thursday.

**Campbell** said proponents were in Washington this week to build support for the eminent domain plan, and he was approached by a fellow member of Congress, Rep. Zoe Lofgren, D-San Jose, who was in favor of the effort.

He acknowledged his bill has a tough road forward in the current Congress, which is about to adjourn until after November's election.

**"There's a lot of people in Washington who are virulently opposed to this,"** Campbell said of San Bernardino's plan.

**"This is a shot across the bow."**

**Campbell** is running for re-election in a newly redistricted seat that is majority Republican against Irvine Mayor Sukhee Kang, a Democrat.

The eminent domain proposal has a prominent defender in California Lt. Gov. Gavin Newsom, who asked the U.S. Department of Justice earlier this week to investigate whether the finance industry has illegally colluded in its opposition.

Newsom, a Democrat, claims that the finance and mortgage industry may be seeking to retaliate against San Bernardino County by making it harder for residents to get approval for loans.

Support and opposition for the eminent domain proposal has not been strictly along party lines.

The San Bernardino County Board of Supervisors, dominated by Republicans, agreed to go forward with the joint powers authority. In Chicago, where a subcommittee held a hearing, Mayor Rahm Emanuel, a former Democratic congressman and former chief of staff to President Obama, recently came out against the plan.

Gluckstern contended that failure at the federal level to help homeowners is one of the reasons the company proposed a solution at the local government level.

"Waiting for Washington will not work," he said.

Gluckstern has estimated up to 42,000 current and delinquent loans could qualify for the program in San Bernardino County, alone, if it went countywide. Initially, the cities of Fontana and Ontario approved through a joint powers authority San Bernardino County formed in April a proposal for fiscally solvent homeowners with underwater securitized loans. Now, there's talk of broadening the program to include loans of homeowners who have missed mortgage payments or are in pre-foreclosure.

County Chief Executive Officer Greg Devereaux, who chairs the authority, has been meeting with Mortgage Resolution Partners since late last year, but has not yet issued a formal request for proposals to handle the eminent domain program.

The JPA has not yet decided whether it will use eminent domain or how the program would be operated or funded, other than to say it wants to help homeowners with underwater mortgages.

Nevertheless, **Campbell** claimed the underwriter for the unpaid principal balance will not be private financiers, as proponents claim, but the American taxpayer. He laid out this scenario:

**The joint powers authority would pay investors 85 percent of the underlying home's current appraised value, after the loan is seized. The loss borne would be borne by the original investor, the taxpayer. The joint powers authority would then set the unpaid principal balance of the loan to 95 percent of the home's current appraised value. That 10 percent difference, or spread, would go to the overleveraged cities, consultants and hedge funds. "Adding insult to injury, the entities would then immediately sell the same loan back to you, guaranteed by the FHA," Campbell said.**

Gluckstern said characterization by **Campbell** and others that the eminent domain program is tantamount to a **"heist"** is ludicrous. This is a well thought out, and constitutionally protected way to resolve a crisis, he said.

"I regard this as a distraction from the fundamental problem of the need to stop foreclosures

from continuing to take place," and pose a solution to a problem that was created by Wall Street in the first-place.