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Editorial

Harmful Lending Practices

One of the questions lurking beneath the surface of the national debate over the mortgage crisis, which has placed six million Americans at risk of losing their homes this year and next, is who is to blame.

Clearly, reckless bankers, feckless regulators and greedy traders in the shadowy derivatives market must take a major share of responsibility for the current financial mess. But how much blame should be placed on the shoulders of the people who bought homes with mortgages they could not afford, or with complicated and confusing repayment schemes that threaten them with sharply higher interest rates and mushrooming monthly payments?

Some measure of personal accountability is clearly warranted, but federal regulators could have done a great deal to avert this crisis by reining in lenders, rather than standing by while mortgage companies corralled millions of people into risky, high-cost loans they could never hope to repay. Bankers, brokers and appraisers all worked to inflate property values, and the resulting loans were repackaged and sold to Wall Street.

Lawmakers, for their part, missed important chances to curtail some of these problems last year as the scale of the crisis was becoming apparent. The House and Senate both failed to pass important bills into law. The Congress that takes office in January must revisit and strengthen last year's proposals.

The House actually managed to pass the Mortgage Reform and Anti-Predatory Lending Act last fall. Soon thereafter, Senator Christopher Dodd, Democrat of Connecticut, introduced a similar but stronger bill in the Senate. It remains there, bottled up in committee.

Both bills would require a return to prudent mortgage-lending policies — including setting minimum standards intended to ensure that people can actually repay the loans they take out.

The Senate bill goes farther than the House bill in holding both mortgage originators and people to whom they sell their loans liable in cases where an illegal loan was made. The risk of being sued would discourage Wall Street and others from dealing with fly-by-night originators, building accountability into a securitization system that currently has very little.

Consumer advocacy groups have rightly advised Congress to adopt the consumer protections laid out in both bills — while adopting the stronger liability provision of the

Senate version. It will not be easy to move forward on these bills. But they are part of what Congress must do make sure the country does not find itself facing the same disastrous problem down the road.

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