United States House of Representatives
Committee on Financial Services
Mortgage Finance Reform: An Examination of the Obama Administration's Report to Congress
March 1, 2011

Congressman Ron Paul
Statement for the Record

Mr. Chairman,

Thank you for holding this hearing to discuss the Administration's report to Congress on mortgage finance reform. The problems with Fannie Mae and Freddie Mac are nothing new, as Congress over the years has known about them and consistently failed to deal with them.

For years the federal government has made it one of its prime aims to encourage homeownership. Various federal mortgage programs through the FHA, Fannie Mae, and Freddie Mac distorted the normal workings of the housing market. The implicit government backing of Fannie Mae and Freddie Mac provided investors an incentive to provide funds to Fannie and Freddie that otherwise would have been put to use in other sectors of the economy. Combined with the Fed's loose monetary policy, the net result was a flood of money rushing to Fannie and Freddie that helped to fuel the housing bubble.

Low interest rates influenced marginal buyers, those who were undecided on purchasing a house, and encouraged them to take on a mortgage that they otherwise would not. Even when interest rates were raised, no one expected them to stay high for long, as there was always pressure from politicians and investors to keep rates low, as no one wanted the cheap credit to end.

This resulted in a housing bubble which has now burst and helped to drag the economy down with it. The solution is simple, the complete phaseout of government intervention and a return to a completely private market for housing and mortgages. There is no need for government intervention to provide a fully functioning housing market, government intervention can only harm homeowners.

Unfortunately, even abolishing Fannie and Freddie entirely would not bring about a free market in housing. The Federal Reserve still has over one trillion dollars in Fannie and Freddie debt on its balance sheet, and no limit on how much of this debt it could continue purchasing in the future. The Fed's mortgage-backed securities purchase program works in the same way as its bailout facilities, by purchasing bad debt in order to keep it from being liquidated. But until these bad debts are liquidated and malinvested resources are shifted into productive sectors, the economy will never improve.