



N.Y. governor wants a subprime-bailout fund

By Christopher Hinton & Robert Schroeder

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NEW YORK (MarketWatch) -- New York Gov. Eliot Spitzer said Thursday that he wants mortgage lenders and the federal government to create a fund that will help stabilize the subprime home-lending market.

Details of the proposed fund were sparse, but the governor compared its use to that of the federal government's injection of cash into the credit markets through discount-rate cuts, creating liquidity and buttressing investor confidence.

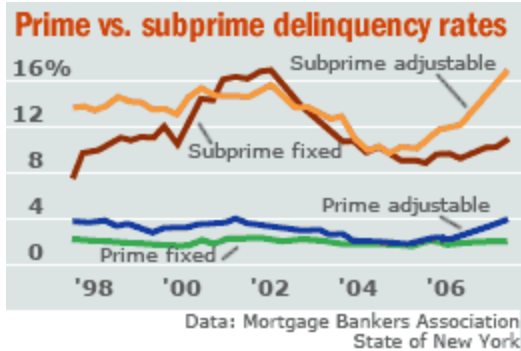
"The issue of subprime lending is something we care about very much," Spitzer said at a press conference, adding that the "dramatic increase" in delinquency rates on subprime loans is a matter of economic security.

Spitzer's proposal was announced in connection with a package of initiatives designed to help subprime borrowers keep their homes. The initiatives include a loan-modification program to bring down monthly payments; a \$2 million matching-grant program for counseling and advocacy groups to help homeowners facing delinquency; and proposing legislation that would make lenders and brokers more accountable.

"We need this to happen. ... Otherwise the trend line will continue to lead to massive write-downs and hurt [lender] portfolios," he said.

"We have a foreclosure crisis in this state," said Sarah Ludwig, executive director of Neighborhood Economic Development Advocacy Project, who spoke with Spitzer at the conference, adding that one out of five subprime mortgages in New York are ending in foreclosure, with the vast majority representing minority homeowners.

The impact of foreclosures on the state's economy isn't clear, but just a 1% rise in foreclosure rates can have "an enormous ripple effect," the governor said.



Also speaking at the press conference was New York Attorney General Andrew Cuomo, who is currently conducting an investigation of subprime-lending practices, and is asking Freddie Mac and Fannie Mae for information on mortgages bought from Washington Mutual Inc.

On Thursday, Fannie and Freddie's federal regulator criticized Cuomo for not consulting with it about the inquiry. James Lockhart, the director of the Office of Federal Housing Enterprise Oversight, said in a letter to Cuomo that the attorney general may not understand the differences between the mortgage-backed securities issued by Fannie and Freddie and those issued by other entities.

Fannie and Freddie "have no economic incentive to knowingly purchase or guarantee mortgages with inflated appraisals," Lockhart wrote.

Lockhart requested a meeting with Cuomo at Cuomo's earliest convenience. Cuomo is accusing lenders and brokers of inflating the value of properties to secure larger loans and said Thursday that he has "email evidence" of banks seeking out "friendly appraisers" who would overestimate property values.

"People will lose their homes, and that could create a lifetime of debt problems," Cuomo said. "We do need new laws" to keep the subprime market liquid while protecting borrowers.

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