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CONGRESSMAN KEVIN BRADY
RANKING REPUBLICAN HOUSE MEMBER
NEWS RELEASE

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STATEMENT OF
CONGRESSMAN KEVIN BRADY

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Contact: Christopher Frenze
(202) 225-3923

Current Trends in Foreclosures and What More Can Be Done to Prevent Them

I am pleased to join in welcoming the witnesses testifying before us today on the rapidly escalating number of home foreclosures.

A number of policy blunders during the last twenty years inflated an unsustainable housing bubble. On a macro level, the Federal Reserve pursued an overly accommodative monetary policy for far too long after the 2001 recession. This policy along with huge capital inflows arising from international imbalances kept long-term U.S. interest rates far too low during much of this decade.

On a micro level, both the Clinton and Bush administrations pursued a National Home Ownership Strategy to increase the home ownership rate among historically disadvantaged groups. After 1992, federal officials pressed commercial banks, thrifts, and mortgage banks to weaken loan underwriting standards, reduce down-payments, and develop exotic loan products such as interest only and negatively amortizing loans to help low income families qualify for mortgage loans to buy homes. After 2000, Fannie Mae and Freddie Mac spurred the explosive growth in subprime mortgage lending by purchasing millions and millions of dollars of privately issued subprime mortgage-backed securities.

As in previous bubbles, swindlers took advantage of the unwary as the housing bubble neared its zenith. On the one hand, some home buyers misled lenders about their income and net worth to secure mortgage credit to speculate in housing. On the other, some builders, realtors, and lenders deceived home buyers about the obligations that they were assuming.

The housing bubble burst in July 2006. House prices have subsequently fallen by 32 percent according to the S&P/Case-Shiller Home Price Index. Falling housing prices created uncertainty about the value of mortgage-backed securities that triggered a global financial crisis and the subsequent recession.

As history proves again and again, good intentions do not necessarily produce good results. Today, many Americans, especially historically disadvantaged families that federal officials intended to help, are suffering. Interest resets on adjustable rate mortgage loans, falling housing prices that make refinancing difficult or impossible, and a rapidly escalating unemployment rate caused many families to fall behind on their mortgage payments, default, and face the possibility of foreclosure.

Consequently, home mortgage loan delinquency and foreclosure rates are ballooning. A cascade of foreclosures may have serious negative externalities. Dumping millions of foreclosed homes on the market may keep housing prices depressed for years, reducing household wealth, upending the budgets of localities that depend on property taxes, and muting any economic recovery.

On February 18, 2009, President Obama announced the Making Home Affordable initiative to refinance or modify existing mortgage loans to prevent unnecessary foreclosures. So far, neither this initiative nor earlier programs under President Bush have produced significant results. For example, the Hope for Homeowners program, enacted in 2008, helped only 25 homeowners through February 3, 2009. About 4,000 loans were refinanced through the FHA-Secure program that expired on December 31, 2008. Only 13,000 loans were modified under the FDIC's conservatorship of IndyMac.

Given the enormity of the home foreclosure problem, I look forward to hearing from today's witnesses about what can be done to ameliorate it.

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