U.S. SENATE BANKING COMMITTEE

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Statement of Chairman Dodd
"Turmoil In the U.S. Credit Markets: Examining Proposals to Mitigate Foreclosures and Restore Liquidity to the Mortgage Markets"

Remarks as Prepared:

Good morning. Today, the Senate Committee on Banking, Housing and Urban Affairs is meeting to hold its second hearing on the "HOPE for Homeowners Act" and other plans to address the historic levels of foreclosures the American people are experiencing.

There is a growing consensus that the federal government needs to get more aggressively involved in helping American families keep their homes. In addition to my legislation, the Office of Thrift Supervision has put forward a plan, HUD has proposed a plan, and Senator McCain also has a plan. These plans embrace the key concepts in the legislation I have circulated, including the use of the existing FHA platform to refinance distressed homeowners into new loans.

It is my hope that we can work collectively to bring together the best features of these plans and move legislation quickly. Our failure to act earlier has made the problems we now face more severe. Mark Zandi, a well-known housing economist, put it this way:

> "Policymakers' initial response to last summer's subprime financial shock was very tentative, as they misjudged its severity and the extent of its economic fallout. Financial markets and the economy subsequently eroded.… Only if more homeowners are able to remain in their homes will the negative cycle of foreclosures begetting house price declines begetting more foreclosures be short-circuited. This in turn is necessary to ending the downdraft in the housing market that is weighing so heavily on the economy and financial system."

Briefly, my bill would create a new fund at FHA to insure new, affordable mortgages, for distressed homeowners. These FHA-mortgages would refinance the old, troubled loans at significant discounts. The new loans could be no larger than the borrowers could afford to pay, and no more than 90% 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 to prevent foreclosures. The Administration has also embraced this concept.

Under my proposal, no one – I repeat – no one, gets what could described as a bailout. 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 foreclosure.

Borrowers get to keep their homes, but they must pay for the FHA insurance and share the newly created equity and future appreciation with the FHA program, to help offset possible losses.

Only owner-occupants will be eligible for this new program, and only those who clearly cannot afford their current mortgages. There will be no speculators or investors allowed in the program.

Not only will this initiative help deserving homeowners, and the communities in which they live, this program will help stabilize capital markets, put a floor on an excessive downward spiral of housing prices, and get capital flowing once again.

In addition to the witnesses we heard from at last week's hearing, the staff has been consulting widely with investors, lenders, servicers, economists, securitizers, regulators, and other Senate offices to improve the draft legislation, and we continue to seek input in order to make this product as strong as possible and move it forward.

It is increasingly difficult to explain to the American people why it is that the government can act so quickly to put taxpayer dollars at risk to bail out large financial institutions on Wall Street, without making a more robust effort to help Americans keep their homes. In my own view, these efforts must go hand-in-hand. Before financial institutions can really get back on a steady course, we need to address the subprime and nontraditional mortgages underlying the alphabet soup of complex securities – CDOs, SIVs, RMBS, and the like. While not a silver bullet, the "HOPE for Homeowners Act" will help to do so.

The need for action continues to be acute. Yesterday, Realty Trac released new data which showed that foreclosure filings jumped 57% in March from a year ago. This marks the 27th consecutive month of year-over-year increases in national foreclosure filings. As I have said, 8,000 families a day are losing their homes.

In America, this should not be acceptable.

If we don't take effective action today, we risk being forced to take more dramatic and costlier action to respond to more dire consequences down the road. That is what happened with Bear Stearns.

As I said last week, I understand that some people oppose this kind of program on the grounds that we should not reward people who, in their view, acted irresponsibly.

Let me respond by quoting Scott Stern, who testified last week on this subject. To remind my colleagues, Mr. Stern is the CEO of Lenders One, a coalition of 110 small and medium-sized mortgage lenders. Mr. Stern explained that he feels that the “condemnation of borrowers who took out risky loans is misplaced” because of the growing practice of “pushing high risk loans on borrowers who had no reasonable expectation of being able to repay the mortgage.” Mr. Stern called this “mortgage malpractice.” He went on to say:

> “In our industry, we have frankly seen too much mortgage malpractice. ‘Curing’ a loan that had a high risk of failure creates no moral hazard. Just the opposite – modifying a loan which probably shouldn’t have been made in the first place is the kind of action that can help restore integrity and trust in the mortgage market.”

Of course, some borrowers who might benefit from this program might not be deserving, according to some. But, if we do nothing, we know for certain that hundreds of thousands of homeowners who need and deserve our help will lose their homes. That is why I believe we must act, and I look forward to working with my colleagues to craft the best bill we can.

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