Testimony of U.S. Senator Johnny Isakson
Senate Committee on Banking, Housing, and Urban Affairs
The State of America's Housing Market
October 20, 2009

Chairman Dodd, Ranking member Shelby, and Members of the Committee:

I appreciate the invitation to speak this morning on the state of the housing market in America.

I began my career in residential real estate in 1967 as a real estate agent specializing in FHA and VA home sales with an average price of $17,900. In 1968, I experienced the first of four housing recessions I would face during my 33 years in the business. That first housing recession was brought on by the failed FHA 235 no-down-payment program.

In 1974, I was a branch office manager for Northside Realty in Atlanta when our country experienced what at the time was the worst housing recession our nation had ever faced. That recession ended in 1976 after Congress passed a $2,000 income tax credit for the purchase of a single family home in 1975. That tax credit effectively reduced a standing vacant three-year supply of housing to less than a one-year supply.

In 1981, I was President of Northside Realty, and experienced my third housing recession. Interest rates rose to 16.5 percent, and for the first time ever lenders made negative amortization loans to make monthly payments affordable.

In the late 1980s, the savings and loan crisis caused institutional failures across the nation, and the Resolution Trust Corporation was created. This brought on the housing recession of 1990-91, and mortgage-backed securities became the primary source of capital to fund residential conventional loans. This is when FreddieMac and Fannie Mae became dominant in housing finance.

In 1995, I was asked to serve on the advisory board of Fannie Mae. In 1999, I was elected to Congress and stepped down as President of Northside Realty, which had grown into a residential brokerage company with 1,000 agents, 25 offices, 11,000 annual home sales and volume exceeding $2 billion dollars.

During my 33-year career in real estate, I experienced many challenges and difficult markets, but never anything like the current housing market in America. Our nation is facing a total collapse of new residential construction and development. This fact, combined with the highest sustained foreclosure rate since the Great Depression, also has placed our community banking system under enormous stress.

America's families have lost trillions of dollars in home equity as home values have fallen, and in some markets, continue to fall today. Second only to unemployment, this fact has the single greatest impact on consumer confidence. In my home town of Atlanta, home values have declined 10 to 40 percent, depending on the neighborhood or the county.

While the current crisis began with the failure of subprime mortgages, today it continues with the failure of loans that a year ago were performing quality assets. Why is this happening, you might ask? In part because of rising unemployment, but more because as values decline below the mortgage balance owed the positive incentives of homeownership vanish. Historically, foreclosures on residential home mortgages were rare because families would do anything to protect their home and their equity. But when the equity disappears and the prospected for recovery are bleak, the incentives are gone.

That, Mr. Chairman, is the problem America faces today. I am frequently asked by my constituents back home, “When do you think housing will recover?” My answer is reluctantly, “Without some policy changes in Washington, five years or more.”

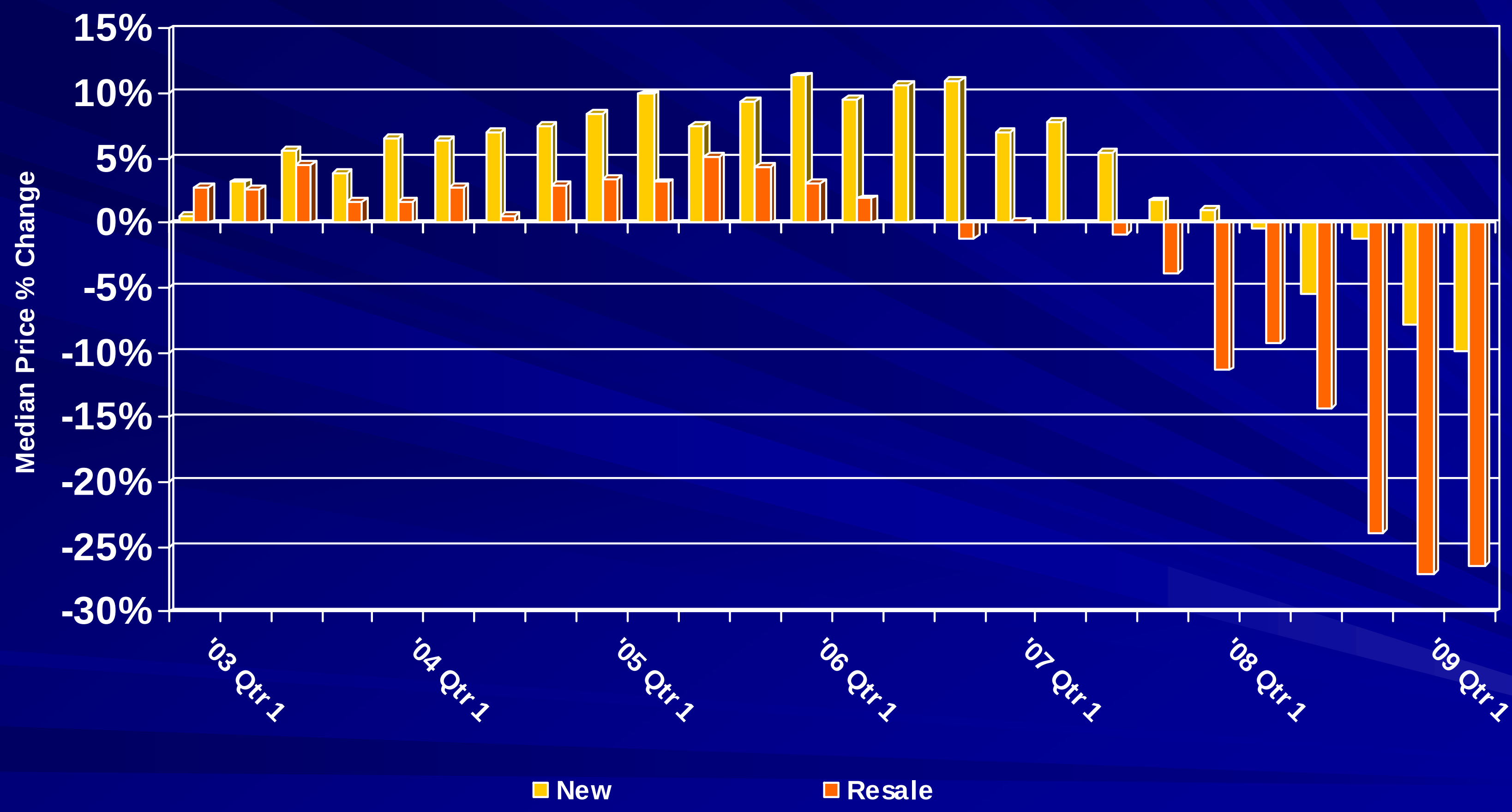
There are two actions we can take now that will make a positive difference in the rate of recovery of America’s housing market. The first is to extend the existing homebuyer tax credit that expires on November 30th, and to make it available to all buyers who purchase a home for their principle residence and whose joint income is $300,000 or less. In my opinion, the extension should be through June 30, 2010. I believe this will provide the stabilization necessary for home values to begin to return. Most importantly, it will thaw the current freeze in the move-up market, which must recover if we are to return to a viable market.

Second, I believe the FDIC must revisit its draconian interpretation of mark-to-market rules in terms of real estate development loans and other similar assets. It also should look to its real estate development borrowers not as liabilities but as potential partners. Sure, some of these real estate loans are bad and losses should be recognized, but many of these loans could be worked out over time, benefiting the bank and the developer. By the way, this was what happened in 1975. Combined with the housing tax credit, these two actions brought America’s housing market back from disaster.

Mr. Chairman, prior to this current recession, I had lived through four major housing recessions and four recoveries. History is always a good teacher. America should repeat that which worked and remember that which didn’t.

Thank you.

Total Median Price Year to Year % Change



Clayton County

Lake Spivey
Country Club

Property History

Home sold new in 1993 for $216,000
Sold 6/24/2005 for $343,000
Sold 9/22/2005 for $440,000
Sold 1/12/2006 for $480,000

Listed 11/6/2007 $334,400
Reduced to $274,900
Expired 11/30/2008

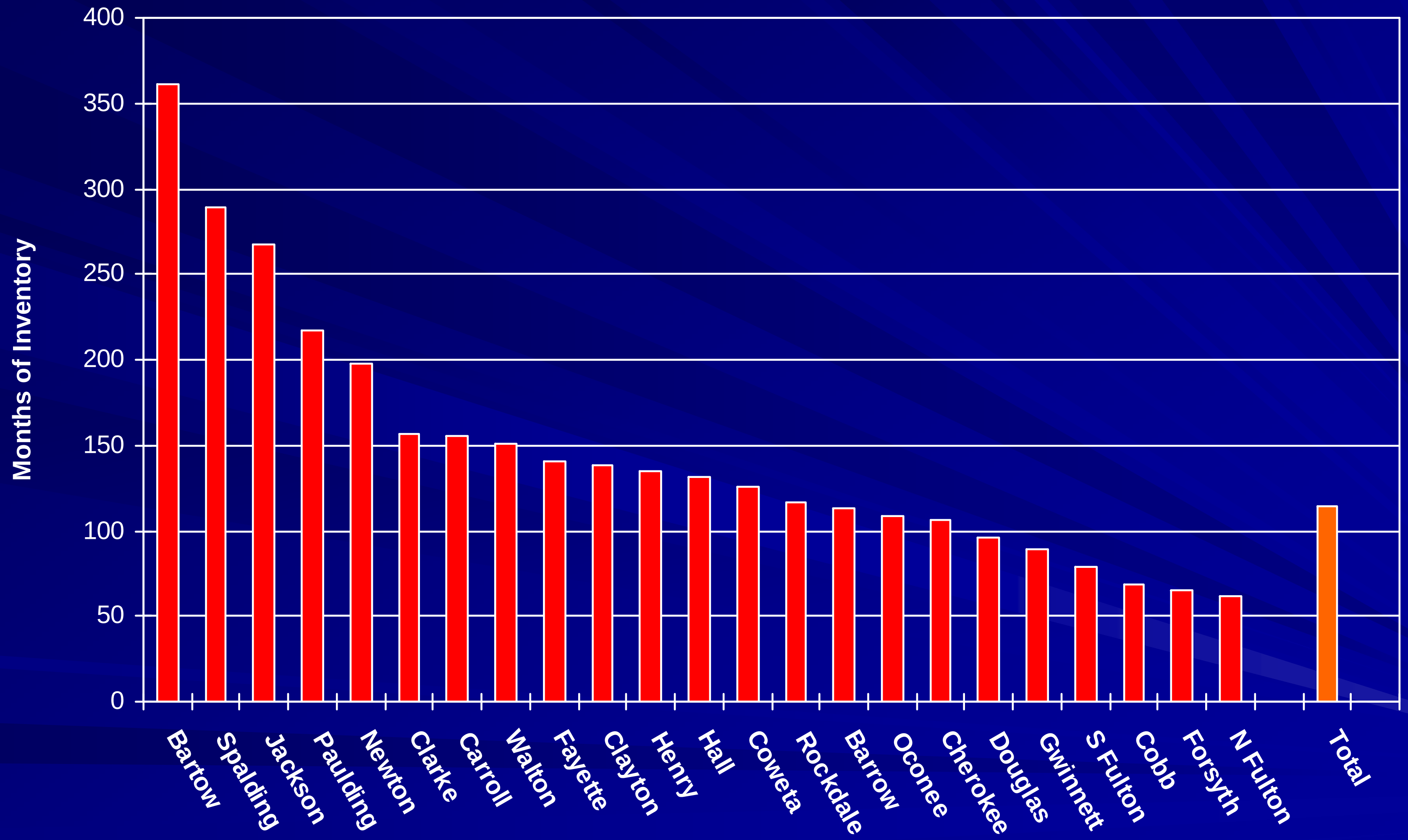
Re-listed after foreclosure at $251,900

Sale Price/Original Foreclosure List Price
54.1%

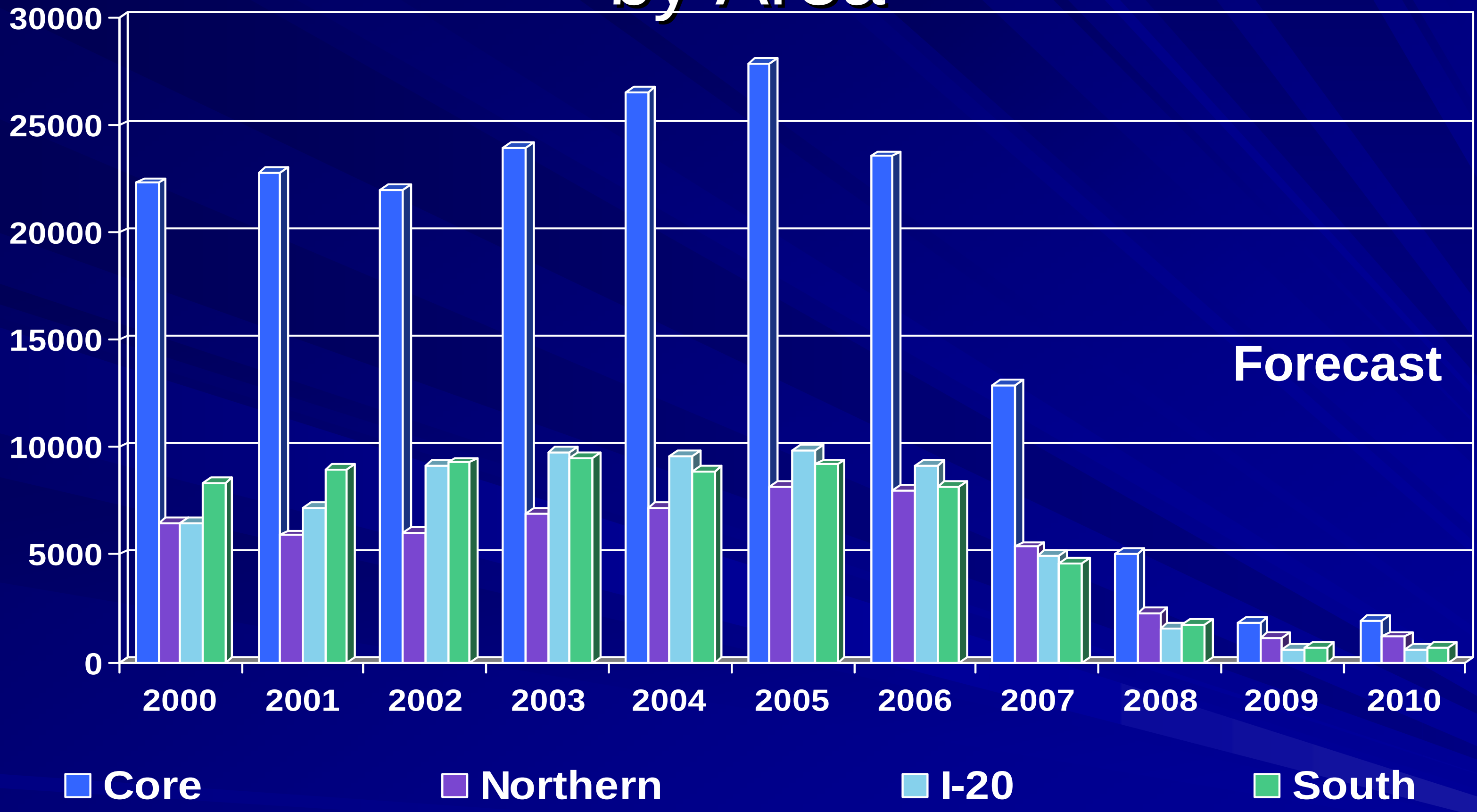
Sold 4/22/2009 $136,500

Total Days on Market
533

Lot Supply Trending



Metro Atlanta Housing Permits by Area



Core	Northern	I-20	South
Cobb	Cherokee	Carroll	Clayton
Dekalb	Forsyth	Douglas	Coweta
Fulton	Pickens	Paulding	Fayette
Gwinnett		Newton	Henry
		Rockdale	Spalding

Forecast and cluster category calculations done by the Economic Forecasting Center