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Joint Committee on Finance, Housing and Real Estate
Chicago City Council

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Good morning Members of the Joint Committee, my name is Tim Cameron. Thank you for providing this opportunity for comment. I represent the views of SIFMA, and in particular, those of our Asset Managers Group. SIFMA's members include securities firms, banks, and 30 of the country's largest asset managers, who have approximately $20 trillion under management. This includes significant investments in mortgage backed securities.

It is important to remember that these asset managers invest the money of local and federal pension plans, 401k plans, endowments, and individual investors. In other words, they manage the savings of teachers and state employees in Chicago. When one of these asset managers suffers a loss, it is really borne by those individual investors and savers.

We recognize the difficulties Chicago's housing market faces and we understand the urge to "do something", but we strongly object to the proposed use of eminent domain to take mortgage loans. While we appreciate that this hearing is a public forum to discuss the issues, and recognize that no decision has been made, it appears that the plan put forth by Mortgage Resolution Partners (MRP) is the leading candidate based on the recitals of the July 25th Resolution of the City Council. Regardless of which plan is ultimately chosen, eminent domain is not the right mechanism to address these problems.

We urge the Joint Committee to reconsider the use of eminent domain, and I will discuss three of our key concerns.

The use of eminent domain will do more harm than good. The worst harm will be felt by Chicago residents themselves, as they will find it harder or impossible to obtain credit.

If performing mortgage loans are taken from their holders, this will cause significant losses to those holders, and cause those who fund mortgage loans to act very cautiously. The losses will be borne by the pension plans, 401k plans, and individual citizens who are invested in the securities. Keep in mind that the plan will not address those borrowers who are delinquent and most at risk of foreclosure.

We need mortgage investors and lenders to come back to these fragile markets – but this plan will force both groups to avoid them.

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The use of eminent domain generally, and the plan put forth by MRP specifically, raise significant legal and Constitutional concerns. The issues are numerous, and we do not have time to get in to all of them here, but among other things we believe MRP's plan neither serves a public purpose, nor provides just compensation. We have attached a legal analysis provided to us by noted Constitutional scholar Walter Dellinger of the law firm O'Melveny and Myers to the written version of this statement.

If the City of Chicago were to adopt MRP's plan or another like it, it would position itself as a facilitator of a group of opportunistic investors' unjust, and likely unconstitutional, efforts to extract profits from a different group of investors. This would put the City at risk of being drawn in to expensive legal disputes.

We believe it is critical that the City Council understand the full scope of issues with this proposal. What borrower segment does the plan focus on – is it of meaningful size given the risk, and is it the most in need? Is the significant profit involved appropriate, given the losses that local savers would suffer? What happens if the proposed flow from loan seizure through refinancing is delayed or changed, who bears that risk? What other opportunities are out there, that have not been fully explored? We believe a closer look at the data and market realities present sometimes troubling answers to these and other questions.

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The plan must be seen for what it is – a redistribution of profits that would leave the City of Chicago in a precarious position. The only party that receives unequivocal benefits is MRP.

This proposal, and others like it, will harm everyday savers and investors and their 401k plans and pension funds, because that's who will bear the loss, and likewise will do irreparable harm to the Chicagoans who seek a mortgage going forward

SIFMA will remain involved as this process moves forward, and would be pleased to provide further feedback. Thank you.

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