

The Truth versus the Republicans on the Regulation of Subprime Mortgages and Fannie Mae and Freddie Mac

The Homeownership & Equity Protection Act

- In 1994 the Democratic Congress passed the Home Ownership & Equity Protection Act (HOEPA).
- That law included a host of consumer protections for high-cost mortgages and specifically required that the Federal Reserve issue rules to stop abusive lending practices.
- During the 12 years of Republican control – which included the subprime housing bubble at the heart of our current economic crisis – no regulation was ever enacted under that authority.
- Former Fed Chairman Greenspan was asked numerous times to issue rules (including internally by Former Governor Ed Gramlich) but refused on ideological grounds.
- Republican ideologues have long thwarted mortgage and consumer protection.
- Only after the Democrats took control of the Congress and initiated specific legislative reforms (H.R. 3915) did Federal Reserve Chairman Ben Bernanke finally issue regulations under the very authority they have had since 1994.

Reform of Fannie Mae & Freddie Mac

- After 12 years of Republican control, the Republicans failed to enact meaningful reform of Fannie Mae and Freddie Mac.
- In 2005, when former Financial Services Chairman Mike Oxley pushed for responsible reform he was opposed by Republican ideologues.
- As noted in a recent article interviewing Oxley, he stated “All the handwringing and bedwetting is going on without remembering how the House stepped up on this...What did we get from the White House? We got a one-finger salute.” Further Oxley notes: “We missed a golden opportunity that would have avoided a lot of the problems we’re facing now, if we hadn’t had such a firm ideological position at the White House and the Treasury and the Fed.”
- As soon as the Democrats took over the House, we passed comprehensive GSE reform by a bipartisan vote of 313 to 104 in May 2007.
- Democrats sought to include this legislation in the economic stimulus package last year, but the Bush Administration balked. After overcoming Republican filibusters in the Senate, the Democrats enacted comprehensive reform which included every power the Administration asked for in July 2008.
- Democrats also included additional authority for the new regulator to limit or cancel compensation and severance packages for senior executives. Though the

administration did not ask for this enhancement, the new regulator has just used this authority.