May 7, 2008

Experts Agree: Comprehensive Housing Crisis Legislation Is Needed for American Economic Recovery

Recent remarks from leading economists make it clear that the FHA Housing Stabilization and Homeownership Retention Act that the House will consider today as part of a comprehensive housing package has all of the right elements to address our housing crisis and help avert a deeper decline in the overall economy.

Ben S. Bernanke, Chairman, Board of Governors of the Federal Reserve System
"High rates of delinquency and foreclosure can have substantial spillover effects on the housing market, the financial markets, and the broader economy. Doing what we can to avoid preventable foreclosures is not just in the interest of lenders and borrowers. It's in everybody's interest."

"…when the source of the problem is a decline of the value of the home well below the mortgage's principal balance, the best solution may be a write-down of principal or other permanent modification of the loan by the servicer, perhaps combined with a refinancing by the Federal Housing Administration or another lender. To be effective, such programs must be tightly targeted to borrowers at the highest risk of foreclosure… Finding the right balance--particularly the need to avoid programs that give borrowers who can make their payments an incentive to default--is difficult. But realistic public- and private-sector policies must take into account the fact that traditional foreclosure avoidance strategies may not always work well in the current environment." [*May 5, 2008,* Remarks at the Columbia School of Business]

Martin Feldstein, Chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard.
"The potential collapse of house prices, accompanied by widespread mortgage defaults, is a major threat to the American economy. A voluntary loan-substitution program could reduce the number of defaults and dampen the decline in house prices – without violating contracts, bailing out lenders or borrowers, or increasing government spending… Since house prices will have further to fall, this can only be done by a reducing in the value of mortgages**.**" [*March 7, 2008,* "How to Stop the Mortgage Crisis", *Wall Street Journal*]

Mark Zandi, Chief Economist and co-founder of Moody's Economy.com
"[The government] could, for example, refinance a homeowner into a smaller, and thus more manageable, FHA loan. While the borrower would only have to make payments on the new smaller loan, they would still owe the government the difference between the new and old loan. When the homeowner eventually sold, any proceeds would have to be used to fully repay the government, thus ensuring that no homeowner receiving help would make a profit at the expense of taxpayers." [*February 26, 2008,* Testimony before the House Financial Services Committee]

Bill Gross, Chief Investment Officer of Pimco
"The better alternative is to initiate a limited mark-to-market write-down of private mortgage debt as envisioned in the Dodd-Frank Congressional proposal combined with government-subsidized loans at below market rates**.** Look at it this way: you can allow a home to fall in price from $400,000 to $300,000 and force an upside-down

"short sale" foreclosure, or you can reduce the homeowners' $400,000 mortgage to $350,000, refinance the loan through the FHA at 4% and stabilize the neighborhood and its home prices. Surely Republicans, Democrats, AND Wall Street mortgage holders (PIMCO included) can recognize that stability as opposed to freefall market clearing is the better alternative, especially if the pain is shared by all parties."
[*May 2008* "Pimco Investment Outlook," by Bill Gross]

Dr. Allen Sinai, Chief Global Economist, Strategist and President, Decision Economics, Inc.
"This enhanced FHA program provides benefits to all, essentially some penalties to all, but retires poorly collateralized mortgage indebtedness or mortgage-backed securities in return for a currently viable mortgage instrument for the borrower**.** The program has considerable appeal and very likely would raise the demand for restructured and refinanced mortgages and reduce the volume of mortgage loans that were not viable under current housing market conditions. This is an essential element in clearing the market from an excess supply of weakly collateralized loans. So long as the financial system has large volumes of bad loans, credit restraint within and outside the financial system will persist." [*April 9, 2008,* Testimony before the House Financial Services Committee]

Alex Pollock, Resident Fellow at the American Enterprise Institute
"….governments always intervene when the bust leads to spreading panic and the risk of an out-of-control financial meltdown—just as was done to prevent the impending Bear Stearns bankruptcy. Both Congress and the administration are already promoting the further expansion of government financing through Fannie Mae, Freddie Mac, and the Federal Housing Administration. The risks of doing nothing in the crisis are simply too great and are never taken. Governments also typically intervene when there are very widespread mortgage defaults and foreclosures….Since 1970, we have had four "emergency housing acts," and Congress is working on what could be the next one…A key argument against them is that they put the taxpayers at risk; the counterargument is that a financial collapse puts everybody at even more risk."
[*May/June 2008, The American,* **"**Your Guide to the Housing Crisis"]

Nouriel Roubini, Professor of Economics and International Business, Stern School of Business, New York University
"Roubini favors Frank's plan. 'Until you buy the mortgages, reduce their face values and refinance people with fixed rates and a lower principal, you're not going to remedy the problems in the financial market,' he says. 'You have to reduce the face value of the debts outstanding, and someone is going to have to take losses.'"
[*April 9, 2008,* TheStreet.com, http://www.thestreet.com/print/story/10411371.html]

Dr. Alan S. Blinder, Former Vice-Chair of the Federal Reserve Board
"The FHA Stabilization and Homeowner Retention Act is a fine piece of legislation, well crafted and well targeted. And I am proud to support it enthusiastically." [*April 9, 2008,* Testimony before the House Financial Services Committee]

Larry Summers, Charles W. Eliot University Professor at Harvard University, former United States Secretary of the Treasury
"I think all of those present agreed on the importance of passing through the House of Representatives and ultimately though the Congress the legislation in which Congressman Frank has played a leading roll to support the housing finance system and in particular to provide for the avoidance of foreclosures with a substantially expanded FHA role. We believe that it is of great importance that, that legislation be passed as rapidly as possible." [*May 6, 2008,* Remarks following a forum with House Democrats and economic experts to discuss the state of America's economy]