Opening Statement by Ranking Member Spencer Bachus, Hearing entitled, â€œRecent Events in the Credit and Mortgage Markets and Possible Implications for U. S. Consumers and the Global Economyâ€•

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I thank the lady, and I thank the Chairman for convening this hearing, which is really about the mortgage market and the disruptions we’ve seen. But if we talk about the mortgage market, we need to understand that 95 percent of the mortgages in America are being paid. They’re in good shape. The problem we’re talking about is subprime mortgages, and not even a majority or close to a majority of those.

Last week, the Bush Administration and some private institutions talked about ways to work out some of these mortgages. Many of the people currently behind in paying their mortgages will be given an ability to pay with better terms. So, there is some good news that really ought to shore up confidence in the mortgage market.

Now, the problems in the subprime market have caused some liquidity issues. Some people call it a crisis. This hearing is about “turmoil” in the mortgage market. That’s a little overdone. People who have good credit, people who are paying their bills on-time, people who have a down-payment, are able to walk in right now and get a loan at very low rates – lower rates, in fact, than I could get when I bought my first home. The rate at that time was 12 percent. Today the rate is 6 percent. So, there is an awful lot of good news out there.

We hear talk about the markets and whether a recession is coming. Look at the facts. Unemployment is at a six-year low. Real wages are rising. You look at the other economic figures, and they are all good. Regarding inflation, I can remember times when inflation was 10 or 12 or 14 percent, and senior citizens were seeing their buying power disappear. It’s now very low. It’s under control. Exports continue to be up. So, we’ve got a sound economy.

Of course, I know there are market challenges. There have been some excesses in the market. There have been some deals that shouldn’t have been made. Investors are listening. Banks sometimes have a tendency to pull in liquidity in times of uncertainty. But, if I would say anything about the mortgage market, it is that the vast majority of mortgages are performing well.

And those are loans made by banks, thrifts, and, in some instances, credit unions that know or become familiar with their customers. They’ve assessed their credit history, and made loans according to sound underwriting principles and according to regulatory guidance. Those loans are not in trouble.

Where we have problems is where they have pushed the limit. The Chairman says, well, they’ve used “innovative” things. Well, I guess you could use the word “innovative” to mean cases where they did not get an appraisal, or gave loans without documentation or financial information, or when the borrowers had no source of income.

Now that shouldn’t be considered innovation – making a loan to someone with no income. When you make a loan to someone with no income, and you tell them they don’t have to pay the taxes or make escrow insurance payments for a year or two years, that’s not innovation – it is irresponsibility. And that is bound to fail.

Let me say this, the Chairman and I, along with some of the other members of this Committee, got together a year or two ago, with no resistance from the regulators, and talked about changing some things. We talk about how, in 95 percent of these cases of irresponsible loans, we’re dealing with the same mortgage originators, whether they were bankers or brokers. They were being kicked out of one state and moving to another, making these same bad loans. And yet, we have a state system we could incorporate into Federal legislation and mandate national registration, but we didn’t do it. So, these bad actors continue to go from community after community, doing the same thing over and over, leaving a wake of these bad mortgages.

The Appraisal Institute has called for, and I have introduced, legislation to establish better appraisal standards. We ought to do that. We ought to look at requiring lenders to escrow taxes or insurance, particularly for borrowers with no steady stream of income or no ability to come up suddenly with taxes or insurance.

But the one thing we should not do is run out and change a market that has worked and worked well, and brought home ownership to historic highs. We should not panic. This morning, we got job figures that are low, but they are coming off very high job creation levels. We’re going to continue to get times of weaknesses and strengths. What we must not do is panic. We need to take a measured approach.

A characteristic of this Congress in the past has been a rush to legislation in times of crisis. This has left us all with a hangover when it was over because the regulation had unintended consequences. It might have boosted short-term confidence and made people feel good. But over the long term we found out that it resulted in too much regulation. This has translated into higher costs for consumers, higher mortgage costs, and fewer choices for consumers.

In fact, the majority of people who have used “innovative” products, at least those who have an ability to repay, are in their homes, making those payments, and have home ownership. And if we could eliminate some of those innovative products, we wouldn’t have home ownership.

In closing, let me say that wherever I go, I find that we have a strong economy. We have some investor confidence and liquidity problems, but this economy is strong. We should not panic ourselves into a recession. We welcome our witnesses and look forward to hearing your testimony.