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TURMOIL IN U.S. CREDIT MARKETS: EXAMINING PROPOSALS TO MITIGATE FORECLOSURES AND RESTORE LIQUIDITY TO THE MORTGAGE MARKETS

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THURSDAY, APRIL 10, 2008

United States Senate,
Committee on Banking, Housing, and Urban Affairs,
Washington, D.C.

The Committee met, pursuant to notice, at 10:05 a.m., in room SD-538, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

Present: Senators Dodd, Reed, Bayh, Carper, Brown, Tester, Bennett, Bunning, Martinez, and Corker.

OPENING STATEMENT OF CHAIRMAN DODD

Chairman Dodd. The Committee will come to order.

Let me thank our witnesses this morning and my colleagues for being here. Let me just say on behalf of Senator Shelby, as you all might well imagine, there are a number of Committee hearings going on this morning, and Senator Shelby is deeply involved in an Appropriations Subcommittee which he is the Ranking Member of, so he will be moving back and forth here but has urged me to go forward and not wait for him to be here this morning.

I am very grateful to all of you for coming out. I am going to make some opening comments, and with the indulgence of Committee members, unless you absolutely feel totally compelled to be heard at the outset, I am going to turn to our witnesses, and particularly the former Secretary of the Treasury, Larry Summers, who is here. And, Dr. Summers, we deeply appreciate your being here, and as well as Mr. Elmendorf.

They are both hosting a conference later this morning, and so I am going to turn to them and urge my colleagues to focus any questions they have to these two witnesses.

I have informed the audience--and our colleagues are aware of this--that at roughly 11 o'clock, we have two or three votes on the floor of the Senate, so we are going to get as much done as we can between now and 11:00, certainly regarding the two witnesses who have other obligations and have graciously agreed to be here this morning under the time constraints. And then we will come right back again to our other witnesses to complete the hearing this morning. A little complicated, but it allows us to get through here and have a good discussion this morning.

Well, today the Senate Committee on Banking, Housing, and Urban Affairs is meeting to hold a hearing entitled "Turmoil in the U.S. Credit Markets: Examining Proposals to Mitigate Foreclosures and Restore Liquidity to the Mortgage Market."

Last week, we had an excellent hearing to look at one result of the turmoil we are experiencing in the capital market: the decision of the Federal Government to commit $29 billion in taxpayer money to rescue Bear Stearns. Today, we are focusing more on the other end of the spectrum: the impact of the crisis on homeowners themselves.

This is the second hearing we are holding on this topic. The first was held in January. Since then, the crisis only seems to have gotten worse. It has spread from housing to other areas, such as student lending and municipal finance. And I expect that the Committee will examine these other areas in the weeks to come.

This hearing could not be more timely. Today, after a week of intensive discussions and negotiations, the Senate later this morning will pass the Foreclosure Prevention Act of 2008. There are a number of important provisions in the legislation. The bill adds $150 million to the counseling budget. It includes an expansion and modernization of the FHA program, which will create a real alternative to the abusive subprime lending so many working families have turned to in the past several years--which has greatly contributed to the crisis, by the way. It adds about $10 billion in increased mortgage revenue bond authority for the States, which will help to provide some lower-cost credit to distressed borrowers. And it includes $4 billion for State and local governments to clean up the mess left by historic foreclosure problems we are experiencing.

There are a number of other provisions in the bill, but those are some of the major ones that will be a part of the bill I hope is adopted later this morning.

It falls far short, I would add, this legislation does, of the lofty title of the bill. We do not do as much as I would like to have seen us do with this legislation. It does not do enough to help families facing foreclosure. Nearly 8,000 foreclosure filings occur every day in the country--almost 8,000 filings every single day--according to RealtyTrac, which follows that information. The most significant challenge we now face is helping people tottering on the edge of foreclosure to keep them in their homes. It is all well and good to provide funds to help pick up the pieces, but we need to do more prevention so we have less need for cleanup after the fact.

To that end, I have been working intensely with colleagues on this Committee, have had numerous conversations with members of both the Democratic and Republican side, listening to their ideas and thoughts about how we could develop such a proposal here to deal with these issues. Hope for Homeowners Act of 2008 is sort of a compilation of those ideas. It is not the final word on it, but it is an opportunity for us to step up and try to move forward as a way of dealing with this issue.

Briefly, the bill would create a new fund at the FHA to insure affordable mortgages for distressed borrowers. These FHA mortgages would refinance the old troubled loans at significant discounts. The new loans would be no larger than the borrowers could afford to pay and no more than 90 percent of the current value of the home. This formula is similar to the one laid out by Federal Reserve Chairman Bernanke in a speech several weeks ago when he noted that "creating new equity for underwater borrowers may be a more effective way--and I am quoting him here--"to prevent foreclosures." Now, apparently the administration has also embraced this concept, and I applaud and welcome their participation in this debate and discussion.

Lenders and investors will have to take a serious haircut to participate in the program, but in return, they will receive more than what they would recover through foreclosures, obviously. Borrowers get to keep their homes, but they must share the newly created equity and future appreciation with the FHA program to help offset possible losses. Only owner occupants would be eligible for this new program, and only those who clearly cannot afford their current mortgages. There will be no investors in the program.

In addition to helping homeowners and the communities in which they live, this program will help stabilize capital markets, put a floor under housing prices, and get capital flowing once again. That part of this idea is hardly ever talked about. That may be the most important part of this program. I would argue that keeping them in their homes is, but the fact that we are establishing a floor and that we get capital flowing again is what is critically missing in all that we are talking about, and that is one of the reasons for it.

The big enemy of smoothly functioning capital markets is uncertainty. Today, nobody knows what the subprime mortgages underlying the alphabet soup of complex securities--CDOs, SIVs, RMBs, and the like--are worth. This program would help put a value on those mortgages.

We have another hearing on this proposal next week when we will hear from a number of Government witnesses and others. After that, I want to work with my colleagues to see if we can move this legislation forward.

As you know, Representative Barney Frank is holding hearings as well on this subject matter, and has I think yesterday and today, talking about this issue, and we welcome his involvement.

I understand that some people oppose this kind of program on the grounds that we should not reward people who acted irresponsibly. As we have seen from numerous hearings we have held over the past 15 months, many people facing foreclosure today were victims of abusive and predatory lending practices. Most were trying to act responsibly, but they were led badly astray by unscrupulous mortgage brokers and lenders. They were victims of what Mr. Stern, one of our witnesses this morning, calls "mortgage malpractice," and I urge my colleagues to read his testimony in which he talks about this phenomenon. This is a lender talking about mortgage malpractice that is going on.

In fact, the Wall Street Journal did a study in which it concluded that 61 percent of subprime borrowers it reviewed had high enough credit scores to qualify for prime loans. We know that these brokers portray themselves as trusted advisors to unsuspecting borrowers, while steering these borrowers into higher-cost loans in exchange for higher commissions.

Lenders and brokers gave these borrowers, many on fixed incomes, mortgages with exploding interest rate payments that they knew the borrowers could never, ever afford. These are among the homeowners that we seek to help with this legislation. We seek to help them because it is the right thing to do. To paraphrase Franklin Roosevelt, when your neighbor's house is burning, you do not charge him for the use of your garden hose. You simply lend it to him. We are not acting for their sakes alone. Today, hundreds of thousands of our neighbors' homes are figuratively burning, and like any fire, the damage threatens to spread. Every home that goes into foreclosure lowers the value of the other homes on that block by at least $5,000. It reduces property tax collections, which leaves local school revenues struggling. It hurts badly the ability of local governments to provide adequate police and fire protection and social services just as the need gets more pressing.

The ripple effects are severe and widespread, so we owe ourselves and our communities, as well as our neighbors, our help in a crisis like this. We must act to put this fire out. That is what I would hope to do with all of you in the coming weeks. I look forward to hearing from our witnesses this morning and from our colleagues about how to draft this legislation that I have circulated a better document, a set of better ideas. We are going to hear from witnesses today, those who favor and oppose this ideas, because we want to have a balanced view of how we are looking at this as well. But my hope is we can put something together here that will accomplish the dual goals of keeping people in their homes as well as unleashing capital which is pent up.

With that, I will turn to Senator Bennett, if you want to make any quick opening comments. And I would say to Senator Bunning, Jim, we are trying to--because of time constraints and votes this morning, if we can move right to witnesses. I apologize. I normally like to hear from everybody, but, Bob, any comments you want to make.

Senator Bennett. Mr. Chairman, I will not presume upon Senator Shelby's prerogatives, and I will wait my turn.

Chairman Dodd. I thank you very much.

Witnesses, thank you. Larry, good to have you with us this morning. Welcome back to the Committee. It is an honor to have you here with us this morning.

STATEMENT OF LAWRENCE H. SUMMERS, CHARLES W. ELIOT UNIVERSITY PROFESSOR, HARVARD UNIVERSITY

Mr. Summers. Thank you very much, Mr. Chairman. The honor is mine. Let me do two things very briefly: summarize my view of where the economy stands, and offer four observations on the policy challenges before you.

The economy is very likely currently in recession. If it is not a recession, it will certainly feel like one to the vast majority of our fellow citizens. The likelihood is very high that the downturn will continue for some time, certainly the next two quarters, despite the many constructive steps that have been taken in recent months.

Particularly in housing markets, more distress lies ahead. No one can forecast where house prices are going, but the available evidence from futures markets, the available evidence on the level of inventories of unsold houses suggest that house prices could, on average, fall as much as 15 to 25 percent from current levels.

The declines are likely to be concentrated in lower-priced homes and in the areas of the country where financing with subprime mortgages and low down payments has been especially prevalent.

These declines in house prices are placing and will place unprecedented burdens on the mortgage finance system. It appears, contrary to some of the discussion, that the dominant determinant of how pervasive foreclosures are is the behavior of house prices. When house prices rise, people find ways of refinancing as they rise, even if they are having personal financial difficulties. When house prices fall, foreclosures take off.

The best estimates suggest, as I read them, that we are likely to have as many as 15 million homes with negative equity over the next 2 years, and it is very difficult to gauge the number of foreclosures, but they could on the current path exceed 2 million.

There have been some signs of repair in financial markets since the Bear Stearns events of mid-March, but markets remain quite fragile. In particular, there is, as your initial comments suggested, Mr. Chairman, some reason to believe that as serious as the situation is in the housing markets, because of illiquidity various securities markets are actually pricing in degrees of dislocation that even substantially exceed those associated with a serious recession.

There is, I believe, in the context of these developments, no basis for assuming that the housing market will be self-correcting. Indeed, financial markets sometimes--and at times like the present--do not follow the ordinary law of supply and demand. In economics classes, we teach that when prices fall, demand rises, and that tends to stabilize markets. But in leveraged financial markets, when prices fall, with leverage, people have margin calls or are unable to meet their debts and are forced to sell their assets, and so there is more supply, not more demand. Falling prices leading to reduced demand and increased supply means further falling prices, means vicious cycles, and it is interference with that type of vicious cycle mechanism that provides the important warrant for Government action.

At the same time, it is appropriate to recognize the policies that serve only to delay inevitable adjustments can easily prove counterproductive.

I would urge that policymakers give serious consideration to four areas.

First, and critically, our policies regarding the Government-sponsored enterprises. The GSEs have a potentially critical role at a time of cyclical disturbance. Whatever one thinks about the GSEs as a normal matter, they exist to be in a position to be responsive at a time like the present.

For them simply to expand their balance sheets without increased capital would be to expose the taxpayers and ultimately the entire financial system to very serious risks. The correct course is, therefore, for the Government-sponsored enterprises to raise capital on a very substantial scale for both prudential reasons and to back expanded lending. This may not be the first choice for their shareholders, but it is essential to the national interest. Robust, reasonably capitalized, GSEs taking an active role is probably the single most important step that the Government can take in bringing more regularity to the housing markets.

Second, there is a strong case for Federal support for the writing down of mortgages in selected cases along the lines that you, Mr. Chairman, and Congressman Frank have suggested. Carefully designed measures to reduce the tremendous externalities associated with foreclosures can provide an important contribution in the current context.

In considering such measures, it will be essential to ponder design issues, including the treatment of second liens, assuring integrity in the appraisals on which the program will inevitably be based, possibly adverse selection effects on mortgages offered by servicers, and eliminating incentives for opportunistic behavior by homeowners. There are also desirable changes in legal rules.

Third, I support carefully designed bankruptcy reform as a vehicle for encouraging the writing down of mortgages where that is appropriate.

Finally, and respectfully, Mr. Chairman, I would raise serious concerns with respect to the tax measures contained in the legislation the Senate is likely to pass this morning as I understand them. Providing tax credits conditioned on initiation of the foreclosure process is likely to have perverse effects in two respects: foreclosures may be encouraged in order to make the underlying sale consistent with the tax credit; and in any event, the benefits will flow not to families, but to the financial institutions that have taken over the foreclosed property.

I would also suggest that experience and economic logic suggest that tax benefits targeted to corporations with net operating losses are unlikely to have major stimulative effects. To the extent that stimulus and responding to economic distress are key objectives, tax measures targeted at those who suffer foreclosure or at the conversion of foreclosed homes into rental housing would represent a substantially more effective public choice.

I stand ready to respond to your questions.

[The prepared statement of Mr. Summers follows:]

Chairman Dodd. Thank you very much, Larry. I appreciate your testimony immensely, and thank you once again for being here on short notice.

I would say to my colleagues, I called the former Secretary and asked if he could be with us today, just in the last few days, and I am very grateful to him for making that happen. So I thank you for being with us.

Good morning, Mr. Baker. How are you? Nice to have you with us. Are you ready to testify?

STATEMENT OF DEAN BAKER, CO-DIRECTOR, CENTER FOR ECONOMIC AND POLICY RESEARCH

Mr. Baker. Thank you very much for inviting me here. What I wanted to say is that I would like to recognize first that we have a very diverse housing market, and what may be good for some portions of the country may not be for other portions. In particular, what I am going to do is talk about the loan guarantee program and raise three--outline three basic objections to it.

First, it will lead to many homeowners paying much more in housing cost than they would if they were rent a comparable unit.

Secondly, we will end up with a situation where many homeowners are unlikely to accumulate any equity in their homes and, in fact, we are very likely to end up putting considerable tax dollars at risk.

And, third, I think the effort to stabilize prices in bubble-inflated areas will prove unsuccessful and, furthermore, I would argue it is undesirable, even if it were successful. And I will very briefly comment on what I would argue is a better alternative to a loan guarantee program, what I call "own to rent," a temporary change in foreclosure rules on moderate-income housing that would guarantee people the option to remain in their house as long-term renters. I think that is a solution that would not cost any taxpayer dollars or require any bureaucracy and potentially lead to much better outcomes for homeowners.

The first point, in talking about the diverse market, it is important to recognize we had an unprecedented housing bubble in the United States over the last decade, which led to an overvaluation of house prices on average of about 70 percent. We have had house prices falling very rapidly in the last year and a half, so the bubble is partially deflated, and in large parts of the country I would say prices are no longer out of line with fundamentals. Places like Cleveland, Detroit, Atlanta, large parts of the Midwest and South, prices are pretty much in line with fundamentals.

On the other hand, in the bubble-inflated areas--primarily areas along the coasts, you still have house prices that remain 30, 40 percent above their underlying values. That means that if we were to intervene at this point and try and stabilize prices, it would be similar to intervening in the collapse of the Nasdaq when it had fallen from 5,000 to about 3,500 on its eventual way down to 1,200. It is simply not viable and would not be good policy.

Okay. To go through the details, if we look at what we are doing for moderate-income homeowners in these bubble areas, we still have a situation where the ratio of house price to annual rent is far above 20:1. If you do the arithmetic on this, you would find that the annual ownership costs in such situations, even getting these people good mortgages, a 6-percent mortgage, the annual ownership cost, adding in the mortgage cost, insurance, property tax, maintenance costs, that will typically run as high as 10 percent, perhaps even higher, as a share of the ownership price.

So just to take a numerical example, if we are looking at a home that would sell for $200,000, this home in this situation might rent for $10,000; we would be having a family that stays there as an owner paying $20,000 a year in ownership costs. That difference of $10,000 a year is a considerable amount of money for a moderate-income family that might be making $40,000, $50,000, $60,000 a year. This is money that is not available for child care expenses, health care expenses, other necessary expenses for that family. That simply does not seem to me good policy to be having moderate-income families pay way more than necessary by way of housing costs.

The second point is, in terms of equity, if prices are falling, if they are going to fall 30, 40 percent--as I am quite confident they will in many of these bubble-inflated areas--people are not going to be accumulating equity even if they get a loan with a substantial writedown. Most people, moderate-income homeowners, only stay in their home about 4 years. These people are not going to accumulate equity. They are still likely to be underwater at the time they leave their home, which means either a loss to them or to taxpayers or to both. So it simply does not seem to me like good policy.

The third point, in terms of the price support program, I sort of think that when we talk about a housing price support program, we should think about it the same way we would an agricultural price support program, except that instead of talking about a commodity with a market of, say, $20 billion a year, we are talking about a commodity--housing--with a value of $20 trillion. It is not going to work. We are not going to be able to sustain bubble-markets.

On the other hand, even if we could do it, it again strikes me as rather perverse policy. Why do we want to keep artificially high house prices? Do we want to make it impossible for young families to be able to afford to buy homes or people moving into an area to be able to afford to buy homes? That simply does not seem to me like good policy.

A last point I will just say on that is that we should also keep in mind the considerable costs associated with this program in terms of implementing--creating new mortgage instruments. Very conservatively we would have to imagine it is 1 percent of the cost; it might well be 2 percent. If we are talking about a $300 billion loan guarantee program, that is $3 to $6 billion in costs that will either be borne by the taxpayers or the homeowners. Again, to my mind, that is not a good expenditure.

In terms of the alternative, the own-to-rent alternative, I think this is a very simple proposal. It requires no taxpayer money, no bureaucracy. We simply have a temporary change in the foreclosure rules that gives moderate-income homeowners facing foreclosure the option to remain in their house as renters for a significant period of time, say 10 years or so. This provides homeowners with some security. They know that if they like the home, they like the schools, they like the neighborhood, they are not going to be thrown out on the street. Perhaps more importantly, it gives the mortgage holders a very real incentive to sit down and renegotiate terms that will allow the homeowners to remain in their home as homeowners since it is a safe bet that banks are not anxious to end up as landlords. I would urge Congress to consider this or other alternatives that, you know, perhaps put less taxpayer money at risk than some of the guarantee proposals, at least for the bubble-inflated markets.

In conclusion, I would just say that, to my mind, the big policy mistake that we are trying to deal with here is that we allowed for a financial bubble, a bubble in the housing market, to grow to very dangerous proportions. That was what created the situation that led to the crash that led to the recession that Secretary Summers was referring to. And I think it is unfortunate that that happened. Now that we have seen the crash, I have to say I find it somewhat striking that with so many economists that were unable to recognize the inflated prices during the bubble, they are so anxious to tell us that now prices are undervalued.

Thank you.

[The prepared statement of Mr. Baker follows:]

Chairman Dodd. Thank you very much.

Ellen, thank you very much. Ellen Harnick, the Center for Responsible Lending. Thank you for joining us.

STATEMENT OF ELLEN HARNICK, SENIOR POLICY COUNSEL, CENTER FOR RESPONSIBLE LENDING

Ms. Harnick. Thank you very much for having me here.

I think I just want to pick up on the point about the extent of the financial crisis we face and just to focus us on the details of what this really means.

Mr. Summers said that 2 million families may end up losing their homes in foreclosure. This is consistent with numbers that we have seen from a variety of sources. What this means is 2 million families will be put out of their homes. Some proportion of those families will find themselves homeless. Most of those families will suffer financial devastation from which they will never fully recover over the course of their working lives.

We have talked about the declines in values that their neighbors will face, and we should be clear what we are talking about are not simply the declines that flow from home prices declining or the deflating of the housing bubble. What we are talking about are additional home price declines that will follow from the foreclosures themselves. And in many communities where the number of foreclosures in a particular neighborhood hit a tipping point, what families living in those neighborhoods will face is not merely a loss in their wealth and financial stability, but an actual significant decline in their quality of life.

We all know what boarded-up homes on a block can do, and what we will start to see and some parts of the country have already started to see are middle-class neighborhoods that are now being overrun with criminal activity that makes it uncomfortable for families to have their children walk to and from school for the first time in their lives living in those communities.

I think it is extremely important to take these things into account in deciding what can be done. Congress can avoid a substantial number of these foreclosures. I am not talking about the foreclosures that we will face from families who simply cannot afford a sustainable loan. I think that is off the table. But what I am talking about are foreclosures that are needless in the sense that rational economic decisions could prevent the homes from being lost. I think that the proposal that you, Mr. Chairman, have made for the FHA program is an excellent example of very significant work that can be done to avoid needless foreclosures.

I want to pause for a minute on the moral hazard question. It has not been raised, but it sometimes is in other contexts. People say, well, we should not help these reckless borrowers, we should not support irresponsible lending. And I think--Mr. Chairman, you alluded to this in your opening remarks, and I think it is really important to stress that the mortgage malpractice or lending malpractice is an excellent point, and for those who doubt it, you do not have to know anything more about the particular borrowers at issue other than to know that all of these 228 hybrid ARMs, with which I know the Committee is familiar, these are extremely risky loans. They are not like your normal adjustable rate mortgages. And every single person who received these loans received them in preference to a sustainable 30-year fixed-rate loan, which even in the subprime market could have been obtained at a very small increase over the introductory rate on the loan they got. And as Mr. Chairman said, many of these borrowers qualified for prime loans.

The second point on the moral hazard question has to do with a point that I think Secretary Paulson made very eloquently immediately following the rescue of Bear Stearns, which was, yes, we worry about moral hazard, of course we worry about moral hazard; but we worry more, our primary focus at the moment is on stabilizing the market. And I do not think it is too fine a point to note that the investment banks and Wall Street have a share of the responsibility for supporting and encouraging the kind of loans that led to this crisis. I think helping them should preclude any real anxiety about helping the homeowners that we are talking about.

It is now widely said--Chairman Bernanke said this a few weeks ago--that the key is reducing some of these principal balances and setting economically rational interest rates. We are not talking about propping up home prices unduly. We are talking about putting a floor under the decline.

I have basically three recommendations to make with respect to the Hope for Homeowners Act.

The first is the 13-percent haircut--the 10-percent reduction over current loan value, plus the 3 percent to go to the insurance pool--this is essential. It is essential for two reasons: one, to ensure the sustainability of the program so that taxpayers are not unduly at risk; and, second, from our point of view, it is extremely important that while we are going to help put a floor under the problem, we are not going to save investors and lenders from the full consequences of their investing decisions. These were sophisticated actors, and it is important that we not take away some of the incentives to behave more responsibly in the future.

The reason I raise this is that as I read the bill, it leaves open the possibility that this requirement could be waived by future administrations of the program, and I think that that would be a mistake.

The second recommendation is the appreciation sharing so that the homeowner is sharing with the FHA some of the benefit of the program. We think it is extremely important and appropriate that the homeowner should be helping to finance this program. We think that extending the appreciation sharing indefinitely, as the bill currently does, is not appropriate and also will be unworkable. Most homeowners do not stay in their homes more than 5 years. But for those who do and who make improvements, for example, in the homes, having indefinite appreciation sharing would require very complicated calculations about what part of the appreciation is a function of the original home and what is a function of subsequent improvements. I think capping it at 5 years with a 3-percent payment thereafter, as Mr. Frank's bill does, is a very good approach.

Finally, we need a mechanism for dealing with the problem that in many cases loan servicers will be unable to take advantage of this program, just as they are unable to voluntarily modify the loans, even where each of those options is far better for investors than foreclosure. And the clearest example of where that will arise is in the case of the loans that carry piggyback second mortgages. Without the consent of the second-lien holder, there is no--you cannot modify the loan and save the home. And consent of the second-lien holder has not been forthcoming. The only proposal that I am aware of that would address this problem is a mechanism for allowing courts to supervise a modification of those loans so that the second-line holder's consent is not required.

Thank you very much.

[The prepared statement of Ms. Harnick follows:]

Chairman Dodd. Thank you very, very much. I appreciate it, and I appreciate your testimony.

Mr. Scott Stern, we thank you very much for being here this morning.

STATEMENT OF SCOTT STERN, CHIEF EXECUTIVE OFFICER, LENDERS ONE, INCORPORATED

Mr. Stern. Thank you, Chairman Dodd. My name is Scott Stern, and I am the CEO of Lenders One Mortgage Cooperative in St. Louis, Missouri. Since this is our first appearance before the Committee, I would like to say a few words about the unique role that Lenders One plays in the mortgage industry.

As the country's largest mortgage cooperative, Lenders One represents the Nation's "Main Street" lenders, like William Raevis Mortgage in Shelton, Connecticut, and probably lenders in the great States that you all represent. Our 110 shareholder mortgage companies have originated over 1 million home loans, almost exclusively prime loans, in the past 5 years, and we make homeownership possible in communities across the United States.

This Committee, this Congress, and the administration have taken important steps to address today's mortgage crisis. However, the mortgage storm is far from over, and the Federal Government's work is not done. More needs to be done to address the root of the problem: looming foreclosures caused by defective subprime loans. These loans represent a toxin in the mortgage system that has spread far beyond the subprime sector to infect liquidity in the prime mortgage market, accelerate home price depreciation, and cause ripple effects throughout the Nation's economy.

As FDIC Chairman Sheila Bair testified recently, negative housing trends are likely to continue at least through this year. The bulk of subprime hybrid ARM resets are still ahead of us. Over 1 million such loans valued in the hundreds of billions of dollars will reset in 2008. A similar volume of payment option ARMS and interest-only loans are also on the horizon. Many of these loans are foreclosures waiting to happen.

I would also like to add that, in my expert opinion, these loans would not be foreclosure candidates had they been FHA loans in the first place.

Loan modification efforts to date have fallen short of the scale necessary to make a significant reduction in foreclosures. The main Federal effort, FHASecure, while well intentioned, is simply not serving enough borrowers. Credit Suisse has estimated that only 44,000 delinquent borrowers would be eligible for a refinance under the program. And the latest numbers directly from HUD indicate that since the inception of the program in September 2007, just 1,500 FHASecure conversions have been made.

We believe that an enhanced federally assisted effort to cleanse the market of distressed subprime loans will contribute to stabilizing the mortgage finance system.

Chairman Dodd's bill, the Hope for Homeownership Act, is carefully drawn to achieve that goal. The concept is simple: lenders and investors would take a loss by marking down the loan to market value. Borrowers would refinance at a higher yet stable rate than their initial teaser rate. No one gets a free ride.

In my remaining time, I would like to address the three fundamental objections to Government action.

Number one, restructuring a troubled loan is not fair to other homeowners who are not in troubled loans. We are not unsympathetic to that view. However, the fact is that foreclosures create home equity losses, tighter credit, and a strained tax base for all homeowners, not just the family losing their home. By reducing foreclosures, all homeowners will see the benefits of market stability.

Number two, borrowers who take out risky loans deserve what they get. As a mortgage practitioner who has personally originated over $300 million in home loans, I respectfully disagree. Disclosures were often less than adequate, and faced with a bewildering array of loan terms, borrowers tended to trust their banker or broker, who ion turn broke that trust. I liken the situation to that of a doctor and patient dealing with a medical procedure. The patient bears some reasonable risk. But they do not bear the risk of malpractice by the doctor. In our industry, we have frankly seen too much mortgage malpractice.

And third, that this creates a burden on the taxpayer. Again, I respectfully disagree. The new loans would have positive equity; they would be fixed-rate stable mortgages; and the new borrowers would qualify under terms that made them safe loans.

"Curing" a loan that had a high risk of failure creates no moral hazard. Just the opposite. Modifying a loan which probably should not have been made in the first place is the kind of action that can help restore integrity in the market.

Finally, while we support the overall approach for the Hope for Homeowners Act, we do have some suggestions for improving the proposed legislation which can be found in our written testimony.

Once again I would like to thank the Committee for today's opportunity to share the views of the Nation's independent mortgage bankers, and we look forward to continuing to work with this Committee to ensure stability and fairness in the mortgage market.

[The prepared statement of Mr. Stern follows:]

Chairman Dodd. Mr. Stern, thank you. That was excellent testimony. I appreciate immensely your comments.

Mr. Elmendorf, welcome. Mr. Elmendorf is a Senior Fellow at Brookings, and we appreciate your being back with the Committee.

STATEMENT OF DOUGLAS W. ELMENDORF, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. Elmendorf. Thank you, Chairman Dodd and Members of the Committee. I appreciate the opportunity to appear before you today.

The American economy, as we all know, now faces serious challenges. The economy is very likely in recession. Neither housing construction nor house prices show any sign of reaching bottom. The financial system is reeling, and lending to households and businesses is impeded. In the absence of further policy action, several million families will default on their mortgages in the next few years and lose their homes to foreclosure.

Congress, the administration, and the Federal Reserve have responded to the broader problems, with forcible fiscal and monopoly actions. But less has been done to tackle the housing and mortgage mess directly. It is neither feasible nor appropriate for the Government to ensure that all families, regardless of their mortgages or their overall financial situations, can remain in their homes. However, it is both feasible and appropriate for the Government to reduce the number of families that will lose their homes in the next few years. Moreover, policy actions in this direction will have favorable effects on the broader economic problems that we confront.

The first part of my remarks presents the case for greater Government involvement, and the second part turns to specific policies.

Some have argued that mortgage borrowers and lenders should be left to work out their problems themselves. With the sharp deterioration in underwriting standards over the past several years, many families have indeed ended up in mortgages that are unsustainably large. In addition, the argument goes, it is unfair to help homeowners facing foreclosure while not helping people who chose to remain renters or who are stretching to meet their mortgage payments. And helping borrowers and lenders will create a moral hazard of excessive risk taking in the future.

These arguments contain some truth, in my view, but they are not the whole truth. Despite these reasonable concerns, the Government has a crucial part to play.

First, the Government has long had an active role in housing finance. With large mortgage lenders suffering massive losses, and many mortgage-backed securities viewed especially negatively in financial markets, the private supply of mortgage credit is now severely hampered.

Second, Government policy never does, nor should, follow free market principles absolutely. We are always balancing the need for people to bear responsibility for their decisions with the goal of protecting the vulnerable members of our society.

Third, mortgage problems have consequences that go well beyond the families and institutions directly involved. Foreclosures lower property values. Gyrations in financial markets pose risks to everyone's savings. And the weakening of the overall economy hurts many, many people.

Fourth, the legal complexities and coordination challenges created by mortgage securitization imply that fewer loans will be modified than would be in the interests of even the lenders.

The compromise housing bill being debated in the Senate this week includes several valuable provisions, as the Chairman has noted, including the appropriation of additional funds for mortgage counseling and the augmenting of funds for State and local governments. However, the bill falls short of what is needed, in my view. The further proposals of Chairman Dodd and Chairman Frank in the House to expand eligibility for FHA guaranteed loans would be an appropriate and important step forward for several reasons.

First, the FHA's traditional mandate is to assist individuals underserved by the traditional mortgage market. Given the pullback in private mortgage lending and securitization, it is natural to increase the FHA's presence as a counterweight.

Second, the proposals on the table are appropriately selective in the families they help. The proposals recognize the hard truth that not every family can afford to stay in its current home, so eligibility is limited to owner-occupiers who satisfy underwriting standards and represent good credit risks at the new mortgage levels.

Third, the plans do not simply throw open taxpayers' wallets. Instead, they keep any cost to taxpayers quite low, again, by limiting eligibility to cases where existing principal amounts are written down, also by collecting insurance premiums, and by recapturing future appreciation.

Fourth, these proposals encourage servicers to modify existing mortgages by providing a safe harbor against legal liability for doing so and by facilitating the issuance of new mortgages so that the old mortgagors do not need to remain in the market if they would prefer to leave it. As other panelists have noted, finding ways for the Government to help resubordinate second liens would be a valuable further step.

In conclusion, I would emphasize that all of the policy options available to the Congress at this time are unsatisfying in many ways, but the cost of inaction is also very high. I urge this Committee and the Congress to go beyond the compromise Senate bill by expanding the role of the FHA. Addressing the mortgage mess can help families and reduce the scale of our broader economic problems, and it can do so with limited effects on future mortgage lending and future risk taking, and at fairly low cost to taxpayers.

Thank you very much. I would be happy to answer any questions you may have.

[The prepared statement of Mr. Elmendorf follows:]

Chairman Dodd. Well, thank you very much, Mr. Elmendorf. I think you may be hearing the buzzers going off here, so we will be running in and out voting. So let me address, if I can, to both you and to Secretary Summers, a question, if I may. And I think, Larry, you sort of alluded to this in talking about the negative cycle of foreclosures. I think others have called it the "negative feedback loop," and maybe other economists make reference to that. Would you expand on that a little bit, because I think it goes to the heart of why there is a justification for some intervention here. If you get this constant domino effect which drives this problem even further and deeper, creating additional problems, it may provide some light as to why this particular fact situation warrants something like the suggestion we are making.

Mr. Summers. You have two different possible vicious cycle mechanisms going on. One, which is abundantly clear, is with respect to mortgage-backed securities where, as you put it in your opening statement, Mr. Chairman, there was an issue of finding--there was an issue of finding a floor and reducing uncertainty. And you have the problem that there are leveraged holders of those securities. As those securities decline in value, they get a margin call; they have to put up more money. They are either unable or unwilling to put up more money, as a consequence of which they sell them, as a consequence of which they go further down in value. And I think it is quite clear that that mechanism is present and is pervasively present with respect to mortgages, and anything that involves purchasing mortgage-backed securities, as your proposal would, or as the involvement of the GSEs does, serves to limit that.

Second, there is the similar mechanism operative in the market for houses. The more house prices fall, the more people walk away; the more they walk away, the more house prices fall; and then more people walk away, and you have the same kind of vicious cycle. There is also a desirability of containing a vicious cycle of that kind.

With respect to the second mechanism, though, I would caution that while I do not think I would go quite as far as he did, the point that Dean Baker made I thought was right, that one has to be very careful in stabilizing markets and preventing overreactions. But at the same time, one needs to be very careful of not trying to prop up markets at artificially inflated values. And I do not think we can say at this point that there are large parts of the country where house prices have fallen significantly below fundamentals, and, therefore, by reducing the effective supply of housing, we are making the adjustment process better.

So while as you know, I am very sympathetic to the broad structures that you have put forward in your legislation, my enthusiasm derives from two sources, and quite explicitly does not derive from a third. It derives from the sense that this would be constructive with respect to the mortgage market in providing stability in that financial market. It derives from the sense that it would bring about more efficient outcomes that the person who is living in many of these houses is the right person to continue to live in that house, but needs to be living in that house with the value of the house written down. And I believe your legislation will support that taking place more efficiently and effectively than it otherwise would.

But I become uncomfortable when--and I also believe related to that that in certain neighborhoods preventing an epidemic of foreclosures would avoid a disaster. But I think it is very important to be clear that it is not and should not be the objective of public policy to prevent house price deflation as a macro phenomenon. Moreover, in some sense, one of our concerns is that what we have to want is that both housing markets and financial markets find a level where it is attractive to be a buyer. And the longer the Government--if the Government were to become a dragging anchor, slowing the process of adjustment, you would delay the day when it was attractive to be a genuine buyer, and in some ways repeat the mistakes of what the Japanese did.

So, yes, but the case is based on the micro of the housing market and the macro of the mortgage financial market, and not based on a desire to artificially prop up housing prices. And I think it is--I am glad you asked the question because I think it is important to be clear about, at least for me, where the case lies.

Chairman Dodd. Well, I think that is a very good point, and I--other members can speak, obviously, for themselves here. I agree with your conclusion; hence, while we are trying to do this carefully, understanding there are hazards in how we craft something like this, there is a hazard in not crafting anything at all. And so how you try and manage this intelligently--one of the objectives, obviously, is to have a limited time frame we are talking about for exactly the last point you are making, so that this is a very--we are talking about a brief period with a sunset provision in a sense, so it is not an ongoing program, not setting up a separate bureaucracy, utilizing the platforms that presently exist with FHA, for instance. There is a tendency in this town, obviously, if you establish something, it does not go away, and the danger of what that could do to your macro point.

Mr. Summers. I think a danger--If I might?

Chairman Dodd. Yes.

Mr. Summers. I think a danger which you will need to be attentive to--and I believe it can be addressed--that actually Dean Baker's comments highlighted for me is the following: You are going to do one of your transactions where you buy the mortgage and then the FHA gives a 90-percent mortgage, and you are going to do it hypothetically in some community where there has not been a lot of turnover in the housing market, where there are 15 months of normal demand for houses being supplied. And some appraiser is going to come along and say what the value of the house is, and then you are going to write a mortgage for 90 percent of that, and that is what the guy holding the mortgage is going to have.

Well, in an illiquid market with a very large inventory, doing that appraisal is not an easy thing to do accurately, and everyone that appraiser is going to meet is going to tend to have an interest in a higher appraisal. And the people who are going to bear the burden if there are misappraisals are going to be the taxpayers when the appraisal turns out to be wrong and 2 years from now, gosh, the house is worth 20 percent less than it was appraised it and we are seeing this movie again.

And so I would urge that there be very considerable attention given to the incentives in the appraisal process as this takes place, and to what I might think of as forward-looking appraisals. It is very easy in down markets to do--I mean, I have been misled myself in this on a number of unfortunate occasions, where you are told what your house is worth on the basis of somebody who did comparables when houses like yours were sold 6 months before, and that becomes the basis for the appraisal, and that is not realistic in the context where the market is falling.

I think one of the things that you will need to give careful thought to is the incentives governing the appraisals as this process goes down.

Chairman Dodd. Thank you very much.

Mr. Elmendorf, do you want to comment on this as well? I know you have time constraints.

Mr. Elmendorf. I agree with much of what Larry said about not trying to prevent an aggregate correction in house prices. I do not think your proposed legislation would or could do that. I think our goal is to try to avoid an overshooting, and particularly in those cases where house prices rose very dramatically and are now coming back down very dramatically. And in those areas, particularly those where subprime lending was very prevalent, I think there is a risk of an overshooting in a way that would be very damaging to the people in those areas, those in the subprime mortgage houses and those in all other houses or rental housing as their neighborhoods and communities are hurt. And I think trying to avoid that overshooting is a legitimate goal and one that your legislation would help to achieve by providing a way to help people get into new mortgages.

Chairman dodd. Thank you very much.

Let me turn to Senator Bunning.

Senator Bunning. Thank you, Mr. Chairman.

Welcome all, good testifiers and experts in this field. We have a major problem, as you well know, and there are many solutions, one of them being on the floor today. I happen to think it is inadequate. But we have an awful lot of other people who are proposing changes like Chairman Frank, Chairman Dodd, and others.

Can anybody answer this question: How many people who are in trouble today took second mortgages or refinanced to tap their home equity?

Mr. Stern. I will be happy to answer this question.

Senator Bunning. Go ahead, Scott.

Mr. Stern. Thank you for the question. Our experience is that where there were second loans, they were originated as part of a single transaction, perhaps an 80-percent first and a 20-percent second, not--

Senator Bunning. To get the whole house covered?

Mr. Stern. To get to 100-percent loan-to-value, most likely on the suggestion of a lender. I do not know a lot of mortgage lenders who walk into a lender and say, "i would like an 80:20 piggyback loan." These are often at the suggestion of the lender.

Your question is perhaps to question were these irresponsible lenders who just borrowed too much. I would respectfully say I do not think so. The majority of the time where these were second loans, I think they were part of an overall single transaction of a first and second mortgage combined on the recommendation of lenders.

Senator Bunning. Would that be because of the total overall cost not being able to be afforded by a single mortgage so they could borrow enough to cover the entire mortgage with a second loan?

Mr. Stern. Over the past 5 to 7 years, the mortgage industry has done a variety of things to expand homeownership opportunities, most of them well intentioned. Some of these involved minimizing documentation, some of them involved lowering credit standards, and some of them involved reducing down payment of any borrowers who borrowed 100 percent of their home's value did so because they needed to. Many of the borrowers did so because they had to. But at the end of the day, there were also competent underwriters, typically seasoned underwriters, who looked at these transactions and erroneously concluded that the overall risk of the loan was accurate.

What we now know is that there was a significant layering of risk that is resulting in the challenges that they have today. They do not have enough money. They cannot afford the ARM resets. But now, of course, the big challenge is they cannot refinance, even if they want to, because their home has negative equity.

But in answer to your question, I do think there are cases where borrowers put little down because they needed to, but now it is the result of the negative equity in their home that is causing the challenges, not the fact that they put no money down to begin with.

Mr. Baker. If I could just throw in one more thing.

Senator Bunning. Sure.

Mr. Baker. A lot of the people that took out additional equity when they refinanced, in many cases these were people who wanted to refinance to take advantage of lower interest rates where they were subject to resets in 2005-06, and there had been appreciation in the interim, and they were actually encouraged in many cases by lenders to take out some of the additional equity to meet needs, whatever. So it was very often at the urging of the lenders that they would have refinanced for more than the original value of their mortgage.

Senator Bunning. Can any of you see what incentives there would be for second mortgage holders to release their mortgage so borrowers can refinance?

Mr. Baker. In many of these cases, they have--I mean, as things stand now, their second mortgage is going to be almost worthless, you know, because the home is underwater. They already--

Senator Bunning. Well, I understand that, but to actually have a chance for the first mortgage to get changed, you have got to get a release from the second mortgage. So--

Mr. Baker. That is right. You are absolutely right, Senator. I am sorry. But, I mean, at this point they essentially are giving up nothing except their right to obstruct.

Mr. Elmendorf. Can I amend that a bit? I think the problem is they are not quite worth nothing because in some cases house prices may rise, people may stay in the homes. Second-lien holders may get something. It is not very much. It is probably pennies on the dollar of what the mortgage--of what they hoped to get in an ideal world. But it is not quite zero, and I think that is the complication. It is not just they will not sign the form. They want to get a little something out of this, and I think that is the reason why coordination in the refinancing is important and why the second-lien holders may need--do need to be brought into this process, and they may need to get something out of the deal--not very much, I think, but perhaps something.

Senator Bunning. Maybe anyone--go ahead, Larry.

Mr. Summers. I wish I had a clear way forward for you on this issue. I think it is a very difficult one. There is what I would call a long and undistinguished tradition of hold-up artists in financial life. And just as the guy who figures out that somebody wants to build a mall in a certain area and he figures out to own half an acre, half an acre is not really worth very much to him, but he feels himself to have an asset of considerable importance because of his blocking right, that is the nature of the problem that one has with these second mortgages.

On the other hand, as I suspect those on your side of the aisle will point out, rightly, one does need to be rather careful about being cavalier about what, after all, are legal rights that people acquire.

Senator Bunning. Well, especially if we throw it into a bankruptcy court, or something like that.

Mr. Summers. I personally am of the view--and I know this is controversial--that carefully structured bankruptcy reform that does it in the context of bankruptcy would be constructive. There are others who would go further--and I would not--in allowing as part of a comprehensive solution some broad-gauged writing down of second mortgages with somebody's discretion outside of the bankruptcy context. I find that to be somewhat--I find that to be a problematic approach. But I think the question of how one works through the second mortgages is a crucial one.

I would just add one other thing. I would, if I could be so presumptuous, commend to Committee staff the recent work that has been done by the Boston Fed where they have followed every mortgage and every home in Massachusetts over the last 20 years. And one finds a variety of quite interesting patterns. Much more common than I would have imagined, for example, is the pattern where somebody takes out a prime mortgage and subsequently refinances as a subprime mortgage in order to get more out in appreciation. And we think of these mortgages that are being restructured all as the mortgage that the person used in order to buy the home. And it is that in many cases, and most cases probably particularly the egregious 2006 and 2007 subprime cases. But there are a variety of other phenomena here involving refinancing, and I think there is really a great deal of experience that is calibrated in that data that could usefully inform the design of this legislation.

Senator Bunning. Thank you.

Chairman Dodd. Thank you, Senator.

Senator Reed.

Senator Reed. Thank you, Mr. Chairman. Thank you for your excellent testimony.

Secretary Summers, one of the assumptions that everyone is operating under, and I know I am, is that if you adjust the price of the property down to a realistic value, then the homeowner will be able to carry on. But the question then is the continued viability of homeowners given declining wages in some places, stagnant wages, unemployment going up, commodity prices going up, and family budgets. This is not the best time to try to work out a real estate crisis.

So any thoughts on the other side of the equation, that if this continued, price increases in commodities and unemployment growth, classic recession, where are we?

Mr. Summers. I think it is a serious concern, Senator Reed. I am inclined to think that the further decline in house prices risk that I described is, if anything, slightly greater than the risks you describe, but I do not minimize the risks that you describe.

The HOLC program in the Depression that the Chairman has referenced in designing his legislation has an approximately 20-percent foreclosure rate, even though the program was put in at the bottom of the Depression, things were getting better, and equity levels were rather higher than what we contemplate today.

So I think we need to be realistic in recognizing that whatever we do with the FHA, there is going to be a significant re-foreclosure rate. On the other hand, there are going to be a very large number of families who are going to have been benefited and who are going to have been enabled to stay in their homes.

Now, some suggest, as Dean Baker did, that, one, cut past all that problem by turning the potential victims of foreclosure into long-term renters. And I see a merit of that approach in the sense that you would avoid some of these problems--not all of these problems. They might not be able at a certain point to afford the rent.

For me, at the present time, the problematic aspect of that is the almost entirely involuntary character of what is happening vis-a-vis the contract that underlay the mortgage and vis-a-vis the bank.

So I do not support that and would oppose it fairly vigorously, but going in that direction is the direction one goes if the problem one is most focused on is the ability of people to continue to stay in their homes indefinitely.

Senator Reed. Dean Baker, do you have a comment?

Mr. Baker. Yes, just a couple of things. I think any sort of program like the Hope Act would be most successful if we are very careful about the prices for reasons Secretary Summers had said and I had said earlier. And I think one way in which we could do that is if you try to anchor the guarantee price in rents, because rents are ongoing in the market, they have not fluctuated in as radical a pattern as sale prices. So if we were to set a guarantee price of, say, some multiple, 15:1 or something like, of rent, we would do two things. One, we would ensure ourselves that we are not setting ourselves up, setting up the taxpayers for large losses; and, secondly, we would minimize the subsequent foreclosure because that would be a situation where you would not anticipate large subsequent declines in the house price.

So I would suggest that, you know, when we are looking to appraisals, again, as Secretary Summers said, it is very hard to find a reliable appraisal in a very irregular market. We could get a reliable rental appraisal because there is a large amount of rents in the market, and that could be a very good anchor. And, again, insofar as we are using money, using some of this guarantee to guarantee overpriced homes in bubble areas, that is money that is not going to stabilize markets where it could have a beneficial effect.

Senator Reed. We all make reference back to the experience of the 1930s and the Depression, but there seems to be some--there are differences, obviously, and one is that--and maybe this is more folklore than reality, but it seems to have some currency. It is that back then most of the mortgages were owned by a financial institution that could go in and make this deal pretty directly. The securitization process, which is very sophisticated, how will that complicate or what should we be particularly looking at in terms of the obstacles to getting anything done given these very sophisticated securitization products that have been cut up in tranches and defy some people's understanding? Secretary Summers.

Mr. Summers. I apologize for having lost sight of precisely where the legislation Senator Carper has discussed in the past currently is. But the proposals to give legal liability--to give relief of legal liability from servicers for renegotiate strike me as being close to the lowest hanging fruit in this whole area.

I think there is room for debate as to just how much of the problem they will solve. I think there is no room for--I think there is almost no room for rational debate that they represent a constructive step in the right direction.

Senator Reed. Any other comments? Yes, Ellen. Ms. Harnick.

Ms. Harnick. I would add that one other difference that flows from the fact that these loans are securitized is that different incentives are at play, so that back in the 1930s, the lender was the holder of the note and was the person negotiating. Today, when you have the servicer negotiating on behalf of different tranches of investors, sometimes the servicer's own incentives are quite different from what is good for the note holder. So that, for example, there has been a lot written about this, but servicers actually earn more themselves from foreclosing than they do from some of these cost-intensive alternatives like modification. And I assume that that would be in play with the FHA proposal as well. They will incur costs in going through the process for which they will not be reimbursed under their pooling and servicing agreement; whereas, if they foreclose, all their costs would be covered.

So this is a problem that would have to be worked through. There would need to be a way to make the rational outcome--realize the rational outcome even where the servicer's incentive might run to the contrary.

Senator Reed. Do you have a proposal?

Ms. Harnick. Well, the best proposal I am aware of is the one that allows a court to supervise the process and ensure that the rational solution is imposed where the servicer cannot or will not agree, and that is the bankruptcy conversation that has been raised in other quarters.

Mr. Stern. If I--

Senator Reed. Yes, please.

Mr. Stern. I am happy to just add very, very quickly that the number one thing we hear from Wall Street and from securitizers is they do not know where the bottom is. And I assure you that when they say we do not know where the bottom is, they are not talking about credit quality. They are talking about value.

On a recent call I was on, we discussed the fact that this is the best quality of loans--the applications of March of 2008 are the best quality of loans many of us have ever seen. They are high credit, they are low loan to value, and yet we cannot make the loans because simply the properties are not appraising out.

If we had a bottom of the appraisal market, of the valuation market, these loans could be refinanced. Many of these borrowers need to refinance. Their ARMs are resetting. They come to us. We cannot help them because the simple reason is their loans are underwater. Securitizers need a bottom.

Senator Reed. Thank you very much, Mr. Chairman.

Bob, I think you are next.

Senator Bennett. Senator Dodd as he left said he was going to have to recess the headquarters because of the votes, and since I am the only one who has voted, he said, "You recess the hearing."

[Laughter.]

Senator Bennett. So I am prepared to do my presentation now--Senator Bayh.

Senator Bayh. Mr. Chairman, if I could just briefly apologize to our panelists for the votes intruding upon this panel. We are all grateful for your time. Secretary Summers, it is particularly good to see you, and I could not help but think about the echoes to some of the challenges that you dealt with very ably in the 1990s currency crises in East Asia or in Mexico, and the countervailing risks of contagion and moral hazard. And it seems to me that there are some analogies to this situation where we need to deal with the systemic risk of the day, but then look very carefully at how we got into this mess and put into place mechanisms to make sure--you mentioned the incentives that are misaligned in some cases--to make sure we do not get into it again to deal with the moral hazard potentially down the road.

So I would not help but be struck by that, and, again, thank you all. I apologize for having to run, but it is one of the few things as Senators, you know, they actually pay us to do here is to vote. So thank you all very much.

Thank you.

Senator Bennett. Thank you.

I want to combine some of the things I would have said in an opening statement with my questioning period, and I have found this panel to be very, very helpful, not necessarily in terms of the solutions you proposed--that might disappoint you--but in terms of the problems you have exposed that are helpful to us.

Secretary Summers, I applaud you and your final statement where you say, "It is essential to recognize that policies that serve only to delay inevitable adjustments can easily prove counterproductive." And in our effort to be seen as doing something, the Congress inevitably moves in that direction, and I appreciate that warning.

I want to show you a chart--I should have had it blown up, but I think it is big enough you can at least see the divergence between the two lines, and let me tell you what they are. The blue line is estimated price change since January 2006, according to Case-Shiller, and it goes from the baseline point, a peak here in price appreciation occurring in July of 2006, and then down 10.8 percent now.

The red line is cumulative estimated price change since January 2006 according to OFHEO's Monthly Purchase Price Index USA. They are dramatically different. OFHEO shows a one-tenth of 1 percent increase in housing prices over that period, with the peak occurring in May 2007. And in May 2007, Case-Shiller had it already underwater.

And as I have talked to Mr. Lockhart at OFHEO and asked him why the discrepancy, the answer is: We went to different places to gather data. Case-Shiller gathered the data in the 20 largest cities in the United States, and

OFHEO tried to gather data over a much broader scale. Point one for you, Dr. Baker, that there is a difference between prices in one place and prices in another, which makes it more difficult for us to come up with a nationwide system, and if we try to do our nationwide system based on the blue line, we may very well do damage to people who are living in cities that contribute to the red line, because the differential is fairly strong.

My own observation is that in addition to the differential that you talk about, Dr. Baker, where some cities have reached equilibrium and others are in bubble condition, even within the same market there are differences, depending on the price band. In my own city of Salt Lake City, I know there is a glut of $400,000 homes, because my daughter has one that she has been trying to sell for over a year and can't. There is a shortage of homes under $200,000. And the law of supply and demand says that we should be building homes in that area. Why is there a shortage in that price band? Because homeowners in the period when the peak occurred, regardless of where you put it on the chart, could make more money building $400,000 homes and so they did not build homes in an area where there would be a greater demand because they could sell homes in the higher area, because people were buying them with the kinds of practices that you have been talking about. And also--let's not rule this out or turn our backs to it--people were buying homes for the purpose of selling them to people were buying homes for the purpose of selling them to the people were buying homes for the purpose of selling them. And the homeowners were meeting that demand, and the market was there for it. And when that collapsed, everybody involved in it got hurt, and I frankly think most of them who were involved in the speculation deserved to get hurt.

These are not struggling working families who got schnookered into something by an improper mortgage activity, Mr. Stern. I fully agree that that went on. There is no question that what you have described is accurate. But it was not accurate for the whole market, and this is my point. Depending on which city you go to, depending upon with price band you go to, depending on what kind of buyers you go to, you get an entirely different kind of dynamic and an entirely different motive for getting into this, and solving it with a single Federal program is extremely difficult.

Now, Mr. Stern, you said the solution--I wrote down the phrase--is you "mark to market value." Who determine what is market value? You have described loans that are good loans that fully meet all the needs of the lender, but the market value is not there because the appraisal is not there. Is the appraisal--market value, the economists tell you, is when a willing buyer and a willing seller sit down and come to a price. And at many parts of the there, again, at the lower end, a willing buyer and a willing seller could very easily come to a price because there is a shortage. And to arbitrarily have some Government agency or someone backed by a Government agency try to determine market value is going to be very, very difficult. And if all public policy flows from that kind of determination, we run the risk of doing what Secretary Summers warned us against of delaying an inevitable shake-out here.

One final comment--well, no, two. This chart is harder for you to see at that distance. There is a bottom line that looks flat on both charts. It is in dark blue. It is not flat. It is loans in foreclosure, all mortgages. And in 2001, it was at 1 percent, and by 2008, it is at 2 percent. So it not flat. It has doubled in that time period.

Now, the swooping red line is subprime adjustable rates in foreclosure. And in 2001, it was at 8 percent. It fell to 3.5 percent in 2006, and then skyrocketed to 14 percent, and it is still going up.

The somewhat more complicated chart above it has a third line on it in dark maroon. It is between the two. Very interestingly, it in 2008 is below where it was in 2001. It is foreclosures of subprime fixed-rate mortgages. Subprime fixed-rate mortgages hit their peak in foreclosures in 2002 and have been coming down ever since.

Further underscoring the point that hits me out of all of this testimony is that this is not a monolithic market. And most of the conversation, both by you and by the reporters who have chased me as I have walked up and down the halls, is, "What are you going to do about `the' housing crisis?" As if it were a single, monolithic problem.

We have differences in--repeat, differences in location, we have differences in price band, we have differences in style of mortgages. We have all kinds of differences that we are trying to solve by a single Federal law.

My final point, you talk about the resets. I have a mortgage that just got reset. It went from 6.25 percent to 5.25 percent. I just got the notice yesterday. I ripped it open as I came home from the day in the Senate, and I said, "This is great. I love reset in this market." It just cut one full percentage point, 100 basis points off of the amount that I am paying here. We cannot automatically assume that reset means disaster.

Now, I have gone on too long. That is my opening statement, and I am going to have to leave in 2 minutes. But, Secretary Summers, you wanted to respond.

Mr. Summers. Senator, I take your point about heterogeneity, but I think is exactly right, but I would qualify--I would at least make three points.

First, I think if you look at the study carefully, the difference between the OFHEO index and the Case-Shiller index, you will discover that different places is part of the story, but another very large part of the story is that the OFHEO index covers homes that are supported by conforming mortgages, not the homes that are supported by the nonconforming mortgages of various kinds, including subprime, where much of the problem lies.

Second, there is, as you say, heterogeneity, and at least as I understand it, that is why voluntarism is at the center of Senator Dodd's proposal and proposals like it. Homeowners like you and mortgage owners of your mortgage will have no motivation whatsoever because of the circumstances--the part of the country you live in, the nature of your creditworthiness, and so forth--to bring their mortgage forward. The available evidence suggests that foreclosures are vastly disproportionately concentrated in categories of homes that have fallen way off in price.

And so if you make available a universal foreclosure program, the people who will take it up will be those who are facing the problems of falling house prices and securitization.

It is an unfair observation, but it is not a completely unfair observation, to suggest that if a proposal were made to help the victims of heart disease that an argument that that was an unwise proposal because there was enormous heterogeneity in health and many people did not have heart disease and had other diseases would probably not be a very strong argument. And while this situation is not--the analogy is not really right, and so what I just said is a bit of--

Senator Bennett. I will agree with you that the analogy is not--

Mr. Summers. As a bit of a cheap shot, it does capture something which I think is important to recognize, which is the place where these national programs will have their impact will be in the segments that are caught by the kinds of distress that we have been discussing.

Senator Bennett. I vastly apologize, but Harry Reid keeps the time rule vigorously, and if I do not leave, I will not get there in time for the vote. Respond if you want to in writing, anything you want to send to my office. And, again, it has been a very valuable panel, and I have learned a great deal from it.

The Committee is adjourned.

Let me correct that. The Committee is in recess.

[Recess.]

Chairman Dodd. The Committee will come back to order. My apologies. You are very patient. We will have to get you a very good mortgage someplace.

[Laughter.]

Chairman Dodd. You cannot plan these things. You set up a hearing, and then everything happens at once. Last evening, we spent all day trying to resolve some 16, 18 different amendments as a managers' amendment as part of the housing proposal we just voted on. And I had also agreed and accepted a wonderful invitation several weeks ago to speak to the midshipmen at the Naval Academy last evening. And I wonder who was working against me that all of a sudden the final vote on the housing package was going to occur on the very night that I was going to address the corps of midshipmen in Annapolis, and then this morning holding this hearing and having the votes occur at the same time.

So to the three of you here, I appreciate immensely your willingness to stay around a little bit and respond more to some Members' questions and some thoughts, and your testimony has been excellent this morning. So I thank you for that as well.

Given the short time we have, let me turn to Senator Carper. I have had a chance already to raise some questions, and he has not, and then what we will probably do is leave the record open and allow Members to submit additional questions as well for you.

Senator Carper.

Senator Carper. Thank you, Mr. Chairman. Let me just congratulate you and Senator Shelby on the work that culminated with the vote on the floor. Do you recall what the final vote was?

Chairman Dodd. 84 to 12.

Senator Carper. 84 to 12. It is pretty hard around here to get--I could introduce a resolution that says today is Thursday, and I would be lucky to get 84 votes for it. So that is pretty impressive.

[Laughter.]

Senator Carper. I would echo the Chairman's thoughts. Thank you so much for your patience, for waiting for us, and for your testimony and responses.

One of the things that Secretary Summers mentioned before we started our series of votes, he talked a little bit about the safe harbor legislation, and he sort of complimented me on my safe harbor legislation, which actually is going to be introduced by Delaware's Congressman, Mike Castle, also a Banking Committee member and, like me, a former Governor. People confuse us all the time, including in Delaware. But it is an issue that I have some real interest in, and I think the notion is if we are going to have this voluntary program where we get borrowers, lenders, servicers, mortgage servicers to agree to take a haircut, a financial haircut, then there may have to be some protection against lawsuits against the servicer.

And what I think Secretary Summers was saying is he agrees with that notion, and I just want to ask each of you to comment on the value of that proposal by my colleague from Delaware, Congressman Castle, the safe harbor proposal.

Mr. Stern. I am happy to start. On my way over here today, when we were pondering whether Government action was necessary, and we were thinking about medical malpractice, we said, well, when something happens to you in the hospital, you sue your doctor. You do not ask the Government for help. And why is this situation different? And I said, you know what? If I had been the victim of a bad loan, I would go sue my lender. And it is very relevant, I think, because I think if I am a servicer, a large servicer, and several of these companies have hundreds of billions, if not trillions, of dollars of loans, I think they have to be concerned about consumer lawsuits--not investor lawsuits, but from the very borrowers to whom they made the loans.

I do think it is an outstanding trade-off or compromise to say that in exchange for writing down the loan we will provide a safe harbor from a private right of action, because I do think if you are a servicer right now, you have to be concerned about lawsuits on behalf of borrowers who ended up with loans with the very features that are causing the financial pressure. I think it is an excellent outcome.

Senator Carper. All right. Thank you.

Others, please.

Ms. Harnick. Well, the safe harbor that I think is a really terrific idea and that I think Dr. Summers was supporting is the idea of protecting servicers from lawsuits by investors, because I believe that that fear is, in fact, one of the significant barriers both to voluntary loan modifications and I would imagine it would be a barrier to accepting a short refinancing under the FHA proposal. So I think that that would be really essential. And it is essential in part because it would address--there is nothing unfair about it, I think, from the point of view of investors, because what it is attempting to do is address the very significant problem that servicers are in a position where they often cannot make the economically rational choice. If the economically rational choice is accept a short refinance or modify the loan and thereby recover more for the mortgage holder than the inevitable consequence of foreclosure, that is a very good choice. And if servicers--to the extent that servicers are--and I have heard repeatedly that they are--hampered by the fear that some investors will say, well, the way you modified the loan or the way you structured the new refinancing disadvantaged me, even though it was better for the collective. So I do think it is an excellent idea.

I have to say I would not be supportive of the idea of providing a safe harbor from consumer lawsuits, and I do not know if that is something that needs to be discussed further. I could expand on it if necessary, but for investor lawsuits, I think it is an excellent idea.

Senator Carper. Mr. Stern, in your comments were you referring to investor lawsuits?

Mr. Stern. I am suggesting that if a consumer receives a short payoff from a servicer, one of the things they should offer in exchange is, yes, to not sue the servicer who provided them the short payoff.

Senator Carper. Okay. Fair enough. Thank you.

Dr. Baker?

Mr. Baker. I do not have too much to add on that. I would agree very strongly that I think it is a step in the right direction because, you know, you sort of have this asymmetry that, you know, again, it may very well be in the investor's best interest, but from the standpoint of the servicer, they want to take the cautious path. I do not think any servicer has ever been sued for not doing a short sale or a writedown. So, you know, the cautious thing for them is just sit there, go ahead with the foreclosure. That is a well-trodden path, and that is very safe.

So I think, you know, giving them symmetry that they do not have to fear either way so that they can make what is the best decision, I think that is the good way to go. And, again, I would agree with Ellen that I do not--I would not want to give any sort of carte blanche. I am not familiar with the legislation, the details of the legislation. I would not want to give some carte blanche immunity in consumer lawsuits because there were improper actions in cases, and, you know, you might want to hold those servicers responsible. So I would be hesitant on that.

Senator Carper. All right. Thank you.

The Hope for Homeowners proposal allows a mortgage to be refinanced and insured by FHA, as you know. In return for accepting the risk, FHA receives, I think, 50 percent of all future profits. I think that is the way it reads. The FHA should, in my opinion, share some of the future profit to help pay for the program, and the House bill allows FHA to share--I think a lot during the first few years, maybe 100 percent in the first year, down to 0 in the fifth year of a refinance. But, in any event, it is less over time.

How much should FHA receive for accepting this risk?

Mr. Stern. I would be happy to address that, and it might surprise you to know that there are State-run mortgage programs that currently allow for the State program to participate in the appreciation of a home. I would be surprised if you did know that.

In the State of Missouri, there is an organization known as the Missouri Housing Development Commission, and specifically they supply first-time homebuyer funds for borrowers with a median--who have an income below the median level in the area where they buy. In exchange for receiving those funds--they are subsidized interest rate and down payment funds. In exchange for receiving those funds, the buyer agrees to a concept called a "recapture tax," and that recapture tax agreement says: If you sell your house in the future and you make money on the home investment, and your income has increased above the median level, you must pay a percentage of those profits back to the Missouri Housing Development Commission. And what happens in that case is that money is used to then replenish the system so that future buyers have the benefit of the first-time homebuyer system.

I just thought it would be helpful to you to know that it is not unprecedented. It works extremely well in Missouri, so the concept is called the "recapture tax," and they do have the benefit of the appreciation of the property in exchange for providing a subsidy.

Senator Carper. All right. Thank you.

Ms. Harnick.

Ms. Harnick. Thank you, Senator. I think it is a good idea for the homeowner to share some of the appreciation with the program, both for the soundness of the program and because as a fairness issue.

I think that my recommendation, our recommendation would be that we track more closely to what the House bill does. What the House bill does is it allows shared appreciation over 5 years, and, by the way, it tracks both shared appreciation and also making sure that the borrower can't immediately get the benefit of the 10-percent haircut. And the proposal here does the same. I think that is an excellent idea.

At the end of the 5 years under the House bill, the recapture tax, as it were, is capped at 3 percent, and I think that that is a more appropriate mechanism than having an indefinite 50/50 sharing of appreciation. I was saying earlier, quite apart from whether it is wise social policy to deprive the homeowner of 50 percent of the wealth-building value of a home indefinitely--I think that that is a real question. And I also think it is hard to administer. If the homeowner invests in a new kitchen, redoes the kitchen, and 15 years later the home is appraised at a value that exceeds both the refinance price and the value of the kitchen, how much of that appreciation is attributable to the work that they did and how much is attributable to the refinancing?

So for that reason, I would say I think it would be better to cut it off and cap it.

Senator Carper. Well, we all know that when people want to raise the value of their home for sale, they improve those kitchens. And what do they do next? The bathrooms. At least that is what I am told.

Dean Baker.

Mr. Baker. Yes, I would very much agree with that. I think the basic point here is that we do not want someone to be able to cash in, you know, at the FHA's expense with the initial 10 percent. So something like 100 percent to start and then phasing down close to 0 over 5 years, I think that is a reasonable framework we are talking about. And once you get further out, again, the value of that home is going to reflect, to a large extent, how much people have maintained it, what they have put into it, so it does make sense that that be, you know, a much lower tax, or however you want to put it, at some future point.

So something like what you have in the House bill I think makes a lot of sense.

Senator Carper. All right. Great.

Mr. Chairman, thanks for the chance to ask these questions, and again to each of you for--I missed your testimony. I am told it was just a terrific panel. I am glad I got to ask you some questions.

Chairman Dodd. It was very, very good.

We have a safe harbor provision in our bill, as does the suggestion of the House. The difference is the safe harbor that--in fact, the counseling provision is to protect the servicer from investor lawsuits. It is not to protect the servicer from consumer lawsuits. And there is more of a concern, I think, from that side of the equation.

In fact, I was curious. I know there are not many examples of this, but I was curious as to whether or not if you did not do something--if I am an investor and I discovered that a servicer refused to have a workout and the option was losing everything, I would be curious if there wasn't more of an action, a possibility of action there, why didn't you take that 50 cents on the dollar? I would be at least 50 percent better off than I am now if I end up losing everything. Again, I do not know if there is any precedent for any of this at all or not, but it would seem to me that might be a more likely outcome in some ways than the likelihood you are going to be sued because I am getting less than 50 cents--or 50 cents less than I would have otherwise gotten under the circumstances.

Mr. Stern. Yes, I would say--Dr. Baker said he has never heard of a servicer being sued for not doing a short sale, except I would say this is a very unusual time. If you have a chance to do a short sale for 50 cents on the dollar and you do not, and you do lose everything, I agree, this is a very unusual time. You could be sued for not doing the workout, where they might not have in the past.

Chairman Dodd. Exactly, so it is interesting. Thank you, Senator Carper, very much.

Just going back over--and I am going to--not to keep you, just an additional point here. As I mentioned, Larry Summers and Doug Elmendorf had to attend a conference they are hosting today, and as I said at the outset, the proposal that I have suggested--back in January, in fact--raised this idea and then met--it is not a new idea, either. These are ideas that have been tried, as you point out. There are States that have tried variations of this. I was in Pennsylvania with Bob Casey, Senator Casey, the other day for a hearing, and I think it is the HEMAP program in the State of Pennsylvania, something very similar to what we are talking about here. In fact, they go further. They have another program, a HERO program, which really does take these underwater--completely underwater programs to try and salvage something out of them as well. So, again, people have identified the program in the Depression era, which was a more direct participation, a direct, I guess, acquisition and purchasing of these discounted mortgages.

I am told historically that the Federal Government actually made some $14 million. I do not know what that was in today's dollars, what it would be at the end of the day.

But I want to emphasize the point, I think there are some very, very good points. I think, Dean Baker, you raised, along with Larry, some cautionary notes, so as you start down this path, understand and think about them. That is why it is very important to me. This ought not to be an ideological debate. This ought to be a discussion about if we are going to do something, do it well, and make sure you are not going to do more harm. I guess to use your medical analogy, we ought to apply the Hippocratic oath here as well. The first rule is do no harm. In a sense, while we are talking about mortgage malpractice, I want to make sure that we do no harm, that as we try to fashion ideas that can limit the number of foreclosures that are being filed every day in the country, as I mentioned, close to 8,000 a day; 240,000 people went into foreclosure in the month of February. And there is always a normal amount of this. I think one of the things that--maybe some people would assume we never had any foreclosures, and there are always a certain level of them occurring. But this time it is compounded in a way because of the liquidity issues that have arisen, and I want to underscore Larry Summers' suggestion. I do not know if any of you have any views on this or not, but the notion of the GSEs seeking more capital, and while there is a legitimate shareholder interest in all of this, they are called Government-sponsored enterprises for a reason, and there is something called a "Mission Statement," and the Mission Statement should reflect circumstances not unlike the ones we are in, as unprecedented as they are in many ways, but they exist, in effect, for dealing with moments like this.

And so I support his underlying idea of having them go out and raise more capital at this point, and the shareholders certainly have to be considered. But they, it would seem to me, have to take a secondary position considering what is the rationale for the existence of Fannie and Freddie anyway.

I do not know if you have--does anybody have any views on that? Do you have any view on that, Dean, what Larry talked about earlier?

Mr. Baker. Yes. I did not quite agree with him on that because then we are asking Fannie and Freddie to take on, you know, more risk. And if you do not increase the capitalization, then that is putting--it is coming out of the taxpayer's expense. So the question is: How do you balance that, the shareholders versus the taxpayer? As they are taking on more risk, that is all going on the taxpayer side. It seems reasonable to say, okay, there also ought to be more on the shareholder side; therefore, there has to be more capital there.

So I think that is going the right direction. How much, you know, what is the magic number there, I do not know. But I think certainly increasing their capitalization is the right thing to do now.

Chairman Dodd. Ellen or Scott, any views on this?

Mr. Stern. Well, I will share with you that right now there are only four reliable sources of capital in the mortgage market today: Fannie Mae, Freddie Mac, FHA, and VA. There is no reliable private source of capital from anyplace else, from Wall Street to insurance companies, even to banks lending their own money. And the reason for the reliability is the implied guarantee of the GSEs.

So I would suggest that especially now, the liquidity of the GSEs is important. It probably has been never more important. And as long as they remain the most reliable source of funding for an average borrower who needs a home for a purchase or refinance, I would encourage liquidity of the GSEs.

Chairman Dodd. Ellen.

Ms. Harnick. I do not have anything to add on that point, Mr. Chairman, but I did want to come back to a point that was made just before the break. May I do that?

Chairman Dodd. Sure.

Ms. Harnick. Because it goes to the--

Chairman Dodd. What was the point?

Ms. Harnick. The point is the issue of how difficult--

the suggestion is that we have to be careful to make sure that appraisals are properly done in figuring out the current value. And I think what Larry Summers had said is we need to ensure that appraisers don't have the wrong incentives, that appraisers are not linked to the lender in any way or to the servicers, that the lenders do not have an incentive to overstate home values.

But I think what got lost when the conversation got broken off is the fact that appraisers do this sort of thing all the time. There is nothing unusual about the effort to appraise a property, even in markets where sales have been slow, even in illiquid markets. I mean, this is something that could be done--Dean Baker suggested various mechanisms that could be put in place to ensure that we are getting good appraisals.

So I think that any concern that was raised about that is certainly worth taking into account in shaping the kind of appraisals we do. But I think that is as far as the concern needs to go.

Chairman Dodd. Okay. Well, again, I wanted to come back and just suggest--these ideas and thoughts are very, very valuable to us as we try to fashion some good ideas, and I think Doug Elmendorf made a good point. He said, and I am quoting him, "...we must choose between messy policy options and inaction--and the cost of inaction is very high." And I agree with him on that. And he particularly said, "...a measured expansion in the role of the Federal Housing Administration as proposed by [myself] and Chairman Frank would contribute importantly to reducing the size of the coming foreclosure wave." I do not know if that was raised in my absence, this second tranche that we are approaching.

Larry Summers said careful consideration should be given to the type of measures that we are proposing, and I agree with him on that. He noted last week that the administration has put together programs and policies but have not really come to very much. We need a much more activist set of responses to maximize the chance that the current crisis is contained. I think he was speaking as well about the capitalization issue of Fannie and Freddie, as well as possibly the idea we are talking about here.

I want the Committee to know that I am committed to considering recommendations by our colleagues here, the witnesses. I invite your even further consideration as you look at these proposals, unless you just have an underlying total disagreement with the thrust altogether. But if you see that at least the thrust may be going in the right direction but it needs to be handled in a more balanced approach, I would be very interested in hearing your suggestions and thoughts on all of this. As I said, there is no silver bullets, but this proposal would provide both lenders and borrowers an additional tool to avoid unnecessary foreclosures--in a sense, unnecessary foreclosures.

You have two constituencies, one that I am sympathetic about. I do not want to see anybody lose money. But I feel absolutely no obligation whatsoever with the speculator community. I am sorry they lost money, but that is the nature of investment here. Those things happen.

The second group of people I feel very sympathetic about, and they never should have gotten a mortgage in the first place, and there probably is not a structure that we can come up with that they are going to be able to meet. Now, we ought to think about ways to help people in that category. But I do not see how these proposals are necessarily going to work for those people in that situation. I regret deeply the problems they have, but realistically it is going to be impossible in some cases to provide help at all.

And then there is that third group that plays such a critical role in all of this, and to the extent we are able to do something about that is where my interest is and my focus is, and so I am holding this hearing today, and we will have one again next week, and I will be in consultations with those of you here. And I really do--this is not a gratuitous comment. You are talented, you are knowledgeable, you understand these things very, very well. And it will be very, very helpful to share your ideas and thoughts with the Committee on how we can do a better job at this.

I am going to ask as well that we include an editorial from this morning--I believe it was this morning--in USA Today, which raises legitimate concerns about some of the things in the bill we just passed. And I will be the first to admit that there are some things in that bill that, had I been writing it alone, would not have been in there. There are lot of things that would have been in that bill had I had a chance to write it alone. And there are many things in there that I think are very good and can be very, very helpful. And I am grateful to Senator Shelby and his staff and others for allowing us to work through here, now allowing us to be in a position to work with the House of Representatives to fashion a more comprehensive set of thoughts on all of this in the coming weeks. And we will have markups in this hearing on GSE, on related matters, on the reform ideas that need to be considered as well. And I am going to be working with Senator Shelby and his staff and other Members of the Committee as we prepare for those to see if we cannot reach some strong bipartisan approval of some of these ideas.

But I am very grateful, again, for your testimony today. We will leave the record open because I know some other people have some questions. But I am very impressed with your testimony and very grateful for your presence.

The Committee will stand adjourned.

[Whereupon, at 12:49 p.m., the Committee was adjourned.]