

Timeline of Mortgage Market Developments and Congressman Kanjorski's Actions

Congressman Paul E. Kanjorski (D-PA) has sought for many years to protect homebuyers from predatory lending practices, improve the oversight of the mortgage markets, and ensure stable access to capital for homebuyers. The following points detail some of the recent, important developments in the mortgage markets, nationally and locally, as well as a number of key actions taken by Congressman Kanjorski to safeguard borrowers, better the lending process, enhance the functioning of the mortgage finance system, and strengthen mortgage lending regulations.

1994

- *HOEPA.* Congressman Kanjorski votes for the enactment of H.R. 3474, which contains the Home Ownership and Equity Protection Act (HOEPA). HOEPA was the first Federal law designed to protect homeowners against certain predatory lending tactics. In the previous year, Congressman Kanjorski helped to introduce the Home Equity Protection Act, which served as the basis for the enacted law. HOEPA responds to concerns that second mortgage lenders, home improvement contractors, and finance companies who peddled high interest rate home equity loans with high loan fees to cash-poor homeowners had victimized some communities.

1999

- *North Carolina anti-predatory lending law.* North Carolina becomes the first state in the country to enact supplemental legislation that exceeds the federal standards established under HOEPA for curbing predatory lending. In subsequent years, many states follow with the adoption of their own anti-predatory lending laws. As a result, an inconsistent patchwork of consumer protections develops that depends on where a borrower lives and from whom they obtain a mortgage.

2000

- *GSE regulatory reform hearings.* In March 2000, the Capital Markets Subcommittee on which Congressman Kanjorski then served as the most senior Democrat begins a lengthy and comprehensive examination of the regulation of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Known as the housing government-sponsored enterprises or GSEs, the public-private entities play an important role in the financial markets in helping mortgage lenders to gain access to capital for making home loans at lower rates. From the very start, Congressman Kanjorski calls for a strong, independent regulator that has the resources needed to get the job done. More than two dozen GSE hearings follow in the next several years, and legislation begins to move forward after the identification of accounting problems at Freddie Mac and Fannie Mae in 2003 and 2004, respectively. GSE regulatory reform becomes law in July 2007 as part of H.R. 3221, the Housing and Economic Recovery Act.
- *Democratic anti-predatory lending bill.* In April, Congressman Kanjorski joins together with several of his Democratic colleagues in introducing H.R. 4250, the Predatory Lending Consumer Protection Act. The bill seeks to amend HOEPA and other sections of the Truth in Lending Act to provide consumers with greater federal protections against predatory practices in connection with high-cost mortgage transactions and to strengthen the civil remedies available to consumers under existing law.

2001

- *Greenspan questioned on housing markets.* At a July hearing of the House Financial Services Committee on economic and monetary policy, Congressman Kanjorski first questions Alan Greenspan, then Chairman of the Federal Reserve, about the effect of housing prices on the economy.
- *Poconos lending problems.* Upon learning of problems in the Poconos housing markets in Monroe County related to predatory practices, faulty appraisals, and other problematic lending tactics, Congressman Kanjorski convenes a task force that includes representatives from homebuilders, bankers, appraisers, and realtors, among others, to examine the problems, help affected homeowners, and identify policy solutions. Congressman Kanjorski publicly notes that he wants to explore whether current laws provide sufficient protection for homebuyers.
- *Poconos loans modified.* At Congressman Kanjorski's request, Fannie Mae and Freddie Mac conduct an exhaustive review of the foreclosed properties in Monroe County to determine whether either GSE purchased or securitized the defaulted mortgage. As part of these efforts, Chase Manhattan Mortgage Corporation also finds that it held many mortgages with faulty appraisals in Monroe County. As a result of these reviews, as many as 300 homeowners had their mortgages adjusted downward by as much as \$60,000 each according to press reports.
- *Appraisal anti-fraud amendment.* Congressman Kanjorski applies the lessons learned in the Poconos and works internally to improve H.R. 1408, the Financial Services Antifraud Network Act, by strengthening the bill's protections against improper appraisals. The Financial Services Committee reports the bill in August, and the House approves the legislation in November. The Senate never considers the matter.
- *National Association of Affordable Housing Lenders symposium.* Given his experiences in the Poconos housing markets, the National Association of Affordable Housing Lenders invites Congressman Kanjorski to address participants at its March symposium on Practical Solutions to Predatory Lending. As a result of this speech, Congressman Kanjorski's interest in and leadership on fighting predatory lending grows. Former Federal Reserve Board Governor Ned Gramlich, who was recognized as an early leader on anti-predatory lending matters, also addresses the group and follows Congressman Kanjorski's presentation.
- *Restoration of the personal interest tax deduction.* In October, Congressman Kanjorski joins in support of H.R. 2969, the Home Equity Loss Prevention and Economic Recovery Act. By seeking to restore a partial tax deduction for personal interest eliminated in 1986, the bill would help to decrease the need to borrow against home equity. We now know that many people with subprime loans used their homes as ATMs to fund their lifestyle choices. Restoring the tax deduction for interest paid on credit card balances and other personal loans could have helped to prevent the current problems in the mortgage markets from occurring.
- *Blocking banks from real estate activities.* In an effort to protect against the mixing of banking and commerce and ensure the safety and soundness of the nation's financial system, Congressman Kanjorski joins with Congressman Ken Calvert (R-CA) in December to introduce H.R. 3424, the Community Choice in Real Estate Act, for the first time. The bill makes it clear that national banks cannot engage in real estate brokerage and property management. The two congressmen have reintroduced the bill as H.R. 111 in each

successive Congress since then and worked to include language in annual spending bills to prevent federal agencies from finalizing regulations to allow national banks to engage in these commercial activities. In each Congress, the Community Choice in Real Estate Act gains the support of a majority of the House as cosponsors. If national banks had engaged in these prohibited activities in recent years, the problems currently affecting the nation's housing markets would have likely been significantly worse.

2002

- *Greenspan questioned on housing markets, again.* The rapid growth in home values greatly concerns Congressman Kanjorski and leads him at a July hearing of the House Financial Services to question Chairman Greenspan again about the potential of a valuation bubble in the housing markets. Congressman Kanjorski also expresses concerns about what could happen to the economy if the bubble burst. Chairman Greenspan responds that he saw “no evidence” of “a national bubble in home values” and that the matter did not need to be addressed by policy reforms.
- *National affordable housing trust fund.* In July, Congressman Kanjorski first cosponsors the National Affordable Housing Trust Fund Act. H.R. 2349 seeks to establish the National Affordable Housing Trust Fund in the Treasury to provide for the development, rehabilitation, and preservation of decent, safe, and affordable housing for low-income families. In other words, this legislation would provide an alternative source for housing finance for low-income families, a group significantly more likely to take out subprime mortgages. Congressman Kanjorski has continued to call for the creation of a National Affordable Housing Trust Fund since this time, and supported H.R. 2895, the National Affordable Housing Trust Fund Act, when the House under Democratic leadership approved the legislation in October 2007. Ultimately, the Congress creates in July 2008 a new, permanent affordable housing trust fund to fund the construction, maintenance and preservation of affordable rental housing for low- and very low-income individuals and families in both rural and urban areas as part of H.R. 3221, the Housing and Economic Recovery Act of 2008.

2003

- *GAO appraisal report.* In May, the General Accounting Office (now the Government Accountability Office) releases a report assessing the state of appraisal laws, regulations, and practices. The report's findings and recommendations assist Congressman Kanjorski in developing legislation on comprehensive appraisal reforms that he introduces in the next Congress. Congressman Kanjorski is now known as the leader in the Congress on appraisal regulatory reform and independence issues.
- *Accurate credit reports.* Congressman Kanjorski spends a considerable amount of time in working on legislation to expand and extend the Fair Credit Reporting Act, and he helps to introduce H.R. 2622, the Fair and Accurate Credit Transactions Act, in June. Congressman Kanjorski later in the year serves as one of the House negotiators to develop a final compromise on this law. As enacted, H.R. 2622 prevents identity theft, improves the resolution of consumer disputes, enhances the accuracy of consumer records, and makes improvements in the use of, and consumer access to, credit information. With an accurate credit report, consumers who pay their bills on time will have access to better credit and hopefully not need to take out subprime loans.

2004

- *Anti-predatory lending legislative initiative.* In March before a conference of America's Community Bankers, Congressman Kanjorski makes known his interest in crafting legislation to create credible, effective, and strong national standards for subprime lending. In the following months, Congressman Kanjorski engages officials like then-Pennsylvania Secretary of Banking William Schenck, consumer groups, industry representatives, and real estate experts in conversations about how best to craft such a bill. Congressman Kanjorski also indicates that his goal is to find a sensible middle ground that protects consumers and helps lenders to operate more efficiently.
- *Poconos hearing.* At Congressman Kanjorski's request, the House Financial Services Capital Markets Subcommittee convenes a hearing in June to examine the problems that occurred in the Poconos housing markets and ascertain options for legislative and regulatory policy reforms. Witnesses at the hearing include representatives of housing advocates, realtors, appraisers, builders, think tanks, and the government-sponsored enterprises. This hearing helps to build the record for the legislation that Congressman Kanjorski is drafting on subprime lending protections.
- *Bipartisan legislative effort.* In October, Congressman Kanjorski announces that he will work with a senior Republican on the House Financial Services Committee to craft bipartisan legislation that will protect consumers by establishing strong uniform national standards for subprime lenders and adopting other needed reforms to help homebuyers and homeowners. Throughout the remainder of the year and into early 2005, Congressman Kanjorski and his staff engage in extensive negotiations and discussions on the proposed subprime lending reform legislation.
- *Consumer speech.* Congressman Kanjorski delivers in December a keynote address at the Consumer Federation of America's conference on financial services issues. In the speech, he highlights the need for mortgage lending reform, especially in the area of subprime lending.

2005

- *H.R. 1295 introduction.* In March, Congressman Kanjorski completes his work announced the previous October on drafting a bipartisan anti-predatory lending bill and helps to introduce H.R. 1295, the Responsible Lending Act. Because Congressman Kanjorski believes that predatory lending is a complex problem that requires a comprehensive solution, H.R. 1295 not only modifies underwriting practices like several other pending bills in the Congress, but it also enhances housing counseling services, improves appraisal oversight, better mortgage servicing, and establishes a system for licensing and overseeing mortgage brokers. Each of these five policy fields is now recognized as having contributed to the subprime lending abuses that occurred in early 2006 through early 2007. After the Financial Services Committee holds a hearing in May on H.R. 1295 and other legislative solutions to abusive lending, Congressman Kanjorski seeks to find a compromise in a series of negotiations with interested parties and Member-level discussions throughout the remainder of the 109th Congress. Moreover, the Congress, as part of the Housing and Economic Recovery Act, ultimately enacts mortgage broker licensing provisions substantially similar to those first proposed by Congressman Kanjorski in July 2008.

- *GSE regulatory reform bill.* In May, the Financial Services Committee approves H.R. 1461, the Federal Housing Finance Reform Act, with Congressman Kanjorski's strong support and by a vote of 65 to 5. The House subsequently passes the legislation in October. House action on the bill culminates the work that Congressman Kanjorski began in 2000 with the series of hearings to improve the regulation of the housing GSEs and enhance the functioning of the mortgage markets. The Senate never passes the bill in the 109th Congress.
- *Scranton Times editorial.* In September, the *Scranton Times* notes on its editorial page that Congressman Kanjorski is playing a leading role in Congress in working to draft legislation to protect against predatory lending and that his "proposal contains several essential elements of an effective standard."

2006

- *Anti-predatory lending negotiations.* The Member-level working group discussions on mortgage lending standards begun in mid-2005 continue into 2006. Congressman Kanjorski plays an active role in these talks on his bill and related legislative proposals.
- *FHA reform bill.* In May, the Financial Services Committee approves H.R. 5121, the Expanding American Homeownership Act, and the House then passes the bill in late July. Congressman Kanjorski supports these efforts to modernize the Federal Housing Administration's programs. The report on H.R. 5121 notes that the quickly changing mortgage markets have diminished FHA's ability to serve families not adequately addressed by the conventional mortgage market. As a result, many homebuyers must turn to high-cost financing alternatives and non-traditional loan products like interest-only, adjustable rate loans that could later trap borrowers in unaffordable mortgages. To fix these problems and provide borrowers with a more sustainable source of housing finance, H.R. 5121 would alter FHA's programs to expand its reach.

2007

- *FHA reform legislation, again.* In May, the House Financial Services Committee with Congressman Kanjorski's support modifies and again approves the Expanding American Homeownership Act (now H.R. 1852) to expand access to low-cost affordable mortgages through the Federal Housing Administration. The House then passes H.R. 1852 in September. The Senate passes its version of FHA reform in December. Ultimately, the Congress incorporates the FHA modernization legislation into the final version of the Housing and Economic Recovery Act (H.R. 3221), which becomes law in July 2008.
- *GSE regulatory reform bill, again.* In May, the House again passes the Federal Housing Finance Reform Act (now H.R. 1427) by a vote of 313 to 104 and with the support of Congressman Kanjorski. Congressman Kanjorski had convened a hearing of the Capital Markets Subcommittee, which he now chairs as a result of the Democratic takeover of Congress, on the bill earlier in the year. Like the legislation passed in the previous Congress, H.R. 1452 would improve the regulation of the housing GSEs, enhance the effective functioning of the mortgage markets, and increase mortgage market liquidity. The Senate Banking Committee approves its version of GSE regulatory reform in May 2008, and like the FHA modernization legislation, the Congress incorporates the GSE regulatory reform bill into the final version of the Housing and Economic Recovery Act (H.R. 3221), which becomes law in July 2008.

- *Accounting rules for loan modifications.* In June, Congressman Kanjorski and other senior lawmakers write to the U.S. Securities and Exchange Commission asking for a clarification of the accounting guidance related to when a servicer can modify the terms of a mortgage in a securitized pool. Specifically, the lawmakers ask if the loans could be modified when a default is reasonably foreseeable, instead of waiting at least 30 days after a default or the start of the foreclosure process. In response, the Commission brokers a compromise that allows potentially troubled mortgage loans in a securitized pool to be modified sooner.
- *Escrow, appraisal, and mortgage servicing bill.* Congressman Kanjorski works to refine and strengthen a number of the provisions contained in H.R. 1295 from the 109th Congress. Ultimately, Congressman Kanjorski introduces H.R. 3837, the Escrow, Appraisal, and Mortgage Servicing Improvements Act, in October. Shortly thereafter, the Financial Services Committee holds a hearing to review the legislation and then approves H.R. 3837 by a voice vote in early November. The legislation enjoys broad, bipartisan support, and attracts the support of more than three dozen regulators, consumer interests, and industry entities. The Federal Reserve, in its anti-predatory lending rule (see below), proposes and eventually adopts a number of the provisions found in H.R. 3837.
- *Scope of anti-predatory lending bill.* Even though H.R. 1295 did not become law in the 109th Congress, Congressman Kanjorski's leadership on fighting predatory lending significantly shapes the debate in the 110th Congress on new legislation. In November 2007, the House passes H.R. 3915, the Mortgage Reform and Anti-Predatory Lending Act, to crack down on predatory lending practices and enhance consumer protections. The House-passed bill contains each of the five key policy parts first identified by Congressman Kanjorski in 2005 as needed for putting in place a comprehensive solution against predatory lending.
 - As introduced, H.R. 3915 primarily addresses the reform of mortgage underwriting standards and related consumer protections. Congressman Kanjorski, however, works with his colleagues on the House Financial Services Committee to add mortgage broker licensing standards (which become law in July 2008) and housing counseling reforms during the panel's consideration of the bill. Congressman Kanjorski then takes action on the House floor to incorporate into H.R. 3915 the appraisal independence and mortgage servicing changes found in his own bill, H.R. 3837 (see above).
 - The Kanjorski amendment on escrows, appraisals, and mortgage servicing to H.R. 3915 passes on a voice vote. The amendment garners the support of more than three dozen entities, including consumer groups, trade associations, and the enforcement community. Some of the noteworthy supporters include the AFL-CIO, the Association of Community Organizations for Reform Now (ACORN), the Appraisal Institute, the Center for Responsible Lending, the Consumer Federation of America, the National Association of Realtors, and the National Credit Union Administration.
- *Mortgage debt tax forgiveness.* The Mortgage Forgiveness Debt Relief Act becomes law in December with Congressman Kanjorski's support. Mortgage debt cancellation can occur when lenders restructure loans, reducing principal balances, or sell properties, either in advance, or as a result, of foreclosure proceedings. If a lender forgives or cancels such debt, the tax law treats it as income and subjects it to taxation. Under the new law, a homeowner will not have to pay taxes on debt forgiven by a lender provided that the mortgage debt is discharged before the end of 2009 and the homeowner lives at the property.

- *Federal Reserve rule proposal.* In December, the Federal Reserve Board proposes to expand its regulations under the Truth in Lending Act to require lenders to establish escrow accounts for subprime borrowers, compel servicers to credit mortgage payments promptly, require servicers to provide payoff statements quickly, and prohibit lenders and brokers from coercing or encouraging an appraiser to misrepresent the value of a home. Each of these four regulatory proposals closely parallel the related reforms contained in H.R. 3837 by Congressman Kanjorski and in his escrow, appraisal, and mortgage servicing amendment to H.R. 3915 (see above). The Federal Reserve finalizes each of the four Kanjorski-backed regulatory proposals in July 2008.
- *Housing counseling funding.* To help families with unaffordable mortgages to remain in their homes, Congressman Kanjorski works in December to allocate \$230 million in funding in H.R. 2674, the Consolidated Appropriations Act, for mortgage mitigation and housing counseling services. Specifically, the appropriations bill provides \$180 million for NeighborWorks America to make grants to credit counseling agencies approved by the U.S. Department of Housing and Urban Development (HUD) for mortgage mitigation efforts and \$50 million for HUD's housing counseling assistance program.

2008

- *Temporary increase in GSE loan limits.* To help improve the availability of money for mortgages in many of the nation's local housing markets most impacted by the ongoing credit crunch, Congressman Kanjorski in January drafts and introduces H.R. 5153, the Conforming Loan Limit Temporary Adjustment Act. The House ultimately incorporates the bill into the Economic Stimulus Act of 2008 that became law in February. The change in law allows Fannie Mae and Freddie Mac during 2008 to purchase and securitize more home loans, thereby lowering the interest rates for the temporarily covered mortgages. The Housing and Economic Recovery Act, enacted in July, codifies these increases albeit at slightly lower levels.
- *Temporary increase in FHA loan limits.* With the support of Congressman Kanjorski, the final version of the Economic Stimulus Act enacted in February also temporarily raises the FHA loan limits for 2008 in order to help more borrowers to use the stable source of government-guaranteed financing for their home purchases during the credit crunch. As a result of this law, the caps on mortgages in 2008 in Northeastern Pennsylvania's communities rise by more than \$70,000 (generally from \$200,160 to \$271,050). The Housing and Economic Recovery Act, enacted in July, codifies these increases.
- *Loan modification safe harbor.* In March, Congressman Kanjorski completes work on revising the Emergency Mortgage Loan Modification Act and joins Congressman Michael N. Castle (R-DE) in introducing H.R. 5579. Their new bill provides protection from investor lawsuits for servicers who modify and adjust the terms mortgages for troubled borrowers facing defaults. Congressman Kanjorski convenes a hearing of the Capital Markets Subcommittee on the bill in April, and the Financial Services Committee reports the legislation shortly thereafter. In early May, the House approves by a vote of 266 to 154 the inclusion of H.R. 5579 in H.R. 3221, the Foreclosure Prevention Act of 2008. The final version of H.R. 3221 that becomes law includes several of the loan modification requirements advanced by Congressman Kanjorski as part of the special FHA refinancing assistance program for subprime borrowers.

- *Cuomo-GSE appraisal agreement.* In March, New York Attorney General Andrew Cuomo reaches an agreement with Fannie Mae and Freddie Mac concerning the reform of problematic appraisal practices. The appraisal independence language of the Home Valuation Code of Conduct mirrors the appraisal independence language long advanced by Congressman Kanjorski to protect appraisers against coercion, extortion, collusion, instruction, inducement, intimidation, and bribery. Attorney General Cuomo consulted Congressman Kanjorski on the independence language.
- *Senate appraisal bill and AP investigation.* Senator Robert Casey (D-PA) and Senator Mel Martinez (R-FL), a former HUD Secretary, introduce S. 2860, the Fair Value and Independent Appraisal Act, in April. Senator Casey credits Congressman Kanjorski for his leadership on appraisal independence and consumer protection issues, and for drafting many elements of their bill. In August, the *Associated Press* publishes the results of its 6-month investigation identifying key problems with the oversight of appraisers. The series of stories notes Congressman Kanjorski's leadership on appraisal reform in Congress.
- *Enhanced FHA reforms.* The House approves H.R. 5830, the FHA Housing Stabilization and Homeownership Retention Act, in May with Congressman Kanjorski's support. During the Financial Services Committee's markup, Congressman Kanjorski amends H.R. 5830 to include appraisal independence standards. The \$300 billion loan program could help an estimated 500,000 American families to remain in their homes by allowing them to refinance into more affordable government-backed mortgages. To protect taxpayers, lenders must take significant financial losses before selling the loan to FHA and borrowers must share any profits from the resale of a refinanced home with the government. These appraisal independence protections for the special FHA subprime refinancing program are incorporated into the final version of the Housing and Economic Recovery Act of 2008, which becomes law in July.
- *Community assistance funding.* Also in May, the House passes H.R. 5818, the Neighborhood Stabilization Act, to provide \$15 billion in loans and grants to states to acquire vacant, foreclosed homes in order to prevent neighborhood crime increases and avoid further declines in home values. During the Financial Services Committee's markup, Congressman Kanjorski works to increase Pennsylvania's share of the available funding by adjusting the formula to provide the Commonwealth with nearly \$600 million. Congressman Kanjorski also works to ensure that communities can use the bill's funds to demolish abandoned properties, an issue of importance to many local officials in Northeastern Pennsylvania. The final version of the Housing and Economic Recovery Act ultimately provides \$4 billion in emergency assistance (CDBG Funds) to communities hardest hit by the foreclosure.
- *Treasury Emergency Powers.* At a July 10 hearing on systemic risk and the financial markets, Congressman Kanjorski asks Treasury Secretary Hank Paulson, Jr., whether he needs emergency powers to respond to the growing problems in the financial markets. Initially, Secretary Paulson indicates that he does not. Within the week, however, Treasury Secretary Paulson reconsiders his views and asks the Congress for emergency powers to provide additional liquidity for Fannie Mae and Freddie Mac. To protect taxpayers, Congressman Kanjorski works to modify this initial request and the Congress adds it to the final version of the Housing and Economic Recovery Act of 2008.

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