



JOINT ECONOMIC COMMITTEE
SENATOR CHARLES E. SCHUMER, CHAIRMAN
REPRESENTATIVE CAROLYN B. MALONEY, VICE CHAIR



**Statement of Carolyn Maloney, Vice Chair
Joint Economic Committee Hearing
September 19, 2007**

Good morning. I would like to thank Chairman Schumer for holding this hearing to examine the subprime lending disaster and the threat to the broader economy.

Anxiety over the state of the economy remains high, as concerns mount that the subprime mortgage meltdown will infect the rest of the economy. Yesterday, RealtyTrac released the latest bad news that foreclosures reported in August increased 36% since July and 115% since this time last year. Expectations are that the next 18 months will be even worse, as many subprime loans reset to higher rates. The credit crunch, the worsening housing slump, market volatility, and weak consumer confidence point to a gathering storm that could drag down the economy, taking thousands of American jobs with it.

Consumer spending has been propping up the economy, but the ability of American consumers to keep spending may be flagging with slowing or declining home prices, putting the economy at serious risk of a downturn. Dr. Shiller worries that the collapse of home prices that we will see "might turn out to be the most severe since the Great Depression." Millions of Americans are in danger of losing their homes, and if employers continue to pull back on hiring, their jobs may be in danger too.

In a clear sign of the seriousness with which the Fed now views economic conditions, yesterday the FOMC moved to lower its key short-term interest rate by 50 basis points, to 4.75 percent, and left the door open to additional cuts. The Fed's action is an effort to prevent the economy from derailing and to ease credit pressures, but it is no silver bullet.

In Congress, we are focusing on helping families stay in their homes and preventing another crisis like this in the future.

Just yesterday, the House passed legislation to enable the FHA to serve more subprime borrowers at affordable rates and terms, attract borrowers who have turned to predatory loans in recent years, and offer refinancing to homeowners struggling to meet their mortgage payments. Fannie Mae and Freddie Mac are providing much needed liquidity in the prime market right now. We passed a GSE reform bill in the House, but we should also raise the cap on these entities' portfolio limits, at least temporarily, so that they can provide additional help with the subprime crisis. To make servicers more able to engage in workouts with strapped borrowers, we pushed FASB to clarify that its Standard 140 allows for modification of a loan when default is reasonably foreseeable, not just after default. And I think we should also eliminate the tax on debt forgiveness, sparing families the double-whammy of paying taxes on the lost value of their homes.

For the future, our regulatory system is in serious need of renovation to catch up to the financial innovation that has surpassed our ability to protect consumers and hold institutions accountable. Even though the federal banking regulators have put out interagency guidance on subprime loans

to improve standards, some three-quarters of the subprime market does not have a federal regulator. We need to extend the guidance to create a uniform national standard to fight predatory lending and a single consumer protection standard for the entire mortgage market. I believe regulating brokers and other unregulated participants in the subprime market are also essential steps.

Shoring up the foundation of the American Dream will help families and strengthen the economy.

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

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