International Monetary Policy and Trade Subcommittee Hearing: "U.S. Housing Finance System in the Global Context: Structure, Capital Sources, and Housing Dynamics"

Chairman Gary Miller's Opening Statement

October 13, 2011

Today, our Subcommittee meets to discuss the "U.S. Housing Finance System in the Global Context: Structure, Capital Sources, and Housing Dynamics." As Congress grapples with how to change the current U.S. housing finance system, it is important to understand the domestic and global economic implications of such changes. In addition, as we contemplate changes to our own system it is useful to consider differences between the U.S. mortgage market structure and housing finance systems in other countries. Our goal today is to shed light on these important considerations.

There is no question that instability in the housing market is harming our economic recovery. Housing has historically led economic recovery in this country. According to the Fed, the slowdown in aggregate demand is centered on the household sector. People aren't consuming because of the wealth lost in the housing sector. We must stabilize the housing market.

The importance of the U.S. mortgage to the global economy is substantiated by the average amount of agency Mortgage Backed Securities that is traded each day. In the second quarter of 2011, it was $302 billion. Only U.S. Treasuries had a higher trading volume, at over $600 billion. Given this significance, changes to the U.S. housing finance system have the potential to impact the nation's housing markets, financial markets, and the domestic and global economy.

Banks, pension funds, insurance companies, and foreign investors are the most significant non-U.S. government investors in Agency Mortgage Backed Securities (MBS) – meaning, Fannie Mae, Freddie Mac, Ginnie Mae securities. Foreign sources of capital include investment companies, sovereign wealth funds, and other government entities. Foreign investors hold approximately 14 percent of Agency MBS. Risk-averse investors, foreign and domestic, prefer Agency Mortgage Backed Securities (MBS) because of their safety and liquidity. The U.S. securitization process has facilitated private investment capital from investors around the world to flow to U.S. home mortgages.

Changes to the safe investment option of Agency MBS could impact investment decisions for these investors and as a result limit the flow of capital to the mortgage market. Such a result would cause a reduction in the availability of and an increase in the cost of mortgage credit. This would impact lenders, investors, consumers, and ultimately the domestic and global economy.

The ideological approach on discussions about what changes need to be made to the U.S. mortgage finance system has resulted in stalemate on reform. This is not working for Americans. It is leading to confusion and a lack of consumer confidence. People need to be confident that their home prices won't continue to fall. It doesn't help consumer confidence in the housing market when proposals are being considered in Congress to eliminate Fannie and Freddie with no viable replacement and no concern for the health of the housing sector. The American people deserve better.

We need to put ideological absolutes and politics aside and have a thoughtful, honest and constructive discussion about our U.S. housing finance system that is based in fact. We must be mindful of how critical the housing market is to the economy and not contribute to uncertainty in the housing marketplace with conversations about unrealistic policy approaches. Today's hearing is about getting the conversation about U.S. mortgage finance reform back on track.

It can be instructive to compare the structure of the U.S. market with other countries. The size of the U.S. mortgage market is far greater than any other country in the world; it exceeds the entire European mortgage market combined. In Europe, 70 percent of residential mortgages are held in raw loan form on bank balance sheets, 20 percent are funded by covered bonds, and 5 percent are funded by securitization. By comparison, 67 percent of U.S. home mortgages are either held in a GSE's portfolio or securitized and just 28 percent are held by banks. While there is not a housing system in another country that is directly comparable to the U.S., characteristics of the U.S. market are found in other housing systems.

At today's hearing we are focused on:

- The relationship between the health of the U.S. housing finance system and global financial stability.

- How the U.S. mortgage market structure compares to other countries, including with respect to the U.S. securitization system and mortgage product offerings.

- The unique features of the U.S. housing finance system and the benefits and weaknesses of these characteristics.

- Foreign involvement in the U.S. housing finance system, including the motivations of foreign investors to purchase residential mortgage-backed securities.

I look forward to hearing from our distinguished panel today. I strongly believe that housing is critical to stabilizing the economy.

The housing market requires action now. There is no question that private capital must be the dominant source of mortgage credit in the future. But we have to get to the point that we can attract private capital back into this market. A viable secondary mortgage market is key.

I introduced a bill with my colleague, Ranking Member McCarthy, to refocus the debate on real solutions now. Our bill presents a way forward for the mortgage finance system.

We provide for the comprehensive reform of the housing finance system that our country so desperately needs.

While this is not a legislative hearing on that specific legislation, I do think our witnesses will help us begin the process of refocusing the conversation to ensuring there is confidence and liquidity in the U.S. mortgage market.