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GAO Highlights

Accountability·Integrity·Reliability

Highlights of GAO-09-741, a report to congressional requesters

HOME MORTGAGES

Provisions in a 2007 Mortgage Reform Bill (H.R. 3915) Would Strengthen Borrower Protections, but Views on Their Long-term Impact Differ

Why GAO Did This Study

H.R. 3915 (2007), a bill introduced, but not enacted by the 110th Congress, was intended to reform mortgage lending practices to prevent a recurrence of problems in the mortgage market, particularly in the nonprime market segment. The bill would have set minimum standards for all mortgages (e.g., reasonable ability to repay) and created a "safe harbor" for loans that met certain requirements. Securitizers of safe harbor loans would be exempt from liability provisions, while securitizers of non-safe harbor loans would be subject to limited liability for loans that violated the bill's minimum standards. In response to a congressional request, this report discusses (1) the proportions of recent nonprime loans that likely would have met and not met the bill's safe harbor requirements and factors influencing the performance of these loans, and (2) relevant research and the views of mortgage industry stakeholders concerning the potential impact of key provisions of the bill on the availability of mortgage credit. To do this work, GAO analyzed a proprietary database of securitized nonprime loans, reviewed studies of state and local anti-predatory lending laws, and met with financial regulatory agencies and key mortgage industry stakeholders.

What GAO Recommends

GAO makes no recommendations in this report.

View GAO-09-741 or key components.
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What GAO Found

GAO estimates that almost 75 percent of securitized nonprime mortgages originated from 2000 through 2007 would not have met H.R. 3915's safe harbor requirements, which include, among other things, full documentation of borrower income and assets, and a prohibition on mortgages for which the loan principal can increase over time. The extent to which mortgages met specific safe harbor requirements varied by origination year. For example, the percentage of nonprime mortgages with less than full documentation rose from 27 percent in 2000 to almost 60 percent in 2007. Consistent with the consumer protection purpose of the bill, GAO found that certain variables associated with the safe harbor requirements influenced the probability of a loan entering default (i.e., 90 or more days delinquent or in foreclosure) within 24 months of origination. For example, on the basis of statistical analysis, GAO estimates that, all other things being equal, less than full documentation was associated with a 5 percentage point increase in the likelihood of default for the most common type of nonprime mortgage product. GAO also found that other variables—such as house price appreciation, borrowers' credit scores, and the ratio of the loan amount to the house value—were associated with default rates.

Research on state and local anti-predatory lending laws and the perspectives of mortgage industry stakeholders do not provide a consensus view on the bill's potential effects on the availability of mortgage credit. Some research indicates that anti-predatory lending laws can have the intended result of reducing loans with problematic features without substantially affecting credit availability. However, it is difficult to generalize these findings to all anti-predatory lending laws or the potential effect of the bill, in part, because of differences in the design and coverage of these laws. Mortgage industry and consumer group representatives with whom GAO spoke disagreed on the bill's potential effect on credit availability and consumer protection. For example, mortgage industry officials generally said that the bill's safe harbor, securitizer liability, and other provisions would limit mortgage options and increase the cost of credit for nonprime borrowers. In contrast, consumer groups generally stated that these provisions needed to be strengthened to protect consumers from predatory loan products.