CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CONGRESSMAN KEVIN BRADY

RANKING REPUBLICAN HOUSE MEMBER

NEWS RELEASE

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STATEMENT OF CONGRESSMAN KEVIN BRADY

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I am pleased to join in welcoming the panel of witnesses testifying before the Committee this morning.

Racial discrimination in lending is immoral. It is also illegal under the *Equal Credit Opportunity Act*. Recent studies suggest that discrimination is generally limited to minority applicants with low incomes or poor credit and employment histories. Moreover, discrimination occurs primarily in the price of credit rather than in its availability. This practice is known as "reverse redlining." Nevertheless, distinguishing between racial discrimination, misguided efforts to shoehorn marginal borrowers into subprime mortgage loans to buy homes as prices escalated, and simple greed by unethical lenders is not easy.

From 1995 to 2007, the federal government encouraged mortgage lenders to loosen underwriting standards and offer exotic alternatives to fully amortizing, fixed rate, thirty-year mortgage loans to increase the rate of home ownership among low-income and minority families.

Mortgage lenders obliged, knowing that they did not have responsibility for the performance of mortgage loans they had extended once these loans were sold to issuers for securitization.

The deterioration of underwriting standards and the development of subprime mortgage loans combined with an overly accommodative monetary policy to inflate a huge housing bubble.

As in past bubbles, both borrowers and lenders became increasingly reckless. In some cases, individuals misled lenders to secure subprime mortgage loans to speculate in housing.

In other cases, lenders took advantage of unsophisticated families by placing them in subprime mortgage loans that they did not understand and could not afford. In either case, the results were the same – many families found themselves underwater, and a tidal wave of defaults and foreclosures followed – once the housing bubble burst. This has been especially difficult for low-income and minority families.

Individuals must be fully aware of mortgage terms and the financial burden that they are assuming before closing. Improving financial education would help families to understand mortgages and other financial products and to avoid credit problems in the future.

In conclusion, exploiting the complexity of mortgage contracts to fleece borrowers is not an acceptable business practice. Full disclosure and transparency should be part of the solution. Loan originators and issuers of mortgage-backed securities should also be required to retain "skin in the game" to discourage (1) lenders from knowingly extending mortgage loans that are unlikely to be repaid, and (2) issuers from placing such loans in mortgage-backed securities. Finally, excessive debt burdens, although all too common, make it very hard for families to get ahead over the long run. Better financial education could help people to avoid at least the most financially burdensome kinds of loans available.

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