

Paterson defends new mortgage law [Daniel Massey](#)

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Gov. David Paterson is standing by legislation he signed earlier this month to protect homeowners, despite pressure from mortgage giant Freddie Mac.

Lenders and brokers have to adhere to some 20 new requirements under the new law, and if they don't, a company like Freddie Mac that buys these loans in the secondary market could be held liable. Homeowners could use a violation of the rules as a defense during foreclosure proceedings, a new power Freddie Mac says would raise its risks substantially.

Insiders say Freddie Mac lobbied the governor to amend the bill during a 10-day window before he signed it into law last week. Then, earlier this week, Freddie Mac announced beginning Sept. 1 it would no longer buy New York mortgages that fall within the state's new definition of subprime loans.

"We have no way of monitoring or preventing brokers and lenders from violating some of these new requirements," said a Freddie Mac spokesman. "We don't like foreclosure, but at the end of the day this law would affect our ability to manage our losses and protect ourselves against violations by brokers and lenders."

A spokesman for the governor said no amendments to the law are being considered.

"The law increases protections for borrowers," the spokesman said. "Eliminating a homeowner's right to raise violation of law as defense to foreclosure would hurt an already vulnerable homeowner and would render the law useless. There would be no enforcement mechanism."

Marge Gross, general counsel for the New York State Banking Department, which helped draft the legislation, said the new requirements actually protect investors.

"We think it's going to mean that mortgages originated in New York in the future are more credit worthy than the subprime mortgages that have been originated in the last five years," she said. "We think investors should be happy with them."

Since Freddie Mac buys very few loans that fit within the state's subprime definition, the effect of their decision not to buy such loans should be minimal. But activists say the company's move is a warning to other states that might be considering similar legislation.

"You'd think they would be more eager to buy loans because the loans will be cleaner than the ones they've bought in the past years," said Sarah Ludwig, co-director of the Neighborhood Economic Development Advocacy Project. "This whole legislation is about cleaning up the processes."

A spokeswoman for Fannie Mae would not say whether her company is considering similar action. The state law goes into effect Sept. 1. ◆

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