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Opening Statement of Sen. Chuck Grassley
Hearing, “The Real Estate Market: Building a Strong Economy”
Thursday, Feb. 28, 2008

We start this year in an environment of declining house prices, financial turmoil, and rising oil prices. Economists are at odds about whether this country is heading for a recession. However, economists share the view that economic growth could be sluggish.

Congress acted swiftly to address this concern with passage of the Economic Stimulus Act of 2008. This was a short term band aid for the economy and did not focus on long term, sustained growth. This targeted tax relief should not become the trend, but rather the exception.

Some have suggested that the housing market is the root of the problem. The American home has long been the bedrock investment for many families. After the dot-com bubble burst, even more Americans looked toward their home as a safe investment. This attitude spread into the investment community as the booming real estate market made mortgage-backed securities even more appealing than before. Financial innovation by the mortgage industry made homes affordable to people who didn't have adequate income or reliable credit. Although, these so-called “subprime” borrowers actually represent a small fraction of all homeowners in America, the housing decline has had an impact throughout the nation. Due to the excess of irresponsible lending to these risky borrowers, housing prices were artificially inflated.

Now that the housing market bubble has burst, it seems that some price correction is inevitable. In fact, in many markets this will lead to recognition of more excess inventory and more price corrections. To a large extent, this problem will simply need to work itself out. However, at the same time, we need to be mindful of the harsh impact this could have on consumer confidence and economic growth.

Today we will explore what else, if anything, this committee can do to help boost the economy. Some would advocate a tax credit to incentivize people to purchase homes. This has some appeal and there is precedent for such a credit in the 1970s. However, this particular carrot, as well as any targeted tax relief, needs to be carefully reviewed. Such a credit is likely to cost in excess of \$14 billion.

We should carefully balance any relief targeted to address the housing downturn to ensure that it helps ease the problem and doesn't simply create new problems. We also have to remember that

any relief benefits one sector of the public at the expense of another sector. The other sector is the taxpaying population that was careful in their family budgeting, especially as it related to housing costs. Mr. Chairman, taxpayers bear the burden of a bailout of these risky mortgages that went south. So, we need a compassionate view that recognizes taxpayers pay the ultimate tab.

It is clear that our country is going through a difficult time as homeowners struggle to keep their homes. What is less clear is what else should be done to help taxpayers weather the housing market storm. We appreciate your coming here today to discuss this important issue and look forward to exploring possible opportunities to alleviate the problem.