

stay warm in the upcoming winter months. I also support the \$250 million for weatherization programs that will help families lower their energy use and combat the hardships associated with increasing energy costs.

This bill contains \$7.51 billion to carry out the \$25 billion Advanced Technology Vehicles Manufacturing Loan Program. These funds are critical to our domestic automobile industry because they will help manufactures to re-equip and expand U.S. facilities to produce high fuel-efficiency vehicles and parts. This program is important in Brook Park, Ohio at the Ford manufacturing plant, where the equipment currently used to manufacture the six-cylinder engines will need to be replaced to accommodate demand for fuel-efficient cars. This can help to ensure that jobs in Cleveland are secure as well as pave the way for additional jobs by transitioning to the vehicles of tomorrow such as hybrid electric cars and fuel cells.

While help for the auto industry is clearly long overdue we are allotting this money without a broader and more comprehensive strategy that addresses the problem, not the symptoms. Building the plants of tomorrow is a good step but without rethinking and reforming our flawed NAFTA-style trade policies, the U.S. automobile industry will remain under threat. Triggering surges in automotive imports into the United States while limiting the demand of U.S. made products at home and access to markets abroad exacerbates U.S. competitiveness. These faulty trade policies are responsible for enormous auto trade deficits and the loss of tens of thousands of well paid American jobs.

This body must stop passing legislation that does not reflect the real needs and priorities of the American people. We cannot continue to spend approximately half of our total federal budget dollars on the development of weapons systems and excessive military capabilities while the American people go without jobs, health care and good schools. We owe the American people better.

BLAME FANNIE MAE AND  
CONGRESS FOR THE CREDIT MESS

HON. VIRGINIA FOXX

OF NORTH CAROLINA

IN THE HOUSE OF REPRESENTATIVES

*Sunday, September 28, 2008*

Ms. FOXX. Madam Speaker, I submit the following article for the RECORD.

[From the Wall Street Journal, 23 Sept. 2008]

BLAME FANNIE MAE AND CONGRESS FOR THE  
CREDIT MESS

(By Charles W. Calomiris and Peter J.  
Wallison)

Many monumental errors and misjudgments contributed to the acute financial turmoil in which we now find ourselves. Nevertheless, the vast accumulation of toxic mortgage debt that poisoned the global financial system was driven by the aggressive buying of subprime and Alt-A mortgages, and mortgage-backed securities, by Fannie Mae and Freddie Mac. The poor choices of these two government-sponsored enterprises (GSEs)—and their sponsors in Washington—are largely to blame for our current mess.

How did we get here? let's review: in order to curry congressional support after their ac-

counting scandals in 2003 and 2004, Fannie Mae and Freddie Mac committed to increased financing of "affordable housing." They became the largest buyers of subprime and Alt-A mortgages between 2004 and 2007, with total GSE exposure eventually exceeding \$1 trillion. In doing so, they stimulated the growth of the subpar mortgage market and substantially magnified the costs of its collapse.

It is important to understand that, as GSEs, Fannie and Freddie were viewed in the capital markets as government-backed buyers (a belief that has now been reduced to fact). Thus they were able to borrow as much as they wanted for the purpose of buying mortgages and mortgage-backed securities. Their buying patterns and interests were followed closely in the markets. If Fannie and Freddie wanted subprime or Alt-A loans, the mortgage markets would produce them. By late 2004, Fannie and Freddie very much wanted subprime and Alt-A loans. Their accounting had just been revealed as fraudulent, and they were under pressure from Congress to demonstrate that they deserved their considerable privileges. Among other problems, economists at the Federal Reserve and Congressional Budget Office had begun to study them in detail, and found that—despite their subsidized borrowing rates—they did not significantly reduce mortgage interest rates. In the wake of Freddie's 2003 accounting scandal, Fed Chairman Alan Greenspan became a powerful opponent, and began to call for stricter regulation of the GSEs and limitations on the growth of their highly profitable, but risky, retained portfolios.

If they were not making mortgages cheaper and were creating risks for the taxpayers and the economy, what value were they providing? The answer was their affordable-housing mission. So it was that, beginning in 2004, their portfolios of subprime and Alt-A loans and securities began to grow. Subprime and Alt-A originations in the U.S. rose from less than 8% of all mortgages in 2003 to over 20% in 2006. During this period the quality of subprime loans also declined, going from fixed rate, long-term amortizing loans to loans with low down payments and low (but adjustable) initial rates, indicating that originators were scraping the bottom of the barrel to find product for buyers like the GSEs.

The strategy of presenting themselves to Congress as the champions of affordable housing appears to have worked. Fannie and Freddie retained the support of many in Congress, particularly Democrats, and they were allowed to continue unrestrained. Rep. Barney Frank (D., Mass.), for example, now the chair of the House Financial Services Committee, openly described the "arrangement" with the GSEs at a committee hearing on GSE reform in 2003: "Fannie Mae and Freddie Mac have played a very useful role in helping to make housing more affordable . . . a mission that this Congress has given them in return for some of the arrangements which are of some benefit to them to focus on affordable housing." The hint to Fannie and Freddie was obvious: Concentrate on affordable housing and, despite your problems, your congressional support is secure.

In light of the collapse of Fannie and Freddie, both John McCain and Barack Obama now criticize the risk-tolerant regulatory regime that produced the current crisis. But Sen. McCain's criticisms are at least credible, since he has been pointing to systemic risks in the mortgage market and trying to do something about them for years. In contrast, Sen. Obama's conversion as a financial reformer marks a reversal from his actions in previous years, when he did nothing to disturb the status quo. The first head of Mr. Obama's vice-presidential search com-

mittee, Jim Johnson, a former chairman of Fannie Mae, was the one who announced Fannie's original affordable-housing program in 1991—just as Congress was taking up the first GSE regulatory legislation.

In 2005, the Senate Banking Committee, then under Republican control, adopted a strong reform bill, introduced by Republican Sens. Elizabeth Dole, John Sununu and Chuck Hagel, and supported by then chairman Richard Shelby. The bill prohibited the GSEs from holding portfolios, and gave their regulator prudential authority (such as setting capital requirements) roughly equivalent to a bank regulator. In light of the current financial crisis, this bill was probably the most important piece of financial regulation before Congress in 2005 and 2006. All the Republicans on the Committee supported the bill, and all the Democrats voted against it. Mr. McCain endorsed the legislation in a speech on the Senate floor. Mr. Obama, like all other Democrats, remained silent.

Now the Democrats are blaming the financial crisis on "deregulation." This is a canard. There has indeed been deregulation in our economy—in long-distance telephone rates, airline fares, securities brokerage and trucking, to name just a few—and this has produced much innovation and lower consumer prices. But the primary "deregulation" in the financial world in the last 30 years permitted banks to diversify their risks geographically and across different products, which is one of the things that has kept banks relatively stable in this storm.

As a result, U.S. commercial banks have been able to attract more than \$100 billion of new capital in the past year to replace most or their subprime-related write-downs. Deregulation of branching restrictions and limitations on bank product offerings also made possible bank acquisition of Bear Stearns and Merrill Lynch, saving billions in likely resolution costs for taxpayers.

If the Democrats had let the 2005 legislation come to a vote, the huge growth in the subprime and Alt-A loan portfolios or Fannie and Freddie could not have occurred, and the scale of the financial meltdown would have been substantially less. The same politicians who today decry the lack of intervention to stop excess risk taking in 2005-2006 were the ones who blocked the only legislative effort that could have stopped it.

A TRIBUTE TO SAINT JOHN'S  
FOUNDATION BOARD TRUSTEE  
JERRY B. EPSTEIN AND HIS BE-  
LOVED WIFE, PAT, FOR THEIR  
MANY CONTRIBUTIONS TO THE  
COMMUNITY

HON. LUCILLE ROYBAL-ALLARD

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

*Sunday, September 28, 2008*

Ms. ROYBAL-ALLARD. Madam Speaker, I rise today to pay tribute to my dear friends, Jerry B. Epstein and his remarkable wife, Pat, who are being honored on October 11 with the Spirit of Saint John's Award at the 2008 Caritas Gala at the Beverly Wilshire in Beverly Hills, California.

To fully capture the breadth of this extraordinary couple's service to Saint John's and the community at large, I would like to share with my colleagues a tribute written by members of the Saint John's Health Center Foundation family. My husband Ed and I have had the privilege of knowing this remarkable couple for many years, I feel the tribute captures Jerry and Pat's tireless work to make Saint John's the quality health center it is today. It also