ASK YOURSELF WHY...
MORTGAGE FORECLOSURE RATES ARE SO HIGH

Report shows nearly $210 million spent by mortgage industry may be part of answer

The second in a series of reports showing how American families are harmed by special interest campaign donations.

A report from the Common Cause Education Fund

EXECUTIVE SUMMARY

While investing nearly $210 million on Washington lobbying and campaign contributions, the mortgage lending industry for seven years successfully blocked Congress from taking action to restrict lending abuses that saddled economically vulnerable families with home mortgages they could not afford. In 2006 alone, foreclosure filings across the country were up 42 percent compared to 2005—a total of 1.2 million homes in jeopardy, or one in every 92 homes.[i] And foreclosures continue to mount in 2007, with March foreclosure filings up 47 percent compared to the year before.[ii]

The foreclosure crisis is having a ripple effect, as foreclosed homes increase the supply of available housing, further depressing home prices, with fears that a declining housing market may harm the larger economy.

"This foreclosure mess is partly the result of our flawed campaign finance system, which encourages special interests with legislative agendas to pour millions of dollars into the campaign coffers of key Members of Congress," said Common Cause Executive Vice President Jon Goldin-Dubois. "The public financing of congressional campaigns would help disarm special interest politics in Washington and ensure that public policy decisions benefit all Americans, not just those with deep pockets."

This report, "*Ask Yourself Why… Mortgage Foreclosure Rates are so High*," is the second in a series of "Ask Yourself Why" Common Cause money and politics studies. It found the following:

- Between 1999 and the end of 2006, ten of the nation's largest mortgage lending companies, their two trade associations, and their corporate parents contributed more than $22 million to federal candidates. Of that total, more than $8 million went to Democrats and $14 million to Republicans.
- During that same time period, these special interests spent more than $187 million lobbying in Washington, according to data from the Center for Responsive Politics and the Senate Office of Public Records.
- Warnings about new mortgage products and their dangers to borrowers date back to at least 2000, but Congress failed to act.
- As consumer and housing advocates successfully pushed for more state regulation of mortgage lenders, the industry went on the offensive. The industry backed legislation championed by former Congressman Bob Ney (R-OH). The Ney bill, reintroduced in 2005 with the sponsorship of Democratic Rep. Paul Kanjorski (PA), would have pre-empted many state restrictions in exchange for looser federal regulation. Since 1996, Ney and Kanjorski received more than $300,000 from the mortgage lending industry, more than $173,000 going to Ney and $140,500 to Kanjorski. The strongly bipartisan Ney-Kanjorski bill, with 18 Democratic and 22 Republican sponsors, may have advanced in the previous Congress but for Ney's involvement last year in the Jack Abramoff scandal, which ultimately led him to resign from Congress and go to jail.

i "More Than 1.2 Million Foreclosures Reported in 2006 According to RealtyTrac U.S. Mortgage Foreclosure Report," PR Newswire, 25 Jan. 2007.

ii "Foreclosure Activity Increases 7 Percent in March According to RealtyTrac U.S. Foreclosure Market Report," PR Newswire, 18 Apr. 2007.

Common Cause
Holding Power Accountable

• And subprime lenders continue to benefit from their investment in Congress over the years. Since 1999, the current chairmen and ranking minority members of the Housing Financial Service Committee and the Senate Banking, Housing and Urban Affairs Committees together received close to $500,000 from major subprime mortgage lenders, their trade groups, and corporate parents.

HOW GENEROUS?

While spending millions on lobbying Washington and plying federal candidates with campaign contributions, the mortgage lending industry has successfully blocked Congress from curbing lending abuses that now threaten millions of homeowners nationwide with foreclosure.

In 2006 alone, foreclosure filings were up 42 percent compared to 2005—a total of 1.2 million homes in jeopardy, or one in every 92 homes.[1] The entire economy is feeling the ripple effect, as foreclosed homes increase the existing supply of homes on the market. Foreclosures are affecting many financially vulnerable families who took out subprime loans, which carry higher fees and escalating interest rates and are usually offered to people with questionable credit and/or high debt compared to their incomes.[2] Many of these loans also fail to set aside funds to pay taxes and insurance, and when those come due, borrowers who cannot pay these bills often must refinance at even worse terms.[3]

Particularly threatened are minority homeowners, who hold a disproportionate share of subprime loans.[4] In some cases, minority borrowers who could have qualified for conventional mortgages were deliberately steered into the higher cost, riskier loans.[5]

"Congress should have stepped in years ago to pass comprehensive pro-consumer legislation to curb mortgage lending abuses," said Common Cause Executive Vice President Jon Goldin-Dubois. "The fact is, the subprime mortgage lending industry was able to escape scrutiny for so long in part because of its generosity to federal policymakers and its lobbying clout."

How generous? Since 1999, ten of the nation's largest subprime mortgage lenders, their trade groups and their corporate parents have given more than $22 million in political contributions to federal candidates: $14 million to Republicans and more than $8 million to Democrats, according to Federal Election Commission reports. These special interests also have spent more than $187 million lobbying Washington over the same period, according to data from the Center for Responsive Politics and the Senate Office of Public Records.

Ameriquest, the target of scores of consumer complaints, found more creative ways to give. Ronald and Dawn Arnall, Ameriquest's owners, gave $5 million in 2004 to the pro-Bush 527 group, Progress for America, and another $1 million to the Bush inaugural committee, according to *Roll Call*.[6] Arnall was a Bush "Ranger," raising at least $200,000 for the President in the 2004 campaign. Additionally, he donated $1.8 million to Laura Bush's library foundation.[7]

The substantial political contributions and lobbying figures reflect in part the fact that some mortgage lenders are actually owned by huge corporations, with substantial lobbying clout and presence in Washington. WMC Mortgage has been owned by General Electric Corp since 2004.[8] CitiMortgage is owned by Citigroup.[9] General Motors Corp. owns 49 percent of General Motors Acceptance Corporation, the parent of Residential Capital.[10] (GM sold 51 percent of its stake in GMAC in 2006. But until recently, ResCap had been considered one of GMAC's most profitable performers.)[11] BNC Mortgage/Finance America is owned by the investment firm Lehman Brothers.[12]

No one would presume that all the money spent by major corporations to lobby Congress and the Executive branch was focused exclusively on mortgage lending policies. Nevertheless, these figures demonstrate the enormous lobbying firepower available to those in the mortgage banking industry.

Despite warnings from consumer and low-income advocates as early as 2000, Congress turned a deaf ear to their requests for stronger federal regulation. Seven years later, policymakers are confronting a full-blown crisis spurred at least in part from their inaction.

THE SUBPRIME BUBBLE

Subprime loans flourished over the last decade, in part because mortgage lending changed. In the past, a family went to a bank for a home mortgage, with the bank carefully assessing the prospective homeowner's ability to repay the loan. Now, it is more common for mortgage lenders, not banks, to make home loans, and then package those loans into securities that are sold to investors.[13]

Buoyed by an expanding housing market and low interest rates, and spurred by the creation of dozens of new mortgage products, millions of consumers became homeowners over the past several years, or refinanced existing home mortgage loans. Many of these consumers were steered to subprime loans. The most common loan in the subprime market is an adjustable rate mortgage that some consumer advocates call an "exploding ARM."[14] This loan starts out with a fixed "teaser" interest rate for the first few years, but then borrowers must pay a much higher adjustable rate that can escalate dramatically over time.[15] One out of five new mortgages in 2006 was subprime.[16]

Often borrowers were qualified for such loans based on their ability to pay the low "teaser" rate, not the higher rates that the loan would charge in the future.[17]

According to congressional testimony and news accounts, millions of homeowners who took out subprime loans over the past several years to buy or refinance their homes did not understand the terms of those loans. As the interest rates on their mortgage loans increased over time, they found it impossible to keep up with their rising house payments. And in a housing market where home values are beginning to fall, they are not able to sell their homes for as much as they paid for them. As a consequence, millions of families now are facing foreclosure, and thousands more have already lost their homes.[18]

WARNINGS IN 2000

A wide-ranging House of Representatives hearing seven years ago touched on many of the problems that are now the matter of daily headlines: abuses by mortgage brokers who benefit from fees from borrowers; persuading families to take out loans that exceeded what they could reasonably be expected to repay; the practice of steering thousands of minority homeowners to subprime loans and misleading homeowners, often senior citizens, and persuading them to refinance existing home loans, saddling themselves with higher interest rates and much more debt.

Testifying before the House Banking Committee in May, 2000, John Taylor, president and CEO of the National Community Reinvestment Coalition, warned Congress that banks had largely stopped efforts to provide affordable home loans to low-income families, leaving the vacuum to be filled by "more unscrupulous" lenders.

Margot Saunders, testifying on behalf of the National Consumer Law Center, the Consumer Federation of America and U.S. PIRG, also urged Congress to act. Saunders predicted that millions of Americans would fail to understand these new complex mortgage products. "[W]e can take two points of view on this," Saunders said. "One, we can say, 'Well, if you're not smart enough, you can take your lumps,' or we can pass laws, which I hope you do, which protect people against inappropriate behavior [by mortgage lenders]."[19]

But federal regulators by and large reflected the Bush Administration's philosophy of letting market forces, rather than federal rules, regulate lender conduct.[20] And Congress was reluctant to impose stricter curbs on abusive lending, even when regulators failed to step in.

NATIONAL REFORM EFFORTS ARE STYMIED

In the spring of 2000, activists prowled the halls of Congress and held a national conference in Washington to draw attention to the subprime time bomb. The activists also brought a contingent of 400 people from all over the country to rally in protest of the predatory lending practices of Ameriquest.[21]

Real estate appraisers, too, sought the protection of Congress, asking in 2001 for hearings to examine a growing trend by mortgage lenders to intimidate appraisers to inflate home values.[22]

Some Members of Congress took their warnings seriously. Then-Rep. John LaFalce (D-NY), along with Rep. Jan Schakowsky (D-IL) and then-Senator Paul Sarbanes (D-MD) were among those proposing specific legislative remedies. Those remedies included expanding the number of loans considered "high-cost" mortgages and thus subject to more disclosure requirements, restricting the financing of points and fees, and eliminating penalties for borrowers who pay their loans off early in order to find financing with more affordable terms.

In the House, then-Rep. Michael Oxley (R-OH), chairman of the Financial Services Committee, stated that he had no interest in considering the LaFalce bill.[23] And then-Senator Phil Gramm (R-TX), chairman of the Senate Banking Committee, said that his committee would not consider the Sarbanes and Schumer bills until "predatory lending" was defined.[24] Even after the Democrats took control of the Senate and Sarbanes rose to banking committee chair, things did not change much.

Discouraged by inaction at the national level, consumer activists had more success convincing some states to enact tough standards to curb abuses in subprime lending. By 2000, North Carolina passed a strong predatory lending law, New York State's Banking Department adopted robust new regulations, and six other states were considering their own legislative reforms. Chicago enacted a predatory lending ordinance, while Baltimore, Kansas City and Philadelphia mulled over similar measures.[25]

Faced with pushback at the state and local level, the mortgage lending industry went on the offensive. Six years ago, the Mortgage Bankers Association (MBA) convened eight major subprime lenders and 20 of the nation's largest state mortgage banking associations at a meeting in Dallas to, in the words of *The American Banker*, "develop a unified battle plan."

The plan included hiring the high-powered public relations firm Hill & Knowlton to put together a national message and campaign, and the creation of a "SWAT team" of lobbyists, sent to engage mayors and city councils in locales contemplating more regulation.

Their motivation was clear. "This patchwork of local mortgage laws threatens to Balkanize the mortgage finance system," warned Howard Glaser, the MBA's director of government affairs.

REP. BOB NEY TO THE RESCUE

It was time for the industry to lobby Congress to pass a bill that addressed predatory mortgage lending and included some curbs on abusive lenders. The centerpiece of the bill would be federal preemption of state laws.[26]

The mortgage lending industry found its champion in Rep. Bob Ney (R-OH). Ney now is serving a 30-month prison sentence because he took lavish gifts and trips from disgraced lobbyist Jack Abramoff in exchange for influencing legislation.[27] In 2003, Ney, a member of the House Financial Services Committee and chair of its Subcommittee on Housing and Community Opportunity, was the prime sponsor of the Responsible Lending Act.[28] In 2005, Ney reintroduced a new version of the legislation with Democratic co-sponsor Rep. Paul Kanjorski (PA). The bill looked good on paper, consumer advocates said, but would make things worse, not better, for vulnerable families, and even weakened existing federal law.[29]

The strongly bipartisan Ney-Kanjorski bill drew 40 sponsors—18 Democrats and 22 Republicans. Its two main sponsors received more than $300,000 from the mortgage lending industry since 1999. Ney received more than $173,000, and Kanjorski, $140,000.

Advocates of low-and moderate-income families strongly supported another legislative proposal, sponsored by Reps. Brad Miller (D-NC), Mel Watt (D-NC) and Barney Frank (D-MA). Modeled after strong legislation in North Carolina, the bill contained consumer protections and would not have pre-empted state or local laws.[30] While the bill drew 68 sponsors, those sponsors included not one Republican, dooming it in a Republican-dominated House.

THE FIGHT CONTINUES

Even in 2007, faced with nearly daily headlines about abuses in subprime lending and growing worries about foreclosures, the mortgage lending industry is underplaying its responsibility for the problem.

Doug Duncan, the Mortgage Bankers' chief economist, told Congress this year that "the data does not support the assertions that loan products have created a foreclosure crisis," blaming mounting foreclosures instead on families facing unemployment, medical bills and divorce.[31]

And the mortgage industry continues to be wary of many reforms designed to protect vulnerable families.

One battle concerns mandatory requirements for "suitability standards" for mortgage lenders. Essentially, lenders would be required to ensure that borrowers have the ability to repay their home loans.[32]

The MBA contends that a mandatory suitability standard would increase the cost of mortgages, and is pushing for voluntary disclosure instead. The MBA argues that a mandatory standard would make lenders wary of making loans, in order to protect themselves from liability.[33] A "subjective" suitability standard that gave borrowers the right to sue lenders for making improper loans would be a "poison pill for the dream of home ownership for all except the most economically secure Americans," warned Kurt Pfotenhauer, the MBA's chief lobbyist.[34]

While they are strongly opposed to suitability standards, mortgage lenders, faced with the prospect of congressional legislation, continue to push Congress to pass a federal law that would pre-empt laws now in effect in 30 states and 17 localities, many of which contain stricter requirements than federal legislation may call for.[35] This year, for example, as the heat on subprime lenders increased, the Coalition for Fair and Affordable Lenders became a trade association, a nonprofit designation that will make it more difficult to know which companies fund the Coalition's work on a major lobbying or public relations blitz, even if Congress approves strong lobby disclosure laws this year.[36] "It just makes us a little more formal and gives us a little more permanence," said Wright Andrews, a lobbyist at the firm Butera & Andrews, who also is the group's executive director.[37]

And subprime lenders continue to benefit from their investment in Congress over the years. Since 1999, the current chairmen and ranking minority members of the Housing Financial Services Committee and the Senate Banking, Housing and Urban Affairs Committee together received nearly $500,000 from major subprime mortgage lenders, their trade groups and corporate parents.

For this reason, no one, not even in the face of millions of foreclosures, is discounting the mortgage lenders' continued political clout. For example, Senator Christopher Dodd (D-CT), Senate Banking, Housing and Urban Affairs Committee Chair, has held hearings on subprime lending abuses, but is giving the industry the chance to "clean up these practices" before moving to pass legislation, according to his spokesman.[38]

In the meantime, there are efforts to help some imperiled borrowers: Mortgage giants Freddie Mac and Fannie Mae are offering to spend billions of dollars to buy many of these abusive mortgages and refinance at better terms. While hundreds of thousands of borrowers may be assisted by Fannie and Freddie, it is unlikely that all the families trapped in the $1.3 trillion subprime mortgage market with loans they can't afford will be able to avoid foreclosure.[39]

And these offers of help will come too late for the hundreds of thousands of families who already have lost their homes. In February 2007, Martin Eakes, the chief executive officer of the Center for Responsible Lending, testified before Congress about the harmful impact of abuses in the subprime lending industry, abuses that Congress could have curbed. "The subprime mortgage market today is a quiet but devastating disaster," Eakes said. "The ultimate effects are very much like Hurricane Katrina, as millions of citizens lose their homes and the fabric of entire communities is threatened."[40]

ABOUT THIS REPORT

Celia Wexler wrote this report, with campaign finance and lobbying research provided by Matthew Shaffer.

Campaign Finance data is from PoliticalMoneyLine and includes donations from the four most recent complete election cycles, from January 1, 1999 through December 31, 2006. Data on lobby expenditures is from the Center for Responsive Politics and the Senate Office of Public Records, and includes information from federal lobby disclosure reports from 1999 through 2006. To determine the major subprime lenders, Common Cause relied on rankings published by National Mortgage News.

PAC Donations from the Largest Subprime Mortgage Lenders, Their Trade Associations, and Corporate Parents to Federal Candidates, Parties and Leadership PACs (1999–2006)

PAC DONOR	DEMOCRATS	REPUBLICANS	TOTALS
HSBC	$1,154,832	$2,102,675	**$3,257,507**
CitiMortgage/Citigroup	$1,261,943	$1,972,869	**$3,234,812**
Mortgage Brokers Assn	$1,111,164	$1,769,801	**$2,880,965**
Residential Capital/General Motors	$620,020	$1,803,434	**$2,423,454**
Wells Fargo	$851,950	$1,193,260	**$2,045,210**
WMC Mortgage/GE*	$683,950	$1,243,950	**$1,927,900**
Washington Mutual	$818,822	$1,071,763	**$1,890,585**
Natl Assn of Mortgage Bankers	$262,983	$645,700	**$908,683**
BNC Mortgage/Lehman Bros	$352,020	$531,500	**$883,520**
First Franklin/Natl City**	$106,125	$622,415	**$728,540**
Countrywide	$279,950	$420,156	**$700,106**
New Century	$345,534	$243,750	**$589,284**
Option One/H&R Block	$241,000	$238,000	**$479,000**
Natl Home Equity Mortgage Assn***	$105,064	$178,947	**$284,011**
Total	$8,195,357	$14,038,220	$22,233,577

*GE acquired WMC Mortgage in June 2004. Totals reflect contributions in the 2005–2006 cycle.

**First Franklin Sold to Merrilll Lynch in 2007

***NHEMA merged with MBA in 2006

PAC Donations from the Largest Subprime Mortgage Lenders, Their Trade Associations, and Corporate Parents to the Current Chairmen and Ranking Minority Members of the House Financial Services Committee and the Senate Banking, Housing and Urban Affairs Committee

PAC DONOR	REP. BARNEY FRANK (D-MA)	REP. SPENCER BACHUS (R-AL)	SEN. CHRIS DODD† (D-CT)	SEN. RICHARD SHELBY (R-AL)	TOTAL
Mortgage Brokers Assn	$23,000	$28,000	$10,500	$10,000	$71,500
Washington Mutual	$21,000	$21,000	$15,000	$10,000	$67,000
CitiMortgage/Citigroup	$15,000	$29,000	$10,000	$10,000	$64,000
Wells Fargo	$14,000	$24,000	$5,000	$11,000	$54,000
HSBC	$14,000	$20,000	$2,500	$5,000	$41,500
Natl Assn of Mortgage Bankers	$8,500	$14,500	$5,100	$10,000	$38,100
New Century	$500	$18,500	$14,000	$5,000	$38,000
Countrywide	$9,000	$17,000	$2,000	$3,300	$31,300
Option One/H&R Block	$4,000	$7,500	$4,000	$5,000	$20,500
Natl Home Equity Mortgage Assn***	$0	$10,199	$1,000	$2,000	$13,199
WMC Mortgage/GE*	$6,000	$6,000	$1,000	$0	$13,000
First Franklin/Natl City**	$3,000	$7,000	$0	$3,000	$13,000
Residential Capital/General Motors	$1,000	$5,500	$0	$6,000	$12,500
Total	$119,000	$208,199	$70,100	$80,300	$477,599

*GE acquired WMC Mortgage in June 2004. Totals reflect contributions in the 2005–2006 cycle.

**Sold to Merrilll Lynch in 2007

***NHEMA merged with MBA in 2006

†Senator Dodd's Presidential Campaign Committee has also received $15,000 in total PAC contributions From Countrywide, the National Association of Mortgage Brokers, and Washington Mutual.

Federal Lobby Expenditures for the Largest Subprime Mortgage Lenders, Their Trade Associations, and Corporate Parents

COMPANIES	1999	2000	2001	2002	2003	2004	2005	2006	TOTAL
Residential Capital/General Motors	$5,820,000	$5,540,000	$4,720,000	$8,380,000	$7,940,000	$8,500,000	$7,760,000	$8,700,000	**$57,360,000**
CitiMortgage/Citigroup	$5,080,000	$4,120,000	$4,100,000	$5,400,000	$7,800,000	$7,220,000	$7,340,000	$6,760,000	**$47,820,000**
WMC Mortgage/GE*	$0	$0	$0	$0	$0	$0	$21,520,000	$8,420,000	**$29,940,000**
Mortgage Bankers Assn	$342,829	$345,009	$344,701	$1,428,032	$1,885,457	$2,400,573	$2,377,920	$2,732,842	**$11,857,363**
HSBC	$0	$0	$0	$0	$2,080,000	$2,520,000	$2,380,000	$3,550,000	**$10,530,000**
Wells Fargo	$471,000	$720,000	$650,000	$620,000	$960,000	$1,280,000	$1,590,000	$1,765,000	**$8,056,000**
Countrywide	$155,000	$280,000	$654,856	$754,200	$1,080,000	$1,219,861	$1,520,400	$735,050	**$6,399,367**
BNC Mortgage/Lehman Bros	$580,000	$280,000	$320,000	$540,000	$540,000	$620,000	$820,000	$920,000	**$4,620,000**
Washington Mutual	$320,000	$320,000	$580,000	$500,000	$520,000	$440,000	$650,000	$723,000	**$4,053,000**
Natl Assn of Mortgage Brokers	$200,000	$400,000	$200,000	$160,000	$160,000	$480,000	$300,000	$440,000	**$2,340,000**
First Franklin/National City	$40,000	$40,000	$41,500	$50,000	$715,000	$290,000	$274,000	$90,000	**$1,540,500**
New Century	$0	$0	$0	$0	$0	$300,000	$640,000	$0	**$940,000**
Option One/H&R Block	$0	$0	$0	$80,000	$80,000	$240,000	$220,000	$240,000	**$860,000**
Natl Home Equity Mortgage Assn	$100,000	$240,000	$110,000	$60,000	$80,000	$80,000	$20,000	$60,000	**$750,000**
Ameriquest	$0	$0	$0	$0	$20,000	$40,000	$0	$240,000	**$300,000**
Fremont General	$40,000	$0	$40,000	$0	$0	$0	$0	$0	**$80,000**
Total	$13,148,829	$12,285,009	$11,761,057	$17,972,232	$23,860,457	$25,630,434	$47,412,320	$35,375,892	**$187,446,23**

Note: Lobbying entities don't have to disclose lobbying expenditures of less than $10,000 during a reporting period. If a lobbying entity discloses spending less than $10,000 for both disclosure reports during the year, their expenditure is presented as $0

*GE acquired WMC Mortgage in June 2004. Total reflect contributions in the 2005–2006 cycle. General Electric's lobby report for the second half of 2006 is not yet available.

**National City sold First Franklin to Merrill Lynch in 2007

ENDNOTES

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