ASK YOURSELF WHY…
MORTGAGE FORECLOSURE RATES REMAIN SO HIGH

Report shows nearly $242 million spent by mortgage industry may be part of answer

This update report is part of a series of reports showing how American families are harmed by special interest campaign donations.

A report from the Common Cause Education Fund *October 23, 2007*

EXECUTIVE SUMMARY

"House for Sale" signs are a common sight up and down American streets as the housing slump deepens and begins to affect the broader economy. A trigger for this slump – the collapse of the subprime loan market – has had devastating consequences for thousands of Americans who have lost their homes. Beyond that loss, the miscalculation and greed of Wall Street fund managers playing financial games with mortgages has caused widespread disruption in global financial markets.

Could this meltdown have been prevented? Signs of trouble were evident long ago, but Congress and the White House did not act. Why? As least in part, it's the same sad story of special interest money influencing policy.

Common Cause released a report in May 2007, "Ask Yourself Why Mortgage Foreclosure Rates are So High." This is a follow up. Our analysis since then shows that the mortgage industry has continued to funnel millions of dollars in lobbying and campaign donations to Congress and the political parties.

The new numbers show:

- Since the 110th Congress opened for business in January 2007, the mortgage companies and trade associations that we reported on in June spent at least **$29.4 million** lobbying the federal government and donated and additional **$2.4 million** in political action committee (PAC) contributions to Members of Congress and the national political parties.

- While campaign donations favored Republicans prior to 2007, the mortgage industry donations have begun to move to the Democrats since they took control of Congress in the 2006 election. The industry contributed **$1.23 million** to Democrats and **$1.21 million** to Republicans from January to June of this year.

- The new leadership in Congress was a special focus of the mortgage industry. House Speaker Nancy Pelosi (D-CA) and House Majority Leader Steny Hoyer (D-MD) were the top recipients, collecting $27,500 and $25,000 respectively during the first six months of 2007. A trade group for the industry, the Mortgage Bankers Association, gave PAC contributions to 47 of the 70 members of the House Financial Services Committee during the first half of 2007. Committee Chair Barney Frank (D-MA) raised $9,500 during the first half of 2007 while Ranking Member and former chair of the committee Spencer Bachus (R-AL) received $20,000. Bachus is the largest recipient of donations from the mortgage industry since 1999, receiving $251,199 in total.

- In sum, 10 of the top mortgage lenders and industry trade associations spent nearly **$217 million** on federal lobbying and **$24.6 million** in PAC donations from 1999 through mid-2007.

COMMON CAUSE
Holding Power Accountable

Our earlier report showed that pressure from the mortgage industry helped keep Congress from passing laws that consumer advocates claimed were necessary to protect homeowners and prevent the subprime mortgage meltdown.

The report noted that the "increase in mortgage defaults would hav(e) 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." Since June there is evidence that this may have been an understatement.

A recent study by *The Wall Street Journal* noted that "the subprime aftermath is hurting a far broader array of Americans than many realize … subprime loans burrowed into the heart of the American financial system and now are bringing deepening woe." The report went on to say that the "pain [of the subprime crisis] could last through next year and beyond."[1]

As pressure now mounts for the Congress and the Bush Administration to take action, the mortgage industry has continued to funnel millions of dollars in lobbying and campaign donations, even as some of those institutions are struggling to stay afloat.

"Mortgage lenders and brokers spent millions on campaign contributions and lobbying in order to protect record profits as evidence grew that new regulations were needed to protect consumers," said Common Cause President Bob Edgar. "Though the scope of the subprime mortgage crisis has become evident, the industry is still spending millions to minimize oversight."

OVERVIEW

The tremendous growth of the U.S. housing market in the first half of the decade was boosted by the increase in subprime loans to new homebuyers. Subprime loans are targeted to potential home purchasers who do not qualify for standard mortgage loans. Most subprime loans have adjustable rates that start low but automatically increase after a certain period. Now, the higher rates on many of these loans are kicking in. As a result, many borrowers are facing mortgage payments they can't afford.

As the housing market accelerated at the beginning of the decade, consumer advocates warned Congress about problems with the subprime market. With little regulation or oversight, many brokers operated unscrupulously and steered people towards loans that they would not be able to pay, often misleading them or not providing enough information about the details of the loans. They would also often fail to disclose the relationships they had with lenders who paid brokers to steer borrowers towards their loans. Meanwhile, the lenders were approving the loans regardless of the borrowers' ability to pay. Now many areas of the United States are facing record foreclosure levels as

more people than ever are defaulting on their loans and losing their homes.[2]

SUBPRIME IMPLOSION

The effect of the subprime mortgage meltdown is not just limited to the housing market. Over the summer, countless headlines reported how the mortgage crisis was having a domino effect on the global economy. This is largely due to another significant change in the subprime mortgage market during the housing boom. It had become common for these subprime mortgages to be packaged into groups and purchased by investment groups. These "packages" were profitable while the housing market continued to boom. But once borrowers began defaulting on their loans, the mortgage-backed securities quickly lost value for whoever held them. These holders include major U.S investment banks, especially their hedge fund operations, and foreign investors.[3]

In August, Federal Reserve Chair Benjamin Bernanke acknowledged for the first time that the subprime mortgage issue was having broader effects on the economy. In a speech, with President Bush at his side, he said, "the financial turbulence we have seen had its immediate origins in the problems in the subprime mortgage market and in financial markets more generally, with potential consequence for the performance of the overall economy."[4] In October, Bernanke again expressed concerns about the mortgage crisis being a "significant drag" on the economy.

President Bush, whose administration was reluctant to address the subprime meltdown, finally announced a number of proposals designed to stem the increasing foreclosure rates, some of which consumer advocates have been advocating for years.[5]

Some have argued the collapse of the subprime mortgage industry is an example of the market correcting itself, making further regulation unnecessary. But comments by Bernanke and other economists suggest that foreclosure rates for subprime borrowers will continue to escalate for the foreseeable future before the market settles. The Congressional Joint Economic Committee estimates that about 1.8 million borrowers with subprime mortgage payments will see their payments increase over the next 18 months, and many won't be able to afford the higher costs.[6] With news reports blaming the mortgage meltdown for instability in markets as far as Europe and China, lawmakers face pressure to pass legislation addressing the subprime mortgage situation.

THE MORTGAGE INDUSTRY DOES DAMAGE CONTROL

In the wake of the subprime implosion, many of the companies that benefited during the housing boom and worked to stop legislation that could hurt their bottom line were hit hard by the subprime mortgage collapse. New Century Financial Corp. filed for bankruptcy in April.[7] Countrywide Home Loans, which was saved from bankruptcy by a $2 billion investment from Bank of America, recently announced it was cutting as much as 20 percent of its workforce.[8] In September, Ameriquest Mortgage Company closed up shop and its remnants were bought up by Citigroup.[9] Other major subprime lenders, such as National City and Lehman Brothers, have also announced significant job cuts.[10]

But with the negative publicity mortgage brokers and lenders have received over the past few months, mortgage bankers and brokers realized that new regulation of the industry may be inevitable, and they are lobbying hard to minimize what they perceive as potentially damaging legislation affecting the industry.

Ten of the top subprime mortgage lenders, along with two associations that represent the industry, spent at least $29.4 million lobbying Congress and the Bush Administration, and their PACs spent $2.4 million in contributions to Members of Congress and the national political parties. Many of these companies are owned by larger, diversified corporations, such as General Electric, or part of huge financial conglomerates, such as Citigroup. While not all of their lobbying spending is used to influence policymakers on the single issue of mortgage regulation, it is testament to the powerful lobbying forces that have a stake in the outcome.

Political donations from the mortgage industry adjusted to the shift in political power that occurred when Democrats took over both the House and Senate in the 2006 general elections. From 1999 through 2006, 37 percent of the industry's donations went to Democratic candidates and national party committees. After the 2006 election, Democrats received more than half of the industry's campaign donations through June 2007. Mortgage companies continued to target their contributions towards Congressional leaders and committees responsible for oversight of their industry. For example, the Mortgage Bankers Association, which testified to members of the House Financial Services committee twice during the first half of 2007, have already provided PAC donations to 47 of the 70 Members of the Committee, giving $112,000 total to the committee from January through June.

A number of bills have been introduced to address the mortgage meltdown. The most aggressive legislation introduced in the Senate is the Borrower's Protection Act of 2007 (S.1299) sponsored by Senator Charles Schumer (D-NY). Among the many proposed reforms in the bill is a "suitability standard" that would legally prohibit lenders from issuing loans to borrowers who don't have the resources to repay them back.[11] The Chairman of the House Financial Services Committee, Barney Frank (D-MA), also recently introduced legislation that would require lenders to be responsible for ensuring that borrowers have a reasonable ability to pay back a loan.[12] The mortgage banking industry is strongly opposed to being exposed to such legal liability. Consumer advocacy groups however, support suitability standards, given the mortgage industry's willingness to issue home loans to people who can't afford them.

Republicans in the House introduced their own bill. Sponsored by Representative Spencer Bachus (R-AL), the ranking member of the House Financial Services Committee, the Fair Mortgage Practices Act (H.R. 3012) would apply federal standards to mortgage brokers and increase disclosure to borrowers, but does not include suitability standards to lenders. Consumer advocacy groups have criticized the bill as far too weak to address the current problems in the subprime market.[13]

No significant legislation to address the mortgage crisis has passed Congress.

CONCLUSION

Mortgage industry leaders are trying to stave off new regulations by arguing that strict regulatory standards could limit options for future homebuyers. According to Mortgage Bankers Association Chairman John Robbins, "potential new laws now being discussed by some legislators and regulators may result in tightening access to credit, robbing prospective home buyers of the benefits of subprime loans as well as closing the door to current subprime borrowers wishing to refinance."[14]

But Michael Calhoun, who represents the Center for Responsible Lending, testified before a Senate subcommittee that credit has already been tightened due to the lack of adequate regulations of the industry. Calhoun testified that "Common sense protections would prevent this catastrophe from happening again."[15]

"One of those common sense protections should be the enactment of a system of public financing for congressional campaigns. That would reduce the influence special interest money has on critical issues such as the subprime mortgage crisis. Congress should act now to pass the Fair Elections Now Act," said Edgar, Common Cause president.

ABOUT THIS REPORT

This report was written and researched by Matt Shaffer (mshaffer@commoncause.org) and Ed Davis (edavis@commoncause.org).

Campaign finance data is from files available at the Federal Election Commission for the four most recent complete election cycles and the first six months of 2007. Data on lobbying expenditures is from the Center for Responsive Politics and the Senate Office of Public Records, and includes information from federal lobby disclosures from 1999 through June 2007. To determine the major subprime lenders of 2006, Common Cause relied on rankings published by the National Mortgage News.

For more information go to: **www.commoncause.org**
Join the discussion at: **www.commonblog.org**
Support our work: **www.commoncause.org/support**

Common Cause
1133 19th St., NW, 9th Floor
Washington, DC 20036
202-833-1200

Contact: Mary Boyle
202-736-5716

October 23, 2007

Federal Lobby Expenditures
January–June 2007

WMC Mortgage/ GE	$9,800,000
Residential Capital/ General Motors	$6,200,000
Citimortgage/ Citigroup	$4,380,000
First Franklin/ Merrill Lynch	$2,840,000
Mortgage Bankers Assn	$2,400,573
HSBC	$1,320,000
Wells Fargo	$957,000
Countrywide	$710,000
Washington Mutual	$360,000
Natl Assn of Mortgage Brokers	$310,000
Option One/ H & R Block	$120,000
BNC Mortgage/ Lehman Brothers*	$20,000
New Century**	$0
Total	**$29,417,573**

*Full data on Lehman Brothers lobbying expenditures for the first half of 2007 were not available as of Oct. 15, 2007

**New Century filed for bankruptcy in April 2007

PAC Donations
From: the Largest Subprime Mortgage Lenders, Their Trade Associations, and Corporate Parents
To: Federal Candidates, Parties and Leadership PACs

	1999-2006			JAN-JUNE 2007			COMBINED		
PAC DONOR	**DEMS**	**GOP**	**TOTALS**	**DEMS**	**GOP**	**TOTALS**	**DEMS**	**GOP**	**TOTAL**
HSBC	$1,154,832	$2,102,675	$3,257,507	$142,500	$126,500	$261,500	$1,297,332	$2,229,175	**$3,526,507**
Citigroup	$1,261,943	$1,972,869	$3,234,812	$108,500	$129,800	$246,800	$1,370,443	$2,102,669	**$3,474,112**
Mortgage Bankers Assn	$1,111,164	$1,769,801	$2,880,965	$235,407	$215,300	$391,207	$1,346,571	$1,985,101	**$3,331,672**
Residential Capital/ General Motors	$620,020	$1,803,434	$2,423,454	$104,500	$109,500	$214,000	$724,520	$1,912,934	**$2,637,454**
WMC Mortgage/ GE*	$683,950	$1,243,950	$1,927,900	$286,350	$292,600	$604,950	$970,300	$1,536,550	**$2,506,850**
Wells Fargo	$851,950	$1,193,260	$2,045,210	$104,700	$109,000	$211,200	$956,650	$1,302,260	**$2,258,910**
Washington Mutual	$818,822	$1,071,763	$1,890,585	$87,000	$88,000	$157,500	$905,822	$1,159,763	**$2,065,585**
Natl Assn of Mortgage Brokers	$262,983	$645,700	$908,683	$43,500	$45,500	$71,500	$306,483	$691,200	**$997,683**
BNC Mortgage/ Lehman Bros	$352,020	$531,500	$883,520	$7,000	$18,000	$25,000	$359,020	$549,500	**$908,520**
First Franklin/ Natl City/Merrill Lynch**	$106,125	$622,415	$728,540	$30,500	$26,000	$57,500	$136,625	$648,415	**$786,040**
Countrywide	$279,950	$420,156	$700,106	$19,500	$35,500	$55,000	$299,450	$455,656	**$755,106**
New Century***	$345,534	$243,750	$589,284	$37,000	$4,500	$41,500	$382,534	$248,250	**$630,784**
Option One/ H&R Block	$241,000	$238,000	$479,000	$24,500	$12,000	$36,500	$265,500	$250,000	**$515,500**
Natl Home Equity Mortgage Assn#	$105,064	$178,947	$284,011	$0	$0	$0	$105,064	$178,947	**$284,011**
Total	$8,195,357	$14,038,220	$22,233,577	$1,230,957	$1,212,200	$2,445,157	$9,426,314	$15,250,420	**$24,678,734**

Included are the Top 10 Mortgage Lenders of 2006 published by National Mortgage News

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

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

***NHEMA merged with MBA in 2006

#New Century filed for Bankruptcy in April 2007

Top House Recipients of Campaign Contributions from Mortgage Industry Jan 1999-June 2007

NAME	PARTY	ST-CD	AMOUNT
Spencer Bachus	R	AL-06	$251,199
Richard Baker	R	LA-06	$240,500
Dennis Hastert	R	IL-14	$171,499
Paul Kanjorski	D	PA-11	$164,000
Joseph Crowley	D	NY-07	$163,500
Deborah Pryce	R	OH-15	$160,000
Ed Royce	R	CA-40	$159,611
Darlene Hooley	D	OR-05	$144,550
Barney Frank	D	MA-04	$140,500
Dennis Moore	D	KS-03	$132,529
John Boehner	R	OH-08	$123,975
Jeb Hensarling	R	TX-05	$123,500
David Dreier	R	CA-26	$118,311
Charles Rangel	D	NY-15	$116,500
Nancy Pelosi	D	CA-08	$116,000

Top Senate Recipients of Campaign Contributions from Mortgage Industry Jan 1999-June 2007

NAME	PARTY	ST	AMOUNT
Thomas Carper	D	DE	$126,000
Tim Johnson	D	SD	$123,750
Christopher Dodd	D	CT	$107,780
Richard Shelby	R	AL	$102,800
Gordon Smith	R	OR	$101,650
Evan Bayh	D	IN	$ 91,993
Max Baucus	D	MT	$ 89,000
Michael Crapo	R	ID	$ 88,499
Ben Nelson	D	NE	$ 87,500
Kent Conrad	D	ND	$ 85,500
John Ensign	R	NV	$ 83,500
Jack Reed	D	RI	$ 80,550
Wayne Allard	R	CO	$ 79,348
Jon Kyl	R	AZ	$ 78,500
Charles Grassley	R	IA	$ 78,000

ENDNOTES

1 Brooks, Rice and Constance Mitchell Ford. "The United States of Subprime." *Wall Street Journal*, October 11, 2007.

2 Berenbaum, David. Executive Vice President, National Community reinvestment Coalition. Testimony: "Protecting Homebuyers from Mortgage Abuse. Committee on Senate Banking, Housing and Urban Development and Submcommittee on Housing, Transportation, and Community Development." June 26, 2007.

3 Gross, Daniel. "Innocents Abroad: Why European Banks Were the Big Losers in the U.S. Subprime Meltdown" Slate.com October 2, 2007. <http://www.slate.com/id/2175130/>.

4 Kaper, Stacy. "In Focus: Mortgage Crisis is Topic A For Returning Congress." Kaper, Stacy. September 4, 2007.

5 Irwin, Neil and Michael Fletcher. "Fed Chief, Bush Give Hope to Wall Street." *Washington Post*. September 1, 2007.

6 Crittenden, Michael and John Cranford. "Consumer Groups Seize Say Seize the Day." *CQ Weekly*. June 4, 2007.

7 "Bankruptcy Trustee Opposes New Century's Sale of Mortgages" *New York Times*. *Bloomberg News*. April 10, 2007.

8 Dash, Eric. "Countrywide Plans to Cut Staff Deeply." *New York Times*. September 8, 2007.

9 Gentile, Gary. "Former Subprime Leaders Ameriquest Closes Amid Sale of Parent to Citigroup." *Associated Press Financial Wire*. September 1, 2007

10 Dash, Eric. "Countrywide Plans to Cut Staff Deeply." *New York Times*. September 8, 2007.

11 Hall, Kevin G. Mortgage Brokers are in Congress' Sights. *McClatchy-Tribune News Service*, July 3, 2007

12 Ives, Benton. Frank's Bid to Tighten Mortgage Regulations Could Be Tough Sell in Senate. *CQ Today*, October 22, 2007.

13 Zibel, Alan. "House Republicans Introduce Bill to Limit Abusive Lending Practices as Housing Market Worsens." *Associated Press*. July 12, 2007.

14 Woodard, Jim. "Weighing the Costs of Special Property Tax." *Copley News Service*, June 1, 2007.

15 Calhoun, Michael D. "Federal Trade Commission Reauthorization." Testimony before the U.S. Senate Subcommittee on Interstate Commerce, Trade and Tourism. September 12, 2007.