

Community Mortgage Banking Project

Contact: Glen Corso
(571) 357-1036
glen.corso@mbinitatives.com

Community Mortgage Banking Project Expresses Continued Concern with House Financial Reform Legislation

WASHINGTON – Dec. 11, 2009 – A top official of the Community Mortgage Banking Project (CMBP) said financial reform legislation passed by the House of Representatives on Friday could threaten the continued availability of hundreds of billions of dollars of home loans for consumers unless further changes are made to key provisions.

“While the bill enacts needed reforms in several areas, there is a real risk that some of the changes are being layered on top of previously implemented and pending regulatory enhancements in a manner that could destabilize our already fragile credit markets,” said Glen Corso the group’s managing director.

Two provisions of the bill, in particular, could dilute consumer protections, reduce lending by community-based institutions, and significantly increase the cost of credit for borrowers.

As passed by the House, the Wall Street Reform and Consumer Protection Act would grant federal banking regulators broad authority to allow national banks and federal thrifts to ignore state consumer protection laws. “One of the basic tenets of any major reform should be to ensure that all lenders play by the same set of rules,” Corso said. “Charter-based preemption puts consumers in the unfortunate position of having to figure out what license their financial institution holds to know what protections they are being afforded.”

The Community Mortgage Banking Project supports reforms that require all lenders to play by the same set of rules, and believes that any federal preemption of state laws should apply to all institutions, and be based on the need to protect consumers from misguided state laws that have the effect of significantly increasing the cost of credit.

Another provision of the bill could sharply restrict the ability of consumers to secure credit from locally based lenders. “So-called risk retention provisions in this legislation could have had the unintended effect of driving community-based mortgage banking companies out of business, allowing a handful of mega-banks and Wall Street lenders and servicers to dominate the industry,” Corso said. “It would be a mistake to force this critically important lending channel for consumers to dry up at the very time liquidity is so badly needed in the market.”

“Risk retention provisions are a reasonable approach for exotic mortgages that carry higher risks of default,” Corso continued. “That is not the case, however, for ‘plain vanilla’ ordinary mortgage such as the ones offered by community-based mortgage banking companies. Congress needs to provide clear direction to regulators to exempt low risk mortgages from the retention requirements to assure consumers a wide variety of lender choices when they look for a mortgage.”

According to recent Home Mortgage Disclosure Act data, independent community-based mortgage banks are responsible for making about one-third of all residential mortgages and about half of all FHA loans. “Removing this much liquidity from the market is certain to increase costs and degrade the quality of service for borrowers,” Corso said.

The Community Mortgage Banking Project plans to continue to work in the Senate for passage of a sensible, bipartisan framework that will improve upon the preemption and risk retention provisions to assure competition, liquidity and consumer choice in the mortgage market.

About the Community Mortgage Banking Project

Community Mortgage Banking Project is a public policy organization representing the interests of independent mortgage bankers. For decades, the community-based mortgage banker has delivered value and choice to consumers by leveraging local market expertise, quality service, and lower costs for borrowers. The CMBP supports financial market reforms that promote consumer access, borrower and investor transparency, local competition and choice, and a value added mortgage chain. For more information, visit www.communitymortgagebankingproject.com.