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Treasury Secretary Henry Paulson (r.), with President Bush earlier this month, says the credit crunch is manageable.
Larry Downing/Reuters

Help from US Congress for housing credit crisis?

Capitol Hill weighs fixes to lending industry, but divergent views on market regulation may limit results.

By [Peter Grier](#) | Staff writer of The Christian Science Monitor from the August 27, 2007 edition

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WASHINGTON - As home foreclosures continue to spread across the nation, Washington has begun debating what – if anything – it should do to stop the credit crisis of 2007 from inflicting further damage on the US economy.

But given the complexity of the problem and the capital's division of political power, it's not clear whether this debate will produce much more than some regulatory tweaks and lots of three-point position papers.

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"This is not something for which there is an obvious legislative corrective," says Thomas Mann, a senior fellow in governance studies at the Brookings Institution in Washington.

In political terms the housing crunch has given Democrats a subject with which to question the Republican White House's stewardship of the economy.

To Democrats, it's about basic principles. Tougher oversight of mortgage lenders and brokers might have helped stave off some foreclosures, they say.

Most mortgages used to be made by banks and savings and loans – deposit-taking institutions tightly controlled by state and federal regulators. But in recent years unregulated mortgage companies have greatly increased their share of the business.

These unregulated entities are to blame for many of today's imprudent loans, say some Democrats.

"The subprime [mortgage] crisis demonstrates the serious negative economic and social consequences that result from too little regulation," wrote Rep. Barney Frank (D) of Massachusetts, chairman of the House Financial Services Committee, in an Aug. 20 op-ed in The Financial Times.

Many Republicans, on the other hand, oppose actions that they see as interference in the operation of financial markets. In recent days administration officials have also emphasized that the performance of the overall economy remains strong, and that now is not the time to panic.

Indeed, the Commerce Department on Friday reported that sales of new homes perked up 2.8 percent in July. Factory orders for big-ticket items increased 5.9 percent in July as well – the biggest such increase in 10 months.

"We are going to work through this problem just fine," said Treasury Secretary Henry Paulson in a Aug. 22 broadcast interview.

There are some small steps on which political consensus seems possible. President Bush has called for increased financial education for home buyers, for instance – and Democrats are unlikely to disagree.

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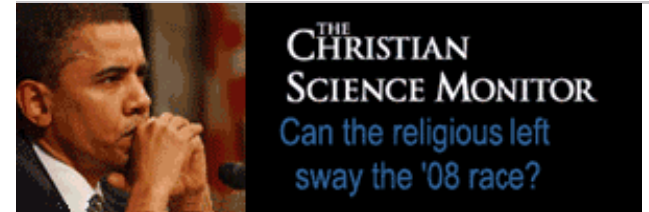
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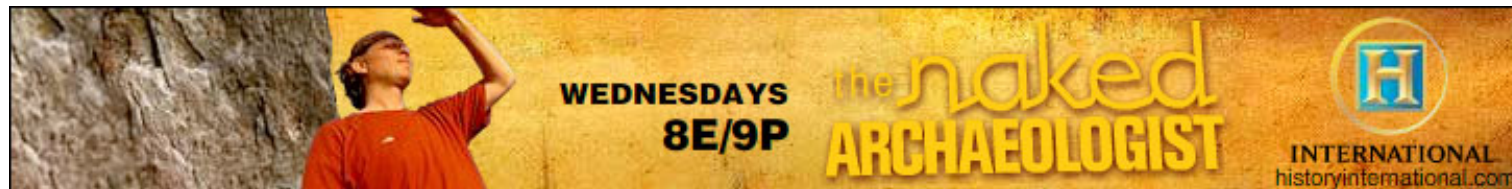
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The Senate Appropriations Committee has approved \$100 million to aid nonprofit housing groups that help facilitate refinancing for hard-pressed homeowners. The full Senate will probably approve that move this fall.

The Federal Housing Administration (FHA) may soon get a makeover. This Depression-era entity – which insures loans made by private lenders – shrank dramatically in the era of easy money. Now the Bush administration is considering whether to expand the FHA's mandate to allow it to help borrowers avoid foreclosure.

Also, some lawmakers want to raise the limit on the size of loan the FHA can insure. Currently, it's \$362,790 – which doesn't go far in many expensive real estate markets.

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But many possible bigger moves that might influence the mortgage market remain politically controversial. Take the matter of expanding housing finance giants Fannie Mae and Freddie Mac – government-sponsored entities that financial conservatives love to hate.

Fannie Mae and Freddie Mac have the power to buy up mortgages and hold them as investments or package them for sale as securities. Their purpose is to ensure that mortgage lenders have a steady flow of cash, so they can offer loans to consumers at relatively low rates.

Conservatives have long complained that Fannie and Freddie exploit the perception that their securities are backed by the full faith and credit of the US government (they aren't), and that they take business away from the private sector.

Before the current lending crisis, "there had been a growing concern about the dangers of Fannie Mae and Freddie Mac," says Daniel Mitchell, an economist at the libertarian Cato Institute.

The Bush administration has long pushed to constrain these entities as much as possible. Key Democrats, however, now want to go in the opposite direction, and raise the current cap on the value of mortgages that Fannie and Freddie can hold.

"I'm urging the administration to look at that issue as a way of providing additional liquidity into this market," said Sen. Christopher Dodd (D) of Connecticut, chairman of the Senate Banking Committee, on Aug. 21 following a meeting with Mr. Paulson and Federal Reserve Chairman Ben Bernanke.

Senator Dodd also happens to be running for the Democratic presidential nomination, and he's put together a lengthy plan of action that includes an end to penalties for early payment of subprime mortgages, among other things. But he's not the only Democratic presidential candidate with a package of solutions to the issue.

Sen. Hillary Rodham Clinton of New York has proposed a \$1 billion fund to aid families whose mortgage payments are in arrears, for instance. Former Sen. John Edwards of North Carolina has proposed a similar bailout effort.

It's unclear how the money from such a fund might be distributed. But even if a big government bailout bill passes Congress it is unlikely to be signed into law by Mr. Bush.

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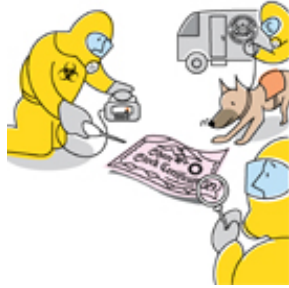
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