

Bunning Talks About The Federal Housing Finance Regulatory Reform Act Of 2008

Senate Banking Committee
Thursday, May 15, 2008

By: Senator Jim Bunning

As Prepared For Delivery:

First, Mr. Chairman, it is vitally important for us to pass a strong GSE bill. Now is the time to make sure the GSEs are strong enough to play the role they were intended to play in the housing market.

Unfortunately, this bill does more than just create a new GSE regulator. A major part of this bill is a big bailout for irresponsible lenders and borrowers. Specifically, the HOPE program would take a heap of useless, bad loans off the books of banks and onto the backs of the American taxpayer by insuring the refinancing of those loans through FHA.

If the objective is to help homeowners who need it the most, I would argue that as written this bill does not keep with the spirit of that goal. I would like to point out some of the major flaws I have found in this bill.

First, and probably the most glaring flaw, is that the bill offers no protection against borrowers who lied to get their original mortgage. It subjects the FHA to another wave of fraud that these no-documentation loans experienced in the primary market.

This bill also allows borrowers who have vacation homes or investment properties to get a bailout on their primary residence. That is absurd. Should our nation's renters have to pay to bailout a borrower who has a beach house? Of course not.

Additionally, this bill would allow people who have committed mortgage fraud, people who have defaulted on government issued loans, people who have filed for bankruptcy and have a history of bad credit, and people who are mortgage professionals and should have known better to come to the government trough. CBO scored the losses to the federal government from the House version of this bill at \$1.7 billion. With lending practices such as these, we can be assured that those losses will be much higher.

Also, this bill does not require lenders to have any real skin in the game. When those borrowers, who have already defaulted once, default on their refinanced payments, the FHA and not the lenders will be left holding the bag.

The whole idea of bailing out people who took a gamble and lost is an irresponsible way to spend the taxpayers' money. I do not think the people back in Kentucky sent me to Washington to bailout speculators, Wall Street executives, and people who drained the equity in their homes to buy flat screen televisions and new cars.

I have introduced a number of amendments in an effort to mitigate the damage that this bill could do. However, no matter how much this bill is amended, it is simply the wrong kind of housing policy for Congress to be engaging in and is fatally flawed.

Finally, I want to raise some concerns about a few provisions affecting the Federal Home Loan Banks. Section 205 of the bill imposes affordable housing goals on the Federal Home Loan Banks. We should not jeopardize the stability of our mortgage lending system for the sake of increasing affordable housing. Adding this housing goal may put the balance sheets of the Federal Home Loan Banks at risk at a time when the stability they are providing in the mortgage markets is needed.

Also, Section 213 inserts a reporting requirement on when the Federal Home Loan Banks will complete their obligations to pay for the savings and loan bailout. I am concerned that this provision will be used to justify continuing those payment obligations for other purposes. If this bill goes to conference, this section may be used as a placeholder for legislation to continue that payment obligation without debate or discussion in this Committee. I would hope, Mr. Chairman, that you would consider eliminating this section or at least committing to not inserting a continuation of the payments in conference.