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Statement of Darrell Issa, Ranking Member

Committee on Oversight and Government Reform

“The Silent Depression: How Are Minorities Faring In The Economic Downturn?”

September 23, 2009

Thank you, Mr. Chairman, for holding this important hearing. As the Government Oversight and Reform Committee, we have a unique ability – and responsibility – to expose the central role played by well-intentioned but reckless government policies in causing this financial crisis which has had a particularly severe impact on minorities and low-income communities across this country.

Mr. Chairman, statistics amply demonstrate that while the national unemployment rate of 9.7% is unacceptably high, the unemployment rate among some key minority populations is even worse. Unemployment for African Americans is 15% and for Hispanics it is 13%. The same disproportionate impact holds true for home foreclosures – which plagues our nation’s urban centers as well as suburbia.

Not only is it appropriate, but it is critical for Congress to dig deeper and understand why minorities in America are bearing a disproportionate burden of these hard times. Accordingly, I look forward to hearing the insights of the witnesses before us so that we can continue to dig into the underlying cause of the racial disparity in the rates of foreclosures and unemployment.

But first, I would like to ask unanimous consent for a report authored by my staff, “The Role of Government Affordable Housing Policy in Creating the Global Financial Crisis of 2008” be entered into the record of today’s hearing.

A principal conclusion of this staff report is that a series of well-intentioned but reckless government policies helped create the housing bubble which led to this financial crisis – a crisis which has disproportionately hurt some of our most vulnerable citizens. The federal government’s affordable housing policies, intended to increase home ownership among underserved populations, actually encouraged risky and unsustainable lending by lowering down payments and underwriting standards on mortgages.

Both Republican and Democratic politicians encouraged Fannie Mae and Freddie Mac to buy mortgages with extremely low down payments, creating a market for risky subprime lending, much of it done with the good intention of increasing minority and low-income homeownership. Tragically, this had the unintended consequence of putting many first-time, minority and low-income homebuyers in over their heads, with insufficient equity to weather the coming downturn in prices.

As Members of Congress, we have a responsibility to face the unintended consequences of good intentions head-on because these policies have hurt real people in this country, of every race, class and creed. In the case of affordable housing, the unintended consequences are thousands of Americans with impaired credit, a destabilized credit market, and historically high levels of unemployment. In August 2009, one in every 357 U.S. housing units received a foreclosure notice and the national foreclosure rate has increased nearly 18 percent from August 2008 to August 2009.

The foreclosure crisis is no longer one limited to subprime loans. High unemployment is exacerbating efforts to resuscitate the housing market. When the housing crisis began in 2007, the unemployment rate was about 4.6%, today it is 9.7%. Growing unemployment is overtaking subprime mortgages as the main driver of foreclosures, threatening to send even higher the number of borrowers who will lose their homes and making the foreclosure crisis far more complicated to unwind.

We cannot afford to repeat the mistakes of the past. Rather than looking to the government to be the solution, we must search for ways to empower Americans to do what they do best – to innovate, create new markets, and grow the economy. This is the fundamental flaw of the Administration's stimulus. It looked to the government to spend taxpayer dollars in an attempt to stimulate the economy. Six months ago the President promised that this huge government expenditure would "save or create up to 4 million jobs." But on September 11th, National Economic Council Director Lawrence Summers admitted the unemployment rate of 9.7 percent is "unacceptably high" and "will on all forecasts remain unacceptably high for a number of years."

The fact remains that the engines of economic growth are small businesses and a well-regulated free market which creates opportunities for everyone, minority Americans included. Small businesses were responsible for 64% of all job creation over the past 15 years. In fact, firms with fewer than 500 employees accounted for 64% of the net new jobs created between 1993 and 2008. We should be especially vigilant to create an economic climate that promotes and encourages entrepreneurial activity and risk taking. I am pleased that Harry Alford, the President of the Black Chamber of Commerce is here to share his insight into the challenges minorities face in this recession. I look forward to his testimony, as well as the testimony of the other witnesses.