Opening Statement of the Honorable Bob Ney
Chairman, Subcommittee on Housing and Community Opportunity

Hearing on

"Promoting Homeownership by Ensuring Liquidity in the Sub-prime Market"

Wednesday, June 23, 2004

Today these two subcommittees meet to continue their investigation of the sub-prime mortgage market and its importance to consumers. Last year, Chairman Bachus and I began holding roundtables to discuss abusive lending practices, subprime lending, and how we can ensure credit availability for those who need and want it.

Last fall, we held our first joint hearing examining abusive lending practices. This spring we followed that by holding a hearing looking at the subprime lending market. For the first time in the predatory lending discussion we looked at the growing class of sub-prime borrowers and their role in the mortgage marketplace.

Today, we investigate another vital piece of the subprime mortgage market, the secondary market. The United States mortgage market is the deepest and most affordable in the world. Due to the evolution of unique funding structures for mortgages, Americans pay less for mortgages than almost anyone else in the world. As a result, this country has the world's highest homeownership rate.

However, the unique funding structure that has been long established for the prime mortgage market is far less mature for the subprime mortgage market. Only recently has it become common for a majority of subprime loans to be packaged and sold to investors. I believe that this evolution has led to lower and more uniform rates for subprime loans, saving consumers money while making credit more widely available. However, states and cities have begun passing laws that dramatically affect the availability of funds for subprime lenders. In a well-intentioned attempt to end abusive lending practices, some state and local governments passed laws extending liability for fraudulent origination practices to those in the secondary market that purchase the loan in a pool, but had no hand in actually writing the loan. These strict assignee liability laws threaten the availability of credit in the subprime market. Acting as a usury cap on mortgage lending, these laws effectively prevent people from receiving mortgages.

The recent case study on the problems with assignee liability is Georgia, where the state legislator passed an incredibly onerous law with strict assignee liability. This law led many secondary market players to withdraw from the Georgia market, drying up credit for many borrowers. The Georgia legislature passed a half fix to the problem that provided some lending opportunities, but we still don't know what will be the lasting affect of these predatory lending statutes on the availability of credit.

In order to better understand the impact of laws like Georgia's, this hearing will give our subcommittees a chance to hear from a distinguished group of witnesses on the availability subprime mortgages. I think that this hearing is timely and important to this committee's duty of ensuring access to credit for Americans.

I look forward to hearing form our witnesses and I want to thank all of them for taking time from their busy schedules to be with us today. I now want to recognize my Ranking Member Mrs. Waters.