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An Open Letter to the United States Congress:

We, the undersigned economists, write to strongly advise against excessive new regulations or federal interventions as a response to current trends in the housing market. Market corrections have already begun, with financial institutions writing down bad debts and adopting new lending standards to avoid future foreclosures. Legislation to create new underwriting standards will reduce competition and restrict consumer access to credit. Additionally, efforts to bail out or shore up lending institutions create a moral hazard that would slow the adjustments required in the marketplace.

Government solutions, as opposed to the current market correction, would create changes whose effects will linger long into the future. Legislative proposals have included expanding the role of government sponsored enterprises, mandating new underwriting standards, allowing bankruptcy courts to rewrite the terms and conditions of mortgage contracts, and expanding liability to those who securitize loans. These proposals would fundamentally alter the workings of the mortgage market, leaving consumers with fewer choices when seeking to buy a home and potentially increasing taxpayer exposure for bad loans.

It is important to realize that the market for subprime mortgages has provided consumers with greater access to credit and new opportunities for home ownership. Current laws provide the necessary authority to address abuses that have occurred and, in light of recent market activity, lenders have already responded with tighter standards to avoid potential foreclosures. In fact, more than 80 percent of all sub-prime mortgages continue to be paid on time.

Opposing excessive new regulations is important as the subprime mortgage market adjusts to existing market conditions. Access to such mortgages has provided more benefits than harm to consumers, and through market discipline, lending institutions are taking the necessary steps to address the problems that have emerged. Forcing taxpayers to bear the costs of this adjustment is unwarranted and reduces the incentives for financial institutions to correct past behavior. Additionally, new regulations or underwriting standards will restrict consumer access credit and hinder the market's correction.

Sincerely,

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