Opening Statement of Ranking Member Spencer Bachus, Full Committee Markup, H.R. 5830, the "FHA Housing Stabilization and Homeownership Retention Act of 2008"

April 24, 2008

Thank you, Mr. Chairman, for convening today's markup of your legislation to create a new FHA program designed to promote refinancing opportunities for borrowers who are "underwater" on their current mortgages.

In times of market dislocation like the one we are now experiencing, policymakers have essentially three options. One alternative is the laissez-faire approach, to let the markets sort this out. Another alternative is government intervention after the fact to spare market participants from the consequences of their imprudent actions. A third, and in my view, far preferable approach is for the government to set effective standards for consumer protection, transparency, and fair dealing, and allow the free market to operate within those parameters.

The legislation that the House passed last year to address abusive mortgage lending practices was an example of this third approach, and I supported it on that basis. Had it been in place three years ago, much of the damage we have seen in the housing sector and the larger economy could have been avoided. Unfortunately, I am unable to support the Chairman's new legislation, because I believe it will unfairly benefit a few homeowners at the expense of millions of careful borrowers and renters. In so doing, it will require American taxpayers to assume risks incurred imprudently by mortgage lenders and now-over-extended borrowers during the run-up in housing prices earlier this decade.

Let me acknowledge at the outset that the Chairman's bill represents a creative attempt to address the problem of declining home values and rising foreclosures, and that in structuring his plan, he has made every effort to minimize its ultimate costs to taxpayers. For me and for many on this side of the aisle, however, the fundamental issue remains one of fairness. By rewarding those homeowners who made bad choices or engaged in financial irresponsibility, what signal do we send to those millions of Americans who chose a more responsible course, and must now watch as their neighbors receive a taxpayer-subsidized windfall in the form of sizable write-downs in loan principal and reduced monthly mortgage payments?

Perhaps even more harmful for those of us concerned about moral hazard and personal responsibility is the message that we risk sending to financial institutions and individuals that when they willingly take on excessive and ill-advised risks, the government will always ride to their rescue. As the Congressional Budget Office noted in a recent report on policy options for dealing with turmoil in the housing market: "If the federal government is expected to step in when economic times are bad, then lenders and borrowers do not need to consider the possibility of bad times when making decisions." Unless individual market participants receive a clear and unmistakable message that they must bear the consequences of their own decisions, severe market disruptions like the one that has unfolded over the past year will be repeated over and over again, with grave damage to our country's economic future.

Proponents of the Chairman's approach concede that there is no way to ensure that only "deserving" borrowers receive assistance under the new FHA refinancing facility established under the bill, but argue that this is a price worth paying to stem the tide of foreclosures and avoid further declines in housing prices. Yet in a country where CBO estimates that total housing wealth exceeds $20 trillion, it is hard to see how $300 billion in additional loan guarantee authority, not all of which is likely to be utilized, will have much, if any, effect, on stabilizing home prices.

Accordingly, I intend to oppose this legislation, and to support Republican amendments designed to protect taxpayers and discourage moral hazard.