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## Congress Faces Mortgage Meltdown

By AP/MARCY GORDON

Charges of blame were flying Thursday for the meltdown of the high-risk mortgage market as pressure mounted for Congress to do something about rising foreclosures among homeowners unable to meet high payments.

"What we're looking at is a tsunami of foreclosures that is on the horizon," Sen. Robert Menendez, D-N.J., declared at a hearing of the Senate Banking Committee. Most heavily affected, he said, will be black and Hispanic homeowners who were pressured into taking out mortgages at rates they cannot afford.

Under fire from lawmakers, federal regulators said they lacked full authority to prevent the crisis spawned during the soaring housing boom of 2003-2005.

Sen. Christopher Dodd, D-Conn., the committee's chairman, laid out what he called a "chronology of regulatory neglect" as banks and other lenders loosened their standards for making riskier mortgage loans during the boom. He later said he plans to convene a special summit of regulators, mortgage lenders, consumer groups and others to work out a plan of relief for vulnerable homeowners.

"Our nation's financial regulators were supposed to be the cops on the beat, protecting hardworking Americans from unscrupulous financial actors," Dodd said. "Yet they were spectators for far too long."

Many mortgage lenders haven't come under the Federal Reserve's supervision because their primary regulators are state banking authorities. However, Dodd and others maintain, the central bank does have authority under federal law to exert jurisdiction over those companies and broaden lending regulations to cover them.

Some of the biggest companies in the so-called subprime mortgage market were called to account before the banking panel.

The distress in subprime mortgages — higher-priced home loans for people with tarnished credit or low incomes who are considered greater risks — has roiled financial markets and stoked anxiety that it could spill over into the broader economy.

Company executives said they had tightened their lending practices and eliminated some higher-risk types of mortgages and urged Congress not to rush in and overreact.

"We take the situation very seriously and we're taking strong steps" to correct problems, testified Brendan McDonagh, the chief executive of HSBC Finance Corp.

With millions of homeowners said to be at risk of losing their homes in coming years, the issue took on an increasingly political complexion Thursday. While a number of politicians, consumer advocates and community activists are clamoring for Congress to act, industry interests and some Republican lawmakers are warning that new restrictions on mortgage lending could choke off credit to those who most need it.

Away from the hearing, Democratic Presidential contender Sen. Barack Obama called on Federal Reserve Chairman Ben Bernanke and Treasury Secretary Henry Paulson to convene a "homeownership preservation summit" bringing together major players for the purpose of stemming the foreclosure tide.

"We cannot sit on the sidelines while increasing numbers of American families face the risk of losing their homes," the Illinois Democrat said in a letter to Bernanke and Paulson.

Dodd, who also is seeking the party's Presidential nomination, warned at the hearing that some 2.2 million homeowners could lose their homes in the next few years.

Mortgage payments that were 30 or more days past due shot up to a 3 1/2-year high in the final quarter of last year and new foreclosures surged to record levels as borrowers with blemished credit histories had trouble keeping up monthly payments, according to the Mortgage Bankers Association. The late-payment rate for loans classified as subprime jumped to 13.33 percent in the October-December quarter, up from 12.56 percent in the previous prior period and the highest in four years.

Acknowledged Roger Cole, head of the Federal Reserve's banking supervision division, "I will say that given what we know now, yes, we could have done more sooner."

Under pointed questioning from Dodd, Cole promised to put in motion a process at the central bank that could lead to a broadening of federal rules governing mortgage lending standards.

A patchwork of federal and state regulatory agencies hold jurisdiction over financial companies, putting many subprime mortgage lenders outside stringent regulation, the regulators said.

New Century Financial Corp., which had been the second-largest high-risk mortgage lender but is now in precarious financial straits, refused Dodd's invitation to send an executive to testify at the hearing.

Appearing with HSBC's McDonagh were executives of Countrywide Financial Corp.; WMC Mortgage, which is owned by General Electric Co.; and First Franklin Financial Corp., part of Merrill Lynch & Co.

Another Democratic senator making a Presidential bid, Hillary Rodham Clinton, recently proposed requiring lenders to clearly explain mortgage terms to borrowers — especially for loans with initially low "teaser" rates that balloon after a few years.

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