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Prepared Remarks of Congresswoman Maloney

Full Financial Services Committee Hearing:
The Legislative and Regulatory Options for Minimizing and Mitigating Mortgage Foreclosures

Thank you Mr. Chairman.

I would like to welcome the witnesses and thank them for their testimony.

We are at a critical juncture with respect to the subprime mortgage crisis. Yesterday, RealtyTrac released the latest bad news that foreclosures reported in August increased 36 percent since July and 115 percent since this time last year. Expectations are that the next 18 months will be even worse, as many subprime loans reset to higher rates.

Anxiety over the state of the economy remains high, as concerns mount that the subprime mortgage meltdown will infect the rest of the economy. The Fed's action to lower its key short-term interest rate is an effort to prevent the economy from derailing and ease credit pressures, but it is no silver bullet.

This Committee is working hard to help borrowers stay in their homes. This week, the House passed legislation to enable the FHA to serve more subprime borrowers at affordable rates and terms, and offer refinancing to homeowners struggling to meet their mortgage payments. To make servicers more able to engage in workouts with strapped borrowers, we pushed FASB to clarify that its Standard 140 allows for modification of a loan when default is reasonably foreseeable, not just after default.

But there is much more that we can and should do to help borrowers now.

Fannie Mae and Freddie Mac are providing much needed liquidity in the prime market right now. We should also raise the cap on these entities' portfolio limits, at least temporarily, and direct all of those funds to help borrowers who are stuck in risky adjustable rate mortgages refinance into safer mortgages.

We should eliminate the cruel anomaly under Chapter 13 of the Bankruptcy Code which allows judges to modify mortgages on a borrower's vacation home or investment property, but not the home they actually live in. This allows families to stay in their home while new loan terms are worked out.

I think we should also eliminate the tax on debt forgiveness, sparing families the double-whammy of paying taxes on the lost value of their homes.

Reforms to contain this crisis and for the future are also critical**.**

Our regulatory system is in serious need of renovation to catch up to the financial innovation that has surpassed our ability to protect consumers and hold institutions accountable.

Even though the federal banking regulators have put out interagency guidance on subprime loans to improve standards, some three-quarters of the subprime market do not have a federal regulator. We need to extend the guidance to create a uniform national standard to fight predatory lending and a single consumer protection standard for the entire mortgage market.

We should create, along the lines of advocated by Harvard Law Professor Elizabeth Warren, a Financial Product Safety Commission, patterned after the Consumer Product Safety Commission, to deter unscrupulous lending practices**.**

Mortgage contracts are virtually incomprehensible. A simple one-page form could provide the basic facts about mortgage loans to borrowers.

These are some steps and I hope our witnesses will have other specific proposals and recommendations. I look forward to the testimony.

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