



NY warned that action against subprime lenders can sink economy

By Michael Gormley, Associated Press Writer

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ALBANY, NY - New York officials seeking to force subprime mortgage lenders to help rescue homeowners facing unaffordable new rates stepped up their effort Thursday even as a commentator and falling stock prices warned their increased regulation could lead to a recession.

"You are going to get a 1990 recession and it will be unstoppable," said Jim Cramer, a business analyst and host of the frenetic and influential "Mad Money" program on CNBC.

"If these companies are able to lend and insure and grow their way out of the bad loan/bad mortgage cesspool, things will at least bump and limp, but not be knocked out," Cramer said.

Gov. Eliot Spitzer was hit with the criticism Thursday from his old Harvard Law School classmate as the governor and New York Attorney General Andrew Cuomo were announcing a new plan to protect homeowners facing default in part by getting lenders to refinance their subprime mortgages.

"Jim said this?" Spitzer said, laughing, when asked about the comments at a news conference. "I'll call him. I'll straighten him out."

But Spitzer was trying to deepen the state's involvement in the market.

"The feds have failed to act," Spitzer said. "In the absence of federal action, we have stepped in ... federal abdication cries out for state action."

On Thursday, Spitzer and Cuomo said they intend to avoid further subprime mortgage defaults. They would require lenders to do a better job evaluating a borrowers' ability to repay, prohibit certain loan practices, and define mortgage brokers' duties to borrowers under law. The initiative would also give the state greater enforcement power over subprime lending.

The announcement comes a day after Cuomo announced subpoenas to the government sponsored Fannie Mae and Freddie Mac lenders, the latest step in a probe of what he says

is a practice of appraisers being pushed by banks, such as mammoth Washington Mutual Inc., to inflate home values and loans, leaving lower income home buyers deeper in debt.

"One in five subprime loans is expected to end in foreclosure," said Sarah Ludwig of the Neighborhood Economic Development Advocacy Project and a leader of the New Yorkers for Responsible Lending Coalition. "If we don't act now, the hardship to our state's economy is at stake."

She and Cuomo said the national subprime lending crisis erupted not only because lower income Americans received adjustable rate mortgages after being rejected by prime rate lenders, but because of unscrupulous practices that must be stopped.

"The appraiser has been pressured by the banks into changing the value of the house to justify the loan," Cuomo said. "The market was hungry for product ... the schemes got more and more aggressive and the scheme worked until the scheme didn't."

Cuomo said Wednesday he subpoenaed the government-sponsored lenders Sallie Mae and Freddie Mac for information on loans purchased from Washington Mutual. The news was widely blamed for part of Wednesday's big tumble in the stock market and increasingly gloomy prospects for the future.

In its first detailed response, Washington Mutual said that although it is conducting its own internal investigation into Cuomo's claims, "the company will vigorously defend itself from all unfounded allegations and lawsuits."

A federal regulator said Thursday that Cuomo misstated the risks the mortgage finance companies face from faulty home appraisals.

James Lockhart, director of the Office of Federal Housing Enterprise Oversight, told Cuomo in a letter that government-sponsored lenders Fannie Mae and Freddie Mac "have no economic incentive to knowingly purchase or guarantee mortgages with inflated appraisals."

The two companies "already have programs in place to prevent this and other types of mortgage fraud," Lockhart wrote. "I am disappointed that your office did not contact OFHEO before or even after subpoenaing (the companies) and issuing certain threats regarding their future business activity."

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