Remarks of Ranking Member Spencer Bachus During Full Committee Hearing on Loan Modifications

November 12, 2008

Mr. Chairman, first let me respond to the subject matter of this hearing I have prepared a written statement which I have released. That goes into some detail of this hearing. I would like to respond to some of the things that the Chairman has said.

It is in everyone’s best interest as a general rule to prevent foreclosures. Foreclosures have a negative impact not only on families but also on their neighbors, their property value, and on the community and local government. The number of foreclosures as well as homeownership is often a good predictor of criminal activity.

Having said that, we should be very careful in saying that we need to prevent all foreclosures. First, if a homeowner is under water, if the house is worth substantially less than the mortgage, it is predictable that many are going to walk away from their obligation. In fact, we are seeing a good percentage of foreclosures in which the homeowner is under water and they are walking away. That is why they are walking away. Not so much because they can’t pay but because they simply are not going to do that. I don’t see any practical way of preventing that.

Second, when you have a bank and a borrower—the traditional arrangement—it is easy to work out deals, and it is normally in people’s interest to do so. Where we are running into a problem is securitization—and that is really the great majority of mortgages that are in foreclosure—where you have multiple parties. Now, that is what we are dealing with in this hearing. We are talking about hedge funds and securitization of mortgages. In those cases, I’m all for encouraging the parties to work together if they are willing. Often they are not willing. In those cases I am very hesitant to do two things.

First, I’m very hesitant to try to force the parties to an agreement. One reason, with a willing buyer and unwilling lender, whoever is holding the securitized mortgage, it affects future funding of mortgages. You are going to start interfering with existing contracts you may get away with it. But what about mortgages in the future? Are people going to be willing to buy securitized mortgages? The answer is no, they are not. If they think that Congress can step in and change the contract they are not going to put their money at risk. We have to be very careful.

Secondly, I am also skeptical of any proposal that requires a borrower to be 90-120 days late on their payment. That almost just encourages people that are current and struggling to miss their payments to qualify. I actually had a constituent that called and said we aren’t going to qualify for this program because we are current, what should we do? Should we miss 3 payments?

Let me change subjects to what we are dealing with overall. And that is government intervention into the private sector. We can call it an intervention, a bailout, or a rescue plan.

All Members had five weeks to go home. I have boiled down the questions my constituents asked me to two.

First, how do you justify giving my money to somebody else, as a taxpayer. How do you justify that? In the case of mortgages, I went out and negotiated a good price for a house and I bought it. I put 20% down, I was very careful on the terms, I got a good interest rate, I’m paying the mortgage and paying on time. I don’t think it is fair that you are going to take my taxpayer dollars and subsidize someone who was not as responsible as I was. My constituents don’t think they are bad people; they just don’t want their money going to them.

Now we are talking about a bailout to automobile companies. I know the questions we are going to get, because we got them with financial services. I have automobile plants in my district. They pay $25-$35 per employee per hour. I am sure that I am going to be asked, “Congressman I work at Honda or Mercedes, I make $40 an hour why are you going to take my taxpayer dollars and pay it to a company who pays their employees $75 an hour?” These are questions we need to anticipate and be prepared to answer. The sawmill worker in my district making $15 an hour is working hard and getting dirty in a risky job. He’s making $15 an hour and we are taking his money and giving it to a company paying $75 an hour.

We are going to get those questions and we need to be prepared to answer them. I know we are going to get these questions because with financial services companies we already got them. If you didn’t get those questions, you are not listening to your constituents. They are already beginning to ask, my constituents who usually get about a $250 bonus, they are already asking me, “Congressman did you take my money and give it to a company that is paying their executives $250,000 bonuses?” It is a fairness issue and it is something we are going to have to answer.

The second question I get from my constituents is very simple, where do we stop? How do we get out of this mess? We started with financial services and then went to insurance companies. We could not let our financial system collapse. That was something that we could not allow. But now we are talking about automobile companies. Does it end with them? It didn’t with financial services. Does it end with manufacturing? What about retail? What about Circuit City? I have read that a lot of their employees are mad because they are losing their jobs and they are seeing what is going on on Capitol Hill. I am afraid if we don’t answer the question very soon, where do we stop, that it’s going to stop when we run out of money. When we are unable to print more money. When foreign countries are unable to lend to us at a reasonable interest rate. Quite frankly we need to stop before then. If we don’t the American people will simply rise up and stop us. I hope that we are reasonable enough to be very careful.

We did something very good in the last intervention. It was originally proposed that we buy $700 billion of the worst assets in the financial system. The proposal was that we buy those assets and that we manage them ourselves. Thank goodness I believe we have almost dodged that bullet. What we did was a much more reasonable approach. It provides greater taxpayer protection. We took preferred shares. We did the same thing Warren Buffett did, we made a deal. We don’t have to manage those assets, we don’t have to set a price, we don’t have to buy or sell, we simply took preferred shares.

That was a much better approach. We are still talking about buying some of these, call them worthless assets, call them impaired assets. So far, we have made a terrible situation better. Let’s have an exit strategy. Let’s now agree that it has to stop and it has to stop soon.

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