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Deja Vu All Over Again

by Ed Manning

“Those who cannot remember the past are condemned to repeat it.” George Santayana

As a Rossmoor resident one certainly can relate to “senior moments”. The number of times we have entered into a room with great intention only to ask what am I looking for? While this occurrence might be routine in an active adult community, it certainly is not something we expect of our Federal government. Choosing to forget a key factor that led to the severe housing debacle of 2008 and the follow-on Great Recession should call for a trip to the Emergency Room.

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Corporation (Freddie Mac) were at the heart of the 2008 financial crisis. Congress made Fannie Mae a government sponsored enterprise (GSE) in 1968 and two years later ditto for Freddie Mac. Fannie Mae’s charter is to increase the availability and affordability of home ownership for low, moderate and middle-income Americans. Freddie Mac’s charter is to keep money flowing to mortgage lenders in support of homeownership and rental housing for middle income Americans.

In 1992, both Fannie and Freddie’s charters were expanded to include an affordable housing mission. The doors were now open for large amounts of non-traditional and sub-prime mortgages. In 2001, Fannie was offering mortgages with no down payment at all. Fannie and Freddie told Congress that they needed to lower their loan underwriting standards in order to meet their affordable housing mandate.

So now after the worst financial crisis since the Great Depression, Fannie and Freddie recently announced that they will start offering mortgage loans with only 3% down in an effort to increase home buying for low income and first-time home buyers. This time the GSE’s said they will require individuals to have private mortgage insurance, a credit score of at least 620 and documentation of their income, assets and job status. How long these requirements last will depend upon the decibel level of Left-leaning activist groups.

However, one key issue remains, and that is who pays for loans issued by Fannie and Freddie that go bad? Due to the fallout of the financial crisis, many banks have tightened mortgage requirements above what the two GSE’s require. Why would banks ease their tightened mortgage standards after paying huge sums to the Department of Justice over sub-prime mortgages? Bank of America, who acquired Countrywide Financial, recently paid the Feds a record \$17 billion to settle alleged

mortgage abuse charges. JP Morgan Chase settled for \$13 billion, Wells Fargo for \$869 million and Citigroup for \$375 million. Could any of this money been used to pay higher interest to savers?

Tucked away in the fine print of the Bank of America settlement is a slush fund for several of President Obama's activist friends. Attorney General, Eric Holder said that \$100 million will go to borrowers and communities that were negatively affected by the Bank's actions. BofA will be offering new loans and providing financing for affordable rental housing. Delinquent borrowers will be given debt forgiveness. For each dollar BofA gives to a non-profit organization involved in housing, it gets \$2 credit towards its \$7 billion consumer relief commitment piece of the settlement.

Some of the activist groups that will be benefiting from the settlement include: the Neighborhood Assistance Corporation - it prides itself as a confrontational community organizing group that will harass executives at both their offices and homes. It offers mortgage loans with no down payment, no closing costs, no fees, no requirements for perfect credit and below market interest rates; the National Community Reinvestment Coalition - made up of 600 community-based organizations advocating for affordable housing. It desires to impose additional financial penalties on banks with poor Community Reinvestment Act scores; La Raza - the largest national Hispanic civil rights and pro-amnesty advocacy group; Mutual Housing Association of New York - a spinoff of the banished Acorn's New York housing group.

Under the Citigroup settlement, \$50 million must be given to community-based organizations. Every dollar above the \$50 million, Citigroup gets a \$2 credit towards its \$2.5 billion consumer relief commitment piece of the settlement.

It appears the seeds of sub-prime lending are once again being sown under the Left's affordable housing mantra. As for middle-class retirees that played by the rules, they remain collateral damage to the Obama administration's redistribution policy.