Committee on Financial Services
Full Committee Oversight Hearing: Current Conditions in the Credit Markets
September 5, 2007

Thank you Chairman Frank, and Ranking Member Bachus.

Clearly this is an important topic and it has been dominating newspaper and evening news headlines all summer. But, I'm concerned about the direction that this hearing signals. As anyone paying attention can tell you, we're seeing a dramatic increase in the actual number of foreclosures.

To put the current "crisis" in prospective, according to the Mortgage Bankers Association, in the first quarter of 2007 there are about 44 million mortgages in the U.S., and less than 14 percent of them are sub-prime. And only about 13 percent of those subprime mortgages are late on payments, with the majority of late payers working through their problems with the banks.

With approximately 561,857 mortgages in foreclosures — up from roughly 517,434 from the 4th quarter of 2006 — the sub-prime "meltdown" has given us an increase of 44,423 mortgage foreclosures. Even with a dramatic increase in foreclosures like the one we're experiencing, this still represents a small percentage of the number of home mortgages.

One of the main reasons we have seen a rise in foreclosures is that, during the housing boom of the last few years, consumers with a higher credit risk qualified for mortgages. Now that those riskier loans, taken out in 2005, are resetting to higher interest rates at larger and larger amounts – a trend that will continue until April of 2008 - a credit crunch is occurring for those home buyers. It will take time to determine which of the mortgage backed securities contain "bad" loans and which don't, partially because the entire securitization process is relatively new and hasn't faced a market challenge of this size.

A comprehensive consumer advocacy driven predatory lending bill is not the answer. It is tantamount to fighting the last war and will only make the markets more skittish as they have to react to new underwriting standards and liability issues making the situation worse, not better. This would harm all consumers!

By the time a new "anti-predatory lending" law goes into effect in the marketplace, this problem will already have changed, and we will be left with strict, national underwriting standards that will prohibit various loan products and banish a number of consumers to the rental market forever. This is not a goal that is responsible.

Also, any legislation that creates additional liability in the secondary market will harm that market. The problem we're seeing in the market now is because we don't know which loans are in which securities. If trial lawyers are allowed to sue investors who buy mortgage-backed securities, investors will simply stop buying them. This would harm more people, not fewer. We saw this happen back in Georgia in 2001. We should not repeat that mistake so that Democrats can repay their campaign benefactors.

The American economy has more then enough liquidity and is plenty strong enough to weather this bump in the road. Congress should stay out of the way while the market corrects itself or it will only make matters worse. We saw last week just how strong the market is when the Commerce Department reported that the gross domestic product, the broadest measure of economic health, expanded at an annual rate of 4 percent in the April-June quarter, significantly higher than the 3.4 percent rate the government had initially estimated a month ago.

Congress needs to be very careful with how it proceeds. Bailing out investors who made bad decisions will create a moral hazard and ensure even riskier behavior in the future. Congress would better serve the American people by not legislating solely in response to a political desire. A more responsible course of action would be to continue to monitor the developments of the market, the response of the regulators and determine precisely the cause of the current challenge.

Though it is not the role of the federal government to ensure that everyone owns a house, it is the role of the government to ensure the market is vibrant and capable of responding to fiscal challenges. In our free market economy, the greatest rewards for the greatest number of people occur when Washington sets appropriate rules, but does not choose winners and losers.

Thank you Mr. Chairman.