



## FRANK OBJECTS TO FUNDING SOURCE IN SENATE FORECLOSURE RELIEF BILL

By Galen Moore  
STATE HOUSE NEWS SERVICE

BOSTON, MAY 16, 2008.....The leader of the U.S. House effort to provide foreclosure relief on Friday rejected a Senate plan that would pay for the measure with low-income housing funds, calling the proposal "mean-spirited."

The foreclosure relief legislation stalled in the Senate Thursday over how to pay for \$300 billion in mortgage guarantees. In a statement released late Thursday, Sen. Richard Shelby (R-Alabama) said opposition to the bill had weakened as wary senators get behind a proposal to siphon \$600 million from a low-income housing fund.

"We will object to that very strenuously," U.S. Rep. Barney Frank told reporters after speaking to business leaders Friday. "Part of the [sub-prime home loan] problem was not having enough rental property in the first place," he said. "That's just mean-spirited."

In his remarks at the breakfast, hosted by Sovereign Bank and the public relations and lobbying firm **O'Neill and Associates** at the Boston Harbor Hotel, the Brookline Democrat and chair of the House Financial Services Committee defended the housing-market relief legislation passed earlier this month in the U.S. House.

The bill, which Frank worked on extensively, provides guarantees on new loans covering \$300 billion worth of homes in danger of foreclosure. It is expected to cost taxpayers \$1.7 billion as some homeowners inevitably default even on these second loans.

During the first quarter of 2008, 2,827 Massachusetts homes went into foreclosure, according to data published last month by the financial industry magazine Banker & Tradesman. March saw a peak, with 1,167 foreclosure deeds filed – more than double the number of foreclosures in March 2007. The California-based real estate tracking Web site RealtyTrac.com listed Massachusetts as the 10th hardest-hit state in the nation, according to a Friday press release.

Preventing more foreclosures is necessary to stop the current economic downturn, restore investor confidence and preserve real estate values for all homeowners, Frank said. The House bill is not a gift to irresponsible lenders and borrowers, as some opponents have suggested, he said.

"Nobody is going to come out of this process and say, 'Wow, that was fun – where do I go to buy a ticket for another ride?'" he said. "We are mitigating the pain but not abolishing it."

In addition, the House version of the bill would set new regulations on securitization of home loans – a relatively new area of finance which Frank said can benefit economies if regulations are brought up to date to prevent irresponsible behavior.

Lenders must be constrained to write loans only to people who can pay them back, Frank said, and investment bankers must examine the bundles of sub-prime debt they buy. "If you can make the loan and immediately sell the loan and have no further obligation, you're not as careful," Frank said.

Without those regulations, investors will remain gun-shy of any investment – not just the sub-

prime loan bundles that created the foreclosure crisis in the first place.

Comparing them to children who have touched a hot stove, Frank said investors are now scared of investments that should be considered safe. "They touched the stove, they got burned, and now they won't go near the stove, the refrigerator, the sink or the toilet," he said.

According to Frank, laws that need revision includes the Community Reinvestment Act of 1977. Frank also said the Clinton-era repeal of the Glass-Steigel act, a 1934 law designed to prevent runs on banks, was a mistake.

"We repealed it without setting up new rules," he said. "We made the mistake of taking a half-step."

Now, strict rules about loan writing apply only to commercial banks. Investment banks are participating in the home-loan market through securitization, and enjoy lax restrictions, he said. Until recently, the discrepancy was justified with the argument that commercial banks could appeal to the Federal Reserve for help.

"Once an investment bank was able to go to the Fed for help, the rationale for that difference disappeared," Frank said, referring to the federal bailout earlier this year of the failing Wall Street investment firm Bear Stearns.

Frank also said he intends to go after bond rating agencies that hold municipalities to a higher standard than corporations when rating debt for investors. "No investor has lost a dollar [on municipal bonds] since 1970," he said.

According to Frank, the standards need to be changed. "We're talking now about more money for schools and roads and sewers," he said. "We intend to work on this."

The U.S. economy is entering a "third major period in American history," Frank said in his remarks. The first began in 1890, when huge trusts and corporations industrialized the economy. The second began in 20th century, with the advent of the stock market. The third period is characterized by securitization of debt, he said.

Each period was marked by an economic innovation that helped the economy, but required new regulation in response, Frank said. Now, with new technology and new pools of money available, debt can be re-packaged and traded.

"Securitization in effect multiplies the money. Instead of waiting for somebody to pay you back, you can immediately get back in the business," he said. "The problem is there are no rules."

Because it is useful in this way, securitization is likely to stick around, Frank said.

END