

**Opening Statement
Of
Dennis J. Kucinich
Chairman
Domestic Policy Subcommittee
Oversight and Government Reform Committee
Friday, November 14, 2008
2154 Rayburn HOB
10:00 a.m.**

***“Is Treasury Using Bailout Funds to Increase Foreclosure
Prevention, as Congress Intended?”***

The title of this hearing is, “Is Treasury Using Bailout Funds to Increase Foreclosure Prevention, as Congress Intended?” Two days ago, Secretary Paulson gave us an answer: “No.”

Secretary Paulson’s policy reversal breaks with Congressional intent, contradicts public assurances previously made by Treasury, and leaves the federal government without an adequate mechanism to stem a tide of home foreclosures. Congress’ intent in enacting the Emergency Economic Stabilization Act of 2008 (or EESA), the statute that created the Troubled Asset Relief Program (or TARP), was in part to buy troubled mortgage assets and implement a plan to minimize risk for foreclosures. Only three weeks ago, Mr. Kashkari testified before the Senate that he was preparing to purchase troubled mortgage assets. Two weeks ago, Mr.

Kashkari's top staff, including an individual with the position, "Interim Chief for Home Preservation" and another in charge of whole mortgage loan acquisition, spoke with my staff about TARP's plans to purchase troubled mortgage assets. Last week, the Treasury filed an interim tranche report required by EESA, stating that Treasury's policy teams were still committed to preserving home ownership.

Rather than prevent foreclosures by acquiring troubled mortgage assets as EESA authorized, Secretary Paulson announced on Wednesday that TARP would not buy mortgage assets. Instead, Treasury would exclusively continue along the path of providing preferred equity injections to hand-picked companies. Thus, the only significant use by Treasury of the funds Congress authorized to address the mortgage crisis underlying the financial crisis includes, among other things, propping up a Beverly Hills banker to the stars; subsidizing the evisceration of National City Bank and the laying-off of thousands of Clevelanders who worked there; and indirectly funding the payment of bonuses, compensation, and dividends by financial firms that could not have afforded to make them without the TARP capital infusion. I think it's fairly obvious that Congress would have never passed the EESA had it known how Treasury would marshal the resources it was given.

There is a consensus among the business community, academics, and policy makers that the financial crisis will not be resolved until the mortgage crisis is resolved. There is a further consensus from experts—some of whom you will hear from today—that resolution of the mortgage crisis demands stronger action by the federal government than private industry has so far been willing to undertake.

EESA enables Treasury to purchase and thereby control the mortgage servicing of potentially millions of mortgages that will soon go into default. That control, if exercised, would make a qualitative difference in the kind of loan modifications that would be performed because the federal government would not and should not have followed the same restricted loan modification policies so far pursued by private investors. To accomplish the social policy of protecting neighborhoods and preserving the financial system as a whole, once TARP owned whole mortgage loans, acquired from bank portfolios and securitized mortgage pools, TARP could direct mortgage servicers to make loan modifications in the principal balance of troubled mortgages. We will hear today from industry and academic experts alike about how critical this step is to fix our current mortgage crisis.

While there is some disagreement among experts whether Treasury currently possesses sufficient authority to purchase mortgages and effect loan modifications over the full range of mortgage and mortgage-related assets and there remains an issue whether Treasury should pursue a mortgage guarantee program to replace or complement an asset-purchase and modification program, these technical questions, while important, should not obscure a fundamental fact: Treasury was uniquely empowered by Congress and positioned to embark on a range of foreclosure prevention efforts that could not be undertaken by the private sector. Treasury had the money, and the technical challenges had solutions.

Rather than undertake this difficult but crucial work, the Treasury Department has abdicated its responsibility to stem the tide of mortgage foreclosures. They have passed the responsibility back to the private sector and inadequate government efforts. While there are many hardworking and well-intentioned people in the industry striving to do more loan modifications, the hard truth is that they are not keeping up with the number of borrowers needing modifications to prevent default and foreclosure. As a predictable result, foreclosures have continued to mount, and many millions more are forecast. Furthermore, experience is showing that there is

a significant problem of re-default, where borrowers who are among the lucky few to receive a loan modification at all, are not receiving loan modifications that cure the dual problems of affordability and negative equity. Foreclosure is delayed but not prevented. Treasury's action to abandon acquiring troubled mortgage assets unfortunately, maybe tragically, leaves the problem of negative equity unresolved.

I hope that today's hearing will permit us a thorough examination of the basis for Treasury's decision to ignore the foreclosure prevention objective of the Troubled Asset Relief Program. As Congress may soon receive a request for the second installment of \$350 billion toward the TARP, and as we are on the eve of a new Administration which will have the opportunity to reconsider Secretary Paulson's decision, it would be helpful to Members of Congress and to the next Administration to understand the viewpoints and assess the judgment of the current TARP leadership, before deciding to entrust to them the remainder of the bailout funds and continue their policies.