

A Timeline of Republicans' Failure to Stop Reckless Mortgage Lending

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Republican leaders in Congress are understandably eager to deflect attention away from their failure to rein in the reckless mortgage lending practices that contributed to the financial crisis. Republicans controlled the House, Senate*, and White House from January 2001 to January 2007, when subprime lending exploded and the housing bubble became fully inflated. That's why, as a partisan diversionary tactic, Republicans have chosen to distort Chairman Frank's record. As the timeline below shows, these Republican attacks are entirely baseless.

The point here is not to litigate the past. The point is that, if Republicans have their way again, they will champion the same deregulatory and laissez faire economic policies that enabled Wall Street to take unacceptable risks and plunge the nation into economic crisis. In contrast, Democrats have passed legislation allowing the Treasury Department to place Fannie Mae and Freddie Mac into conservatorship and end the practices that put taxpayers at risk. Democrats have also passed far-reaching Wall Street reform that includes protections against predatory lending; and they are working to ensure that Fannie Mae and Freddie Mac recover as much money as possible from unscrupulous lenders. At Wednesday's hearing, Democrats will examine the GSEs' progress in reforming their operations and limiting losses.

1994-2000: Democratic legislation to give Fed authority to rein in predatory lending precedes Republican takeover of Congress and years of inaction

1994: In 1994, when Democrats controlled the House, Senate, and White House, they enacted the Homeownership and Equity Protection Act (HOEPA). The law included a host of consumer protections for high-cost mortgages and required that the Federal Reserve issue rules to stop abusive lending practices. Republicans took control of the House and Senate in the elections that November. During the 12 years of Republican control of Congress that followed, with some minor exceptions (noted below), the Fed failed to use this authority to prevent the abusive practices that contributed to the subprime mortgage crisis. Not until 2008 did Federal Reserve Chairman Ben Bernanke finally issue rules under the authority that the Fed had held since 1994.

The cause of the Fed's failure to act was not lack of authority. As then-Fed Chairman Alan Greenspan himself wrote in a May 30, 2002 letter to Rep. John LaFalce (D-NY), then-Ranking Member on the Financial Services Committee, "The Board has recently issued rules under HOEPA to address certain abusive or unfair practices in mortgage lending, including the sale and financing of single-premium credit insurance and loan flipping. *Importantly, these rules apply to all types of creditors engaged in mortgage lending, not just to banks as would have been the case under the Board's FTC Act authority.*"

A Wall Street Journal article succinctly captures Greenspan's views:

Edward Gramlich, who was Fed governor from 1997 to 2005, said he proposed to Mr. Greenspan in or around 2000, when predatory lending was a growing concern, that the Fed use its discretionary authority to send examiners into the offices of consumer-finance lenders that were units of Fed-regulated bank holding companies. "I would have liked the Fed to be a leader" in cracking down on predatory lending, Mr. Gramlich, now a scholar at the Urban Institute, said in an interview this past week. Knowing it would be controversial with Mr. Greenspan, whose deregulatory philosophy is well known, Mr. Gramlich broached it to him personally rather than take it to the full board.

* Except for a brief period from mid 2001 to January 2003, when Democrats held a razor-thin, one-seat majority in the Senate.

"He was opposed to it, so I didn't really pursue it," says Mr. Gramlich, a Democrat who was one of seven Fed governors.

Greenspan's Response

Mr. Greenspan, in an interview, says he doesn't recall a specific discussion of the idea but confirmed his opposition to it.

There is "a very large number of small institutions, some on the margin of scrupulousness and very hard to detect when they are doing something wrong," says Mr. Greenspan, who retired in February last year. "For us to go in and audit how they act on their mortgage applications would have been a huge effort, and it's not clear to me we would have found anything that would have been worthwhile without undermining the desired availability of subprime credits."

--Excerpt from "Did Greenspan Add to Subprime Woes?," Greg Ip, *Wall Street Journal*, June 9, 2007ⁱ

2000: In April 2000, the final year of the Clinton administration, then-HUD Secretary Cuomo and then-Treasury Secretary Summers convened a joint HUD-Treasury Department task force to examine predatory lending issues. The Task Force issued recommendations for reining in predatory lending. The proposals related to four specific issue areas: Consumer Literacy and Disclosure; Harmful Sales Practices; Abusive Terms and Conditions; and Market Structure. Although Democrats in the House and Senate introduced legislation to implement the task force's recommendations, the Republican-controlled Congress refused to act on them.

2000s: Bush administration pushes homeownership, while Congressman Frank emphasizes rental housing

2002: President George W. Bush announced a new initiative to create 5.5 million new homeowners by 2010. "The goal is, everybody who wants to own a home has got a shot at doing so," the President said at a June press conference in Washington. Among other things, the President cited "high down payments" as a barrier to homeownership that needed to be addressed. The President also said that both Fannie Mae and Freddie Mac would help in reaching the new goals.ⁱⁱ

2004: The Bush administration continued its efforts to increase the U.S. homeownership rate. For example, On January 19, 2004, the FHA announced a new proposal to offer zero-down-payment mortgages.ⁱⁱⁱ Congressman Frank expressed concerns about one initial proposal. As National Journal reported in a March 6, 2004, article:

Last year, when the FHA's plan to insure subprime loans was included in a Senate-passed appropriations bill, Rep. Barney Frank, D-Mass., the ranking member of the House Financial Services Committee and a staunch supporter of low-income housing, wrote a highly critical letter urging that the measure not be included in the House-Senate conference report.

Not only had the House committee not examined or approved the proposal, he said then, but the measure also offered no protection against lenders' inappropriately steering people toward these high-cost loans. Nor did it offer safeguards to ensure that participants "are *fully suitable for homeownership*."^{iv}

On November 1, 2004, the U.S. Department of Housing and Urban Development finalized a rule requiring Fannie Mae and Freddie Mac “to increase their purchase of mortgages for low- and moderate-income families and underserved communities.”^v Earlier that year, Congressman Frank warned about the new rules, saying the White House “could do some harm if you don’t refine the goals.”^{vi} To help meet these new requirements, the GSEs later began purchasing mortgage-backed securities made up of subprime loans.

President Bush on Homeownership

Another priority for a new term is to build an ownership society, because ownership brings security and dignity and independence. Thanks to our policies, home ownership in America is at an all-time high. Tonight we set a new goal: 7 million more affordable homes in the next 10 years, so more American families will be able to open the door and say, ‘Welcome to my home.’

--President George W. Bush, Thursday, September 2, 2004^{vii}

[I]f you own something, you have a vital stake in the future of our country. The more ownership there is in America, the more vitality there is in America, and the more people have a vital stake in the future of this country.

--President George W. Bush, June 17, 2004

Expanding Homeownership. The President believes that homeownership is the cornerstone of America's vibrant communities and benefits individual families by building stability and long-term financial security. In June 2002, President Bush issued America's Homeownership Challenge to the real estate and mortgage finance industries to encourage them to join the effort to close the gap that exists between the homeownership rates of minorities and non-minorities. The President also announced the goal of increasing the number of minority homeowners by at least 5.5 million families before the end of the decade. Under his leadership, the overall U.S. homeownership rate in the second quarter of 2004 was at an all-time high of 69.2 percent. Minority homeownership set a new record of 51 percent in the second quarter, up 0.2 percentage point from the first quarter and up 2.1 percentage points from a year ago.

--“America's Ownership Society,” White House fact sheet, August 9, 2004^{viii}

We can put light where there's darkness, and hope where there's despondency in this country. And part of it is working together as a nation to encourage folks to own their own home.

--President George W. Bush, October 15, 2002^{ix}

Congressman Frank on Affordable Rental Housing

In fact, Rep. Barney Frank (D., Mass.) is the only politician I know who has argued that we needed tighter rules that intentionally produce fewer homeowners and more renters. Politicians usually believe that homeownership rates should – must – go ever higher.

--Lawrence Lindsey, former George W. Bush chief economics adviser, April 2, 2008^x

If you were to ask Democrats Barney Frank and Chris Dodd -- the principal architects of the massive housing bill signed Wednesday by President Bush -- which of its many features pleases them most, the answer would surprise you . . . [I]t is the section creating the National Housing Trust Fund, a creative way of meeting the chronic shortage of affordable low-income rental apartments. Frank, the Massachusetts representative, said in a separate interview, “That’s what I’m most proud of.”

--Excerpt from David Broder column, August 3, 2008^{xi}

It is hard for me to understand how anyone reading this report could fail to join us in trying to increase the supply of affordable rental housing in our country.

--Rep. Frank statement on National Low Income Housing Coalition report, April 7, 2008

The shortage of affordable rental housing for people with limited income continues to be one of our most serious social crises and I am pleased that Senator Kerry is taking the lead in this regard. I look forward to working with him and other members of the Senate in bringing this to a successful conclusion next year.

--Rep. Frank statement, December 19, 2007

Despite the crisis, Massachusetts Democratic Rep. Barney Frank, who heads the House Financial Services Committee that likely will set new lending rules, is one of the few politicians willing to admit that homeownership is not for everyone. "Not everyone is ready ever. A lot are not economically ready now," Frank said in an interview with Reuters. "This administration is acting as if the only important program to help people with housing issues is to get them into homeownership. I think that overemphasis has contributed to the subprime crisis. People were put into homeownership who just economically should not have been there."

--Excerpt from Reuters article, April 3, 2007^{xii}

Frank said he will push to restore federal affordable rental housing programs that he said have been "systematically dismantled" under the Bush administration. U.S. policies in recent years have denigrated rental housing and perhaps overpromoted home ownership, he said. "We push people into home ownership who shouldn't be there," he said.

--Excerpt from Reuters article, March 2007

Now even some in Washington are questioning the soundness of pushing homeownership so broadly. United States policies in recent years promoted the idea of homeownership too hard and at the expense of rental housing, said Representative Barney Frank, Democrat of Massachusetts. "I wish people could own more homes," he said in an interview yesterday. "But I also wish I could eat and not gain weight."

--Excerpt from New York Times article, March 17, 2007^{xiii}

About 100 House members have signed a petition to force a floor vote on a stalled bipartisan bill that would create a national trust fund to provide rental housing for low-income families, bill supporters said today . . . "The Republican leadership is keeping this off the floor because they know it is well-designed and very much needed, and it would pass," said Financial Services ranking member Barney Frank, D-Mass. "It is not a case of us being able to compromise with them, because they don't want the subject to come up."

--Excerpt from CongressDaily article, September 2004^{xiv}

Some public housing advocates say the administration is pushing home buying at the expense of rental help and the popular HOPE VI public housing redevelopment program. Others say Bush's homeownership strategy is a ploy to control the deficit by offering relatively cheap and popular home-buying initiatives while cutting much more money from public and subsidized housing. "Housing has been the piggy bank," said Rep. Barney Frank of Massachusetts, the ranking Democrat on the House Financial Services Committee.

--Excerpt from news article appearing in Sarasota Herald-Tribune, June 20, 2004^{xv}

NAA/NMHC's effort to advocate for a more balanced housing policy continues to advance . . . Thanks to an amendment by Rep. Barney Frank (D-Mass.), it also included language reflecting serious concerns

over the proposal to restructure the Section 8 housing voucher program, which, if passed, would ultimately reduce federal support for rental housing.

--Excerpt from *Units* article, April 1, 2004 "Policy makers speak up for rental housing"^{xvi}

But almost by definition, the large majority of poor people are going to need rental housing. And we will never alleviate the terrible housing crisis that affects so many people in this country if we do not do a much better job of building decent, affordable rental housing.

--Rep. Frank, *Housing and Community Opportunity Subcommittee hearing*, Feb. 13, 2002

2003-2007: As reckless mortgage lending takes off, Republicans in Congress fail to respond

2004: Reps. Brad Miller (D-NC), Mel Watt (D-NC), and Frank worked to restrict predatory lending, but Republicans blocked their efforts. States across the country sought to beef up their own protections against predatory lending, but under the Bush administration regulators preempted state consumer protection regulation of federally-chartered banks. This prevented any state laws or rules regarding predatory lending at federally-chartered institutions from having any effect.

2004-2007: While the Republican Congress and the Bush administration looked on – and even provided encouragement – Wall Street came to dominate the market for securitized mortgage products, including securities backed by mortgages (MBS) held by homebuyers who were never required to document any income, employment, or assets. A report from the Brookings Institution points out that, "while the GSEs dominated the securitization market during the 1980s and 1990s, by 2000 they began losing market share to private financial institutions as more and more subprime mortgages began to be securitized."^{xvii}

The Brookings report points out that, in 2000, mortgage-backed securities issued by the GSEs comprised 78 percent of total MBS issuance that year. By 2006, the GSEs' share of MBS issuance had dropped to 44 percent. "As securitization became more widespread, and as the subprime mortgage market boomed, private banks, broker dealers, and other institutions increasingly dominated the MBS market," the report notes.

In testimony before the Financial Crisis Inquiry Commission on February 25, 2010, Professor Dwight Jaffee of the Haas School of Business at UC-Berkeley reported that "the subprime lending innovations over [the 2002 to 2007] period actively displaced GSE and FHA activity, leading to the declines in their market shares." Jaffee showed that the GSEs' high risk lending increased from 21 percent of their overall lending in 2003 to 51 percent by 2006. He also notes that, for both Fannie and Freddie, "the 2007 vintage has the highest default pattern, followed by 2006, and then by 2005." These data reinforce the notion that the GSEs followed Wall Street in expanding subprime lending in order to help regain market share that they had lost to private-label issuers.

2003-05: The first effort during Republicans' 12-year control of Congress to reform the GSEs came in 2003, when then-Financial Services Committee Chairman Mike Oxley (R-OH) worked to pass a bill. That year, Oxley had scheduled a Financial Services Committee markup of the legislation, but had to cancel the markup due to White House opposition. The legislation would have established a stronger regulator to ensure the GSEs' safety and soundness. As CBS Marketwatch reported on October 7, 2003:

Strong opposition by the Bush administration forced a top Republican congressman to delay a vote on a bill that would create a new regulator for mortgage giants Fannie Mae and Freddie Mac . . . The vote on Rep. Michael Oxley's bill to reform oversight of government-sponsored entities including Fannie Mae and Freddie Mac was scheduled for Wednesday. Oxley, an Ohio Republican, is chairman of the House Financial Services Committee.^{xviii}

In 2005 Oxley tried again and this time got a reform bill through the House. Democrats unanimously supported the bill in the Financial Services Committee. A majority of Democrats supported it on the floor, though Congressman Frank and others voted against it because of unrelated restrictions it placed on the Affordable Housing Trust Fund. The bill passed the House, but the Bush administration and Senate Republicans opposed the Oxley bill. Senate Democrats offered the House-passed Oxley bill in that chamber, but Senate Republicans, who held the majority, lacked the votes to pass the bill. They took no action on any bill.

On September 14, 2006, members of the House Financial Services Committee who had supported GSE reform, including Congressman Frank, sent a letter to then-Senate Banking Committee Chairman Richard Shelby urging the Senate to work with them to get a pill passed into law. The letter stated:

Accounting violations by the GSEs have brought to light the fact that current GSE regulators lack many of the supervisory and enforcement powers bank regulators can wield. We must remedy this situation by consolidating GSE regulation and providing the tools needed to oversee these large, complex financial institutions. Both H.R. 1461 and S. 190 create a strong independent agency to ensure the GSEs operate in a safe and sound manner and comply with their statutory missions.

However, as Oxley told the Financial Times in September 2008, the White House gave House Republicans “the one-finger salute.”^{xix}

2007-Present: Democrats act quickly to address deepening financial crisis

2007: Democrats take control of Congress and Rep. Frank becomes Chairman of the Financial Services Committee. After only three months in the majority, Democrats on the House Financial Services Committee produced a tough GSE reform bill on March 29, 2007. The House passed the bill within five months of Democrats taking control, on May 22, 2007. The House also passed tough measures to protect consumers from predatory lenders and prohibit the “liar loans” that were so prevalent in the run-up to the financial crisis.

Opposition from Republican Members of Congress to Mortgage Reform and Anti-Predatory Lending Act of 2007

We still have to remember that millions of people have homeownership opportunities due to a subprime market. I am very leery of any legislation that could undercut that market . . . We should also take note about what is happening in the marketplace now. The market has a wonderful ability to correct itself.”

--Rep. Jeb Hensarling (R-TX), October 24, 2007 committee hearing

This increasing availability and affordability of subprime mortgage credit is and has been an important factor leading to the increase in home ownership in recent years. This bill may well limit now the products available to subprime borrowers, particularly minority borrowers, and will deprive many of those consumers from owning or maintaining a home . . . What we need to do is ensure that it does absolutely nothing to home ownership, particularly among minority communities who have benefited from the innovations that have occurred in the marketplace.

--Rep. Scott Garrett (R-NJ), November 6, 2007 committee markup

I believe that the free market does the best job of providing affordable and accessible products. And I do think that includes mortgages. Through legitimate innovation in the private mortgage market, more people are able to get mortgages at lower rates than ever.

--Rep. Gresham Barrett (R-SC), October 24, 2007 hearing

Really, we have a very efficient mortgage system today. It is the envy of the world. It has brought record homeownership. A lot of people have benefited from our mortgage industry and the sophistication and the creativity that has come from it.

--Rep. Randy Neugebauer (R-TX), October 24, 2007 hearing

2008: In September, using the authority granted to it that year under the Housing and Economic Recovery Act (HERA), the newly-established Federal Housing Finance Administration (FHFA) placed Fannie Mae and Freddie Mac into conservatorship, the first step toward comprehensive financial reform. Conservatorship put an end to the weak underwriting and other damaging practices that caused significant losses for the GSEs before mid-2008. Meanwhile, the Federal Reserve, under Chairman Ben Bernanke, finally began to use the authority that Congress had given it with HOEPA in 1994.

2009-2010: The Democratic Congress enacted reforms to prevent another financial crisis – including measures to protect consumers from predatory lending. This month, Democrats will continue these efforts by considering options for the future of housing finance, with three goals in mind – protecting taxpayers, ensuring economic stability, and meeting the needs of a healthy housing market.

ⁱ <http://online.wsj.com/article/SB118134111823129555.html>

ⁱⁱ <http://archives.hud.gov/remarks/martinez/speeches/presremarks.cfm>

ⁱⁱⁱ <http://archives.hud.gov/news/2004/pr04-006.cfm>

^{iv} Kosterlitz, Julie. “Home Sweet Home?” *National Journal*, March 6, 2004

^v <http://archives.hud.gov/news/2004/pr04-133.cfm>

^{vi} “Fannie, Freddie to Suffer Under New Rule, Frank Says,” Bloomberg News, June 17, 2004, available at <http://house.gov/frank/docs/2004/06-17-04-bloomberg.pdf>.

^{vii} <http://www.washingtonpost.com/wp-dyn/articles/A57466-2004Sep2.html>

^{viii} <http://georgewbush-whitehouse.archives.gov/news/releases/2004/08/20040809-9.html>

^{ix} <http://www.nytimes.com/2008/12/21/business/21admin.html?scp=1&sq=We%20can%20put%20light%20where%20there's%20darkness,%20and%20hope%20where%20there's%20despondency%20in%20this%20country.%20And%20part%20of%20it%20is%20working%20together%20as%20a%20nation%20to%20encourage%20folks%20to%20own%20their%20own%20home&st=cse>

^x Lindsey, Lawrence, “The Kiss Rule for Markets,” Wall Street Journal online, April 2, 2008

^{xi} Broder, David, “When Congress Works,” Washington Post, July 31, 2008

^{xii} Hopkins, Andrea, “Mortgage crisis calls American Dream into question,” Reuters, April 3, 2007, available at <http://www.reuters.com/article/idUSN0132936820070403>

^{xiii} Porter, Eduardo, and Vikas Bajaj, “Rising Trouble With Mortgages Clouds Dream of Owning Home,” The New York Times, March 17, 2007, available at <http://www.nytimes.com/2007/03/17/business/17dream.html>

^{xiv} Peterson, Molly, “Members Pushing To Get Housing Bill Onto House Floor”, CongressDaily, September 23, 2004, available at http://www.nationaljournal.com/congressdaily/dj_20040923_7.php?mrefid=site_search

^{xv} Reiss, Cory, “Owning a home vs. public housing ; The administration offers home-buying initiatives as it cuts funds to public housing,” Sarasota Herald Tribune, August 20, 2004

^{xvi} <http://www.allbusiness.com/real-estate-rental-leasing/real-activities-related-to-real/138681-1.html>

^{xvii} Baily, Martin Neil, Robert E. Litan, and Matthew S. Johnson, “The Origins of the Financial Crisis,” Brookings Institution, November 2008, Washington, DC.

^{xviii} Weidner, David, “Oxley pulls bill under fire from Bush,” CBS Marketwatch, October 7, 2003

^{xix} Farrell, Greg, “Oxley Hits Back at Ideologues,” Financial Times, September 9, 2008, available at http://us.ft.com/ftgateway/superpage.ft?news_id=fto090920081437329396&page=2