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House Resolution 3068, the TARP for Main Street Act of 2008

House Financial Services Committee

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Good morning, Chairman Frank and Ranking Member Bachus. My name is Damon Silvers, and I am Associate General Counsel of the AFL-CIO and Deputy Chair of the Congressional Oversight Panel established under the Emergency Economic Stabilization Act of 2008 to oversee the Troubled Asset Relief Program, or TARP. Though I will make reference to the work of the Congressional Oversight Panel this morning, my testimony today reflects my personal views and in certain respects the views of the AFL-CIO, and is not on behalf of the Congressional Oversight Panel, its staff or its chair.

Let me begin by saying that there is an urgent need for help for American families to address the financial crisis. We can no longer pretend that simply putting money in at the top of the financial system is going to achieve very much without stabilizing the other end of the system—household balance sheets. For that reason, the AFL-CIO strongly supports H.R. 3068, the TARP for Main Street Act of 2009, and applauds Chairman Frank for his leadership in moving this bill forward at this time.

When Congress passed the Emergency Economic Stabilization Act of 2008, Congress understood the manner in which the health of the financial system was not distinct from the health of the broader economy. On the one hand, a financial system in crisis deprives the real economy of investment capital on reasonable, terms, leading to economic decline. On the other hand, a weak real economy will tend to exert a downward pull on the financial system, causing financial firms' balance sheets to deteriorate, which itself threatens a vicious cycle of weakening financial firms pulling back further on lending, causing a further contraction of economic activity.

This Committee has been at the forefront since 2007 in recognizing these dynamics, particularly with respect to the urgent need to address the epidemic of home foreclosures in the wake of the subprime lending bubble. From its inception in November of last year, the Congressional Oversight Panel has consistently focused on the need for effective steps under the TARP to address the foreclosure crisis and halt the downward momentum of real estate prices driven by rising foreclosures. In addition to raising issues associated with the lack of action on foreclosure prevention during the initial months of the TARP in our first two reports, we focused our March, 2009 oversight report entirely on the subject of addressing the foreclosure crisis.[1]

In March, the Obama Administration announced its intention to devote significant TARP resources to assisting families facing foreclosure. The Oversight Panel was supportive of this effort, but noted that it had limitations, particularly around situations where homeowners' mortgages were deeply underwater, and where unemployed families were facing foreclosure.

Specifically, the Administration's Making Home Affordable foreclosure prevention program looked to lenders and servicers to commit to modifications of interest rates that would put mortgage payments in a range of 31% of the borrower's income. From the perspective of making mortgages viable for the employed, this approach to income is well-founded, but it is deeply problematic from the perspective of trying to prevent foreclosures among the unemployed, whose income is likely to be so low that no amount of interest rate reduction can get anywhere near close to producing modified terms resulting in payments of 31% of unemployment benefits.

And it is now very clear today that what began as a foreclosure crisis driven by falling real estate values and exploitative mortgage products is now being very significantly compounded by accelerating rates of unemployment. The official national rate of unemployment is now 9.5%, with higher rates in many states. Estimates of real rates of effective underemployment are now well into the teens, and projections by the IMF and the OECD are for rates going significantly higher and remaining over 10% through next year. The OECD's recent June Economic Outlook shows the U.S. having added 6 million unemployed people since December of 2007, and projects unemployment at the end of 2010 to be 10.1%.

Yesterday, the mortgage insurer PMI group cited rising unemployment as the leading cause of a projected continuing rise in home foreclosures. The result according to PMI is a likely continuing fall in housing prices in the majority of U.S. cities through the first quarter of 2011.[2]

The relationship between unemployment and foreclosures is particularly stark in the data on defaults of conforming, high quality mortgages. The joint report of the Office of Thrift Supervision and the Office of the Controller of the Currency on mortgage metrics for the first quarter of 2009 released last week showed a more than doubling of delinquent prime mortgages over the same period in 2008.[3] And of course unemployment is sharply higher now than in the first quarter.

[1] The reports of the Congressional Oversight Panel are available at the Panel's website, www.cop.senate.gov.
[2] http://phx.corporate-ir.net/phoenix.zhtml?c=63356&p=irol-newsArticle&ID=1305200&highlight=
[3] http://www.ots.treas.gov/?p=PressReleases&ContentRecord_id=316ad3d4-1e0b-8562-eb75-4ef48e2eae8e&ContentType_id=4c12f337-b5b6-4c87-b45c-838958422bf3

Rapidly rising unemployment, and its consequences for the quality of bank assets, particularly home mortgages, threaten what progress has been made in stabilizing our financial system.

Furthermore, there are real questions as to whether we have really achieved a healthy banking system in terms of the fundamental purpose of the Emergency Economic Stabilization Act to revive the systems providing both household and business credit. The Congressional Oversight Panel has held field hearings over the last eight weeks on the state of credit provision, In Milwaukee, we looked at small business credit, in New York City at large business and commercial real estate lending, and earlier this week we focused on agricultural credit in a hearing in Greeley, Colorado. At each of these hearings, we heard the same story—despite talk of the success of TARP, banks were simply not lending to credit worthy borrowers, and in particular large banks that are the recipients of the bulk of the TARP funds were not lending. Yesterday we heard from the Department of Agriculture that farm lending programs of last resort were seeing double the demand in the second quarter from the same period last year, in substantial part because of the withdrawal of commercial lenders from the agricultural credit market.

The AFL-CIO believes that the continued weakness of our large bank sector is contributing to the intractability of this recession, and that the current strategy of buying time and hoping the banks earn their way into balance sheet strength is contributing to the continued contraction of credit across our economy, and particularly the difficulty of obtaining private credit for job creating business activity.

In these circumstances the AFL-CIO believes there is an urgent need to pursue all paths necessary to halt the rising tide of unemployment and home foreclosures, including a second, more job-targeted stimulus, the restoration of the ability of homeowners in bankruptcy to get relief from mortgage debt, and a more vigorous effort to restructure bank balance sheets to avoid the zombification of our major financial institutions.

H.R. 3068 though is an immediate step that could help this rapidly deteriorating situation, using resources already allocated to the TARP program. While the AFL-CIO believes the scale of funding for the bill could be larger, there are competing concerns that Treasury should continue to have enough headroom in the TARP to act should a crisis situation reassert itself.

In addition to providing $2 billion of funding for emergency relief to the unemployed facing foreclosure, H.R. 3068 would provide $1 billion in funding to assist state and local government in redeveloping abandoned and foreclosed homes, $1 billion in additional funding for the Housing Trust Fund, and $2 billion to aid in stabilizing multi-family housing and protect tenants whose properties are facing foreclosure.

These provisions are targeted toward clear needs with broad economic impact—particularly the aid to the unemployed and the monies targeted toward rehabilitating foreclosed and abandoned properties.

Finally, I want to say a word about what is at stake in a broader sense in preventing home foreclosures and addressing spiraling unemployment. Both long term unemployment and home foreclosure are profoundly destructive phenomena. They damage the people who endure them in ways that go beyond the numbers. The parent who tells their child they will have to leave their home, their school, their friends and neighbors because the family cannot make a mortgage payment suffers in a way that a spreadsheet cannot capture. Study after study has shown that the human and financial cost of long term unemployment goes far beyond the direct losses of income to the unemployed.

H.R. 3068 will not end our economic crisis or even halt the foreclosure epidemic. But it will help the unemployed stay in their homes and deliver help to those communities most affected by the foreclosure crisis. The AFL-CIO urges this Committee move the bill forward. I thank you for the opportunity to appear this morning and look forward to working with the Committee to address this crisis.