



## **A Short History of Efforts to Constrain Subprime Lending Congressman Barney Frank**

Some people have sown some confusion about the causes of rampant subprime lending which, in conjunction other factors which hugely magnified the danger posed by these loans, led to the current financial crisis.

Although the history of attempts to regulate subprime lending is a matter of public record, I would like to offer an outline so there can be no further confusion about this issue.

In 1994, the Democrats passed HOEPA, the Home Owner Equity Protection Act, which required the Federal Reserve to issue rules to stop abusive lending practices.

In 1995, Republicans gained control of the House and Senate. From 2001 until 2006, they owned the House, Senate and the Presidency. For the entire period of Republican rule they did not pass any legislation regulating subprime loans.

Subprime loans were once defined as loans that did not conform to the strict standards required of Fannie Mae and Freddie Mac, the Government Sponsored Enterprises which were commissioned to buy loans from the issuers so the banks could increase lending to those who qualified for conventional loans. Previously, some qualified borrowers were denied loans because they lived in neighborhoods which had been red-lined by some banks, or for other reasons.

In 2004 President Bush embarked on a mission to increase the level of homeownership, ordering Fannie Mae and Freddie Mac to increase targets for loans made to lower-income individuals. In order to meet the new requirements, the GSE's began purchasing mortgage-backed securities made up of subprime loans. In essence, at President Bush's request, Fannie Mae and Freddie Mac allowed Wall Street to vastly increase subprime borrowing. Not incidentally, the companies involved in subprime securitization reaped tremendous profits.

Mark Zandi, a respected economist and an advisor to major figures in both parties, described the situation in his book, *Financial Shock, A 360° Look at the Subprime Mortgage Implosion, and How to Avoid the Next Financial Crisis*.

*President Bush readily took up the homeownership baton at the start of his administration in 2001... To reinforce this effort, the Bush administration put substantial pressure on Fannie Mae and Freddie Mac to increase their funding of mortgage loans to lower-income groups...[The Administration] set aggressive goals for the two giant institutions, which they met in part by purchasing subprime mortgage securities.<sup>1</sup>*

I and others opposed the President's policy. Although I am a strong supporter of affordable housing, I believe that some Americans are better off renting than owning a home. Bloomberg News captured my position neatly in a 2004 article:

*Fannie Mae and Freddie Mac would suffer financially under a Bush administration requirement that they channel more mortgage financing to people with low incomes, said the senior Democrat on a congressional panel that sets regulations for the companies. The White House "could do some harm if you don't refine the goals," said Representative Barney Frank, a member from Massachusetts on the House Financial Services Committee.*<sup>ii</sup>

Larry Lindsey, an economic advisor to Ronald Reagan, George H.W. Bush and George W. Bush later wrote in an article for the *Wall Street Journal*:

*Barney Frank 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 homeownership rates should – must – go higher. The rarity of Mr. Frank's contrarian thinking is a reminder that when markets are committing excesses, we certainly should not expect Washington to act as a check on them.*<sup>iii</sup>

The Bush administration's insistence on increasing subprime lending spurred enormous profits in the financial services industry. For the time it also hid the social costs of the administration's refusal to address the lack of affordable rental housing.

Throughout this period, my Democratic colleagues and I urged Federal Reserve Chairman Alan Greenspan to use the power that had been granted to him in the 1994 HOEPA bill, which would allow him to place some limits on subprime lending. He refused to do this because he thought it was an undue intervention in the market. After 2006, new Federal Reserve Chairman Ben Bernanke used HOEPA to increase regulation of subprime lending.

In years 2003 through 2006, I, Reps. Brad Miller (D-NC), Mel Watt (D-NC), Luis Gutierrez (D-IL), and other Democrats introduced legislation to clarify that state-enacted anti-predatory lending laws would apply to loans made by national banks within a given state.<sup>iv</sup>

Finally, when Democrats took over the majority in 2007 and I became Chairman of the Financial Services Committee, we set out to pass legislation to address issues that Republicans had either caused or ignored. The Mortgage Reform and Anti-Predatory Lending Act (HR 3915) was passed by the House in November 2007. Among other things, the bill would "establish licensing and registration requirements for residential mortgage originators, to provide certain minimum standards for consumer mortgage loans, and for other purposes." Some, including many of my Republican colleagues and the editorial board of the *Wall Street Journal*, declared that the legislation was too strong and that it would lower the rate of home ownership. The legislation stalled in the Senate, where 60 votes were needed to bring the bill to a vote.

The *Wall Street Journal* editorial board ridiculed me for wanting to restrict subprime housing. They quote me as saying, "People should not be lent money that's beyond

what they can be expected to pay back." I believe that if we had followed the principle I described, we might not be in the mess we are in today.

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<sup>i</sup> Mark Zandi, *Financial Shock*, page 151

<sup>ii</sup> Jim Tyson, "Fannie, Freddie to Suffer Under New Rules, Frank Says," Bloomberg News, June 17, 2004

<sup>iii</sup> Larry Lindsey, "The Kiss Rule for Markets," The Wall Street Journal, 04/02/08

<sup>iv</sup> H.R. 5251, 108<sup>th</sup> Congress (TITLE?) and H.R. 3425, 109<sup>th</sup> Congress, (TITLE?)