The following column by Congressman Bachus was printed in Roll Call on February 11, 2008.

Recent problems in the subprime lending industry have affected broader financial markets in the U.S. and reverberated throughout the global economy. Without minimizing the problems – or the strains that they have placed on many American homeowners – it is important to remember that our economy remains fundamentally strong.

The fallout from imprudent mortgage lending practices and reckless real estate speculation has undeniably been painful, but our free market system is working to address the hardships arising from these excesses.

Our first priority should be taking those steps necessary to ensure that as many homeowners as possible are able to remain in their homes. This also makes sound economic sense, because no one wins in a foreclosure.

Not only does a homeowner lose their home and any equity they may have been able to accumulate in that investment, but residents of the surrounding neighborhood typically see the values of their properties plummet, while municipalities face declining tax revenues and a glut of abandoned properties.

Of the constructive steps being taken to assist homeowners in trouble, perhaps the most promising is the HOPE NOW initiative unveiled late last year by the Bush administration and private industry. HOP E NOW enlists the nation's major mortgage lenders and servicers – as well as hands-on housing counselors across the country – in a systematic effort to expedite the refinancing of subprime adjustable rate mortgages into more sustainable fixed rate loans.

While this initiative is still in its infancy, early signs have been encouraging, with more than 370,000 homeowners in danger of default on their mortgages having been assisted during the last six months.

It is also important that we take action to ensure that the underlying deficiencies in our housing system are corrected to avoid a recurrence of these problems in the future. {For several years, my priorities for legislation in this area have always been to protect consumers through national licensing and registration of mortgage originators and plain disclosure of mortgage terms. These provisions and others I advocated were included in H.R. 3915, legislation that passed the House with my support. The bill has a worthy goal with several beneficial reforms, but also some potentially detrimental provisions that still need to be addressed.}

Congress also needs to complete its work promptly on legislation passed by the House last year modernizing the Federal Housing Administration (FHA) and bringing comprehensive reform to the regulation of the housing GSEs, although before doing so, it should strike unnecessary provisions in the House-passed bills that would divert funds to unrelated, big government housing trust funds.

Whatever we do in responding to current market disruptions, however, we must avoid the type of legislative overreaction that will discourage the financial innovation that is central to a dynamic economy. Responsible subprime lending has put millions of Americans into their own homes, and loan securitization has increased the amount of capital banks have available for loans to individuals and businesses looking to create jobs.

While dealing with current problems, there is a need to think about the systemic issues that have been exposed by the recent stresses in the housing sector and in credit markets generally. No one wants to go through this again.

Much of the turmoil in financial markets in recent months can be traced back to the credit rating agencies, which have historically been relied upon to provide thorough and objective assessments of the creditworthiness of investment products. Packages of subprime loans now being written off as total losses were given the same ultra-safe triple-A ratings as U.S. Treasury bonds. Without the stamp of approval from the credit rating agencies, loans that featured no documentation of income or other indicia of sound underwriting standards would never have been funded, and much of the carnage we have seen in housing markets across the country could have been avoided.

Hindsight is of course always 20-20, but it is plain that the rating agencies missed the mark – and missed it badly – in rating residential mortgage-backed securities that were sold to investors around the globe and have contributed heavily to the substantial losses reported in recent months by financial institutions here and abroad. C ompounding concerns about the rating agencies' objectivity and independence is the fact that their fees are paid by the companies issuing the mortgage-backed securities they evaluate.

The Credit Rating Agency Reform Act of 2006 marked a start towards improving accountability and competition in an industry dominated by three major firms.

The Securities and Exchange Commission (SEC) was given authority in that Act to prohibit certain conflicts of interest and require additional disclosures by the rating agencies.

In addition, the President’s Working Group on Financial Markets (PWG) under the leadership of Treasury Secretary Paulson is engaged in a comprehensive review of the role of the credit rating agencies and the structured finance market as a whole.

Depending on the outcome of these reviews, Congress will need to determine whether the 2006 legislation was sufficient.

More credible ratings of asset-backed securities accompanied by more rigorous investor due diligence must be the new paradigm if the credit markets that seized up last summer are to have any hope of regaining their equilibrium.

There is another

part of our financial system where we can prevent future problems and spare investors and taxpayers a second shock: the $2.5 trillion municipal bond market.

Municipal bonds are the primary mechanism for funding local construction and infrastructure projects like sewers, roads, hospitals, and schools.

The majority of municipal issuers go about their business responsibly.

But as evidenced by well-publicized cases in several localities across the nation, poor financial decisions by local governments and their financial advisers can cost taxpayers plenty in the form of financial losses and higher taxes and public utility rates.

Under its current statutory authority, the SEC is often able to act only after municipalities have suffered losses that are ultimately absorbed by ratepayers and investors.

SEC Chairman Christopher Cox has presented a vision for increasing integrity, transparency, and accountability in the municipal securities market. The Chairman's initiative is based on the principle that participants in this market deserve meaningful disclosures that are current and understandable, and that a full accounting to the public of all material information at the time of a new municipal bond issuance is essential to taxpayers and investors.

The Internet allows that kind of information to be disseminated promptly and inexpensively.

The House Financial Services Committee should examine Chairman Cox’s proposal in greater detail, keeping in mind that any

Federal reforms of the municipal securities market must be implemented with appropriate deference to the sovereignty interests of States and municipalities.

As we have seen during the spread of the subprime contagion, what often causes the most concern during challenging market conditions is a lack of information.

Financial services companies and investors have spent the last several months trying to get the best information on the value of their holdings and the magnitude of their risk exposures.

In many cases, they have significantly marked down the value of the financial instruments on their books or declared a total loss.

This is a painful but necessary cleansing process, and far preferable to the kind of delay and denial that marked the Japanese response to that country’s banking crisis during the 1990s.

Whether the issue is mortgages or municipal securities, disclosure and transparency provide the best protection going forward by putting the right information in the hands of investors who can then make informed decisions and choices.