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As I watch the efforts of many American political leaders and the financial press to address the economic situation facing our nation I am often left shaking my head in disbelief. This subject was once more put into context for me a week ago.

There was a newspaper article I saw, featuring a picture of a nice looking 50-ish couple, which discussed their dire mortgage situation. They had taken out a mortgage to buy their house and its original interest rate was 1.5%. But now, to the nice looking couple's surprise and distress, the interest rate had become 7.4%. They were devastated because they could not make the new payment and would surely lose their house. Their dastardly, predatory lender had not explained their loan to them. The writer of this article continued on with a diatribe about such lenders.

In this story is very much of the dire financial situation our nation faces and, to my mind, the story shines a light on its causes.

For starters, there is the nice looking couple. They clearly do not understand a most basic premise. No One Is Entitled To Own A Home. Even though politicians spout such nonsense, purchasing a home is something that a person must work hard to accomplish. For most people the work begins in school where you become educated and employable. Then you work diligently and save some of what you earn. This kind of behavior can put you into the financial situation where you can buy a home.

One of the strangest things I've read is that some Democrats pushed banks to apply the Community Reinvestment Act (CRA) provisions to mortgages for inner city borrowers. I have seen CRA loans up close and I do not know if this claim is true. If it is, it is pure idiocy. People must be able to pay for a home and if they can't, then they cannot buy.

So, our nice couple should have realized they are not entitled to own a home. Then, as is expected of anyone taking out a loan, they should have clarified the mechanics of the loan they were offered. To not do so is gross irresponsibility and if they are looking for someone to blame they should look at themselves. But that is by no means the end of the story.

Just as involved is the bank which offered them the loan. Here was a hugely capitalized business, run by people who graduated from prestigious universities with MBAs and other degrees, which was more than eager to make this loan to the nice couple. The bank and its management could have cared less if the couple could pay their mortgage because this loan was going to be put into a security and sold to an investor. The bank saw no need to qualify the nice couple as borrowers because their loan would be sold for a fee. It could be sold because rating agencies, like S&P and Moody's, did not really understand what was going on and gave the resulting securities ratings of AA. That rating made the securities attractive to many investors.

Then, while the Democrats perhaps were pushing for CFA mortgage loans, the Republicans were reluctant or unable to regulate any of this; from banks, to rating agencies, to security markets to institutional investors. This allowed the creation and sale of the flood of subprime mortgages which is what lies at the heart of our financial turmoil.

It seems to me we would do well to address this situation, with a very personal approach:

- Every mortgage borrower must assure they can afford their home and that they understand their loan.
- No politician should ever say that someone “deserves to own a home.”
- No bankers should ever make loans which they know are bad but don’t care because the loans can be sold to investors. And they must insure that borrowers understand their loans.
- Rating agencies need a huge Wake Up! They must know and understand what they are rating.
- Investors cannot now, nor should they ever rely solely upon ratings. In today’s world it is rather simple to obtain basic financial information on any company. This won’t remove all risk, but it will surely help.
- Regulators face a challenging task. It is daunting for a government employee to challenge a multi-millionaire investment manager, but that’s exactly what they must do.
- Congress must somehow get past lobbyists and large contributors, grasp the scope and nature of derivatives and update our financial regulation.

Notice that in these bullet points regulation came last. It can certainly help, but personal responsibility comes first.