

Government May Punish Subprime Lenders

March 15, 2007

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Associated Press

WASHINGTON - The government is preparing to punish some subprime mortgage lenders under investigation for discriminatory practices, the Bush administration's housing secretary said Wednesday.

The Housing and Urban Development Department also has suggested that the largest mortgage companies, Fannie Mae and Freddie Mac, consider giving strapped homeowners more time to make their payments, Alphonso Jackson said at a House hearing.

There has been an alarming spike in foreclosures, especially among homeowners who took out subprime loans. These are higher-priced loans people with tarnished credit or low incomes who are considered riskier.

"We're doing everything in our power, in our moral persuasion, to try to keep mortgage foreclosures from occurring," Jackson told the House Financial Services Committee. "We don't have the power to dictate to them what they should do."

Lawmakers are concerned that many people could lose their homes as mortgage delinquencies mount and distress grows in the market for subprime mortgages. Also, members of Congress have denounced what they say are abusive practices by some lenders that target the poor, minorities and the elderly.

"Naturally, Secretary Jackson is concerned about the state of the housing market, particularly the effect it has had on minority homeowners who have been steered into high-priced, high-risk loans," department spokeswoman D.J. Nordquist said after the hearing.

While the economy and the housing market as a whole are strong, Jackson believes that the high-priced home loans are hurting more and more families, Nordquist said.

HUD's Office of Fair Housing has brought several cases against mortgage lenders and insurers for predatory practices, and those enforcement efforts continue, she noted.

On Wall Street and in financial circles, there is worry that a blowup of companies that make subprime mortgage loans could have a spillover effect.

Anxiety over mortgage lenders pushed the Dow Jones average down by more than 240 points in trading Tuesday, its second-biggest drop in nearly four years, and the concern continued to jostle stock prices for much of Wednesday's session.

The Securities and Exchange Commission is examining accounting errors at New Century Financial Corp., the second-largest subprime lender, which is facing possible bankruptcy.

All its bank lenders have cut off funding or informed the Irvine, Calif.-based company of their intent to do so because of its failure to make payments. New Century has stopped accepting all new loan applications.

The subprime sector has seen a sharp decline in banks' demand for potentially troublesome loans as the housing market has slowed since late 2005, grounding the high-flying real estate boom. As long as home prices rose, borrowers who got into trouble could just refinance or sell their homes, sparing banks from getting stuck with sour loans.

The fallout from the housing downturn has spurred several subprime lenders to file bankruptcy in recent months.

Democratic Rep. Carolyn Maloney of New York, a committee member, is proposing legislation that would impose restrictions on banks and other mortgage lenders. They would be required, for example, to evaluate a borrower's ability to repay an adjustable-rate mortgage over the entire term of the loan, not just at the start, when much lower rates are in effect.

Sen. Christopher Dodd, D-Conn., who heads the Senate Banking, Housing and Urban Affairs Committee, has said he is considering several options to protect consumers.