

Editorial

Congress and the Mortgage Mess

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The House will vote today on much needed legislation to curtail abusive mortgage lending. Last minute lobbying to weaken the bill is coming from all corners: from brokers who hawked the junk loans, lenders who advanced the cash and Wall Street banks that bought the loans and repackaged them into securities for sale to investors. Having profited so immensely during the mortgage bubble, they now want to keep the world safe for future financial excesses.

Industry has already scored some regrettable victories. It persuaded the bill's backers to include a provision that would prevent borrowers from suing Wall Street firms in state court — where consumer protections are often stronger — for common abusive loan practices. If Congress truly wants to protect consumers, rather than kowtow to the mortgage industry, lawmakers must resist further efforts to cripple the bill and pass a number of essential amendments before the final vote.

One key amendment, sponsored by Barney Frank, chairman of the House Financial Services Committee, would ensure that states are allowed to pursue cases against fraud, misrepresentation, deception, false advertising and civil rights violations. Unfortunately, that still lets the federal government pre-empt state law when it comes to other abusive-loan practices. But it at least blocks the industry from asserting that state law is supplanted for all abuses.

Another must-pass amendment would adopt sensible underwriting standards for all nontraditional mortgages — not just subprime loans — including a rule that lenders must verify a borrower's ability to repay. The amendment is crucial because it is not only subprime loans that have turned out to be toxic. Another important proposed change would give borrowers the right to modify an illegal loan, before they're forced into foreclosure.

The bursting mortgage bubble is already causing too much pain and suffering for Americans. And there is worse to come. Foreclosures have yet to peak, and the full spillover effects have yet to hit the broader economy. The House bill could help to ensure that the unfolding debacle is not repeated, but only if lawmakers insist on putting the interests of American consumers first.

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