Opening Statement of Ranking Member Spencer Bachus, Hearing Entitled, "Using FHA for Housing Stabilization and Homeownership Retention"

April 9, 2008

Thank you, Mr. Chairman, for holding today's hearing on proposals to stabilize the housing market and prevent avoidable foreclosures. It is important that this Committee continue to focus its attention on the housing market and its effects on borrowers, financial institutions and communities at large.

We have a situation where we have to decide what to do about the current problem. One alternative is the laissez faire approach, to let the markets sort all of this out. Another alternative is government intervention after the fact, when the problems have already happened. A third more reasonable approach is a regulatory environment where the government sets standards of transparency and operations within well defined boundaries - for example, the prevention of fraud that we saw rampant in the subprime lending market.

Warren Buffett has said that, "It's only when the tide goes out that you learn who's been swimming naked." The "tide" of home price appreciation has ebbed; unfortunately, we are now seeing that everyone was exposed. The ingredients of the current turmoil in our economy were individual loans of borrowers and lenders who did not appreciate the risks; mortgage-backed securities that investors and financial institutions over-valued; and complex structured financial instruments that regulators seemed not to understand. The consequences of these market and regulatory failures continue to resonate throughout the global economy.

The focus of today's hearing is Chairman Frank's proposal to encourage lenders and investors to write down the principal on certain mortgages to a percentage of current market value and refinance those loans with an FHA guarantee, with the goal of permitting borrowers to remain in their homes and stabilizing housing prices. Chairman Frank should be commended for developing a proposal that addresses a complex problem in a creative and ambitious way. Nonetheless, any plan that would require American taxpayers to assume the risks incurred by mortgage lenders and borrowers during the run-up in housing prices earlier this decade raises serious questions.

The fundamental issue is fairness. Out of the 55 million mortgages currently outstanding, some 51 million are being paid on time. Does the Chairman's plan unfairly confer a benefit on a few borrowers at the expense of all taxpayers? As I understand it, the proposal would reward some homeowners who assumed housing prices would continue to rise by permitting them to avoid the consequences of their assumption. For these homeowners, the Chairman's plan seems a "heads I win, tails you lose" proposition. The losers are homeowners and renters who behaved responsibly, yet will now be required to pony up tax dollars to bail out those who did not if housing prices continue to decline and borrowers prove incapable of making the payments on their FHA-insured mortgages.

Mr. Chairman, this sends a dangerous message: When financial institutions and individuals take on excessive and ill-advised risks, the government will always ride to their rescue. Sending this message now will only incentivize such behavior in the future, encouraging future severe market disruptions like the one we are living through now.

None of us who owns a home enjoys watching the value of that asset decline. But the simple fact of the matter is that housing prices rose at an unsustainable rate over the past several years, far outstripping gains in personal income and the long-term trend in housing price appreciation. For the market to stabilize, prices will need to return to levels that ordinary Americans can afford. This process of market correction - while undeniably painful for some - is a necessary and unavoidable reality. Government intervention to impede the return to the long-term trend-line, no matter how well-intentioned, is likely to do more harm than good.

Finally, in addition to asking whether proposals like the Chairman's represent good public policy, we must also ask whether they can be implemented in practice. Critics have pointed to the enormous cost and time it would require to re-underwrite millions of new mortgages. And there remains the problem of extinguishing second liens on existing mortgages, which the Chairman's discussion draft addresses but does not adequately resolve.

Thank you again, Mr. Chairman, for holding this hearing, and thanks to all of our witnesses for joining us this morning. We look forward to your testimony.