

Statement of Senator Richard C. Shelby
Committee on Banking, Housing and Urban Affairs
July 16, 2009

- Thank you Mr. Chairman.

- Today, the Committee will examine the state of our housing market and the Federal government's efforts to prevent foreclosures in the midst of what is now the most severe recession in a generation. Problems in our housing market have been center-stage since the start of this crisis.

- Rising default rates on sub prime mortgages appear to have triggered the financial crisis nearly two years ago.

- Since then, default rates on all classes of mortgages have risen sharply and precipitous declines in the value of mortgage-backed securities have crippled banks and led to the insolvency of Fannie and Freddie.
- As the economy has continued to worsen, millions of Americans have seen the value of their homes fall and many have lost or may lose their homes to foreclosure.
- In an effort to forestall unnecessary foreclosures, Congress and the Obama Administration initially devised several programs. Nearly one year ago, Congress enacted the Hope for Homeowners program.

- This program aimed to keep homeowners in their homes by encouraging lenders and servicers to modify mortgages. Unfortunately, this program has only modified a handful of mortgages. While recently enacted changes to the program may help improve Hope for Homeowners, it is clear that the program needs a thorough reexamination.
- In many ways I believe that this hearing could begin to put the horse back in front of the cart by undertaking some of the investigative work necessary to properly address the issues surrounding the housing market in this country.

- We've heard many theories about the causes of our difficulties. However, my hope is that with this hearing we can begin to gather verifiable facts which will allow us to do our own analysis. Homeowners in need will be better served if we actually identify the root causes of foreclosures and craft effective solutions, rather than simply implementing policies to counteract what we think is the problem.
- As the Committee considers how to prevent foreclosures, we should begin by determining the following:

- First, and probably most important, is the degree to which escalating default rates can be attributed to unscrupulous lenders. If true predatory lending was as pervasive as some have argued, we should be able to easily document that fact. I must say, however, aside from anecdotal evidence, I have yet to see such data.
- I look forward to hearing what the Administration believes is the reason for the rising default rates and what evidence they cite in support of their position.
- The second question we need to ask is: What is working?

- Unfortunately, existing modification programs have not been very effective. It is important to understand why they have not been working as expected and if there is anything we can or should do in response.
- Finally, we should determine whether our policies are building the foundation for a stable and sustainable housing market, or if they are merely delaying the inevitable.
- I have long criticized our housing policy for willfully ignoring long-term financial consequences, especially with respect to the GSEs. Sustainable policies must be based on economic realities and facts, not wishful thinking.

- I hope today we can begin to establish some of those facts by examining the research and experiences of our panelists.
- To the extent we can clearly determine what caused this crisis, we will then be able to address it more effectively and also implement policies to avoid future crises.
- Thank you Mr. Chairman.