

**Opening Remarks of the Honorable Maxine Waters, (CA-35)**

**Financial Services Committee**

***Hearing on “Systemic Risk: Examining Regulators’ Ability to Respond to Threats to the Financial System”***

**Tuesday, October 2, 2007**

**10 A.M.**

**Room 2128 Rayburn House Office Building**

Thank you, Mr. Chairman.

The subprime mortgage crisis is affecting the lives of families and influencing foreign and domestic financial markets. Foreclosures are continuing to rise, increasing 36 percent from July to August. In my home state of California, 58,000 families, or one out of every 224 households, were in some kind of default last month. And this crisis is only going to get worse. The interest rate on \$1 trillion in adjustable rate mortgages, or 12 percent of all mortgages, will reset by next year. This will have a devastating impact on the economy and on financial markets.

Regulators, banking entities, and mortgage providers have been playing a very risky game, betting that housing prices would continue to rise

and that interest rates would remain low. The proliferation of mortgage-backed securities meant that a significant part of our economy was tied into this risk as well. This risk was exacerbated by companies like Countrywide and American Home Mortgage that based their entire line of business on this game. Countrywide, for example, had issued 17 percent of all mortgages in the United States. Its loan portfolio, as well as that of other lenders, is now heavily devalued. And the resulting “credit crunch” continues to cause shockwaves throughout the country and the world.

In his testimony before this Committee on September 5<sup>th</sup>, Secretary Paulson stated that the economy was strong and that the “reappraisal” of credit markets resulting from the subprime crisis could result in a “modest penalty” to economic growth. Mr. Paulson stated that the reappraisal needs time to work itself out but that the underlying strength of the economy should allow for continued growth.

Given the increasing number of families confronting foreclosure, it is difficult for me to share the Secretary’s optimism about this situation. On the contrary, it seems that there has been something fundamentally flawed in the U.S. mortgage and banking system, including an over reliance on mortgage-backed securities and little checks on those companies like Countrywide who made these instruments their bread and butter.

The subprime crisis and credit crunch did not happen overnight. These events were laid into motion by decisions made and policies enacted years before. The reaction of our regulators to this crisis is “after the fact.” Many of them are now playing “catch up” by trying to fix something that they should have known could break eventually. Another crisis like this can simply not happen again. Our regulators must not only have the tools to prevent these crises, but also the foresight to see them coming.

I am looking forward to hearing the perspectives of the witnesses on how this crisis could have been averted and how we can provide our regulators with the foresight to anticipate problems like this before they balloon out of control.

Thank you, Mr. Chairman. I yield back the balance of my time.