

Albany's Unwise Mortgage 'Fixes'

THE Legislature is working on bills to help consumers and homeowners at risk in the subprime-mortgage crisis. New York's banking industry understands that desire — but fears that some of the measures on the table would create future problems without doing anything to fix today's woes.

New York has so far avoided the worst of the national crisis. Though the third-largest state, with the largest city and a very diverse population, it consistently ranks in the bottom half of states in foreclosures.

One reason: The Empire State carefully regulates its banking industry to balance consumer interests with financial safety and soundness.

And New York's banks — from the world's largest financial institutions to one-branch community banks — have strongly and consistently opposed predatory lending practices. We want to ban the bad players and make sure that all lenders meet the

same rigorous standards as banks.

In this light, it's important to note that banks now make only about half of all mortgages — and less than 20 percent of subprime mortgages in the 15 largest metropolitan areas of the United States. Bank-originated loans have lower interest rates and are far less likely to be foreclosed on than loans by non-bank lenders.

It's also important to realize that many subprime loans are good — a vital route to making the dream of home ownership real, particularly for moderate- and low-income families.

Problem is, some of the "solutions" proposed in Albany ignore these distinctions — and so threaten to shut down that dream for many New Yorkers.

And that issue should matter to every citizen — for continued housing credit is a key to our state's future economic growth.

Understand: No bank wants to foreclose on a home. Banks earn

money by lending, not by owning real estate. They work hard with their customers to avoid foreclosure, focusing on negotiation and workouts. (By far, the best thing a financially distressed borrower can do is reach out to their lender at the earliest sign of a problem.)

And New York law already provides rigorous safeguards for

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people threatened with foreclosure. On average, a foreclosure here takes 445 days.

But one "solution" proposed in Albany would extend this process by creating a one-year moratorium. This wouldn't help borrowers because, while in the foreclosure process, lenders may be forced to pay insurance and taxes on the property — further eroding their equity.

The moratorium could also injure entire neighborhoods — be-

cause homes stuck in an extended foreclosure process often slip into disrepair.

Another proposed law would arbitrarily redefine many conventional (prime) loans as nonconventional (subprime) loans — and then impose new and costly burdens on lenders of "nonconventional" loans. Apply that proposal to today's interest rates, and a 30-year mortgage at about 7.5 percent would somehow become a subprime loan.

These bills don't just increase the costs of mortgage lending; they make it a much riskier business. After all, if the government redefines a set of normal loans as nonconventional ones once, every banker must worry that it would do so again down the line.

Those added uncertainties and expenses will prompt some banks — possibly many — to exit the legitimate subprime-lending market. That will make it harder for qualified borrowers with less than perfect credit to get mortgages from banks.

The New York Bankers Asso-

ciation has suggested that any "subprime rescue" law use an appropriate index to define subprime loans — one that won't interfere with the prime market or eliminate the legitimate subprime market. The appropriate index reduces the costs and risk of a loan and therefore increases the credit available.

Ultimately, to ensure that similar circumstances do not arise again, bankers continue to support greater financial education. A well-educated consumer is the best defense against predators.

From working with community groups to participating in such national efforts as the federal government's HOPE Now Alliance, New York banks are in the forefront of efforts to promote financial literacy among senior citizens, prospective homebuyers and students.

We urge Albany to seek workable solutions as it addresses these important issues.

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