JOINT ECONOMIC COMMITTEE
SENATOR CHARLES E. SCHUMER
CHAIRMAN

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**Contact:** Israel Klein
202-224-0368

# Opening Statement of Senator Charles E. Schumer, Chairman, Joint Economic Committee Hearing with Federal Chairman Ben Bernanke March 28, 2007

I want to welcome Federal Reserve Chairman Ben Bernanke to this hearing of the Joint Economic Committee on "The Economic Outlook." This Committee has a broad mandate to study and make recommendations about economic policy, and we frequently seek the views of the Federal Reserve Chairman as we carry out that mandate.

Chairman Bernanke, we live in interesting times and you face a number of important challenges in setting a course for monetary policy that will achieve the multiple goals of high employment, balanced economic growth, and reasonable price stability.

Those challenges are all the more complicated by what is turning out to be an emerging crisis for homeowners all over the country--the sub-prime mortgage market fallout.

Today, is the first time we will hear Chairman Bernanke say that the wave of defaults we are witnessing in the sub-prime market "casts serious doubt on the adequacy of the underwriting standards" for these loans.

Today, we will take his words as a further indication that we must respond on the federal level. When so many mortgage brokers are able to deceive our most vulnerable families into loans that they could never afford, without anyone batting an eye – the system is broken.

I'm planning on introducing a bill that would establish a national regulatory system for all mortgage brokers, including those at non-bank companies; and establish a suitability standard for borrowers so that they will never issue a loan that the borrower cannot afford.

The wave of sub-prime foreclosures that we have seen so far is just the "tip of the iceberg" –and we all know what these foreclosures do to the families that fall victim to them. It's on the front page of our major national newspapers every day.

What is less clear—and what we hope to examine today-- is how the sub-prime crisis will impede our broader economic growth.

In many ways, I believe that the layering on of the risk in the sub-prime market reflects the layering on of risk in our broader economy. From our negative personal savings rate, record-high debt levels, trade imbalances, and vulnerability to sharp currency depreciation if the rest of the world starts to foreclose on us – we must figure out how to get out of this mess. Just as families teased into unsuitable sub-prime loans are signing over their economic security, the nation is at risk of mortgaging away our economic future if we don't change course and start investing in our own future growth.

There are times when the direction for monetary policy is clear, but this does not appear to be one of those times. It looks like the Fed has become more neutral about the future direction of monetary policy and I think that is prudent for a number of reasons.

First, the typical American family has been left behind so far in the recovery from the 2001 recession. Productivity growth has been strong, but workers' earnings have not kept up with that growth. Profits have risen sharply and so have the salaries and bonuses of top management.

But middle class families have not seen their paychecks keep up with gas prices, health care premiums, and college costs, just to name a few expenses squeezing families today. It would be a cruel injustice if this recovery were to be cut short before workers' earnings began to reflect their productivity and families' real incomes more closely followed the trajectory of our economic growth.

Another reason to be open to an easing of monetary policy is the concern that the housing market adjustment is far from over. Recent housing data has offered little encouragement that the market might be stabilizing; so it is still too early to tell if the worst is over for the housing market.

I personally don't think the worst IS over for the housing market, because everyday on the front page of major newspapers, I read of families all over the country who are now in a financial tailspin because they were deceived into unsuitable loans.

As the New York Times reports today, just across the river from my home state, in Newark, New Jersey, a majority of the foreclosures were in areas with concentrated minority populations and a majority of those borrowers had bad credit.

52,000 families foreclosed on their homes last year in New York State alone, so I am particularly concerned with what is happening in the sub-prime market. This is a terrible instance where a lack of oversight has led to a wild-west mentality among unscrupulous lenders and, frankly, the exploitation of large numbers of financially unsophisticated borrowers.

It is bad that entire corporations built on this faulty business plan and investors who funded those schemes will be out of business or out of money. Those failures will surely lead to some adjustment in the financial markets.

But the real tragedy here is that 2.2 million homeowners face the real possibility of losing their homes because they were misled, or just plain swindled by modern day bandits. This Committee will be very interested in your testimony, Chairman Bernanke, about the causes and consequences of the troubles in the sub-prime market and their effects on the overall economy.

Problems in the housing market are at the forefront of my concerns about the overall economic outlook, but there are other issues as well that we are keenly focused on. The new Congress is beginning to take real steps to get the budget deficit under control in the wake of budget excesses of the past six years. But those excesses have brought us a large trade deficit, low national saving, and a mounting debt to the rest of the world.

I hope, Chairman Bernanke that you agree with me that the current trade deficit is unsustainably large and that it is critically important that we take concrete steps to bring it down. I look forward to your testimony on the economic outlook and to a discussion of how we can best meet the economic challenges we face, and finally how we can better protect millions of American families from being robbed in this lawless, wild west of exotic home loans.

Normally I encourage all of our members to make opening statements. But because we have votes expected on the floor and in order to stay within our limited time with Chairman Bernanke, I am going to ask only our Vice Chairman and the Senate and House Ranking members to make opening remarks. Other members may submit their full opening statements into the record.



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