STATEMENT OF REPUBLICAN POLICY

January 15, 2009

<u>H.R. 384, the "TARP Reform and Accountability Act of 2009"</u>

Rep. Barney Frank (D-MA)

According to its proponents, H.R. 384 is designed to promote accountability and transparency in the implementation of the Troubled Asset Relief Program ("TARP") and thereby provide justification for congressional approval of the final $350 billion tranche of the $700 billion authorized by the Emergency Economic Stabilization Act ("EESA," P.L. 110-343). Because House Republicans are opposed to any release of additional TARP funds unless and until there is a clear strategy for deploying the remaining funds effectively and in a way that protects taxpayers – and a clear exit strategy for getting the federal government back out of the private sector – they should also oppose this attempt to facilitate the expenditure of that money.

Many House Republicans opposed the TARP from the outset because of the program's price tag and the precedent it established for government picking winners and losers in what is supposed to be a free market economy. Those Republicans who supported the legislation did so reluctantly based on warnings from the Treasury Secretary and Federal Reserve Board Chairman that the economy was on the verge of a financial meltdown, and that failure to act would imperil our free market system and inflict serious damage on American businesses and workers.

The law **did** impose a very important constraint – the requirement that the executive branch come back to Congress after spending the first $350 billion, explain how it intended to use the remaining money, and give Members the opportunity to deny further expenditure. Now that such a request has been made, Republicans strongly believe we owe it to the American people – many of whom are angry and confused about the way the program has been implemented so far – to engage in a far more thoughtful and deliberative process than was the case with the first $350 billion tranche. Yet the Majority has chosen to bring a 75-page bill introduced less than a week ago to the House floor without a markup. They are bypassing the regular order and racing this bill to the House floor before Members have had an adequate opportunity to vet its provisions.

The incoming Administration's request for $350 billion in additional TARP funds cannot be considered in a vacuum. It comes at a time when the Federal Reserve is flooding the global financial system with **trillions** of dollars through its various lending facilities and other injections of liquidity. And it also comes as this Congress prepares to consider a fiscal stimulus package that it is estimated will cost as much as another **trillion** dollars. With these kinds of numbers being thrown around, it is not surprising that the American people are starting to ask where it all ends, and whether anyone in Washington is looking out for their wallets or for the fiscal future of our country. At a time when the American people are demanding an exit strategy – and when so many questions about the use of the

first $350 billion remain unanswered – hurried approval of an **additional** $350 billion of Federal funds is both premature and an affront to the American taxpayer.

<u>Specific provisions of concern in H.R. 384</u>

Excessive Government Intervention

There is a danger that the provisions in H.R. 384 place the TARP on a slippery slope to a "command-and-control" economic model. For example, the bill provides for government observers to attend the meetings of the boards of directors of assisted institutions and at the committees of such boards while any funds from TARP remain outstanding.

Foreclosure Mitigation

The bill provides for the expenditure of up to $100 billion (and no less than $40 billion) to implement foreclosure mitigation programs that require taxpayers to subsidize the bad decisions of irresponsible lenders, investors, and borrowers, and have not been demonstrated to be effective in keeping borrowers in their homes or stemming the tide of defaults and delinquencies. A comprehensive analysis of loan modifications recently completed by the Federal banking regulators concluded that more than 50 percent of modified loans were 30 or more days delinquent six months later. While there are a number of possible explanations for this strikingly high re-default rate, no matter what the explanation, the data suggest that Congress should proceed with great caution before putting taxpayers on the hook for those re-defaults.

Hope for Homeowners

H.R. 384 attempts to "fix" the "Hope for Homeowners" program (P.L. 110-289), and make it a more attractive option for lenders and borrowers. But in doing so, the bill abandons key safeguards in the original legislation that were designed to protect taxpayers from bearing huge losses when mortgages re-worked under the program default. For example, H.R. 384 strikes the payment of upfront premiums paid to the Federal Housing Administration for providing the government guarantee (and sharply reduces the required annual premium), increases the permissible loan-to-value ratios, and cancels the government's share of the profits in the event of long-term home price appreciation.

When Hope for Homeowners passed last year, we were told at the time it would help hundreds of thousands of borrowers who are currently underwater in their mortgages (owing more than their house is worth) obtain more sustainable loans guaranteed by the government, thereby turning the tide of foreclosures and stabilizing housing markets. Some six months later, the Hope for Homeowners program has fallen far short of the expectations of its proponents, receiving some 400 applications and closing on a mere 13 loans.

Provided by the Republican Leadership and the Committee on Financial Services Republicans.

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