



AMERICANS FOR TAX REFORM

GROVER G. NORQUIST

PRESIDENT

Dear Member of Congress,

The news has been filled of late with stories of heartbreak in the sub-prime mortgage market and calls have grown louder for the government to do something to alleviate the suffering of those under threat of losing their homes. Before any action is taken by government, the reasons for this situation must be realized in order to assure these circumstances don't arise again.

First, while each and every time a family loses their home is a tragedy, an understanding of how this happened must be reached. Sub-prime mortgage lenders and their customers entered into an agreement both understood to contain certain risks. The brokers knew their risk was the possibility that borrowers may not have the means to make their payments once those payments increased.

Originally this was not a concern, as the forfeiture of the property to the lender would simply mean the lender could resell the property and recoup their money along with a profit on the increased value of the property. As the housing boom slowed, this became less and less so. Lenders found themselves with properties they could not sell for their original value, let alone for a profit. Such is the risk inherent in the market and, therefore, is something the government should not "bail out."

Second, the borrowers chose these "interest only" loans and purchased houses they otherwise could not afford in the traditional mortgage market. Again, people are free to speculate as to their future earnings and ability to repay mortgages as well as speculate on the future of housing prices, that is a function of the free-market. But government should not step in simply because people gambled and lost.

That is not to say there aren't things government can and should do. Some lenders used deceptive practices to lure borrowers into situations where foreclosure was the only end result possible for them. Those lenders should be exposed and face the ramifications of their actions.

Most importantly, government should facilitate the lenders and borrowers coming together to negotiate terms beneficial to both sides, so lenders are not out money and borrowers do not lose their homes. This is doable and would not only benefit parties directly involved, it would benefit the economy as a whole by shielding taxpayers from paying to cost of the mistakes of others.

A government bail-out would be detrimental to tax-payers and the economy, and not teach anyone anything.

I urge you to resist the political appeal of a bail-out and do what is in the best interest of all involved; let this be worked out in the private sector.

Sincerely,

Grover Norquist
President,
Americans for Tax Reform