



# Standards in Mortgage Lending

Jeff Mitchell

Strategic Standardization CMGT 564

01 August, 2007



# Synopsis

- History of lending institutions
- S&L Crisis- Falling Standards
- Subprime Crisis- What Standards?
- Who's in charge, anyway?
- Legislation's role in Standards
- Summary



# History (1831-1960's)

- Mutual Savings Associations
- 1831- Oxford Provident
- “Permanent Plan”: Enter liquidity...
- “Dayton Plan”- still independent
- “Home Owner’s Lending Act”-1933
- Trend of higher liquidity, fewer constraints on borrowers



# S&L Crisis (1960's-80's)

- Interest Rate volatility
- + HOLA Restrictions on S&Ls
- + Falling standards
- = Opportunity for trouble
- Government's role
- Any lessons learned?
  - Oversight
  - Relaxing standards



# Subprime Crisis

- “New” problems
  - Judgement of credit worthiness
  - Ability to repay
  - Abusive lending
- No standards v.s. falling standards...



# Who's in charge?

- No industry standard-setting body
- MBA- “Best Practices”
- NAR- “Code of Ethics”
- Enforceable? Auditable?
- Freddie Mac & Secondary Market



# Legislation

- Equal Credit Opportunity Act
- Fair Housing Act
- Fair Credit Reporting Act
- Truth in Lending Act
- Borrower's Protection Act of 2007
- Is this the answer?



# Summary

- Mortgage Lending: not like other industries
- Different issues, same underlying problem: Enforcement of Standards
- Government's role
- Have we seen the last of lending crises?



Questions?



# References

- Bernanke, Ben S. “The Housing Market and Subprime Lending.” Speech to the 2007 International Monetary Conference, Cape Town, South Africa (via Satellite) June 5, 2007.  
<http://www.federalreserve.gov/BoardDocs/Speeches/2007/20070605/default.htm>
- “Borrower’s Protection Act of 2007.” S.1299, 2007  
[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110\\_cong\\_bills&docid=f:s1299is.txt.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_cong_bills&docid=f:s1299is.txt.pdf)
- “Freddie Mac Announces Tougher Subprime Lending Standards to help reduce the risk of future borrower default.” Press Release, 27 Feb 2007.  
[http://www.freddiemac.com/news/archives/corporate/2007/20070227\\_subprimelending.html](http://www.freddiemac.com/news/archives/corporate/2007/20070227_subprimelending.html)
- Home Owner’s Loan Act of 1933 As Amended. (1933). Washington, DC: US Government Printing Office.
- “Income is No Shield Against Racial Differences in Lending,” NCRC, 2007  
<http://www.ncrc.org/pressandpubs/documents/NCRC%20metro%20study%20race%20and%20income%20disparity%20July%202007.pdf>
- “MBA Best Practices.” Mortgage Bankers Association, 2007  
<http://www.mortgagebankers.org/IndustryResources/StandardsandBestPractices/MBABestPractices.htm>
- Pizzo, Steven, et al., “Inside Job.” Mcgraw-Hill; 1st Ed. 1989. ISBN 0-07-050230-7
- Smith, Dwight C. “Mutual Savings Associations and Conversion to Stock Form” OTS, May 1997  
<http://www.ots.treas.gov/docs/4/48801.pdf>
- “The S&L Crisis: A Chrono-Bibliography.” FDIC Industry Analysis, 20 Dec 2002.  
<http://www.fdic.gov/bank/historical/s&l/>