

Opening Remarks of Chairman Barney Frank
House Financial Services Committee
July 25, 2008
As Delivered.

I think this is as much as important a public hearing I have been at as I have been at much less presided over in 28 years. We are in the midst, and obviously with this, time constraints are going to be relaxed both for us and for yourselves because we are talking very serious business here. We are talking about something that is very important in terms of social fairness and the impact on a lot of Americans including predominately lower income Americans and the subset of people in the minority communities because of the way these loans have gone forward. We are talking about the single most important thing we can do to help deal with the economic doldrums of this country.

I think if there were to be an announcement at some point that the number of foreclosures on residential properties was going to substantially decline from what was expected, that would be as good a piece of economic news as a country can get. Sometimes we are told, well, you know you have a conflict between social and economic equity and what's good for the overall economy. Today we have a total reinforcement, reducing foreclosures is an essential matter of justice and an essential matter of trying to deal with the economic situation. Now, the House as you know has passed the bill which we know that the Senate is going to pass promptly. I believe by next week you will see the picture that I think that many people had not expected to see in which among the people standing behind George Bush will be myself and my colleague from California.

But it is a very important issue for the country and this hearing has one central purpose. We have passed a bill in consultation with people in the industry. Some seem people think that was a bad idea. Let me be clear, we had I think four potential -- four choices in trying to reduce foreclosures. One was to do nothing, some have advocated but the market do it. A second would have been an effort legislatively to say no. Some advocate that but I think it has constitutional problems, I think it also has problems in how you discriminate which foreclosures should go forward and which don't. A third would be substantial federal funding to defray the cost that people could make that has serious obstacles given the deficit, couldn't get anywhere politically. That left us with one option that we have chosen, providing inducements to those who hold the loans who have the ability to say that we are going to restructure or not, to in fact help diminish foreclosures by reducing the terms so that people can pay them. It is obviously voluntary. We have passed legislation that does that we think is as well we could, actually the House bill did it somewhat better than the Senate bill but we needed to have the bill passed.

Two points I want to make. First of all, because the Senate wanted to minimize the budgetary cost, they adopted some measures, and, look we are very happy that we finally got this done but the Congressional Budget Office anticipated that under our version in the House, 500,000 foreclosures would have been avoided and the Senate only 400,000. But we are not required to live up to that if you are eager to participate we can pump that out. But there is one particular thing that I want to be very explicit about, even asked by

staff who have done a magnificent job. The legislation we just passed I think was excellent legislation, and it is unusual in the sense that it was written here. It was written by the staff of this committee and the subcommittees, and it was written by the staff of the Ways and Means Committee. While we had some cooperation with the Administration, unlike most major pieces of legislation, it didn't come up from them to us. It was drafted by the people who you know and have worked with, with your cooperation. I am very proud of that. But I have asked them to make it very clear, the Hope for Homeowners program in our version in the House was going to be effective on enactment. For budgetary reasons the Senate insisted that it be effective October 1st. Ironically, you heard leaders of the Senate complaining that tactics that were holding this up saying, 'so many foreclosures happening every day, move quickly.' Well but in fact given the way the Senate structured this technically doesn't make any difference because it doesn't take effect until October 1st. But nobody requires you who are servicers to foreclose. You know, no one wants to be the last person to die in a war; no one wants to be the first person to die in a war either. But there is a particular tragic irony when someone has died after the war has formally ended.

I want to urge those of you here and other servicers don't have people be victims of a budgetary maneuver that we took here. You know this is going to be the law. I would hope that no one would be foreclosed upon between now and October 1st who would have qualified for this program had the effective date been immediate. And that is within your power to do. You can show some forbearance. October 1st is coming, begin the planning, begin the talking with people, but I think it would be a shame, an embarrassment to all of us if people were to lose their homes and the neighborhood deterioration were to be advanced and the economy would suffer because to satisfy CBO and other rules, we delayed this a couple of months. I earnestly hope that we can have that kind of cooperation. The other point is -- and now we are here, we have done the best we could think of, the best anyone told us, to induce the holders of the loans, the servicers, to take action to reduce foreclosures. We need you to tell us if you are going to take advantage of this, if you are not, why. I hope there will be efforts to take the measure. I believe there will be. I know many institutions want to do this. One of the things we have been told is 'look there is this problem because the people who service the loans are not the people who own the loans.' And there is this split between the people who have we are told the authority to make the decision to reduce and the beneficial owners on whose behalf they are acting, well you can't expect the beneficial owners to do this, people who own pieces of pools.

I want to make something very clear. This is something Ms. Waters and I have talked about a great deal and she has addressed it in a separate piece of legislation that she has got pending. If it turns out that our having done the best we could in consultation with the servicers to provide a set of incentives to reduce foreclosure, if it turns out that the structure of the servicing industry -- the split between the decision makers and the ultimate beneficiaries is a significant interference with our taking advantage of this, then I am determined to change that structure. If we cannot get significant participation here because the structure of the industry is such that the servicers can't do what they tell us they would like to do, then count on myself and other members of this committee, and I

believe we will have a responsive Congress, we will change that situation. If it is the case that the servicers cannot respond appropriately, then that institution of a servicer acting on behalf of ultimate investors but with the only one decision making power, then that cannot continue. I am not looking to make that kind of disruption but that is one of the things at stake here. We could not in conscience in our responsibilities allow that structure to continue.

So we are going to proceed to the hearing after my two colleagues make their statements. We want you to tell us, we really want you to tell us those of you who represent servicers you should be take full advantage of this. We understand we are not solving everything. There are no silver bullets. I ain't the Lone Ranger. But we have done the best we could based on conversations with you to set this structure up. If there are obstacles here, take advantage of it, tell us and we will do what we can to remove the obstacles. If people tell us that it is just inherent in the nature of this industry that servicers simply cannot, not being the ultimate owners do what we asked them to do, then by next year we will need to work on abolishing that form and putting something that has the ability to respond to these important social and economic problems in its place. And I now recognize the gentlewoman from California who has been a driving force in all of this and who is one of the earliest to notice the centrality of the question of the servicers.