



For Immediate Release
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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Housing**

A Chinese proverb says that even good swimmers drown, and good riders get thrown.

Today, much of the housing market is under water. Last year, 1.3 million homes went through foreclosure. Today, more than one in ten homeowners owe more on their homes than their homes are worth.

A wave of declining home values washed over the market. The nationwide average home price is down almost nine percent from last year. In many neighborhoods and regions, that decline has been 20 percent, or even 30 percent.

For most Americans, their home is their biggest asset. Homes represent about a third of household net worth.

And Americans borrow against their homes. We take out home equity lines of credit to buy everything from cars to college. When the value of that home deteriorates, so does the ability to make those purchases.

At first, the choppy waters swamped just a part of the housing market. It started with exotic mortgages. And now it's affecting homeowners throughout the Country.

It's affecting families who have spent a lifetime building a clean credit record. These families are also seeing the value of their homes decline. Even good swimmers are finding their heads under water.

Today, we will discuss the effect that the housing market is having on the economy. And we will discuss options that this Committee can pursue to prevent the credit crunch from doing further damage.

And there are signs that what started as subprime losses are spilling over into other areas of the economy. Car debt, credit card debt, and student loan debt are all in jeopardy of suffering from the same credit crunch.

Each of these debts is securitized and sold on the secondary market. Just as investors are refusing to purchase subprime securities, they are also leery of auto, student loan, and credit-card debt.

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And today, we will also examine the spillover of the credit crunch into the commercial real estate market. The residential and commercial real estate markets are tied together. Often, residential and commercial mortgages are pooled together in securities. Often they are sold as a package on the market.

The same investors who have suffered losses on residential-backed securities have also often been the traditional buyers of commercial-backed securities. With risks so great, investor capital for the real estate market is drying up. And those investors who are willing to purchase commercial-backed securities are demanding higher interest rates in return.

When the cost of capital increases, developers spend more and build less. Borrowers have to put up more equity. And borrowers get smaller loan proceeds. Companies rethink transactions. Fewer properties change hands.

In the final three months of last year, nationwide office property sales fell by 42 percent. That's the biggest drop since 9/11.

In the first three quarters of last year, \$105 billion in property changed hands. In the fourth quarter of last year, just \$5 billion did.

Commercial real estate prices are falling at an annual rate of 11 percent. That rivals declines from the savings and loan crisis of the early 1990s. And even though the Federal Reserve has cut interest rates to the lowest point since 2003, the interest rates for borrowing for apartment buildings, offices, retail properties and hotels have climbed 125 basis points in January.

Will the waves that swamped the residential market engulf the commercial market, as well?

Today, we will hear from some good witnesses. Each has decades of experience. They are strong swimmers among economists and business executives.

I hope that they can help us to learn how to cut through the waves. I hope that they can help us to guide the economy through rough waters. And I hope that they can suggest policies that will help more Americans to keep their heads above water.

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