Joint Economic Committee
Senator Charles E. Schumer, Chairman
Representative Carolyn B. Maloney, Vice Chair

Statement of Carolyn Maloney, Vice Chair
Joint Economic Committee Hearing
July 25, 2007

Good morning. I would like to thank Chairman Schumer for holding this hearing to examine the economic impact of foreclosures caused by subprime mortgage defaults. I also want to welcome Sen. Brown and our witnesses.

In this hearing we will hear from victims and local leaders from one of the hardest hit cities – Cleveland, Ohio. But the same sort of economic pain is being felt in communities across the country as subprime mortgage defaults and foreclosures rise.

As subprime mortages reset to much higher rates than borrowers can afford, families are experiencing the devastating effects of these loans. Like a stone cast into a pond, the ripple is being felt throughout local economies as losses mount for borrowers, lenders, governments, and neighbors.

Sadly, the worst is yet to come. If we do not stem the tide of these foreclosures, the coming crisis could eclipse the number of people displaced by Hurricane Katrina, according to the National Consumer Law Center. Moreover, consumer advocates estimate that at the current foreclosure rate, the surge of subprime lending could end up eliminating more homeowners than it initially created.

Concern is also growing about whether the turmoil in the subprime market will infect the larger economy. At least four large subprime lenders are already in bankruptcy and Wall Street investment banks are seeing huge losses in their subprime portfolios.

Yesterday, Countrywide Financial, the nation’s largest mortgage lender, sparked a sell-off in the stock market with the news that more borrowers with good credit are falling behind on their mortgage payments. In their view, the housing market may not begin to recover until 2009.

Both the Senate and the House have held hearings where we’ve heard from federal regulators and industry and consumer representatives about the need to strengthen underwriting, correct abusive lending practices, and provide remedies for borrowers.

I applaud Chairman Schumer’s efforts to gain additional funding for foreclosure prevention programs.

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In terms of changing lending practices, the interagency guidance on subprime lending sensibly sets out principles that require lenders to assess borrowers' ability to pay over the whole life of the loan.

This guidance strikes a balance between making sure borrowers can repay the loans they get and helping borrowers who can repay a loan get one. We should extend that guidance to the entire universe of subprime lenders, not just the sliver of the primary market regulated by federal agencies.

The Federal Reserve has broad powers under HOEPA to regulate "unfair and deceptive" practices for all lenders. I have urged the Fed to use those powers to extend this guidance to the whole market – including mortgage subsidiaries of bank holding companies and state-regulated banks and finance companies.

We should legislate an enforcement scheme to support such a rulemaking, which could involve state authorities.

Extending such underwriting principles to the secondary market is also imperative, because lenders won't make these loans if they can't sell them.

We need to take steps to help borrowers in crisis. We also need to return to healthy underwriting principles, because that provides a sound basis for economic growth.

I thank the chairman for holding this hearing and I look forward to the testimony of our witnesses.

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