Opening Statement
Rep. Elijah E. Cummings, Ranking Member

Hearing on "Failure to Recover: The State of Housing Markets, Mortgage Servicing Practices, and Foreclosures"

March 19, 2012

Thank you Mr. Chairman. And thank you Congressman Towns for your tremendous hospitality in inviting the Committee to your district here in Brooklyn. It is a pleasure to be here to examine the nation's housing market and to finally hear from four of the nation's largest mortgage servicers.

According to the Federal Reserve, as much as $7 trillion in household wealth may have been destroyed by the collapse of our nation's housing market, and home prices are still falling. The firm RealtyTrac has estimated there have been nearly 4 million foreclosures since 2007. Today, there are 11 million homeowners who owe more on their mortgages than their homes are worth. That's more than 20% of all households with a mortgage.

According to Mark Zandi, Chief Economist of Moody's Analytics, "[h]ousing is ground zero for the economy's problem, high unemployment and lost jobs." The reason is simple: The purchase of a home is the largest single investment most Americans will ever make. Experts agree that we cannot fully renew our nation's economic growth until families see these investments stabilize and eventually recover their value.

In my opinion, stabilizing the housing market requires two key actions.

First, the mortgage servicing industry has to stop abusing borrowers. The banks testifying today recently settled allegations by the Department of Justice and 49 state attorneys general that they engaged in "unfair and deceptive consumer practices" with respect to loan origination, loan servicing, and foreclosure management, as well as violations of the False Claims Act; the Financial Institutions Reform, Recovery and Enforcement Act; and the Servicemembers Civil Relief Act.

This National Mortgage Settlement is the largest federal-state settlement in history and requires servicers to provide $25 billion in relief and restitution to homeowners, states, and the federal government.

The banks testifying today also owe monetary penalties of more than $1 billion to their federal regulators, the Federal Reserve and the OCC, for their "unsafe and unsound practices and violations of applicable federal and state law and requirements."

As a result of the settlement and these enforcement actions, we will hopefully have a mortgage servicing industry that complies with the law, that services mortgages effectively and efficiently, and that immediately halts the widespread, systemic abuses against homeowners.

I applaud the steps that have finally been taken by the Obama Administration, the independent regulators, and the states to resolve these abuses, but we must have a full accounting of the scope of these abuses to ensure that everyone who has been harmed receives relief.

The second action I believe is necessary to stabilize the housing market is to provide meaningful aid to borrowers who are underwater. Under the National Mortgage Settlement, the banks will provide at least $17 billion to borrowers who have the intent and ability to stay in their homes, 60% of which goes to reducing principal balances for borrowers in default or at risk of default.

This aid will help hundreds of thousands of borrowers, but the reality is that many families that call their servicers seeking aid may be disappointed. They will discover that their loans are not eligible because they are guaranteed by Fannie Mae or Freddie Mac. Their regulator, the Federal Housing Finance Agency (FHFA), has forbidden them from offering loan modifications that include principal reduction. These families will discover that they are ineligible for principal reductions regardless of how strong their credit is.

FHFA's refusal to allow Fannie Mae and Freddie Mac to participate in the settlement is inexplicable. I have joined with Rep. Tierney, who has been a tireless advocate for homeowners, in asking the Acting Director of the FHFA, Mr. Edward DeMarco, to explain his blanket opposition to principal reduction. In response, Mr. DeMarco has asserted that principal reduction is "not going to be the least-cost approach for the taxpayer."

By the terms of his own data, which he finally provided to the Committee in January, it appears that just the opposite is true. Principal reductions save more money than any other type of modification, including principal forbearance, particularly for Fannie Mae. For that reason, FHFA should authorize Fannie Mae to offer principal reductions as soon as possible.

Because of his ideological objections to providing the most effective available aid to underwater borrowers, Edward DeMarco may be the biggest hurdle standing between our nation and the recovery of our housing market. It is time for him to become part of the solution or to step aside.

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