



Consumer Federation of America

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ADMINISTRATION PROPOSALS COULD THREATEN CONSUMER ACCESS TO SAFE, AFFORDABLE HOMEOWNERSHIP

Washington, D.C. – The Administration’s options for mortgage finance reform released today include choices that could threaten consumers’ access to affordable mortgage credit to buy homes by severely constricting the government’s historic role in supporting affordable, long term credit, and on shifting control of the mortgage market to Wall Street banks and investors whose previous missteps have already caused massive foreclosures and losses for consumers and communities.

“The Administration today has laid out a series of options that could lead to the abandonment of a nearly 70-year commitment to affordable homeownership by working American families,” said Barry Zigas, Director of Housing Policy for Consumer Federation of America. “American consumers need policies that will foster affordable, long term fixed rate mortgages,” Zigas continued, “as well as a stable supply of capital that will be available to lenders of all sizes, including community banks and credit unions.”

The long-awaited proposal on reforming the mortgage system following the real estate bust and failure of mortgage giants Fannie Mae and Freddie Mac contains three options for future action and recommendations for immediately shrinking the share of the mortgage market in which private investments are backed by government. Only one of the options would retain a strong, ongoing role for the government for consumers throughout the mortgage market.

Under this option, the federal government would provide a form of insurance to protect investors against catastrophic losses because of mortgage failures. Such insurance would be available for fully documented, long term fixed rate loans, would protect the investors in mortgages but not the entities issuing securities, and its cost would be included in the mortgage payment. This approach is similar to that proposed by the Mortgage Finance Working Group (MFWG), a group of consumer and community development policy experts, including Barry Zigas, whose report was released in January, 2011. *(The report can be found at <http://consumerfed.org/pdfs/responsiblemarketforhousingfinance.pdf>)*

“The implicit guarantee that stood behind Fannie Mae and Freddie Mac is not a feasible option for the future,” Zigas noted. “We agree that in the future any guarantees should be explicit and paid for, just like deposit insurance which has protected depositors since the Great Depression. But it is important that this cost not be set so high that it prices consumers out of the

marketplace,” Zigas added. “We look forward to working with the Administration and Congress on refining such a concept.”

The remaining two options would rely totally on Wall Street banks and investors to provide most American consumers with mortgages with no federal support. This almost certainly will lead to fewer long term fixed rate mortgages, higher prices, and less access to secondary markets for smaller banks and credit unions, as the Administration’s white paper points out. Consumers in such a system would be forced to shoulder the risks of fluctuating interest rates, putting their home investments at risk, and forfeit their ability to pay off a loan early without incurring penalties, or a combination of the two. The credit supply’s stability also could be threatened by allowing private capital to move in and out of the market as circumstances dictate, adding more uncertainty and cost for consumers. Smaller banks and credit unions could be forced to work only through much larger, more highly capitalized lenders who could rapidly consolidate the mortgage value chain and create even more systemic risk for taxpayers.

“These options would turn the mortgage system largely over to the Wall Street banks and investors whose irresponsible, unsafe and expensive mortgage products produced the financial crisis in the first place,” Zigas said. “It would be a classic case of putting the fox in charge of the hen house, but this time after the fox had already feasted on the flock once before.”

The Administration also proposes to raise the minimum down payment for GSE financing to at least 10 percent, and possibly to increase the minimum down payment requirement for FHA financing, as well. Zigas criticized this proposal as arbitrary and unfounded.

“Throughout the last twenty years, lenders, state and local governments, community organizations and the GSEs themselves demonstrated that safe and sustainable mortgages can be made to people with little wealth but good credit through lower down payments,” Zigas stated. “We have learned a great deal in the last 20 years about how to finance sustainable homeownership without requiring unreasonably high down payments. Turning back the mortgage clock to sometime in the 1980’s by raising down payment requirements to an arbitrary level is unjustified and will close the door to responsible homeownership for too many American working families.”

All three proposals would retain a role for FHA to insure mortgages for borrowers that the private sector will not serve. “We fully support a continuing role for FHA,” Zigas said, “But we could not support a system that returned America to the dual-credit market in which minorities, first time homebuyers and low and moderate income households are forced to use FHA insurance, and do not have effective access to wider choices.”

The Administration also proposed a series of steps to reduce the share of current mortgages that are guaranteed by Fannie, Freddie or the FHA. This includes a proposal to reduce the maximum mortgage amount that can be financed or insured by these entities.

“A significant reduction in the maximum loan amounts for these agencies is long overdue,” Zigas said. “The government’s attention should be focused on working people’s needs, not mortgages for those who can afford million dollar homes.”

The Administration also proposes increasing the fees charged by the GSEs to generate capital levels more equal to those held by other lenders, and to strengthen FHA’s capital position by raising mortgage insurance premiums charged to consumers. The proposed increases are also justified as necessary to “shrink” the role of government guarantees by increasing the cost of such mortgages so that they become more attractive to other investors.

“Making consumers pay more in these troubled times just so Wall Street banks and hedge funds can earn even higher profits is counter to everything government policy should produce,” Zigas said. “The government’s role should be to help keep costs low through standardization, liquidity and stability,” he said. “This worked remarkably well for more than 70 years, until regulators turned their backs on consumers and allowed Wall Street banks and investors to wreck the world economy with expensive, unsafe and predatory loans that were outside the government’s guarantee system to begin with. A fair charge to cover reasonable risks is one thing,” he concluded, “but sticking it to consumers only to enhance Wall Street profits is unacceptable. We look forward to working with the Administration and Congress to develop proposals that are safe for taxpayers and fair to consumers.”

The proposals also include recommendations for reforming mortgage servicing practices. “These recommendations are long overdue,” Zigas said. “The industry’s failure to respond fairly and effectively to the massive dislocations mortgage consumers are experiencing because of fraud, predatory practices and high unemployment leave no room to argue that servicing standards are needed. We strongly support the Administration’s recommendations to move forward with such standards.”

The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.