



**Congressman Barney Frank's Letter to Constituents on the Economic Crisis  
October 11, 2008**

Dear Friend:

I am writing in response to your comments about the financial crisis facing this country, and the economic stabilization legislation Congress recently passed in an effort to address those difficulties. I would note at the outset that I received an extremely large number of comments (by email, telephone, fax, postal mail, etc.), covering a wide range of issues relating to the legislation, going beyond simply pro and con opinions, but also including interesting and creative alternatives, suggestions, ideas for improving the legislation, viewpoints on specific parts of the bill, and many other perspectives. These recommendations were reviewed by my staff and me, and in some cases were incorporated into the legislation. I know that at times the email servers and the phone lines could not keep up with the incoming communications, and I apologize if, as a result of that, it took you more than one try to get through.

Because this is such an important topic, I thought it would make sense for me to send the following comprehensive explanation of my views and actions, and what I believe we should do going forward. Although your individual letter or phone call may not have touched on all of the points below, I think it will give the fullest idea of my views if I send this response to all who contacted me. In a few cases, where very specific matters were raised that would unlikely be of interest to the broad range of people who contacted me, I will respond separately to address those points, in addition to sending this letter.

**The Economic Crisis and the Need for Legislation.** Since I became Chairman of the Financial Services Committee in the early part of last year (following Republican control of the House and the committee from 1995 – 2006), I have been doing all I could in that capacity to push for regulations and legislation that I believed would best protect those who are struggling economically or who would have the most to lose in an economic downturn. Among the bills the committee developed that were passed by the House in the 21 months of my chairmanship are a bill imposing stricter regulation on Fannie Mae and Freddie Mac (passed by the House in May 2007 and later added to another bill that became law in July 2008); a bill cracking down on abusive subprime loans (which, though not adopted by the Senate helped prompt the Federal Reserve to issue its own regulations on abusive subprime loans; a bill to give shareholders a greater say on CEO pay and benefits (not passed by the Senate); and a bill to establish important new consumer protections against abusive credit card company practices (also not passed by the Senate). I regret that some of these bills did not make it through the Senate, but I will continue to push for their passage into law.

These bills are particularly important because middle class and less well off Americans do not have a large economic cushion. Many people in this country did not benefit at all or very much from the economic growth of recent years, and they will likely be hurt by the problems we now face. And, I regret that, in passing the economic stabilization legislation to respond to the current crisis, we are in effect saying that some people who have diligently paid their mortgages or otherwise lived within their means should contribute -- as taxpayers -- to the solution. Indeed, under normal circumstances, I would not be inclined to support the idea of having those who didn't create the problem make a significant financial contribution toward solving it, particularly when, from the perspective of some who are not in financial trouble, they will be "bailing out" those who took imprudent risks, either on Wall Street or in their own communities.

However, in this case, it is my belief that, unless we take action along the lines of the legislation we adopted, the impact on virtually everyone in our country will be much worse, including those who are blameless. For example, if foreclosures continue to increase, local and state governments' tax bases will decline and they will have to cut back on key services, including potentially in such areas as fire, police and education. In addition, with credit markets locked up, small businesses will increasingly face problems in meeting their payrolls, which in turn will lead to increased unemployment. People who have invested in the stock market for their retirement or to supplement their income will see further erosion in the value of their stocks. Those who continue to make their mortgage payments will, through no fault of their own, see the value of their houses continue to drop. I agreed with the suggestion made by many people that we should pass a new economic stimulus bill or an infrastructure improvement bill in order to help address some of these problems, though I believed a bill along those lines should be in addition to the stabilization bill, not instead of it. In any case, because of strong opposition by the Bush Administration, we were unable to get traction for a stimulus bill.

With all of those concerns in mind, I felt that, as long as we were able to include strong protections for taxpayers over the long run, it made sense to pass the economic stabilization legislation in order to prevent a much worse outcome. I appreciate the fact that many people do not agree with my assessment of the situation or on whether the specific bill we have adopted will help over time. But, I think the bill -- though not perfect -- does offer an appropriate, workable response to the difficult economic circumstances in which we find ourselves. And, I would add that having legislation in place along these lines moves us away from the kind of ad hoc approach without major oversight that Treasury and the Fed took with Bear Stearns, Lehman Brothers and AIG.

I believe that the economic difficulties we face are primarily the result of a lack of adequate regulation of key aspects of our financial system. The more traditional commercial banks, which have been well regulated for years, contributed relatively little to the current crisis. It is the unregulated sectors of the economy, including non-bank mortgage originators and unregulated dealers in exotic financial instruments like credit default swaps that were largely responsible for the problems. I have fought for tougher regulation of our financial markets. And, as Chairman of the Financial Services Committee, I will be holding a series of hearings, starting this month, and continuing next year if the Democrats remain in the majority in Congress, to thoroughly review the regulations that did and didn't work, and to take

whatever steps are necessary to put in place in the future the regulatory structure we need to prevent this from happening again. In a related effort, while the Financial Services Committee probes how best to prevent this from recurring and what kind of regulations we should adopt in the future, the Government Oversight Committee under Chairman Henry Waxman is holding a series of hearings, which have already begun, focusing on the problems in specific companies like Lehman Brothers and AIG, including any wrongdoing by company officials.

**The Bush Administration Proposal.** When the bipartisan leadership of the House and Senate, along with top members of relevant Congressional committees were informed on September 18, 2008 by Treasury Secretary Paulson and Federal Reserve Chairman Bernanke that we were facing an imminent crisis in our financial markets, we all agreed that it was necessary to take action as soon as possible. Obviously, there are many people who don't share the view that we were then or that we are now in a crisis that requires major government action. As I already explained, I disagree with that view. I thought that the information presented by Paulson and Bernanke was extremely persuasive, and I believe that many of the recent negative developments we have seen in financial markets and the broader economy, both here and in other countries, have demonstrated how serious the situation is.

Once it became clear that we needed to take action, and the Bush Administration submitted its legislation, the next question was what the Congressional response to their proposal should be. As you are aware, the initial Administration plan was extremely brief (three pages), very general, and lacked some very important provisions. Our task, as I saw it, was to move quickly, but not without making improvements to the bill. Some have suggested it would have been better to wait, or develop an entirely new bill. And, indeed, as mentioned above, a number of thoughtful alternatives were proposed. If this had been less of a crisis situation, taking the time to review a broader range of alternatives may have made sense.

But, given the severity of the situation and the need to have a bill that could pass both houses of Congress and be signed into law by the President, most Congressional leaders took the position, which I shared, that we ought to start with the Bush bill and improve it as much as possible without undue delay. Others have suggested that it would have been preferable to take no action and allow the markets to in effect correct themselves. Most of my colleagues and I disagreed with that approach, because as part of that correction process, a great many middle class and lower income people would have experienced severe economic distress, with the likelihood that additional government intervention, more costly than the bill we did in the end adopt, would be necessary.

**The Congressional Response.** When the Bush Administration bill was initially proposed, I made it clear that we ought to include at least four key changes: curbing executive compensation, protecting taxpayers, providing some relief to those facing foreclosure, and ensuring adequate oversight. As Chairman of the Financial Services Committee, I played a lead role in fighting for these principles, and in the end, while none of them were drafted in the precise form I would have preferred -- because the final product was developed based on bipartisan negotiations -- all of these concerns were in the end addressed satisfactorily in the bill in my opinion.

Specifically, the bill subjects companies participating in the program to limits on executive compensation, including loss of certain tax benefits and restrictions on “golden parachutes.” The bill also protects taxpayers by requiring participating companies to provide warrants to the government so that taxpayers will benefit from any future growth of these companies. It provides relief to homeowners by requiring Treasury to modify troubled loans – many the result of predatory lending practices – whenever possible to help American families keep their homes. And, the bill ensures strong oversight of the program by establishing an Oversight Board as well as a Congressional Oversight Panel so that Treasury cannot act in an arbitrary manner. It also establishes a special inspector general to protect against waste, fraud and abuse. In addition, rather than giving Treasury all \$700 billion at once, the bill limits Treasury to \$250 billion initially and requires the President to certify that additional funds are needed (\$100 billion next, and then \$350 billion subject to Congressional disapproval). Commenting in an October 4, 2008 article in the New York Times (“Anxiety on Economy Wins Out”), Joe Nocera wrote that “[t]he executive compensation limits, the aid for struggling homeowners, the toughened oversight provisions – those all came from Mr. Frank and his allies, who knew that Mr. Paulson’s initial “give me the ball and get out of the way” approach was a nonstarter.”

Beyond those key points, as most people are aware, the bill at its core would allow the Treasury Secretary to use those funds to buy mortgages and other assets that are clogging the balance sheets of financial institutions and making it difficult for working families, small businesses and other countries to access credit. The bill also establishes a program that would allow companies to insure their troubled assets.

Another issue that arose during negotiations on the legislation was the treatment of preferred stocks in Fannie Mae and Freddie Mac, something that affects community banks and individual investors. At my urging, in order to ensure that community banks and other institutions holding the preferred stock of Fannie Mae and Freddie Mac receive some protection, the bill allows losses from such preferred stock to be treated as ordinary loss for tax purposes. While I fought also for inclusion in the bill of protections for individual investors who had been holding preferred stock in Fannie Mae and Freddie Mac, this set of issues falls under the jurisdiction of the Ways and Means Committee, rather than the Financial Services Committee. As a result, I had less influence over the final form of that part of the bill, and despite my efforts, the bill does not include protections for individual investors who held preferred stock in either of the two companies.

I would also add that during the negotiations on the bill the Senate proposed that 20 percent of the profits made from the resale of assets purchased by the government under the rescue plan would be automatically shifted into the already existing Affordable Housing Trust Fund (under which funds are provided to State governments, which make decisions on distributing the funds to organizations under a competitive grant program, with political advocacy activities banned). While I am a supporter of the Trust Fund, I thought it would have been a mistake to include this idea in the bill, and because many of us on the House side of the negotiations objected, the proposal was withdrawn from the bill. Because some people have raised questions about the organization ACORN, I should point out that ACORN is not mentioned in the final bill, nor was the group mentioned in the earlier Senate proposal.

As you are probably aware, because the House initially defeated the bill, the Senate decided to add some provisions to the bill in order to give it a better chance of passing when it came up for a vote the second time in the House. I agreed with some of the Senate additions, including for example temporarily increasing the FDIC insured deposit amount from \$100,000 to \$250,000, and temporarily lifting the cap on the FDIC's borrowing authority from the Treasury Department. However, I did not agree with many of the tax provisions and the earmarks that were added. On the other hand, once the Senate passed the bill with these additions – and again taking into account the crisis we were in – I felt that attempting to remove some of the objectionable Senate items would have been a mistake because it would have led to further unacceptable delays in getting the bill adopted.

As a result, I argued in favor of accepting the Senate bill without further changes, not because I agreed with all of it, but because I believed that its essential provisions focusing specifically on how to respond to the economic crisis were appropriate, and that it was important for us to pass it as quickly as possible. With the bill now passed, I am hopeful that it will soon have a stabilizing effect on the housing, credit and stock markets, but it will obviously take some time for that to occur, and we may continue to face serious economic difficulties, as we have obviously seen in the stock market.

**The Community Reinvestment Act, and Fannie Mae and Freddie Mac.** A number of people, including both critics and supporters of the legislation, have argued that major causes of the economic crisis have been mortgage lending to poor people under the Community Reinvestment Act, and the activities of Fannie Mae and Freddie Mac. Some have also suggested that I contributed to our economic problems, because I have been Financial Services Committee Chairman for the last 21 months and a long-time supporter of providing opportunities for less well off people to have access to affordable housing. These allegations are not only inaccurate, they are being put forward in order to make it harder to put in place the stronger regulation of our financial markets that we need. I understand that as a public figure, people will criticize me when they disagree with the positions I take. But, in this case, groups that are opposed to more regulation are spreading inaccurate information about CRA, Fannie Mae and Freddie Mac, and my role, as part of a coordinated effort to prevent more regulations.

Claims that the Community Reinvestment Act of 1977 (CRA) forces banks to lend to unqualified minorities and low-income borrowers and is therefore a major cause of the mortgage crisis are contradicted by facts. CRA does not require banks to make loans to risky borrowers, it only encourages them to serve their communities and qualified low-income borrowers, consistent with safety and soundness. In fact, the great percentage of troubled, subprime loans (85%) were made by lenders who are not subject to CRA and who have no federal obligation to make loans to low or moderate-income or minority borrowers. Default rates on loans by CRA lenders are much lower than default rates on subprime loans, and are comparable to prime loans. Studies by the Treasury Department and Federal Reserve have shown that CRA has actually increased the volume of responsible lending to low and moderate income borrowers without negatively impacting the safety and soundness of financial institutions.

In addition, any claim that Clinton-era CRA changes caused loan losses is belied by the fact that the riskiest subprime lending which created the crisis did not take off until 2003, the very time when Bush Administration regulators were decreasing both the number of institutions subject to comprehensive CRA exams and CRA data reporting requirements. Finally, analysis of lending data shows that fewer than 30% of problematic subprime loans went to low or moderate-income borrowers in 2006 and that the majority of borrowers receiving high-cost subprime loans between 2005 and 2007 were not minorities.

With regard to Fannie Mae and Freddie Mac (also known as Government Sponsored Enterprises or GSEs), there are two key distortions that have been circulated. First, it is untrue that I opposed stronger regulation of the GSEs, and, second, it is inaccurate to say that the two companies caused the current housing crisis.

On the first point, I have consistently been a strong supporter of the mission of the GSEs – helping to expand home ownership – but I have also worked for stronger regulation of the two companies. And, I have been a leader in seeking federal aid for rental housing, recognizing (unlike the Bush Administration) that homeownership is not the best option for everyone. As mentioned above, the Republicans were in the majority in the House and on the committee for the period 1995 – 2006. No GSE reform bill passed during this period. Within a few months of my becoming Chairman, the House passed a GSE bill, and it became law this year. In October 2003, I was working with the Chairman of the Financial Services Committee at the time, Rep. Mike Oxley (R-OH), on a bill the committee was scheduled to consider to strengthen GSE regulation, but unfortunately the Bush Administration opposed that effort and it died. Two years later in October 2005, I again worked with Congressman Oxley, and a bill I helped draft passed the House, but the Bush Administration formally opposed that bill and it died.

In January 2007, I became chairman of the committee, and in March I led committee passage of a GSE reform bill. By May 2007, I succeeded in shepherding the bill through the House, by a vote of 313 to 104. The Administration supported the bill, and said that it included the elements that were essential for proper regulation of the GSEs. When it stalled in the Senate, in January 2007 I suggested to Secretary Paulson that we include the bill in the economic stimulus legislation that we were about to adopt, but he rejected that idea. It took another six months until a bill could be agreed to with the Senate and signed into law. When we passed the bill, Secretary Paulson said that he didn't expect to have to use the increased authority we had given him. Less than two months later, however, Treasury concluded that the financial position of the GSEs had deteriorated to the point that the federal government took them over. So far, the Treasury has not actually had to inject any of the \$200 billion in capital the Department has committed to using to prop up the GSEs. In fact, Fannie and Freddie are continuing to play a critical role in stabilizing our housing markets, as most other lenders have exited the mortgage market.

The GSEs played much less of a role in the current crisis than many Wall Street firms and unregulated lenders. It would be more accurate to say that Fannie and Freddie's difficulties were a symptom of the overall subprime mortgage crisis, rather than a cause. The subprime crisis proliferated during the period 2003 – 2007. It was primarily caused by unregulated lenders making loans with weak underwriting standards, and the massive growth in mortgage backed securities related to those loans. The GSEs did not substantially reduce their underwriting standards, but they unwisely purchased some of those securities, and that put them in financial difficulty.

Finally, though Congress passed legislation in 1994 giving the Federal Reserve the authority to crack down on abusive subprime loans, former Fed Chairman Alan Greenspan refused to use that authority, though we urged him to do so. I joined with several colleagues in the Financial Services Committee in pushing for legislation to more strictly regulate subprime mortgages, but it was only when I became Chairman, with the Democrats again in the majority, that we passed legislation along these lines through the House. Again, the bill did not pass the Senate, but it spurred Chairman Bernanke to issue his own subprime regulations under the original 1994 authority.

The Need for Regulation of our Financial Markets. Thus, the major factor is the lack of regulation. It led to the crisis, and that is why I am determined to fight for increased regulation going forward. Those who are opposed to regulation have raised what I consider to be red herrings – the alleged role of CRA, along with Fannie Mae and Freddie Mac. This is being done because the alternative explanation – that unregulated, exotic financial products and unfettered Wall Street activities caused the financial crisis – is a serious indictment of the anti-regulatory philosophy, exemplified by Ronald Reagan, and carried to an extreme by Alan Greenspan.

But, I want to stress that this is a philosophical disagreement, not a partisan one. I worked closely with key members of our current Republican Presidential Administration and with top House and Senate Republicans in developing and passing the recent economic stabilization bill, and I cooperated on past committee efforts as mentioned above with the Republican former chairman of the Financial Services Committee, Congressman Oxley, along with other Republican members of the committee. Now, however, those who are ideologically opposed to regulation and against encouraging appropriate assistance to less well off people to purchase homes when they can afford it, are taking advantage of the uncertainty and stress that has resulted from the financial downturn to try to assign blame in ways that will further their own ideological goals. I will continue to do everything I can to fight against these efforts, and to push for the fairest possible response to the crisis.

Again, I appreciate your taking the time to contact me, and I appreciate your willingness to read through this lengthy response. I am attaching additional information that provides further background on some of the matters discussed above.

BARNEY FRANK

## **Timeline for Fannie Mae/Freddie Mac Regulation**

Prior to 2005, no bill to further regulate or oversee Fannie Mae and Freddie Mac (also called Government Sponsored Enterprises, or GSEs) passed the House. The last major bill regulating the GSEs passed in 1992—when the Democrats controlled Congress—when the Office of Federal Housing Enterprise Oversight was created. Republicans who controlled Congress from 1995-2006 did not pass reforms. President Bush did not sign a regulation bill until the Democrats were in the majority in Congress.

### **2005**

**May 25** - House Financial Services Committee, under control of House Republicans and Chairman Michael Oxley, passed a GSE Reform bill, H.R. 1461, by a vote of 65-5. Every Democrat on the Committee voted for the bill.

**July 28** - Senate Banking, Housing and Urban Affairs Committee, then chaired by Sen. Richard Shelby (R-AL), passed S. 190 out of Committee. The bill was passed by a party-line vote of 11-10. The bill did not reach the Senate floor for a vote.

**October 26** - Bush Administration issued a Statement of Administration Policy on the day of the Floor Action on H.R. 1461 stating that the Administration opposed the bill. H.R. 1461 passes House by a vote of 331-90

### **2007**

**January 31** - Chairman Barney Frank organizes the Financial Services Committee

**March 28** - Committee passes H.R. 1427, a GSE reform bill, 49-15

**May 22** - House of Representatives passes H.R. 1427, 313-104

### **2008**

**January 2008** – Chairman Frank offers to insert GSE reform bill into economic stimulus bill then in negotiations. Secretary Paulson declines.

**May 8** - House of Representatives passes H.R. 3221, which contains GSE reform provision, after receiving the Senate amendments to the original bill.

**May 20** - Senate Banking, Housing and Urban Affairs Committee passes a bill containing GSE Reform provisions- The Federal Housing Finance Regulatory Reform Act of 2008

**July 11** - United State Senate passes GSE reform as part of a bigger bill.

**July 30** – President Bush signs GSE reform as part of H.R. 3221.

## **CONGRESSIONAL EFFORTS TO CURB SUBPRIME LENDING ABUSES**

### **1994** – Congress Enacts HOEPA to Curb Predatory Mortgage Lending.

In 1994 the Democratic Congress passed the Home Ownership and Equity Protection Act (HOEPA), which included a host of consumer protections for high-cost and other exotic mortgage products, and required that the Federal Reserve write rules that would stop abusive lending. The law specifically required that the Federal Reserve “prohibit acts or practices in connection with mortgage loans” that the Federal Reserve Board finds to be unfair, deceptive or designed to evade the provisions of [the Act], or refinancings that are “associated with abusive lending practices, or that are otherwise not in the interest of the borrower.”

### **1995 – 2006** -- Federal Reserve Fails to Issue HOEPA Regulations.

Fed Chairman Alan Greenspan never used the authority he was given under this law, even though he was asked numerous times to issue predatory lending rules, by Members of Congress, and – internally -- by Former Fed Governor Ned Gramlich. No predatory lending regulations were issued, and no new predatory lending legislation was approved by Congress during this period, when the Republican party was in the majority in Congress. When Rep. Spencer Bachus (R-AL) – then Chairman of the Financial Institutions Subcommittee – tried to work with Financial Services Committee Democrats to address predatory lending, his efforts were shut down by the House Republican leadership.

### **2004** – Federal Preemption of State Consumer Lending Laws.

In 2004, federal banking regulators preempted the application of state mortgage lending laws to national banks, federal thrifts and their state-chartered operating subsidiaries. Many Republicans in Congress supported these efforts by the federal banking agencies to preempt the application of state anti-predatory lending laws. The preemption permitted bank regulators to essentially carve out big players in the industry from coverage under state laws, without putting any new standards in their place. A number of Democrats joined in opposing this preemption of state consumer mortgage lending laws. Their opposition included introducing “The Preservation of Federalism in Banking Act” a bill to overturn the preemption and make state mortgage lending laws applicable to these entities. The Republican Congress never considered the legislation.

**2004 – 2006** – Democrats Push for Passage of Mortgage Reform and Anti-Predatory Lending Legislation. Prior to regaining majority status, and well before the current crisis, Democrats introduced comprehensive subprime lending legislation which could have substantially reduced the number of mortgages going into foreclosure. In March 16, 2004, Reps. Brad Miller (D-NC) and Mel Watt (D-NC) introduced H.R. 3974, the Prohibit Predatory Lending Act. Congressman Frank cosponsored the bill. And, and in the following Congress, on March 9, 2005, the bill was again introduced (this time designated as H.R. 1182). The Republican Congress did not bring the legislation up for a vote, and the Financial Services Committee did not take any formal action on the bill in either Congress. In 2005-6, Representatives Miller, Watt, Frank and Paul Kanjorski (D-PA) engaged in initially productive discussions with

Congressman Bachus that could have produced a bipartisan bill, but the House Republican leadership ordered an end to GOP participation in the effort.

**2007 – 2008** – Democratic Majority; New Curbs on Subprime Lending Adopted. When the Democrats regained control of Congress as a result of the 2006 elections, and initiated specific legislative reforms in the subprime area (including passing comprehensive subprime legislation through the House), the Federal Reserve under Chairman Ben Bernanke finally issued its own regulations, using the authority the Fed had possessed since 1994.

\* After a series of hearings in 2007 held by the Financial Services Committee highlighting the Fed's inaction under HOEPA, on November 15, 2007 the House passed comprehensive subprime lending legislation (H.R. 3915, the "Mortgage Reform and Anti-Predatory Lending Act of 2007.") by a vote of 291 to 127. The bill would establish a national standard to rein in the abusive lending practices that contributed to the current mortgage crisis. This comprehensive legislation would create a licensing system for residential mortgage loan originators, establish a minimum standard requiring that borrowers have a reasonable ability to repay a loan, and attach a limited liability to secondary market securitizers. The legislation would also expand and enhance consumer protections for "high-cost loans," includes protections for renters of foreclosed homes, and would establish an Office of Housing Counseling through the Department of Housing and Urban Development. The Senate did not act on H.R. 3915, though several provisions from the bill were included in separate legislation that became law in 2008.

\* On December 18, 2007 at the urging of Congressman Frank (which included a May 11, 2007 letter to Chairman Bernanke) and in reaction to the House passage of H.R. 3915, the Federal Reserve for the first time used its HOEPA authority to establish rules to curb deceptive home mortgage lending and advertising practices.

## **Private sector loans, not Fannie or Freddie, triggered crisis**

David Goldstein and Kevin G. Hall | McClatchy Newspapers  
October 12, 2008

WASHINGTON — As the economy worsens and Election Day approaches, a conservative campaign that blames the global financial crisis on a government push to make housing more affordable to lower-class Americans has taken off on talk radio and e-mail.

Commentators say that's what triggered the stock market meltdown and the freeze on credit. They've specifically targeted the mortgage finance giants Fannie Mae and Freddie Mac, which the federal government seized on Sept. 6, contending that lending to poor and minority Americans caused Fannie's and Freddie's financial problems.

Federal housing data reveal that the charges aren't true, and that the private sector, not the government or government-backed companies, was behind the soaring subprime lending at the core of the crisis.

Subprime lending offered high-cost loans to the weakest borrowers during the housing boom that lasted from 2001 to 2007. Subprime lending was at its height from 2004 to 2006.

Federal Reserve Board data show that:

More than 84 percent of the subprime mortgages in 2006 were issued by private lending institutions.

Private firms made nearly 83 percent of the subprime loans to low- and moderate-income borrowers that year.

Only one of the top 25 subprime lenders in 2006 was directly subject to the housing law that's being lambasted by conservative critics.

The "turmoil in financial markets clearly was triggered by a dramatic weakening of underwriting standards for U.S. subprime mortgages, beginning in late 2004 and extending into 2007," the President's Working Group on Financial Markets reported Friday.

Conservative critics claim that the Clinton administration pushed Fannie Mae and Freddie Mac to make home ownership more available to riskier borrowers with little concern for their ability to pay the mortgages.

"I don't remember a clarion call that said Fannie and Freddie are a disaster. Lending to minorities and risky folks is a disaster," said Neil Cavuto of Fox News.

Fannie, the Federal National Mortgage Association, and Freddie, the Federal Home Loan Mortgage Corp., don't lend money, to minorities or anyone else, however. They purchase loans from the private lenders who actually underwrite the loans.

It's a process called securitization, and by passing on the loans, banks have more capital on hand so they can lend even more.

This much is true. In an effort to promote affordable home ownership for minorities and rural whites, the Department of Housing and Urban Development set targets for Fannie and Freddie in 1992 to purchase low-income loans for sale into the secondary market that eventually reached this number: 52 percent of loans given to low-to moderate-income families.

To be sure, encouraging lower-income Americans to become homeowners gave unsophisticated borrowers and unscrupulous lenders and mortgage brokers more chances to turn dreams of homeownership in nightmares.

But these loans, and those to low- and moderate-income families represent a small portion of overall lending. And at the height of the housing boom in 2005 and 2006, Republicans and their party's standard bearer, President Bush, didn't criticize any sort of lending, frequently boasting that they were presiding over the highest-ever rates of U.S. homeownership.

Between 2004 and 2006, when subprime lending was exploding, Fannie and Freddie went from holding a high of 48 percent of the subprime loans that were sold into the secondary market to holding about 24 percent, according to data from Inside Mortgage Finance, a specialty publication. One reason is that Fannie and Freddie were subject to tougher standards than many of the unregulated players in the private sector who weakened lending standards, most of whom have gone bankrupt or are now in deep trouble.

During those same explosive three years, private investment banks — not Fannie and Freddie — dominated the mortgage loans that were packaged and sold into the secondary mortgage market. In 2005 and 2006, the private sector securitized almost two thirds of all U.S. mortgages, supplanting Fannie and Freddie, according to a number of specialty publications that track this data.

In 1999, the year many critics charge that the Clinton administration pressured Fannie and Freddie, the private sector sold into the secondary market just 18 percent of all mortgages.

Fueled by low interest rates and cheap credit, home prices between 2001 and 2007 galloped beyond anything ever seen, and that fueled demand for mortgage-backed securities, the technical term for mortgages that are sold to a company, usually an investment bank, which then pools and sells them into the secondary mortgage market.

About 70 percent of all U.S. mortgages are in this secondary mortgage market, according to the Federal Reserve.

Conservative critics also blame the subprime lending mess on the Community Reinvestment Act, a 31-year-old law aimed at freeing credit for underserved neighborhoods.

Congress created the CRA in 1977 to reverse years of redlining and other restrictive banking practices that locked the poor, and especially minorities, out of homeownership and the tax breaks and wealth creation it affords. The CRA requires federally regulated and insured financial institutions to show that they're lending and investing in their communities.

Conservative columnist Charles Krauthammer wrote recently that while the goal of the CRA was admirable, "it led to tremendous pressure on Fannie Mae and Freddie Mac — who in turn pressured banks and other lenders — to extend mortgages to people who were borrowing over their heads. That's called subprime lending. It lies at the root of our current calamity."

Fannie and Freddie, however, didn't pressure lenders to sell them more loans; they struggled to keep pace with their private sector competitors. In fact, their regulator, the Office of Federal Housing Enterprise Oversight, imposed new restrictions in 2006 that led to Fannie and Freddie losing even more market share in the booming subprime market.

What's more, only commercial banks and thrifts must follow CRA rules. The investment banks don't, nor did the now-bankrupt non-bank lenders such as New Century Financial Corp. and Ameriquest that underwrote most of the subprime loans.

These private non-bank lenders enjoyed a regulatory gap, allowing them to be regulated by 50 different state banking supervisors instead of the federal government. And mortgage brokers, who also weren't subject to federal regulation or the CRA, originated most of the subprime loans.

In a speech last March, Janet Yellen, the president of the Federal Reserve Bank of San Francisco, debunked the notion that the push for affordable housing created today's problems.

"Most of the loans made by depository institutions examined under the CRA have not been higher-priced loans," she said. "The CRA has increased the volume of responsible lending to low- and moderate-income households."

In a book on the sub-prime lending collapse published in June 2007, the late Federal Reserve Governor Ed Gramlich wrote that only one-third of all CRA loans had interest rates high enough to be considered sub-prime and that to the pleasant surprise of commercial banks there were low default rates. Banks that participated in CRA lending had found, he wrote, "that this new lending is good business."