

'Foreclosing on the American Dream'
Hector De La Torre, California State Assembly Member
February 19, 2009

California State Assembly Member Hector De La Torre provided remarks on the foreclosure crisis facing the Golden State. He began by referencing to a time during the 1970's when the average median home value in California tripled from the national average price which should have served as an alarm to the finance and government sectors.

Assemblymember De La Torre stressed the fundamental reason for the down fall of the housing market was based upon the financial transaction between the principal lender and borrower. Banking institutions, such as Fannie Mae and Freddie Mac, bundled mortgages and sold them off as derivatives which resulted in principal lenders losing connection to the risk of the loan. Additionally, a bipartisanship agenda pushed forward by the Clinton and Bush administrations, called for Fannie Mae and Freddie Mac to purchase large amounts of these loans in order for all Americans to purchase a home. Assembly Member De La Torre stated policy makers allowed banking institutions to undertake an irrational risk and accumulate "bad debt" which triggered the meltdown of the housing market, banking sector, and the economy.

The Assemblymember noted the problem for California is under the Obama administration mortgage plan and new proposal is that it does not apply to Jumbo loans. California faces a challenge because banks are not regulated by the state but subjected to federal regulation. Policy makers attempted to pass legislation to curb this challenge but it only applies to less than 5% of banks in California. Nationally, the federal government has predicted the economic growth will be entirely negative and the unemployment rate to rise 1%. With this grim outlook, he believes it is important for everyone to adapt as quickly as possible and to help those individuals who are in most need because California's ability to pass broad legislation is limited at the state level. In the meantime, he will support President Obama's efforts and will help push President Obama to recognize the uniqueness of California's pricing situation.