

## A Short History of Housing Finance and the Financial Crisis

September 2010

Republicans are attempting to shift blame for the financial crisis. They are doing this in an effort to evade responsibility for their failure to act to forcefully regulate Fannie Mae and Freddie Mac and to curtail abusive subprime lending between 2001 and 2006, when they controlled the House, Senate, and White House. Here are the facts.

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**1994:** Congress, under Democratic leadership, passes the Homeownership and Equity Protection Act (HOEPA). The law includes a host of consumer protections for high-cost mortgages and it empowers the Federal Reserve to issue rules to stop abusive mortgage lending practices – authority the Fed largely fails to use until 2008.

**1995-2006:** Republicans control Congress. Not only do they fail to enact any GSE or predatory lending reform, but they actually block Democratic reform efforts at the state and federal levels.

**2000:** In the final year of the Clinton administration, a joint HUD-Treasury Department task force issues recommendations for reining in predatory lending. Democrats in the House and Senate introduce legislation to implement the task force's recommendations, but Congress does not act on them.

**2004:** Under President Bush, the U.S. Department of Housing and Urban Development announces that it will require Fannie Mae and Freddie Mac, also known as the Government-Sponsored Enterprises (GSEs) "to increase their purchase of mortgages for low- and moderate-income families and underserved communities." In a Bloomberg News article, Congressman Frank criticizes the new rules, saying the White House "could do some harm if you don't refine the goals." In order to meet these new requirements, the GSEs begin purchasing mortgage-backed securities made up of subprime loans.

Meanwhile, Rep. Frank continues to promote federal investments in 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," former Bush economics adviser Lawrence Lindsey wrote in 2008. "Politicians usually believe that homeownership rates should – must – go ever higher."

**2004:** Reps. Brad Miller (D-NC), Mel Watt (D-NC), and Frank work to restrict predatory lending, but Republicans block their efforts. States across the country seek to beef up their own protections against predatory lending, but under the Bush administration regulators pre-empt state consumer protection regulations of federally-chartered banks. This prevents stronger state laws or rules regarding predatory lending at federally-chartered institutions from having any effect.

**2004-2006:** Wall Street came to dominate the market for securitized mortgage products, including securities backed by mortgages held by homebuyers who were never required to document any income, employment, or assets. According to a report from the Brookings Institution, 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.

**2005:** The first effort during Republicans' 12-year control of Congress to reform the GSEs comes in 2003, when then-Financial Services Committee Chairman Mike Oxley (R-OH) works to pass a bill. That year, Oxley schedules a Financial Services Committee markup of the legislation, but has to cancel the markup due to White House opposition. The legislation would have established a stronger regulator to ensure the GSEs' safety and soundness.

In 2005 Oxley tries again and this time gets a reform bill through the House. Democrats unanimously support the bill in the Financial Services Committee. A majority of Democrats support it on the floor, though Congressman Frank and others vote against it because of unrelated restrictions it places on the Affordable Housing Trust Fund. The bill passes the House, but the Bush administration and Senate Republicans oppose the Oxley bill. Senate Democrats offer the House-passed Oxley bill in that chamber, but Senate Republicans, who hold the majority, take no action on it or on any bill. As Chairman Oxley tells the Financial Times in September 2008, the White House gave House Republicans "the one-finger salute."

**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 produce a tough GSE reform bill on March 29, 2007. The House passes the bill within five months on May 22, 2007. The House also passes tough measures to protect consumers from predatory lenders and to prohibit the "liar loans" that were so prevalent in the run-up to the financial crisis.

*At a 2007 hearing on the Mortgage Reform and Anti-Predatory Lending Act, Rep. Jeb Hensarling (R-TX) said: "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."*

*At a 2007 markup of the bill, Rep. Scott Garrett (R-NJ) said: "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."*

**2008:** Legislation reforming Fannie Mae and Freddie Mac is included in the Housing and Economic Recovery Act; (HERA) becomes law in July 2008. Using the new authority granted under HERA, the Federal Housing Finance Administration places Fannie Mae and Freddie Mac into conservatorship, the first step toward comprehensive financial reform. Conservatorship puts an end to the weak underwriting and other damaging practices that caused significant losses for the GSEs before mid-2008. The Federal Reserve, under Chairman Ben Bernanke, finally begins to use the authority that Congress had given it with HOEPA in 1994.

**2009-2010:** The Democratic Congress enacts reforms to prevent another financial crisis. The legislation includes measures to protect consumers from predatory mortgage lending. The legislation also includes tough new rules to hold Wall Street accountable, end taxpayer-funded bailouts, and protect Americans from unscrupulous big banks and credit card companies.

**September 2010:** 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.