UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

IN RE: Chapter 9
Case No. 13-53846

City of Detroit, Michigan,

Debtor.
____/

INTERESTED PARTY DAVID SOLE'S OBJECTION TO CITY OF DETROIT'S DISCLOSURE STATEMENT WITH RESPECT TO PLAN OF ADJUSTMENT [DOCKET 2709]

Now comes Interested Party David Sole and for his Objection to City of Detroit's Disclosure Statement With Respect to Plan of Adjustment [Docket 2709], states as follows:

1. Interested Party David Sole submitted a good faith elucidation of his objections to the City of Detroit's Disclosure Statement with Respect to its Plan of Adjustment to attorneys for the City of Detroit in accordance with this honorable Court's order on March 17, 2014.
2. Interested Party Sole now submits his Objection to the Disclosure Statement to this honorable Court.
3. Interested Party Sole's Objection is fully outlined below.

I. THE DISCLOSURE STATEMENT IGNORES THE ROLE OF THE BANKS IN CREATING THE FINANCIAL CRISIS IN DETROIT THROUGH THEIR PREDATORY MORTGAGE LENDING PRACTICES

Section C of the City of Detroit's Disclosure Statement, which allegedly outlines "The City's Steady Operational and Financial Decline," completely ignores the role of the banks in creating the economic crisis in Detroit through their predatory mortgage-lending policies. The banks' practices directly led to the City's population decline and destruction of neighborhoods throughout Detroit.

This information is critical for creditors to assess any plan of adjustment on fair and equitable grounds. Many any of these same banks profited from their own misconduct, earning hundreds of millions of dollars on interest rate swaps on pension obligation certificates and water and sewerage bonds that they sold to the City, derivatives that became extremely advantageous to the banks as a result of the federal reserve lowering of interest rates to near zero when it bailed out the banks who were facing collapse as a result of their practices.

By the early 2000's, while the City of Detroit had experienced the devastating effects of the automotive restructuring in the late 1970's and 1980's, the City of Detroit's neighborhoods had at least stabilized. Population decline slowed between the years 1990 to 2000, and property values were increasing. It was the racist, predatory, fraudulent mortgage lending practices of the banks that hit Detroit like a bomb, led to the loss of one quarter of the City's population, and largely precipitated the current crisis that led the bankruptcy filing. These practices are documented in the Senate Select Committee Report on Wall Street and the Financial Crisis published April 13, 2011. **Exhibit 1, attached.**

As reported in the City of Detroit of Detroit January 1, 2009, Planning and Development Department Neighborhood Stabilization Program Plan, Detroit had the highest home foreclosure rate among the nation's 100 largest metropolitan areas, making it one of the cities hardest hit by the national foreclosure and sub-prime lending crisis. The report went on: "From 2004 to 2006, there were approximately 330,000 mortgages originated in Detroit. During the same time, 38,000 new mortgages were sold representing 11% of total mortgages. About 27,500 or 73% of new mortgages were high cost loans defined as loans with interest rates at least 3% above Treasury securities."

The report continues: "The result of the exorbitant numbers of high cost loans in Detroit is disturbing. From 2005 to 2007, Detroit experienced an astounding 67,000 foreclosures, more than 20% of all household mortgages. There were 4,600 tax foreclosures in the first six months of 2008 with over $25 million in taxes due on these properties. Early estimates indicate that at least two-thirds of tax or mortgage foreclosed properties stand vacant causing tremendous problems for Detroit on many levels. A foreclosed property that stays on the market for an extended period of time can become an administrative and economic drain on a city; a study by the Homeownership Preservation Foundation found that a city can lose about $20,000 per home in lost property taxes, unpaid utility bills, property upkeep, sewage and maintenance. High foreclosure rates also causes disinvestment by nearby residents, which contributes to neighborhood decline, affects surrounding property values, and leads to population loss and increased crime." **Exhibit 2, attached.**

A study by Realty Trac published on November 2008 noted that the Detroit metropolitan area had the highest rate of foreclosure in the U.S., and that the non-prime foreclosure rate was 22.9%. Countrywide and First Franklin, since taken over by Bank of America, one the main beneficiaries of Detroit's disastrous interest rate swaps, are both listed on the Reatly Trac's list of the worst ten sub-prime mortgage originators. **Exhibit 3, attached.**

A January 2013 report by the U.S. Department of Housing and Urban Development and U.S. Department of the Treasury noted that as of that date there were 70,000 foreclosed properties in the City of Detroit, 65% of which remained vacant. **Exhibit 4, attached.**

The omission of the mortgage crisis and its impact on Detroit from the disclosure statement is a glaring one that should be corrected for Detroiters and creditors to properly assess the proposed plan of adjustment.

II. THE CITY OF DETROIT PAYS $80 MILLION A YEAR IN CHARGE BACKS ON TAX FORECLOSURES DUE TO THE DECLINE IN PROPERTY VALUES

A corollary to the effect of the mortgage crisis on the City of Detroit is the effect that the consequential decline on property values has had on the City. The disclosure report does note the decline in property tax revenues. However, the report makes no mention of the tens of millions of dollars the City has had to pay yearly since 2004 in charge backs to Wayne County ($84 million for the fiscal year 2012 according to the 2012 City of Detroit CAFR). **Exhibit 5, attached.** The tens of millions of dollars in charge backs constitute a very high percentage of city debt.

Every year Wayne County pays the City for delinquent property tax bills. The County then collects the bills over the next two years, collecting high interest on the delinquent property taxes. After three years of non-payment, Wayne County sells the property at tax foreclosure. The County charges the City for the difference in what the property sold for and the amount paid to the city for the bill.

Because tax foreclosed properties are selling for such a small amount due to the decline in Detroit property values as a product of the foreclosure epidemic, the charge backs to the City paid out of the budget are enormous as outlined above.

Incredibly, there currently are federal funds available through the Helping Hardest Hit Homeowner Program to pay delinquent property tax bills for homeowners, but the state has placed severe restrictions on releasing these funds. Release of these funds would not only keep homeowners in their homes, but would relieve the City's budget deficit by eliminating a large amount of the charge backs.

In addition, it has been estimated that 48% of the charge backs are bank-owned and Fannie Mae owned properties, post-foreclosure. **Exhibit 6, attached, October 22, 2012, Detroit Free Press article.**

III. THE DISCLOSURE STATEMENT IS SILENT ON THE CUTBACKS IMPOSED TO FUND THE "CITY'S RESTRUCTURING"

The Disclosure statement makes no mention of the amount paid by City taxpayers for consultants over the past year, as indicated by the $95 million appropriated for the City's "restructuring fund" in October 2013. Incredibly, this $95 million was derived from cuts in virtually every area of City functioning. The disclosure further does not outline what the consultants have done to justify this exorbitant expense. **Exhibit 7, attached**.

IV. THE DISCLOSURE REPORT IS SILENT ON THE STATE'S QUESTIONABLE WITHHOLDING OF REVENUE SHARING

While the Disclosure Statement does reflect the decline in state revenue sharing, a February 2014 Michigan Municipal League Report, entitled "The Great Revenue Sharing Heist," noted that from 2003 to 2013 annual state sales tax revenues increased from $6.6 to $7.72 billion. During that same period, statutory revenue sharing decreased from over $900 million annually to around $250 million, as the state diverted sales tax revenues to plug state deficits, rather than maintain promises and statutory formulas to provide funding to local governments.

According to Anthony Minghine, associate director of the Michigan Municipal League, this diversion of state sales tax revenues away from the cities cost the City of Detroit $732,235,683. **Exhibit 8, attached**.

Of course, now the State of Michigan is sitting on a $1 billion surplus, while the State has placed cities like Flint, Pontiac, Hamtramck, etc. under emergency management and Detroit in bankruptcy.

CONCLUSION

Interested Party David Sole respectfully requests that his honorable Court direct the City of Detroit to include his objections into the City of Detroit Disclosure Statement.

Respectfully submitted,

JEROME D. GOLDBERG, PLLC

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INDEX OF EXHIBITS

1. Excerpts from Senate Select Committee Report
2. Excerpts from City of Detroit Planning and Development Report
3. Realty Trac survey
4. Treasury and HUD report
5. CAFR on charge backs
6. October 22, 2012 Detroit Free Press article
7. October 2013 Appropriation for "Restructuring"
8. Michigan Municipal League Report

EXHIBIT 1

United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
Tom Coburn, Ranking Minority Member

WALL STREET AND THE FINANCIAL CRISIS: Anatomy of a Financial Collapse

MAJORITY AND MINORITY STAFF REPORT

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

UNITED STATES SENATE

Sole
1324

April 13, 2011

Wall Street and The Financial Crisis:
Anatomy of a Financial Collapse

April 13, 2011

In the fall of 2008, America suffered a devastating economic collapse. Once valuable securities lost most or all of their value, debt markets froze, stock markets plunged, and storied financial firms went under. Millions of Americans lost their jobs; millions of families lost their homes; and good businesses shut down. These events cast the United States into an economic recession so deep that the country has yet to fully recover.

This Report is the product of a two-year bipartisan investigation by the U.S. Senate Permanent Subcommittee on Investigations into the origins of the 2008 financial crisis. The goals of this investigation were to construct a public record of the facts in order to deepen the understanding of what happened; identify some of the root causes of the crisis; and provide a factual foundation for the ongoing effort to fortify the country against the recurrence of a similar crisis in the future.

Using internal documents, communications, and interviews, the Report attempts to provide the clearest picture yet of what took place inside the walls of some of the financial institutions and regulatory agencies that contributed to the crisis. The investigation found that the crisis was not a natural disaster, but the result of high risk, complex financial products; undisclosed conflicts of interest; and the failure of regulators, the credit rating agencies, and the market itself to rein in the excesses of Wall Street.

While this Report does not attempt to examine every key moment, or analyze every important cause of the crisis, it provides new, detailed, and compelling evidence of what happened. In so doing, we hope the Report leads to solutions that prevent it from happening again.

I. EXECUTIVE SUMMARY

A. Subcommittee Investigation

In November 2008, the Permanent Subcommittee on Investigations initiated its investigation into some of the key causes of the financial crisis. Since then, the Subcommittee has engaged in a wide-ranging inquiry, issuing subpoenas, conducting over 150 interviews and depositions, and consulting with dozens of government, academic, and private sector experts. The Subcommittee has accumulated and reviewed tens of millions of pages of documents, including court pleadings, filings with the Securities and Exchange Commission, trustee reports, prospectuses for public and private offerings, corporate board and committee minutes, mortgage transactions and analyses, memoranda, marketing materials, correspondence, and emails. The Subcommittee has also reviewed documents prepared by or sent to or from banking and securities regulators, including bank examination reports, reviews of securities firms, enforcement actions, analyses, memoranda, correspondence, and emails.

In April 2010, the Subcommittee held four hearings examining four root causes of the financial crisis. Using case studies detailed in thousands of pages of documents released at the hearings, the Subcommittee presented and examined evidence showing how high risk lending by U.S. financial institutions; regulatory failures; inflated credit ratings; and high risk, poor quality financial products designed and sold by some investment banks, contributed to the financial crisis. This Report expands on those hearings and the case studies they featured. The case studies are Washington Mutual Bank, the largest bank failure in U.S. history; the federal Office of Thrift Supervision which oversaw Washington Mutual's demise; Moody's and Standard & Poor's, the country's two largest credit rating agencies; and Goldman Sachs and Deutsche Bank, two leaders in the design, marketing, and sale of mortgage related securities. This Report devotes a chapter to how each of the four causative factors, as illustrated by the case studies, fueled the 2008 financial crisis, providing findings of fact, analysis of the issues, and recommendations for next steps.

B. Overview

(1) High Risk Lending: Case Study of Washington Mutual Bank

The first chapter focuses on how high risk mortgage lending contributed to the financial crisis, using as a case study Washington Mutual Bank (WaMu). At the time of its failure, WaMu was the nation's largest thrift and sixth largest bank, with $300 billion in assets, $188 billion in deposits, 2,300 branches in 15 states, and over 43,000 employees. Beginning in 2004, it embarked upon a lending strategy to pursue higher profits by emphasizing high risk loans. By 2006, WaMu's high risk loans began incurring high rates of delinquency and default, and in 2007, its mortgage backed securities began incurring ratings downgrades and losses. Also in 2007, the bank itself began incurring losses due to a portfolio that contained poor quality and fraudulent loans and securities. Its stock price dropped as shareholders lost confidence, and depositors began withdrawing funds, eventually causing a liquidity crisis at the bank. On September 25, 2008, WaMu was seized by its regulator, the Office of Thrift Supervision, placed in receivership with the Federal Deposit Insurance Corporation (FDIC), and sold to JPMorgan Chase for $1.9 billion. Had the sale not gone through, WaMu's failure might have exhausted the entire $45 billion Deposit Insurance Fund.

This case study focuses on how one bank's search for increased growth and profit led to the origination and securitization of hundreds of billions of dollars in high risk, poor quality mortgages that ultimately plummeted in value, hurting investors, the bank, and the U.S. financial system. WaMu had held itself out as a prudent lender, but in reality, the bank turned increasingly to higher risk loans. Over a four-year period, those higher risk loans grew from 19% of WaMu's loan originations in 2003, to 55% in 2006, while its lower risk, fixed rate loans fell from 64% to 25% of its originations. At the same time, WaMu increased its securitization of subprime loans sixfold, primarily through its subprime lender, Long Beach Mortgage Corporation, increasing such loans from nearly $4.5 billion in 2003, to $29 billion in 2006. From 2000 to 2007, WaMu and Long Beach together securitized at least $77 billion in subprime loans.

WaMu also originated an increasing number of its flagship product, Option Adjustable Rate Mortgages (Option ARMs), which created high risk, negatively amortizing mortgages and, from 2003 to 2007, represented as much as half of all of WaMu's loan originations. In 2006 alone, Washington Mutual originated more than $42.6 billion in Option ARM loans and sold or securitized at least $115 billion to investors, including sales to the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). In addition, WaMu greatly increased its origination and securitization of high risk home equity loan products. By 2007, home equity loans made up $63.5 billion or 27% of its home loan portfolio, a 130% increase from 2003.

At the same time that WaMu was implementing its high risk lending strategy, WaMu and Long Beach engaged in a host of shoddy lending practices that produced billions of dollars in high risk, poor quality mortgages and mortgage backed securities. Those practices included qualifying high risk borrowers for larger loans than they could afford; steering borrowers from conventional mortgages to higher risk loan products; accepting loan applications without verifying the borrower's income; using loans with low, short term "teaser" rates that could lead to payment shock when higher interest rates took effect later on; promoting negatively amortizing loans in which many borrowers increased rather than paid down their debt; and authorizing loans with multiple layers of risk. In addition, WaMu and Long Beach failed to enforce compliance with their own lending standards; allowed excessive loan error and exception rates; exercised weak oversight over the third party mortgage brokers who supplied half or more of their loans; and tolerated the issuance of loans with fraudulent or erroneous borrower information. They also designed compensation incentives that rewarded loan personnel for issuing a large volume of higher risk loans, valuing speed and volume over loan quality.

As a result, WaMu, and particularly its Long Beach subsidiary, became known by industry insiders for its failed mortgages and poorly performing residential mortgage backed securities (RMBS). Among sophisticated investors, its securitizations were understood to be some of the worst performing in the marketplace. Inside the bank, WaMu's President Steve Rotella described Long Beach as "terrible" and "a mess," with default rates that were "ugly." WaMu's high risk lending operation was also problem-plagued. WaMu management was provided with compelling evidence of deficient lending practices in internal emails, audit reports, and reviews. Internal reviews of two high volume WaMu loan centers, for example, described "extensive fraud" by employees who "willfully" circumvented bank policies. A WaMu review of internal controls to stop fraudulent loans from being sold to investors described them as "ineffective." On at least one occasion, senior managers knowingly sold delinquency-prone loans to investors. Aside from Long Beach, WaMu's President described WaMu's prime home loan business as the "worst managed business" he had seen in his career.

Documents obtained by the Subcommittee reveal that WaMu launched its high risk lending strategy primarily because higher risk loans and mortgage backed securities could be sold for higher prices on Wall Street. They garnered higher prices because higher risk meant the securities paid a higher coupon rate than other comparably rated securities, and investors paid a higher price to buy them. Selling or securitizing the loans also removed them from WaMu's books and appeared to insulate the bank from risk.

The Subcommittee investigation indicates that unacceptable lending and securitization practices were not restricted to Washington Mutual, but were present at a host of financial institutions that originated, sold, and securitized billions of dollars in high risk, poor quality home loans that inundated U.S. financial markets. Many of the resulting securities ultimately plummeted in value, leaving banks and investors with huge losses that helped send the economy into a downward spiral. These lenders were not the victims of the financial crisis; the high risk loans they issued were the fuel that ignited the financial crisis.

(2) Regulatory Failure: Case Study of the Office of Thrift Supervision

The next chapter focuses on the failure of the Office of Thrift Supervision (OTS) to stop the unsafe and unsound practices that led to the demise of Washington Mutual, one of the nation's largest banks. Over a five year period from 2004 to 2008, OTS identified over 500 serious deficiencies at WaMu, yet failed to take action to force the bank to improve its lending operations and even impeded oversight by the bank's backup regulator, the FDIC.

Washington Mutual Bank was the largest thrift under the supervision of OTS and was among the eight largest financial institutions insured by the FDIC. Until 2006, WaMu was a profitable bank, but in 2007, many of its high risk home loans began experiencing increased rates of delinquency, default, and loss. After the market for subprime mortgage backed securities collapsed in July 2007, Washington Mutual was unable to sell or securitize its subprime loans and its loan portfolio fell in value. In September 2007, WaMu's stock price plummeted against the backdrop of its losses and a worsening financial crisis. From 2007 to 2008, WaMu's depositors withdrew a total of over $26 billion in deposits from the bank, triggering a liquidity crisis, followed by the bank's closure.

OTS records show that, during the five years prior to WaMu's collapse, OTS examiners repeatedly identified significant problems with Washington Mutual's lending practices, risk management, asset quality, and appraisal practices, and requested corrective action. Year after year, WaMu promised to correct the identified problems, but never did. OTS failed to respond with meaningful enforcement action, such as by downgrading WaMu's rating for safety and soundness, requiring a public plan with deadlines for corrective actions, or imposing civil fines for inaction. To the contrary, until shortly before the thrift's failure in 2008, OTS continually rated WaMu as financially sound.

The agency's failure to restrain WaMu's unsafe lending practices stemmed in part from an OTS regulatory culture that viewed its thrifts as "constituents," relied on bank management to correct identified problems with minimal regulatory intervention, and expressed reluctance to interfere with even unsound lending and securitization practices. OTS displayed an unusual amount of deference to WaMu's management, choosing to rely on the bank to police itself in its use of safe and sound practices. The reasoning appeared to be that if OTS examiners simply identified the problems at the bank, OTS could then rely on WaMu's assurances that problems would be corrected, with little need for tough enforcement actions. It was a regulatory approach with disastrous results.

Despite identifying over 500 serious deficiencies in five years, OTS did not once, from 2004 to 2008, take a public enforcement action against Washington Mutual to correct its lending practices, nor did it lower the bank's rating for safety and soundness. Only in 2008, as the bank incurred mounting losses, did OTS finally take two informal, nonpublic enforcement actions, requiring WaMu to agree to a "Board Resolution" in March and a "Memorandum of Understanding" in September, neither of which imposed sufficient changes to prevent the bank's failure. OTS officials resisted calls by the FDIC, the bank's backup regulator, for stronger measures and even impeded FDIC oversight efforts by at times denying FDIC examiners office space and access to bank records. Tensions between the two agencies remained high until the end. Two weeks before the bank was seized, the FDIC Chairman contacted WaMu directly to inform it that the FDIC was likely to have a ratings disagreement with OTS and downgrade the bank's safety and soundness rating, and informed the OTS Director about that communication, prompting him to complain about the FDIC Chairman's "audacity."

Hindered by a culture of deference to management, demoralized examiners, and agency infighting, OTS officials allowed the bank's short term profits to excuse its risky practices and failed to evaluate the bank's actions in the context of the U.S. financial system as a whole. Its narrow regulatory focus prevented OTS from analyzing or acknowledging until it was too late that WaMu's practices could harm the broader economy.

OTS' failure to restrain Washington Mutual's unsafe lending practices allowed high risk loans at the bank to proliferate, negatively impacting investors across the United States and around the world. Similar regulatory failings by other agencies involving other lenders repeated the problem on a broad scale. The result was a mortgage market saturated with risky loans, and financial institutions that were supposed to hold predominantly safe investments but instead held portfolios rife with high risk, poor quality mortgages. When those loans began defaulting in record numbers and mortgage related securities plummeted in value, financial institutions around the globe suffered hundreds of billions of dollars in losses, triggering an economic disaster. The regulatory failures that set the stage for those losses were a proximate cause of the financial crisis.

(3) Inflated Credit Ratings: Case Study of Moody's and Standard & Poor's

The next chapter examines how inflated credit ratings contributed to the financial crisis by masking the true risk of many mortgage related securities. Using case studies involving Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Financial Services LLC

(S&P), the nation's two largest credit rating agencies, the Subcommittee identified multiple problems responsible for the inaccurate ratings, including conflicts of interest that placed achieving market share and increased revenues ahead of ensuring accurate ratings.

Between 2004 and 2007, Moody's and S&P issued credit ratings for tens of thousands of U.S. residential mortgage backed securities (RMBS) and collateralized debt obligations (CDO). Taking in increasing revenue from Wall Street firms, Moody's and S&P issued AAA and other investment grade credit ratings for the vast majority of those RMBS and CDO securities, deeming them safe investments even though many relied on high risk home loans.[1] In late 2006, high risk mortgages began incurring delinquencies and defaults at an alarming rate. Despite signs of a deteriorating mortgage market, Moody's and S&P continued for six months to issue investment grade ratings for numerous RMBS and CDO securities.

Then, in July 2007, as mortgage delinquencies intensified and RMBS and CDO securities began incurring losses, both companies abruptly reversed course and began downgrading at record numbers hundreds and then thousands of their RMBS and CDO ratings, some less than a year old. Investors like banks, pension funds, and insurance companies, who are by rule barred from owning low rated securities, were forced to sell off their downgraded RMBS and CDO holdings, because they had lost their investment grade status. RMBS and CDO securities held by financial firms lost much of their value, and new securitizations were unable to find investors. The subprime RMBS market initially froze and then collapsed, leaving investors and financial firms around the world holding unmarketable subprime RMBS securities that were plummeting in value. A few months later, the CDO market collapsed as well.

Traditionally, investments holding AAA ratings have had a less than 1% probability of incurring defaults. But in 2007, the vast majority of RMBS and CDO securities with AAA ratings incurred substantial losses; some failed outright. Analysts have determined that over 90% of the AAA ratings given to subprime RMBS securities originated in 2006 and 2007 were later downgraded by the credit rating agencies to junk status. In the case of Long Beach, 75 out of 75 AAA rated Long Beach securities issued in 2006, were later downgraded to junk status, defaulted, or withdrawn. Investors and financial institutions holding the AAA rated securities lost significant value. Those widespread losses led, in turn, to a loss of investor confidence in the value of the AAA rating, in the holdings of major U.S. financial institutions, and even in the viability of U.S. financial markets.

Inaccurate AAA credit ratings introduced risk into the U.S. financial system and constituted a key cause of the financial crisis. In addition, the July mass downgrades, which were unprecedented in number and scope, precipitated the collapse of the RMBS and CDO secondary markets, and perhaps more than any other single event triggered the beginning of the financial crisis.

[1] S&P issues ratings using the "AAA" designation; Moody's equivalent rating is "Aaa." For ease of reference, this Report will refer to both ratings as "AAA."

The Subcommittee's investigation uncovered a host of factors responsible for the inaccurate credit ratings issued by Moody's and S&P. One significant cause was the inherent conflict of interest arising from the system used to pay for credit ratings. Credit rating agencies were paid by the Wall Street firms that sought their ratings and profited from the financial products being rated. Under this "issuer pays" model, the rating agencies were dependent upon those Wall Street firms to bring them business, and were vulnerable to threats that the firms would take their business elsewhere if they did not get the ratings they wanted. The rating agencies weakened their standards as each competed to provide the most favorable rating to win business and greater market share. The result was a race to the bottom.

Additional factors responsible for the inaccurate ratings include rating models that failed to include relevant mortgage performance data; unclear and subjective criteria used to produce ratings; a failure to apply updated rating models to existing rated transactions; and a failure to provide adequate staffing to perform rating and surveillance services, despite record revenues. Compounding these problems were federal regulations that required the purchase of investment grade securities by banks and others, which created pressure on the credit rating agencies to issue investment grade ratings. While these federal regulations were intended to help investors stay away from unsafe securities, they had the opposite effect when the AAA ratings proved inaccurate.

Evidence gathered by the Subcommittee shows that the credit rating agencies were aware of problems in the mortgage market, including an unsustainable rise in housing prices, the high risk nature of the loans being issued, lax lending standards, and rampant mortgage fraud. Instead of using this information to temper their ratings, the firms continued to issue a high volume of investment grade ratings for mortgage backed securities. If the credit rating agencies had issued ratings that accurately reflected the increasing risk in the RMBS and CDO markets and appropriately adjusted existing ratings in those markets, they might have discouraged investors from purchasing high risk RMBS and CDO securities, and slowed the pace of securitizations.

It was not in the short term economic interest of either Moody's or S&P, however, to provide accurate credit ratings for high risk RMBS and CDO securities, because doing so would have hurt their own revenues. Instead, the credit rating agencies' profits became increasingly reliant on the fees generated by issuing a large volume of structured finance ratings. In the end, Moody's and S&P provided AAA ratings to tens of thousands of high risk RMBS and CDO securities and then, when those products began to incur losses, issued mass downgrades that shocked the financial markets, hammered the value of the mortgage related securities, and helped trigger the financial crisis.

(4) Investment Bank Abuses: Case Study of Goldman Sachs and Deutsche Bank

The final chapter examines how investment banks contributed to the financial crisis, using as case studies Goldman Sachs and Deutsche Bank, two leading participants in the U.S. mortgage market.

Investment banks can play an important role in the U.S. economy, helping to channel the nation's wealth into productive activities that create jobs and increase economic growth. But in the years leading up to the financial crisis, large investment banks designed and promoted complex financial instruments, often referred to as structured finance products, that were at the heart of the crisis. They included RMBS and CDO securities, credit default swaps (CDS), and CDS contracts linked to the ABX Index. These complex, high risk financial products were engineered, sold, and traded by the major U.S. investment banks.

From 2004 to 2008, U.S. financial institutions issued nearly \$2.5 trillion in RMBS and over \$1.4 trillion in CDO securities, backed primarily by mortgage related products. Investment banks typically charged fees of \$1 to \$8 million to act as the underwriter of an RMBS securitization, and \$5 to \$10 million to act as the placement agent for a CDO securitization. Those fees contributed substantial revenues to the investment banks, which established internal structured finance groups, as well as a variety of RMBS and CDO origination and trading desks within those groups, to handle mortgage related securitizations. Investment banks sold RMBS and CDO securities to investors around the world, and helped develop a secondary market where RMBS and CDO securities could be traded. The investment banks' trading desks participated in those secondary markets, buying and selling RMBS and CDO securities either on behalf of their clients or in connection with their own proprietary transactions.

The financial products developed by investment banks allowed investors to profit, not only from the success of an RMBS or CDO securitization, but also from its failure. CDS contracts, for example, allowed counterparties to wager on the rise or fall in the value of a specific RMBS security or on a collection of RMBS and other assets contained or referenced in a CDO. Major investment banks developed standardized CDS contracts that could also be traded on a secondary market. In addition, they established the ABX Index which allowed counterparties to wager on the rise or fall in the value of a basket of subprime RMBS securities, which could be used to reflect the status of the subprime mortgage market as a whole. The investment banks sometimes matched up parties who wanted to take opposite sides in a transaction and other times took one or the other side of the transaction to accommodate a client. At still other times, investment banks used these financial instruments to make their own proprietary wagers. In extreme cases, some investment banks set up structured finance transactions which enabled them to profit at the expense of their clients.

Two case studies, involving Goldman Sachs and Deutsche Bank, illustrate a variety of troubling practices that raise conflicts of interest and other concerns involving RMBS, CDO, CDS, and ABX related financial instruments that contributed to the financial crisis.

The Goldman Sachs case study focuses on how it used net short positions to benefit from the downturn in the mortgage market, and designed, marketed, and sold CDOs in ways that created conflicts of interest with the firm's clients and at times led to the bank's profiting from the same products that caused substantial losses for its clients.

From 2004 to 2008, Goldman was a major player in the U.S. mortgage market. In 2006 and 2007 alone, it designed and underwrote 93 RMBS and 27 mortgage related CDO securitizations totaling about $100 billion, bought and sold RMBS and CDO securities on behalf of its clients, and amassed its own multi-billion-dollar proprietary mortgage related holdings. In December 2006, however, when it saw evidence that the high risk mortgages underlying many RMBS and CDO securities were incurring accelerated rates of delinquency and default, Goldman quietly and abruptly reversed course.

Over the next two months, it rapidly sold off or wrote down the bulk of its existing subprime RMBS and CDO inventory, and began building a short position that would allow it to profit from the decline of the mortgage market. Throughout 2007, Goldman twice built up and cashed in sizeable mortgage related short positions. At its peak, Goldman's net short position totaled $13.9 billion. Overall in 2007, its net short position produced record profits totaling $3.7 billion for Goldman's Structured Products Group, which when combined with other mortgage losses, produced record net revenues of $1.1 billion for the Mortgage Department as a whole.

Throughout 2007, Goldman sold RMBS and CDO securities to its clients without disclosing its own net short position against the subprime market or its purchase of CDS contracts to gain from the loss in value of some of the very securities it was selling to its clients.

The case study examines in detail four CDOs that Goldman constructed and sold called Hudson 1, Anderson, Timberwolf, and Abacus 2007-AC1. In some cases, Goldman transferred risky assets from its own inventory into these CDOs; in others, it included poor quality assets that were likely to lose value or not perform. In three of the CDOs, Hudson, Anderson and Timberwolf, Goldman took a substantial portion of the short side of the CDO, essentially betting that the assets within the CDO would fall in value or not perform. Goldman's short position was in direct opposition to the clients to whom it was selling the CDO securities, yet it failed to disclose the size and nature of its short position while marketing the securities. While Goldman sometimes included obscure language in its marketing materials about the possibility of its taking a short position on the CDO securities it was selling, Goldman did not disclose to potential investors when it had already determined to take or had already taken short investments that would pay off if the particular security it was selling, or RMBS and CDO securities in general, performed poorly. In the case of Hudson 1, for example, Goldman took 100% of the short side of the $2 billion CDO, betting against the assets referenced in the CDO, and sold the Hudson securities to investors without disclosing its short position. When the securities lost value, Goldman made a $1.7 billion gain at the direct expense of the clients to whom it had sold the securities.

In the case of Anderson, Goldman selected a large number of poorly performing assets for the CDO, took 40% of the short position, and then marketed Anderson securities to its clients. When a client asked how Goldman "got comfortable" with the New Century loans in the CDO, Goldman personnel tried to dispel concerns about the loans, and did not disclose the firm's own negative view of them or its short position in the CDO.

In the case of Timberwolf, Goldman sold the securities to its clients even as it knew the securities were falling in value. In some cases, Goldman knowingly sold Timberwolf securities to clients at prices above its own book values and, within days or weeks of the sale, marked down the value of the sold securities, causing its clients to incur quick losses and requiring some to post higher margin or cash collateral. Timberwolf securities lost 80% of their value within five months of being issued and today are worthless. Goldman took 36% of the short position in the CDO and made money from that investment, but ultimately lost money when it could not sell all of the Timberwolf securities.

In the case of Abacus, Goldman did not take the short position, but allowed a hedge fund, Paulson & Co. Inc., that planned on shorting the CDO to play a major but hidden role in selecting its assets. Goldman marketed Abacus securities to its clients, knowing the CDO was designed to lose value and without disclosing the hedge fund's asset selection role or investment objective to potential investors. Three long investors together lost about $1 billion from their Abacus investments, while the Paulson hedge fund profited by about the same amount. Today, the Abacus securities are worthless.

In the Hudson and Timberwolf CDOs, Goldman also used its role as the collateral put provider or liquidation agent to advance its financial interest to the detriment of the clients to whom it sold the CDO securities.

The Deutsche Bank case study describes how the bank's top global CDO trader, Greg Lippmann, repeatedly warned and advised his Deutsche Bank colleagues and some of his clients seeking to buy short positions about the poor quality of the RMBS securities underlying many CDOs. He described some of those securities as "crap" and "pigs," and predicted the assets and the CDO securities would lose value. At one point, Mr. Lippmann was asked to buy a specific CDO security and responded that it "rarely trades," but he "would take it and try to dupe someone" into buying it. He also at times referred to the industry's ongoing CDO marketing efforts as a "CDO machine" or "ponzi scheme." Deutsche Bank's senior management disagreed with his negative views, and used the bank's own funds to make large proprietary investments in mortgage related securities that, in 2007, had a notional or face value of $128 billion and a market value of more than $25 billion. Despite its positive view of the housing market, the bank allowed Mr. Lippmann to develop a large proprietary short position for the bank in the RMBS market, which from 2005 to 2007, totaled $5 billion. The bank cashed in the short position from 2007 to 2008, generating a profit of $1.5 billion, which Mr. Lippmann claims is more money on a single position than any other trade had ever made for Deutsche Bank in its history. Despite that gain, due to its large long holdings, Deutsche Bank lost nearly $4.5 billion from its mortgage related proprietary investments.

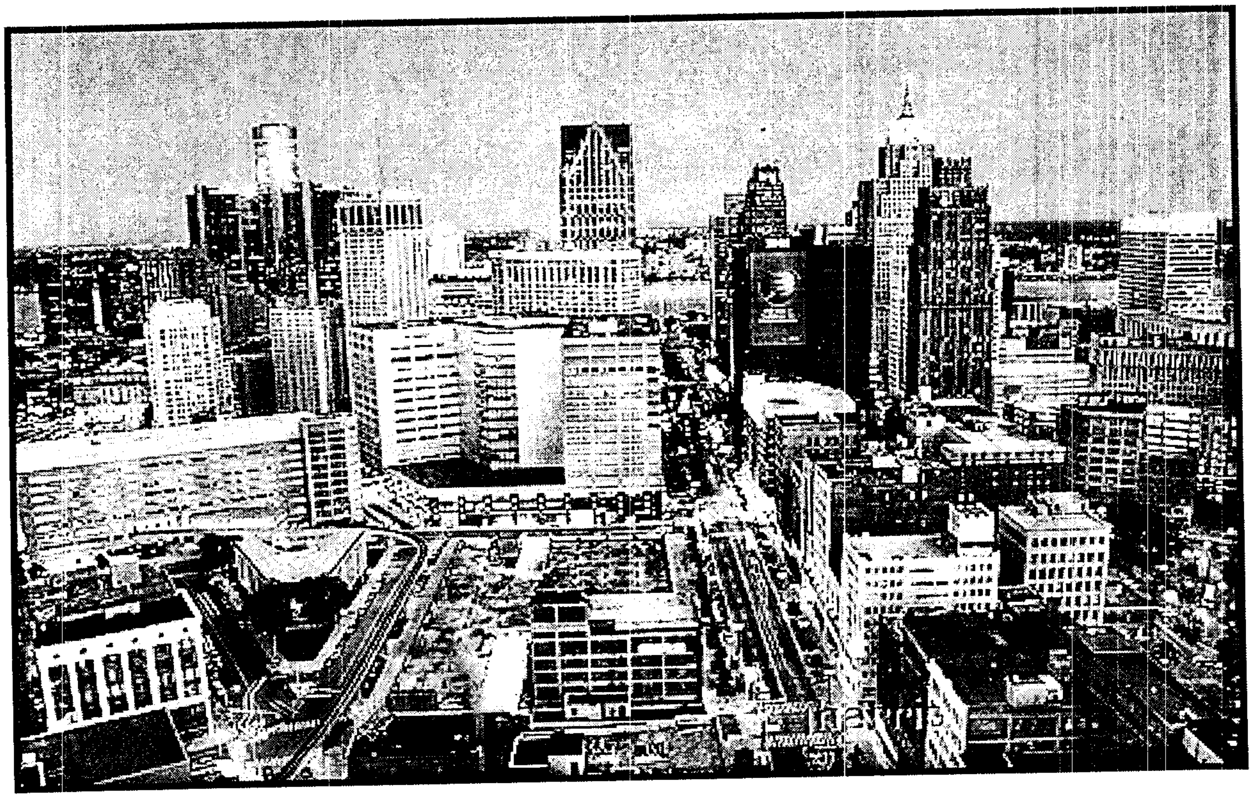
The Subcommittee also examined a $1.1 billion CDO underwritten by Deutsche Bank known as Gemstone CDO VII Ltd. (Gemstone 7), which issued securities in March 2007. It was one of 47 CDOs totaling $32 billion that Deutsche Bank underwrote from 2004 to 2008. Deutsche Bank made $4.7 million in fees from Gemstone 7, while the collateral manager, a hedge fund called HBK Capital Management, was slated to receive $3.3 million. Gemstone 7 concentrated risk by including within a single financial instrument 115 RMBS securities whose financial success depended upon thousands of high risk, poor quality subprime loans. Many of those RMBS securities carried BBB, BBB-, or even BB credit ratings, making them among the highest risk RMBS securities sold to the public. Nearly a third of the RMBS securities contained

EXHIBIT 2

City of Detroit

Kenneth V. Cockrel, Jr. Mayor

Planning and Development Department
Neighborhood Stabilization Program Plan



Douglass J. Diggs, Director
Marja M. Winters, Deputy Director

SOLE
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- Invest in select neighborhoods to achieve greater impact with limited resources especially neighborhoods targeted by LISC, Skillman, the Community Foundation and NDNI
- Protect recent investments by public and private partners
- Attract other public/private financing to leverage NSP funds minimally on a 2:1 basis
- Create new jobs and stimulate small business development
- Demolish existing structures to accommodate future development or alternative uses.

Foreclosure Problem

As evidenced by Detroit's NSP award amount, which was allocated under a formula developed by the Department of Housing and Urban Development taking into account the numbers of foreclosures, subprime loans and defaults in each jurisdiction, Detroit has the highest home foreclosure rate among the nation's 100 largest metropolitan areas, making it one of the cities hardest hit by the national foreclosure and sub-prime lending crisis. The impact of not dealing aggressively with this crisis would have tremendous implications for the economic survival and social viability of the city. Moreover, the toll on Detroit citizens and families will be devastating as once stable neighborhoods are faced with increased blight, vacant properties and diminished housing values. Thus, it is imperative that we strategically focus our resources to achieve the greatest outcomes and thwart further decline.

Statistics on local foreclosure activity speak volumes about the crisis in Detroit. From 2004 to 2006, there were approximately 330,000 mortgages originated in Detroit. During the same time, 38,000 new mortgages were sold representing 11% of total mortgages. About 27,500 or 73% of new mortgages were high cost loans defined as loans with interest rates at least 3% above Treasury securities. Refinances accounted for 15% of new mortgage loans. As of 2006, about 29,000 adjustable rate mortgages or 9% of all existing mortgages reset, triggering higher payments for loan recipients. An additional 16,000 mortgages are scheduled to reset from 2008 to 1010. These statistics clearly demonstrate that additional resources will be needed to prevent future foreclosures and the number of Detroit homeowners that are expected to be impacted by the nearing reset activity.

The result of the exorbitant numbers of high cost loans in Detroit is disturbing. From 2005 to 2007, Detroit experienced an astounding 67,000 foreclosures, more than 20% of all household mortgages. There were 4,600 tax foreclosures in the first six months of 2008 with over $25 million in taxes due on these properties. Early estimates indicate that at least two-thirds of tax or mortgage foreclosed properties stand vacant causing tremendous problems for Detroit on many levels.

A foreclosed property that stays on the market for an extended period of time can become an administrative and economic drain on a city; a study by the Homeownership Preservation Foundation found that a city can lose about $20,000 per home in lost property taxes, unpaid utility bills, property upkeep, sewage and maintenance. High foreclosure rates also causes disinvestment by nearby residents, which contributes to neighborhood decline, affects surrounding property values, and leads to population loss and increased crime.

EXHIBIT 3

Worst Ten in the Worst Ten

- The table below lists the ten metropolitan areas that had the highest rates of foreclosure in the first half of 2008 as reported by RealtyTrac (the "Worst Ten" MSAs). Foreclosure rates for sub-prime and Alt-A mortgages originated from 2005 through 2007 in these MSAs were computed using data from Loan Performance.

Rank	MSA	Non-prime Mortgage Foreclosure Rate
1	Detroit	22.9%
2	Cleveland	21.6%
3	Stockton	21.5%
4	Sacramento	18.0%
5	Riverside/San Bernardino	16.1%
6	Memphis	15.6%
7	Miami/Fort Lauderdale	14.3%
8	Bakersfield	14.3%
9	Denver	14.0%
10	Las Vegas	13.9%

- For each of these metro areas, the "Worst Ten" originators were identified: the ten originators in each MSA with the largest number of non-prime mortgage foreclosures in the Loan Performance database for 2005-2007 originations.

- Only 21 companies in various combinations occupy the Worst Ten slots in the Worst Ten metro areas:

AEGIS FUNDING CORPORATION
AMERICAN HOME MORTGAGE CORP.
AMERIQUEST MORTGAGE COMPANY
ARGENT MORTGAGE COMPANY
BNC MORTGAGE
COUNTRYWIDE
DECISION ONE MORTGAGE
DELTA FUNDING CORPORATION
FIELDSTONE MORTGAGE COMPANY
FIRST FRANKLIN CORPORATION
FREMONT INVESTMENT & LOAN
GREENPOINT MORTGAGE FUNDING
INDYMAC BANK, F.S.B.
LONG BEACH MORTGAGE CO.
NEW CENTURY MORTGAGE
OPTION ONE MORTGAGE CORP
OWNIT MORTGAGE SOLUTIONS INC.
PEOPLE'S CHOICE FINANCIAL CORP
RESMAE MORTGAGE CORPORATION
WELLS FARGO
WMC MORTGAGE CORP.

- Of these 21 firms, 12 were exclusively supervised by the states; overall, such originators accounted for nearly 60 percent of non-prime mortgage loans and foreclosures in the Worst Ten metro areas in 2005-2007.

- Only three firms on the list were subject to OCC supervision at any time during 2005-2007, and those three accounted for fewer than 12 percent of foreclosures in the Worst Ten metro areas.

- Results for the U.S. as a whole are similar to those for the Worst Ten metropolitan areas. OCC-supervised institutions accounted for approximately 12 to 14 percent of the non-prime originations; moreover, foreclosure rates for OCC-supervised institutions were markedly lower on average than for other types of originators.

Index to the Worst Subprime Originators

Originator	Supervisor	Foreclosures in Worst 10 Metro Areas, based on 2005-07 Originations
New Century Mortgage Corp.	State supervised. Subsidiary of publicly-traded REIT, filed for bankruptcy in early 2007.	14,120
Long Beach Mortgage Co.	State and OTS supervised. Affiliate of WAMU, became a subsidiary of thrift in early 2006; closed in late 2007 / early 2008.	11,736
Argent Mortgage Co.	State supervised until Citigroup acquired certain assets of Argent in 08/07. Merged into CitiMortgage (NB opsub) shortly thereafter.	10,728
WMC Mortgage Corp.	State supervised. Subidiary of General Electric, closed in late 2007.	10,283
Fremont Investment & Loan	FDIC supervised. California state chartered industrial bank. Liquidated, terminated deposit insurance, and surrendered charter in 2008.	8,635
Option One Mortgage Corp.	State supervised. Subsidiary of H&R Block, closed in late 2007.	8,344
First Franklin Corp.	OCC supervised. Subsidiary of National City Bank until 12/06. Sold to Merrill Lynch, closed in 2008.	8,037
Countrywide	Data includes loans originated by (1) Countrywide Home Loans, an FRB supervised entity until 03/07, and an OTS supervised entity after 03/07; and (2) Countrywide Bank, an OCC supervised entity until 03/07, and an OTS supervised entity after 03/07.	4,736
Ameriquest Mortgage Co.	State supervised. Citigroup acquired certain assets of Ameriquest in 08/07. Merged into CitiMortgage (NB opsub) shortly thereafter.	4,126
ResMae Mortgage Corp.	State supervised. Filed for bankruptcy in late 2007.	3,558
American Home Mortgage Corp.	State supervised. Filed for bankruptcy in 2007.	2,954
IndyMac Bank, FSB	OTS supervised thrift. Closed in July 2008.	2,882
Greenpoint Mortgage Funding	FDIC supervised. Acquired by Capital One, NA, in mid 2007 as part of conversion and merger with North Fork, a state bank. Closed immediately thereafter in 08/07.	2,815
Wells Fargo	Data includes loans originated by (1) Wells Fargo Financial, Inc., an FRB supervised entity, and (2) Wells Fargo Bank, an OCC supervised entity.	2,697
Ownit Mortgage Solutions, Inc.	State supervised. Closed in late 2006.	2,533
Aegis Funding Corp.	State supervised. Filed for bankruptcy in late 2007.	2,058
People's Choice Financial Corp.	State supervised. Filed for bankruptcy in early 2008.	1,783
BNC Mortgage	State and OTS supervised. Subsidiary of Lehman Brothers (S&L holding company), closed in August 2007.	1,769
Fieldstone Mortgage Co.	State supervised. Filed for bankruptcy in late 2007.	1,561
Decision One Mortgage	State and FRB supervised. Subsidiary of HSBC Finance Corp. Closed in late 2007.	1,267
Delta Funding Corp.	State supervised. Filed for bankruptcy in late 2007.	598

Thursday, November 13, 2008

EXHIBIT 4

Spotlight on the Housing Market in the Detroit-Warren-Livonia, Michigan MSA

The Obama Administration's Efforts to Stabilize the Housing Market and Help American Homeowners | January 2013

The Detroit-Warren-Livonia, Metropolitan Statistical Area (Detroit) is located in southeast Michigan and includes six counties: Wayne (including the city of Detroit), Lapeer, Livingston, Macomb, Oakland and St. Clair. As with other parts of the Midwest, the foreclosure crisis in Detroit developed earlier and differently than in other areas of the nation. As early as mid-2002, the share of distressed mortgages in Detroit was above that of the nation and rising – the rapid rise of distressed mortgages nationally did not begin until 2007. A substantial share of mortgages in the Detroit area prior to 2007 were high cost or subprime loans which default at much higher rates than other loans. By 2007, Detroit had already experienced several years of unemployment above the national average and population declines. Detroit did not experience the rapid price appreciation of the housing bubble; yet, home prices fell by a far greater percentage than for the nation. Declining property values were driven in part by excess housing construction and investor speculation, but mainly by rising defaults, spurred first by unsustainable mortgages, then by a sharp downturn in the economy and rising unemployment. Economic conditions in Detroit are improving but the local housing market remains fragile with a high concentration of distressed sales, large numbers of vacancies, and 42 percent of home mortgages underwater. However, the Administration's broad approach to stabilize the housing market has been a real help to homeowners in Detroit and surrounding cities. This addendum to the Obama Administration's Housing Scorecard provides a summary of trends and conditions in the local economy and the impact of the Administration's efforts to stabilize the housing market and help local homeowners.

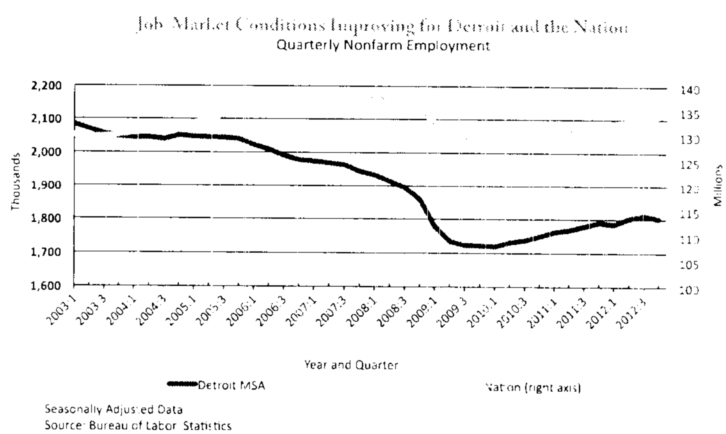
Population Growth, Employment, and Housing Market:

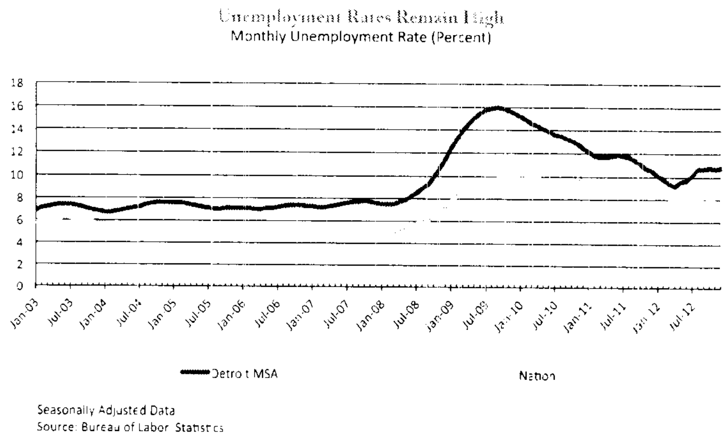
With 4.3 million people according to the most recent Census, the Detroit MSA is the 12th largest in the nation. From 2000 to 2010, the population declined by an average of 15,650 people, or 0.4 percent a year. The number of people who left the area outweighed the natural population growth (births minus deaths). An average of 25,750 people moved out of the MSA each year from mid-2000 to mid-2005, with this number increasing to 44,200 people from mid-2005 to mid-2010 as the economy worsened. During the decade spanned by the Census, new housing production exceeded household growth in the Detroit MSA. Net annual housing unit growth of 0.5 percent was greater than the corresponding population and household growth rates of - 0.4 percent and - 0.1 percent, respectively. This excess construction, while not as great as in some parts of the nation, nevertheless contributed to an oversupply of housing and may have led to steeper price declines after 2005. Investor speculation was likely a factor in

Detroit Housing Unit Growth Outpaced Population and Household Growth During the Past Decade

Date of Census	4/1/2000	4/1/2010
Detroit Population	4,452,557	4,296,250
Annual Growth Rate	-	-0.4%
Detroit Households	1,696,943	1,682,111
Annual Growth Rate	-	-0.1%
Detroit Housing Units	1,797,185	1,886,537
Annual Growth Rate	-	0.5%

Source: Census Bureau (2000 and 2010 Decennial)



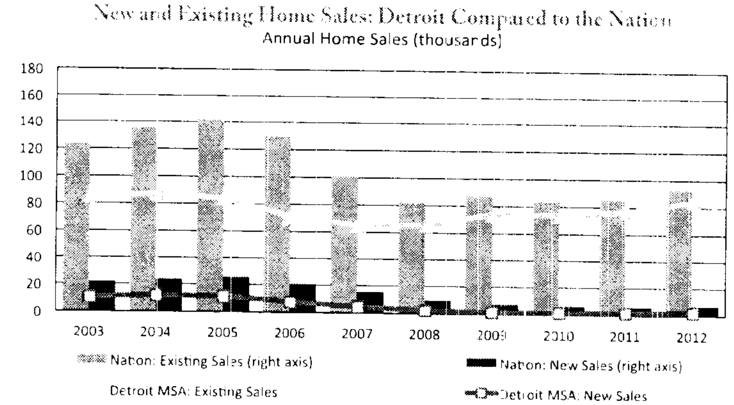


the overbuilding in the years leading up to the crisis, as a large share of Detroit area home purchases were by non-occupant investors. Specifically, from 2000 to 2006, investor home sales rose from 6.3 to 16.0 percent of total sales in the Detroit-Livonia-Dearborn, MI Metropolitan Division, while the corresponding increase for the nation was from 7.8 to 14.6 percent of sales. Subprime lending also fueled the overbuilding in Detroit, as research by the National Bureau of Economic Research shows that 29 percent of new mortgages in Detroit in 2005 were subprime loans. Approximately 90 percent of subprime mortgages experience increases in monthly payments of 30 to 50 percent within a few years according to a study by the Center for Responsible Lending, and analysis by the Michigan Council of Governments found subprime loans default at more than 7 times the rate of other mortgages. According to the Census Bureau, the number of vacant units increased by an average of 10,400 units (10.4 percent) annually in Detroit during the 2000s, more than double the national average increase of 4.4 percent during the same period.

A modest economic recovery is underway in Detroit. The local economy had been experiencing a slight drop in employment before a steep decline began in 2006. From the fourth quarter of 2003 through 2005, nonfarm payrolls declined at an average annual rate of 6,800 or 0.3 percent. Job losses accelerated from 2006 through the first quarter of 2010, declining at an average annual rate of 75,300 jobs, or 3.7 percent. Detroit has historically been known as a national center of manufacturing, and the loss of manufacturing jobs has been significant. From the fourth quarter of 2003 through 2005, manufacturing employment declined at a rate of 5,200 jobs, or 1.7 percent annually. As with nonfarm payrolls, manufacturing employment declined more rapidly from 2006 through the first quarter of 2010 - at an annual rate of 25,800 jobs or 8.8 percent. The Detroit economy has improved since the first quarter of 2010, with payrolls increasing at an average annual rate of 29,800, or 1.7 percent through the end of 2012. Growth was led by the manufacturing and professional and business services sectors, which grew at annual rates of 6.8 percent and 5.3 percent, respectively, more than offsetting job losses in the government sector which declined by 3.8 percent. The unemployment rate for Detroit peaked at 16.0 percent in October 2009 and declined to 9.2 percent by April 2012; it has since climbed to 10.8 percent as of December 2012, which might be expected since more people seek work when there are greater job prospects. The national unemployment rate peaked in October 2009 at 10.0 percent, falling to 7.9 percent by January 2013.

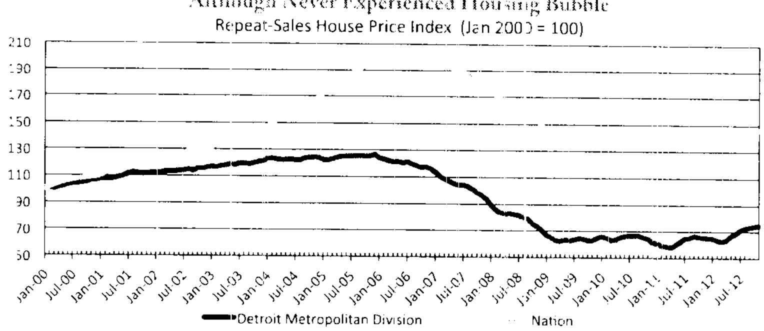
Existing home sales in the Detroit MSA have improved since 2007 and new home sales are strengthening. Existing home sales peaked in 2004 at 86,800 units, declined to 64,900 by 2007 before recovering to 76,900 homes sold in 2011. New home

New and Existing Home Sales: Detroit Compared to the Nation



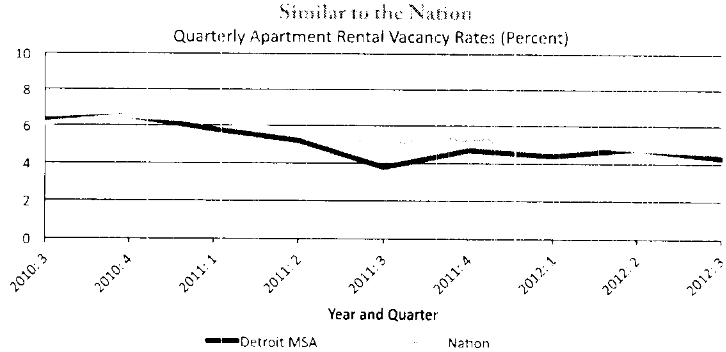
Sources: CoreLogic, HUD/Census Bureau, and National Association of Realtors. Home sales for 2012 are estimated.

Detroit Home Prices Declined Sharply, Although Never Experienced Housing Bubble



Source: CoreLogic. The HPI for the Detroit-Livonia-Dearborn, MI Metropolitan Division is shown

Rental Vacancy Rates Decline Since 2010, Similar to the Nation



Source: MPF Research

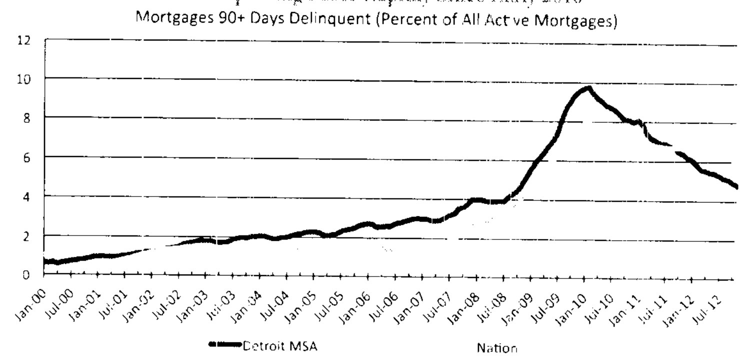
sales peaked at 12,350 in 2004 before declining sharply in 2006 and 2007 and remain at historically low levels, although sales have been strengthening since 2009. Distressed sales (involving bank-owned properties or short sales) remain high at 42 percent of existing home sales for the year, compared to a national rate of 26 percent. The prevalence of distressed sales in Detroit has contributed to the prolonged weakness in home prices as well as the low levels of new home construction and sales. The CoreLogic repeat-sales house price index (HPI) shows that home prices in the Detroit-Livonia-Dearborn, MI Metropolitan Division rose at one-fourth the pace of the rest of the nation between 2000 and early-2006. Although home prices in Detroit never experienced the bubble that the rest of the nation did, prices nonetheless fell 51 percent from their peak in December 2005 to their low in April 2009 compared to a national peak-to-low decline of 31 percent. House prices in Detroit have since bounced back by 20 percent from their 2009 lows, outpacing a 6 percent increase nationally.

The Detroit rental market is experiencing growth in rental prices. According to MPF Research, the Detroit apartment vacancy rate was 4.3 percent in the third quarter of 2012, up from 3.8 percent a year earlier, but still representing balanced market conditions. The national apartment vacancy rate declined from 5.1 to 4.6 percent over the same period. During the third quarter of 2012, the average apartment rent in Detroit increased by 6 percent from the previous year to $805. National average rent levels increased by 4 percent to $1,086 during the same period.

Trends in Mortgage Delinquencies and Foreclosures:

Detroit homeowners continue to struggle with high rates of mortgage delinquency and foreclosure. According to LPS Applied Analytics, as of November 2012 Detroit placed 122nd out of 366 metropolitan areas ranked by share of mortgages at risk of foreclosure (90 or more days delinquent or in the foreclosure process). Through the efforts of numerous state and local entities in partnership with the federal government the foreclosure situation in Detroit has improved. LPS data show that mortgages at risk of foreclosure decreased by 23.5 percent during the last year, from 32,750 in November 2011 to 25,050 in November 2012, compared with a national decline of 8.3 percent during the same period. CoreLogic data since 2000 indicate that the rate of mortgages at risk of foreclosure in the Detroit MSA began to rise above the national rate in mid-2002, reflecting weakening economic conditions and defaulting subprime loans. The rate of seriously delinquent mortgages followed the national trend of increasing in 2007 and 2008, when single-family foreclosures were largely driven by unaffordable loan products. Beginning in 2009, foreclosures were increasingly driven by loss of income, unemployment, and strategic defaults according to research by the Federal Reserve Bank of Chicago. A sharp spike upward in the rate of distressed mortgages occurred at this time for both Detroit and the nation as the economy worsened. After peaking in early 2010 at 9.8 percent, the share of distressed mortgages in Detroit has declined to 4.8 percent. National rates of distressed mortgages declined from a high of 7.9 percent in early 2010 to 6.0 percent currently.

Share of Distressed Mortgages Higher in Detroit Than in Nation (2002 Through 2010), But Improving More Rapidly Since Early 2010



Source: CoreLogic

Despite the reduction in distressed mortgages since 2010, the cumulative foreclosure completion rate in the Detroit MSA since April 1, 2009 is 7.0 percent of housing units, nearly triple the national rate of 2.4 percent. Foreclosure completions have been trending downward nationally and in the Detroit MSA. As of the fourth quarter of 2012, completed foreclosures in Detroit are 16 percent below the previous year, while completed foreclosures in the nation fell by 6 percent during the same period. Lenders' review of internal procedures related to the foreclosure process and backlogs in the courts for states with a judicial process have contributed to the decline in foreclosure activity. In the wake of the February 2012 National Mortgage Servicing Settlement, however, foreclosure activity is starting to pick up again, primarily in states where the process slowed dramatically in the last two years. CoreLogic reports that 42 percent of mortgages in the Detroit MSA were underwater as of the third quarter of 2012— compared to 22 percent nationally—representing additional homeowners potentially at risk.

Foreclosure Completion Rates in the Detroit-Warren-Livonia MSA

	Fourth Quarter 2012		Since April 1, 2009	
Area	Foreclosure Completions	Foreclosure Rate	Foreclosure Completions	Foreclosure Rate
Detroit MSA	6,320	0.3%	131,400	7.0%
Nation	165,700	0.1%	165,700	2.4%

Note: Foreclosure Rates as Percent of All Housing Units; Data through December 2012 for Foreclosures since April 2009
Source: Realty Trac and Census Bureau

The Administration's Efforts to Stabilize the Detroit Housing Market:

The Administration's mortgage and neighborhood assistance programs – the Home Affordable Modification Program (HAMP), the Federal Housing Administration (FHA) mortgage assistance programs, the Neighborhood Stabilization Program (NSP), and the Hardest Hit Fund (HHF) program – combined with assistance from the HOPE Now Alliance of mortgage servicers and the National Mortgage Servicing Settlement have helped stabilize the

Detroit housing market.

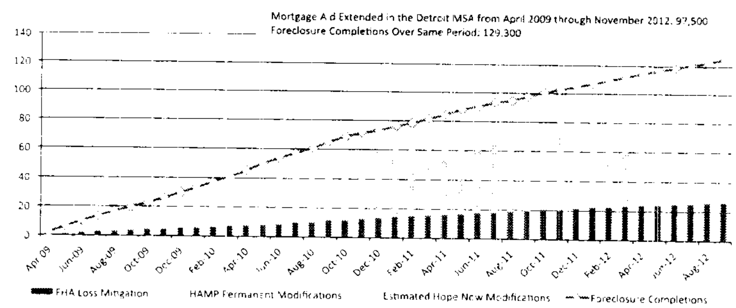
From the launch of the Administration's assistance programs in April 2009 through the end of November 2012, nearly 97,500 homeowners received mortgage assistance in the Detroit metropolitan area. More than 48,100 interventions were completed through the HAMP and FHA loss mitigation and early delinquency intervention programs. An estimated additional 49,400 proprietary mortgage modifications have been made through HOPE Now Alliance servicers. While some homeowners may have received help from more than one program, the number of times assistance has been provided in the Detroit MSA is more than three-fourths the number of foreclosures completed during this period (129,300). This relatively low ratio of mortgage assistance to foreclosures in Detroit since April 2009 (0.75 to 1 compared to 1.9 to 1 for the nation) is likely related to the persistently higher unemployment rates in Detroit over this time, making it harder to effect mortgage assistance. Under the landmark National Mortgage Servicing Settlement, over 10,000 Michigan homeowners had benefitted from nearly $500 million in refinancing, short sales and completed or trial loan modifications, including principal reduction on first and second lien mortgages as of September 30, 2012. Nationwide, the settlement has provided more than $26.1 billion in consumer relief benefits to over 300,000 families. That is in addition to the $2.5 billion in payments to participating states and $1.5 billion in direct payments to borrowers who were foreclosed upon between 2008 and 2011.

Given over three rounds, the **Neighborhood Stabilization Program** has invested $7 billion nationwide to help localities work with non-profits and community development corporations to turn tens of thousands of abandoned and foreclosed homes that lower property values into homeownership opportunities and the affordable rental housing that communities need.

NSP1 funds were granted to all states and selected local governments on a formula basis under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008; NSP2 funds authorized under the American Recovery and Reinvestment Act (the Recovery Act) of 2009 provided grants to states, local governments, nonprofits and a consortium of nonprofit entities on a competitive basis; and NSP3 funds authorized under the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 provided neighborhood stabilization grants to all states and select governments on a formula basis.

In addition to stabilizing neighborhoods and providing affordable housing, NSP funds have helped save jobs. Each home purchased, rehabilitated and sold through the NSP program is the result of the efforts of 35 to 50 local employees.

Mortgage Aid Provided Nearly 97,500 Times to Mitigate Rising Foreclosures
Detroit MSA: Cumulative Offers of Aid by Source Compared with Foreclosures Since April 1, 2009 (Thousands)



Note: Data on HOPE Now proprietary mortgage modifications are not available at the metropolitan area level. However, HOPE Now Alliance reports 84,900 non HAMP modifications since April 1, 2009 in Michigan of which 58 percent are estimated by HUD to have occurred in the Detroit MSA. This chart excludes HAMP trial modifications not made permanent.

Sources: Departments of HUD and Treasury, HOPE Now Alliance, and Realty Trac

Detroit MSA NSP Activity (Housing Units)	Projected	Completed
NSP1 Total	**7,967**	**6,889**
Clearance and demolition	4,758	5,502
Construction of new housing	254	54
Homeownership assistance to low-and moderate income	1,391	748
Rehabilitation/reconstruction of residential structures	1,564	585
NSP2 Total	**3,660**	**254**
Clearance and demolition	1983	249
Construction of new housing	478	-
Homeownership assistance to low-and moderate income	303	-
Rehabilitation/reconstruction of residential structures	896	5
NSP3 Total	**1,181**	**143**
Clearance and demolition	660	140
Construction of new housing	106	-
Homeownership assistance to low-and moderate income	42	-
Rehabilitation/reconstruction of residential structures	373	3

Overall, a total of $140 million has been awarded to 10 NSP grantees in the Detroit MSA. Under NSP2, the Michigan State Housing Development Authority (MSHDA) received nearly $224 million, and it awarded over $68 million to cities in the Detroit MSA. Approximately 1,395 households have already benefited from NSP and 5,891 blighted properties have been demolished; activities funded by the program are expected to provide assistance to an additional 4,012 owner-occupied and renter households. Examples of how these funds have been put to use are provided below.

Revitalization and Demolition in Detroit

The Michigan State Housing Development Authority (MSHDA) has the oversight responsibility for multiple funding sources from HUD and the State of Michigan. In addition to the $224 million it received under NSP2, MSHDA received an allocation of $15 million for demolition from the State Attorneys General Settlement fund, and $4 million from the Cities of Promise initiative. Over the last several years these funds have been utilized primarily within Michigan's urban centers, the largest of which is the City of Detroit.

- Detroit has focused on revitalization of the city's core communities and demolition of severely blighted areas. Detroit has narrowly targeted investments in stable areas, to rebuild structurally sound homes and create lively communities near economic and cultural centers. The Midtown neighborhood is building on its strengths, including Wayne State University and several hospitals, which in turn generate demand for restaurants and other services.
- Detroit's problems are vast in scale, however, with approximately 70,000 foreclosed properties in the city, 65 percent of which remain vacant. NSP and State of Michigan funds have been used to demolish thousands of foreclosed, burnt out, vacant and dangerous structures within Detroit's city limits. Although the need for demolitions exceeds the funding sources available, Detroit has made extraordinary inroads, demolishing more than 6,000 structures since 2008. Detroit Mayor Dave Bing has indicated that the target is 10,000 by November 2013. At an average cost of about $9,500 per demolition, including asbestos remediation, the city has already completed over 3,100 demolitions with NSP funds and expects to remove another 500.

Detroit Land Bank Authority

In 2008, Mayor Bing executed an Intergovernmental Agreement between the Michigan Land Bank Fast Track Authority and the City of Detroit, creating the Detroit Land Bank Authority (DLBA). The DLBA focuses on strengthening Detroit's communities by facilitating development, stabilizing property values, promoting job creation, and creating affordable opportunities for homeownership.

- The DLBA owns properties in 12 neighborhoods and has prioritized two of them for rehabilitation and resale in the short term. The DLBA has acquired 38 single-family homes in West Boston Edison, thirteen of which are currently being rehabilitated. The DLBA has also acquired 41 properties in the East English Village neighborhood, 25 of which are scheduled to be rehabilitated with NSP1 and NSP2 funding. Unfortunately, there are insufficient subsidies available at present to rehabilitate all of DLBA's real estate holdings.
- The land bank faces difficulties from low post-renovation appraised values on many properties that tend to raise the originally estimated subsidy needed per unit (a percentage of redevelopment costs are often recovered upon sale). It is still typical for renovated properties in Detroit to receive appraised values far below the total development cost for acquisition and renovation. The DLBA credits the city for supplying low-income affordable housing over the years; however, they believe that it is now time to focus on attracting more moderate and middle income families to improve the city's tax base.

Use of NSP2 Funds outside the City of Detroit

- The **City of Wyandotte, Michigan** was awarded a total of $8,131,796 by the Michigan State Housing Development Authority and is using these funds to build new homes on vacant lots. To ensure the houses are energy efficient, advanced building and framing techniques and geothermal heating/cooling systems as well as Energy Star appliances are being utilized to keep monthly utility bills low.
- In **Pontiac, Michigan**, NSP2 funds were invested in Lafayette Place, a $20 million redevelopment of an 80,000-square-foot former Sears, Roebuck & Co. department store that was built in 1929. The building – which houses 46 new residential units, a grocery store and a fitness center, was partially funded with $5.9 million in NSP2 funds from MSHDA. The project also benefitted from New Market, Historic and Brownfield tax credits. The housing units will consist of 46 one- and two-bedroom apartment lofts with access to a green rooftop. The project is the largest construction investment in downtown Pontiac in 30 years and should prove to be a catalyst for future development in the area.

Hardest Hit Fund in Michigan

The Michigan Homeowner Assistance Nonprofit Housing Corporation (MHA) oversees **Step Forward Michigan**, which was launched in July 2010 and funded through a $498.6 million allocation from the Administration's **Hardest Hit Fund**. MHA was selected to oversee Step Forward Michigan as a support arm for MSHDA. Step Forward Michigan provides several programs to assist Michigan homeowners who are at high risk of default or foreclosure. These programs include: Principal Curtailment, Loan Rescue, Modification Plan, and Unemployment Mortgage Subsidy (unemployment and reinstatement assistance). Step Forward Michigan provides twelve months of unemployment assistance to qualified borrowers; they also provide up to $30,000 to cure delinquent payments, escrow shortages, delinquent property taxes, and/or delinquent condominium association fees to avoid foreclosure; and up to $30,000 to enable a permanent loan modification. The number of homeowners benefitting from the program has continued to increase due to strong demand. For additional information, see https://www.stepforwardmichigan.org/.

EXHIBIT 5

- General Fund deficit reduction efforts resulted in the following positive results when compared to the year ended June 30, 2011: (1) $20.0 million reduction in salaries for the year ended June 30, 2012 due to 10% pay cuts, attrition, and layoffs, (2) $31.5 million reduction in pension costs due primarily to improved market performance, which lowered the Police and Fire Retirement System contribution rate by 12.2%, and negotiated changes to the contribution requirements such as increased smoothing (increase in number of years to spread out changes in the pension fund for funding), multiplier reductions and elimination of the cost of living, and (3) $17.5 million reduction in litigation costs mainly due to the reduction of large payouts and high risk cases. The failure to negotiate satisfactory contracts with the City's unions and achieve personnel reductions to reduce salaries and benefit costs during the last half of the fiscal year adversely impacted the City's deficit reduction efforts in 2012.

- The General Fund had liquidity problems at June 30, 2012. The budgetary challenges, economic uncertainties, accumulated deficit in the General Fund, and debt ratings below investment grade affected the City's ability to access credit markets as the City needed the State's assistance to borrow. On March 29, 2012, the City borrowed $80.0 million with assistance of the State of Michigan through the Michigan Finance Authority. The proceeds were used to pay $36.9 million of debt service on the City's limited tax self-insurance bonds due in April and May 2012 with the remainder set aside to pay for the City's self-insurance claims such as litigation and workers' compensation costs. In addition, the City's General Fund borrowed a total of $92.2 million from other City funds such as the Risk Management, Solid Waste, and Street funds to provide additional liquidity for the year ended June 30, 2012. Also, due to lack of cash, the General Fund owed the General Retirement System $8.6 million, Police and Fire Retirement System $51.9 million, and Benefits Fund $37.7 million at June 30, 2012. On August 23, 2012, the City issued $129.5 million of limited tax general obligation bonds, at a premium of $9.1 million, with maturities extending to November 2032, again with the assistance of the State through the Michigan Finance Authority (see details above). The General Fund's cash and investments totaled $59.8 million at June 30, 2012 compared to $73.7 million at June 30, 2011. The City's cash position declined because of continuing deficits in annual operations.

- The General Fund Public Lighting Department revenue increased $14.5 million in 2012 from 2011 due to the collection of $15.2 million from the Detroit Public Schools which mainly were delinquent collections, some of which were reserved as uncollectible in 2011. This also had a positive impact on the adjustment for the allowance for uncollectible receivables due to the collection of prior year receivables.

- For the year ended June 30, 2012, the City recorded $84.0 million in liabilities due to Wayne County for estimated chargebacks/recoveries of uncollectible delinquent property taxes. Wayne County has been providing the City with payments for the purchase of current year delinquent taxes every year since 2004. In the current year, the County will chargeback to the City prior year taxes purchased that it determines to be uncollectible. For the year ended June 30, 2011, the liability totaled $88.4 million. The $4.4 million decrease in the liability for the year ended June 30, 2012 was due to improvements in county collections.

EXHIBIT 6

Metro taxpayers foot the bill as banks walk away from homes

By Eric D. Lawrence Detroit Free Press Staff Writer Filed Under Local News Metro Detroit Lansing Washtenaw County
Mar. 30

Taupe paint peels off the weathered front and side of 2375 Wiard Court in Ypsilanti Township. Windows are missing from a porch covering added long ago.

Next door, trash is strewn on the porch of another abandoned house with a collapsing roof. In an overgrown yard, a painting of Jesus praying and staring heavenward shares space with old tires and a toy kitchen.

Township attorney Douglas Winters said the houses, which have been deemed unfit for human habitation as a result of mold and structural problems, are decaying because they've been neglected and abandoned, not only by the homeowner, but also by the financial institution that had the mortgage. Officials in several metro Detroit counties said that banks

and their agents -- like scores of homeowners upside-down on their mortgages -- have opted not to pay taxes on thousands of properties and instead have walked away from them, despite having mortgages on them.

Officials call these "bank

walkaways," a term also used to refer to properties on which foreclosure proceedings were started but never finished.

"I think it's unconscionable what they've been allowed to do," Winters said of the walkaway phenomenon.

Once owners are delinquent on property taxes, properties slip into county tax foreclosure. If the treasurer can't collect the taxes owed, the communities must repay the difference -- called a "chargeback." Communities are left with less money for roads, public safety and other purposes. For the City of Detroit alone this year, the chargeback bill is $118 million.

Banks counter that they maintain homes and pay taxes on properties that they own outright, but otherwise, they say, property maintenance and taxes are the homeowners' responsibility.

Gail Madziar, vice president of membership and communications at the Michigan Bankers Association in Lansing, said banks are trying to create solutions to problems such as blight, but that it doesn't make financial

sense for a bank to try to rehabilitate a stripped or dilapidated house that has a $60,000 mortgage, but is valued at, say, $20,000.

"In the past, we have had many instances where banks have foreclosed, paid the taxes on the property and then invested $20,000 or $30,000 to bring the property to salable condition, only to have it stripped again and again before it could sell. It's a complex problem with no easy solution," Madziar said in an e-mail.

"I don't want it to sound like the banks don't care, because they do care," she said.

A substantial percentage of tax foreclosures in metro Detroit involve walkaways, properties with some type of bank financial interest.

In Washtenaw County, 76% of the 274 properties in county tax foreclosure this year are those that had banks listed on property records as having a financial interest, such as through a mortgage. That's a drop from the 99% -- 632 of 637 -- of properties that Treasurer Catherine McClary counted in 2011, which she attributes to a general improvement in the market.

But in other Detroit-area counties, those numbers have increased this year, and treasurers in Wayne, Oakland and Macomb counties all report double-digit percentages. In Macomb County, 60% (494) properties were listed as having a bank interest; 48% (786) were so listed in Oakland County -- up from 16% the year before, and there were 48% (10,880) in Wayne County, which had a staggering 22,499 properties in tax foreclosure.

• **GRAPHIC:** Tax foreclosure process in Washtenaw County• **GRAPHIC:** Total county tax foreclosures

Those tax foreclosures could lead to chargebacks. In 2011, chargebacks cost Ypsilanti Township more than $290,000. This year, Oakland County charged back $9.3 million, down from $10.4 million last year. Washtenaw County had about $1.5 million in chargebacks last year, although McClary said she expects that number to drop this year. Macomb County had no chargebacks this year because all of its properties sold at auction. In Wayne County this year, the total was $263 million. Wayne County Chief Deputy Treasurer David Szymanski noted that the county settles up with communities before the auction, so the final cost is likely to be less, assuming properties sell at auction.

"These financial institutions are walking away from their responsibility to pay the taxes," said Oakland County Treasurer Andy Meisner. "It was not the Oakland County taxpayers' decision to do a mortgage on the property," he said. "By walking away from their responsibility, they're shifting their burden to the Oakland County taxpayers. ... For them to walk away from that and to try to stick my taxpayers with the bill for that is unacceptable."

Complex, uphill battle

Ypsilanti Township has sued Germany's Deutsche Bank, along with the homeowner, over property nuisance issues at the Wiard Court houses. The township isn't the only government to sue a bank over property maintenance; the Los Angeles City Attorney's Office called U.S. Bank one of that city's "largest slumlords" in a lawsuit filed in July.

Trying to assign responsibility to national and international financial institutions when taxes go delinquent and maintenance stops on individual properties is complicated by the way mortgages have been pooled into investment vehicles. These mortgage-backed securities, which helped fuel the housing crisis, can obscure financial connections.

For example, a spokesman for Deutsche Bank, said the company is not responsible for the Wiard Court properties because Deutsche Bank is only the trustee, not the mortgage servicer. It suggested contacting a company called Homeward Residential in Texas. That company, then under a different name, was accused by the Texas Attorney General's Office in 2010 of using illegal debt

collection tactics and misleading struggling homeowners. That case is suspended.

A spokeswoman for Homeward Residential, Philippa Brown, acknowledged that Homeward, not Deutsche Bank, is responsible for the Wiard Court properties. But she also said that she has no information about the properties, and attorneys for Deutsche Bank participated in a court hearing this month about them.

Russ Cross, senior vice president and regional servicing director for Wells Fargo Home Mortgage, said Wells Fargo has been much more assertive in the last year in its role as a trustee.

"We're sensitive to walkaways," Cross said, noting that the company understands "taxes are an important part of the lifeblood of local government, so we make sure they're paid."

Cross said the company works with neighborhood groups, including in Detroit, to address property issues and now has a repair program for houses it owns. The company also donates property in some cases.

However, Cross said, walkaways on occupied properties are allowed for a small portion of loans Wells Fargo is involved with on behalf of 400 investor groups. Cross said that in those cases, Wells Fargo notifies the homeowner and the local community that the lien on the loan

is being released, meaning the mortgage is extinguished.

Possible solution

Kermit Lind, a clinical professor of law emeritus at Cleveland State University, is an expert on foreclosure issues and said local officials often face a tough challenge in notifying the mortgage servicer when a problem, such as a nuisance issue, arises.

He said taxing entities seeking unpaid taxes -- such as county treasurers, or municipalities dealing with nuisance violations -- have no choice legally but to contact those listed on property records. And the company on file is likely not the loan servicer, the company that might be designated to handle things such as tax payments.

A simple solution, Lind said, would be for banks to file an affidavit with the register of deeds that lists the name of the servicer.

"It's up to them to do something about it," Lind said of banks. "If the servicer isn't doing their job, then the burden shouldn't be on the taxpayer for that."

Contact Eric D. Lawrence: elawrence@freepress.com

More Details: Tax, mortgage help for homeowners

Homeowners can contact their local county treasurer if they are having difficulty paying property taxes. Some offer guidance for

residents facing mortgage foreclosure, as well

EXHIBIT 7

City of Detroit
Budget Department
Administration

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 1100
Detroit, Michigan 48226
Phone: 313•224•6260 TTY 311
Fax: 313•224•2827
www.detroitmi.gov

5

RECEIVED

TO: Kevyn Orr, Emergency Manager approved

FROM: Brent Hartzell, Interim Budget Director Brent Hartzell

DATE: October 24, 2013

RE: **Request for Amendment to the FY 2014 Budget of the City of Detroit (with appropriation revisions in consultation with Ernst & Young)**

At your direction, debt service appropriations for pension obligation certificates and limited tax general obligation debt for which principal and interest are not being remitted during the Chapter 9 bankruptcy filing are to be reallocated for general operational restructuring purposes. These debts include pension obligation certificates and several obligations backed by limited tax general obligation revenues.

Accordingly, pursuant to your authority under Emergency Order 12 and section 12(1)(b) of Michigan Public Act 436 of 2012, the Budget Department requests that you amend the City's FY 2014 Budget to shift $95,686,548 from various appropriations in the General Fund (see attached resolution) to the general restructuring account (Appropriation 13224). A subsequent amendment will reallocate authority within grant and enterprise funds to the extent necessary. Once decisions are made in placing specific authority within designated agencies, reallocation amendments from the restructuring account will also be required.

Confirmation of your intent and approval of this reallocation are hereby requested.

cc: Shani Penn, Chief of Staff to the Emergency Manager
Sonya Mays, Senior Advisor to the Emergency Manager
Gary Brown, Chief Operating Officer
John Naglick, Finance Director and Acting Chief Financial Officer
Portia Roberson, Corporation Counsel
City Council Members
Irvin Corley, City Council Legislative Policy Division
Adam Hollier, Legislative Liaison, Mayor's Office

SOLL
EXHIBIT
1305

BY THE EMERGENCY MANAGER:

RESOLVED, pursuant to Emergency Order 12 and section 12(1)(b) of Michigan Public Act 436 of 2012 and to ensure legal authorization of additional costs for restructuring activities, that the FY 2014 Budget of the City of Detroit be and is hereby amended as follows:

FROM LTGO-SERVICED INDEBTEDNESS:

Decrease Appropriation No. 00852, Claims Fund (Insurance Premium)	$	13,630,500
~~Decrease Appropriation No. 00993, DDA Bonds 1997~~	~~$~~	~~1,369,400~~
Decrease Appropriation No. 12129, 800 MHz Project Debt Service	$	34,953,272

FROM PENSION OBLIGATION CERTIFICATES:

Decrease Appropriation No. 00024, Central Data Processing (ITS)	$	314,898
Decrease Appropriation No. 00028, Administration (DPW)	$	48,199
Decrease Appropriation No. 00058, Administration (Finance)	$	80,924
Decrease Appropriation No. 00060, Assessments Division (Finance)	$	370,326
Decrease Appropriation No. 00061, Purchasing Division (Finance)	$	107,998
Decrease Appropriation No. 00063, Treasury Division (Finance)	$	248,405
Decrease Appropriation No. 00064, Executive Mgmt. and Support (Fire)	$	256,683
Decrease Appropriation No. 00065, Ordinance Enforcement (Fire)	$	472,482
Decrease Appropriation No. 00067, Emergency Medical Services (Fire)	$	2,223,265
Decrease Appropriation No. 00068, Administration (DHWP)	$	126,812
Decrease Appropriation No. 00096, Executive Office (Mayor)	$	264,113
Decrease Appropriation No. 00102, Parking Violations Bureau (Muni. Pkg.)	$	272,260
Decrease Appropriation No. 00105, Administration (Human Resources)	$	108,407
Decrease Appropriation No. 00106, Personnel Selection (Hum. Resources)	$	28,391
Decrease Appropriation No. 00108, Labor Relations (Hum. Resources)	$	130,266
Decrease Appropriation No. 00111, Police Commission (Police)	$	312,798
Decrease Appropriation No. 00112, Police Executive (Police)	$	729,631
Decrease Appropriation No. 00115, Human Resources Bureau (Police)	$	290,215
Decrease Appropriation No. 00118, Criminal Investigation Bureau (Police)	$	4,675,247
Decrease Appropriation No. 00119, Management Services Bureau (Police)	$	793,726
Decrease Appropriation No. 00123, Administration (PLD)	$	89,419
Decrease Appropriation No. 00127, Engineering (PLD)	$	123,781
Decrease Appropriation No. 00128, Street Lighting (PLD)	$	707,857
Decrease Appropriation No. 00129, Operating Division (PLD)	$	143,790
Decrease Appropriation No. 00131, Heat and Power Production (PLD)	$	197,200
Decrease Appropriation No. 00181, Conduct of Elections (Elections)	$	257,109
Decrease Appropriation No. 00182, Investigation of Complaints (Ombuds.)	$	66,287
Decrease Appropriation No. 00183, Land Use Controls (BZA)	$	28,274
Decrease Appropriation No. 00226, Budget Dept. Operations (Budget)	$	116,077
Decrease Appropriation No. 00245, Accounts Div.-Administration (Finance)	$	391,146
Decrease Appropriation No. 00247, Accounts-City Income Tax Ops. (Finance)	$	273,977
Decrease Appropriation No. 00250, Protection of Human Rights (Hum. Rights)	$	29,334
Decrease Appropriation No. 00251, Auditing Operations (Auditor Gen.)	$	92,231
Decrease Appropriation No. 00265, City Clerk Ops. (City Clerk)	$	97,553
Decrease Appropriation No. 00269, City Legislative Functions (Council)	$	282,263
Decrease Appropriation No. 00277, Detroit Bldg. Authority (Non-Dept.)	$	70,169
Decrease Appropriation No. 00393, District Court (36th Dist. Ct.)	$	216,825

Decrease Appropriation No. 00537, Rape Counseling Unit (Police)	$	23,074
Decrease Appropriation No. 00715, Vehicle Mgmt. and Supply (Fire)	$	125,606
Decrease Appropriation No. 00718, Fire Fighting Operations (Fire)	$	7,260,078
Decrease Appropriation No. 00760, Commun. & Systems Support (Fire)	$	241,690
Decrease Appropriation No. 00832, Dept. Accounting Operations (Finance)	$	116,377
Decrease Appropriation No. 00833, Employee Services (Hum. Resources)	$	307,364
Decrease Appropriation No. 00854, Hearings & Policy Dev. (Hum. Rsrcs.)	$	9,810
Decrease Appropriation No. 00880, Police Athletic League (Police)	$	25,035
Decrease Appropriation No. 00883, Development-City (PDD)	$	24,249
Decrease Appropriation No. 00910, City Engineer (DPW)	$	66,966
Decrease Appropriation No. 00922, Council President Office (Council)	$	7,203
Decrease Appropriation No. 00923, Council Member Office 1 (Council)	$	6,216
Decrease Appropriation No. 00924, Council Member Office 2 (Council)	$	6,216
Decrease Appropriation No. 00925, Council Member Office 3 (Council)	$	6,216
Decrease Appropriation No. 00926, Council Member Office 4 (Council)	$	6,216
Decrease Appropriation No. 00927, Council Member Office 5 (Council)	$	6,216
Decrease Appropriation No. 00928, Council Member Office 6 (Council)	$	6,216
Decrease Appropriation No. 00929, Council Member Office 7 (Council)	$	6,216
Decrease Appropriation No. 00930, Council Member Office 8 (Council)	$	6,216
Decrease Appropriation No. 04739, General Revenue-Non-Dept. (Non-D)	$	201,732
Decrease Appropriation No. 09112, Enhanced E-911 (Police)	$	295,941
Decrease Appropriation No. 10082, Operations (Police)	$	14,120,763
Decrease Appropriation No. 10151, Casino Municipal Services (Fire)	$	258,904
Decrease Appropriation No. 10152, Casino Municipal Services (Police)	$	531,685
Decrease Appropriation No. 10397, Board of Ethics (Non-Dept.)	$	13,886
Decrease Appropriation No. 11040, Administration (Police)	$	127,683
Decrease Appropriation No. 11041, Technical Services Bureau (Police)	$	2,235,657
Decrease Appropriation No. 11042, Legal Affairs/Training (Police)	$	865,209
Decrease Appropriation No. 11159, Blight Violations Adjudic. (DAH)	$	41,333
Decrease Appropriation No. 11195, Risk Management Council (Auditor Gen.)	$	16,695
Decrease Appropriation No. 11656, Recreation Mgmt. (Recreation)	$	49,083
Decrease Appropriation No. 11657, Busin. Ops. & Suppt. Svcs. (Recreation)	$	24,213
Decrease Appropriation No. 11663, Recreation Operations (Recreation)	$	225,803
Decrease Appropriation No. 11665, Belle Isle Operations (Recreation)	$	8,433
Decrease Appropriation No. 11825, Administration (GSD)	$	76,777
Decrease Appropriation No. 11830, Facilities & Grounds Maint. (GSD)	$	327,551
Decrease Appropriation No. 11831, Inventory Management (GSD)	$	36,422
Decrease Appropriation No. 12146, Business License Center (BSEE)	$	36,353
Decrease Appropriation No. 12153, Fleet Management (GSD)	$	761,572
Decrease Appropriation No. 12154, General Services-Street Fund (GSD)	$	211,958
Decrease Appropriation No. 13125, Media Services/Comunic. (Non-Dept.)	$	49,669
Decrease Appropriation No. 13152, Street Maint. Garage (GSD)	$	131,603
Decrease Appropriation No. 13161, Environmental Affairs Dept. (BSEE)	$	24,618
Decrease Appropriation No. 13168, Real Estate & GIS (PDD)	$	35,474
Decrease Appropriation No. 13174, Strategic Planning/Grants (Recreation)	$	6,482
Decrease Appropriation No. 13336, Ground Maintenance (GSD)	$	222,123
Decrease Appropriation No. 13530, Office of the Inspector General (OIG)	$	79,902
Decrease Appropriation No. 13532, Homeland Security Ops. (Police)	$	15,489
Decrease Appropriation No. 13567, Animal Control (Police)	$	109,668

EXHIBIT 8

THE GREAT REVENUE SHARING HEIST

By Anthony Minghine

There have been a lot of high profile robberies over the years. The Lufthansa robbery, D.B. Cooper highjacking, the Antwerp Diamond Caper...but these crimes look amateurish compared to the state of Michigan's Great Revenue Sharing Heist. The state has managed to pinch over $6 billion in revenue sharing from local government over the last several years. Those numbers would even get Bernie Madoff's attention.

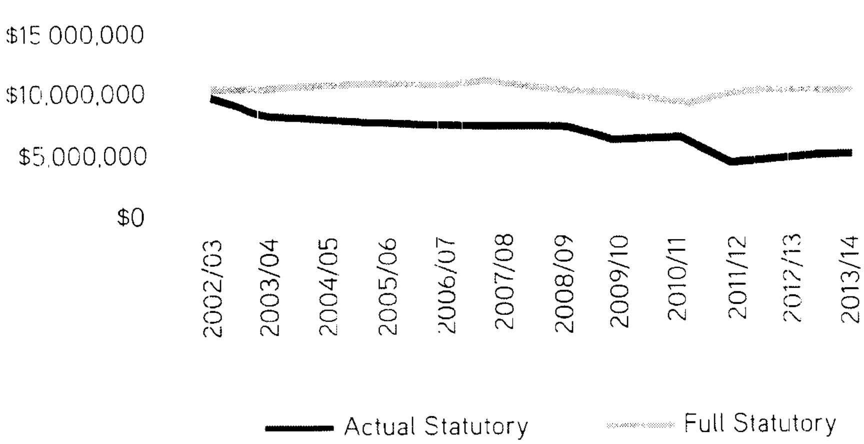
Michigan's broken municipal financing model is almost a cliché. Talking about budget numbers and deficits in the *billions* of dollars can cause us to lose perspective. The fact is, there are a record number of local governments that find themselves in the midst of a financial crisis. Is it the result of mismanagement, neglect, or incompetence? Or is it the result of a dramatic disinvestment by the state in local government? I suggest the latter.

In my view, there are three major factors that have led communities to the financial brink: post retirement costs; a steep decline in property values; and a dramatic reduction in state revenue sharing. The third factor will be the focus of this article.

Post retirement costs are a huge issue that locals are grappling with. Change here is difficult at best; local governments are hamstrung with contracts and laws that make transformation slow. The property tax declines local governments have experienced could not have been anticipated to the degree they occurred, and are certainly out of the control of anyone in this state. Statutory revenue sharing, on the other hand, has been unilaterally taken by the state to solve its budget issues. It's a fact. Revenue sharing is paid from sales tax revenues, which have been a remarkably stable source of income, and have in recent years experienced significant growth.

CITY OF PONTIAC

Annual Revenue Sharing Loss



Breaking Down the Numbers

Hopefully you'll stick with me, as I'm about to drop the "b" word. From 2003-2013, sales tax revenues went from $6.6 *billion* to $7.72 *billion*. Over that same period, statutory revenue sharing declined from over $900 million annually to around $250 million. The state is now in an enviable position—revenues that exceeded expectations. It is posting large surpluses but has failed to take steps to restore local funding.

PROJECTED REVENUE TAKEN 2003-2014

Allen Park	$8,440,088
Alpena	$4,371,700
Dearborn	$31,320,463
Detroit	$732,235,683
Farmington Hills	$20,488,283
Ferndale	$9,772,967
Flint	$54,868,096
Grand Rapids	$72,854,201
Hamtramck	$13,301,632
Lincoln Park	$17,147,092
Marquette	$6,907,445
Melvindale	$5,865,221
Pontiac	$40,533,681
Saginaw	$30,329,283
Southfield	$21,904,790
Traverse City	$4,307,187
Warren	$45,961,823

In fact, the state is trumpeting its sound fiscal management and admonishing local governments for not being as efficient. What the state fails to mention is that it balanced its own budget on the backs of local communities. This would be like me taking your money to pay my bills, and then telling you that you need to be more responsible with your household budget. In fairness, the state did experience revenue declines out of its control, much like locals experienced with property tax declines. It is different, though, in one important way—local communities couldn't take money from others and push those tough decisions down to someone else.

What is most shocking is the difference those revenue sharing dollars would have made at the local level. As I stated at the onset of this article, we now have a record number of communities facing financial emergencies. It's easy to blame local leaders, but you must consider all the facts. In most cases, communities that currently face large deficits would in contrast have general fund surpluses.

Let's Get Specific: Four Cities' Cuts

So what does it mean to specific communities? For Allen Park, an $857,000 deficit in 2012 becomes a surplus of over $5 million and would grow to a projected surplus of $7.3 million by 2014. Hamtramck's deficit of $580,000 would have been a surplus of $8.7 million. Flint will have lost $54.9 million dollars by the end of 2014. The deficit in its 2012 financial statements is $19.2 million. Flint could eliminate the deficit and pay off all $30 million of bonded indebtedness and still have over $5 million in surplus. In Detroit, a city facing the largest municipal bankruptcy in history, the state took over $700 million to balance the state's books.

This data begs the question: did municipalities ignore their duty to manage or did someone else change the rules of the game and then throw a penalty flag at them? I see yellow flags all over the playing field. Post-retirement benefits are a huge expense and burden to local government, but we must not ignore the reality—the promises were made with a different expectation from the state as it relates to sharing sales tax revenue with local government. It's a fact that the state has broken that promise. State leaders excused themselves from making tough choices, instead using local money to pay their bills. In the process, they have created most, if not all of the financial emergencies at the local level.

The numbers don't lie. Revenue sharing is the only factor that anyone has had direct control over during these difficult financial times. It is time for the state to shift gears and start investing in local government again. Hardships at the local level weren't created by a lack of cooperation or collaboration. I would humbly submit that local governments invented the concept and the state is very late to the table. Local government officials have done, and will continue to do, their part to be prudent managers, but the goal cannot be to hang on and survive. Our goal must be to ensure that our cities are vibrant places that people will choose to live in, and that can only happen if the state fulfills its promise and responsibility to invest where the rubber meets the road, and that is at the local level.

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