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Tuesday, June 1, 2010

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Cuomo's HUD career under scrutiny

Questions persist over department's possible role in subprime mortgage meltdown

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Updated: May 30, 2010, 12:14 am / 56 comments

Published: May 30, 2010, 6:40 am

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Andrew Cuomo promised to "transform the lives of millions of families across our country" when as HUD secretary he announced his historic plan to increase home ownership.

Eleven years later, many experts think that much-heralded transformation played a role in the devastating subprime mortgage meltdown and the worst economic downturn since the Great Depression.

"They should have known the risks were large," said Edward J. Pinto, former chief credit officer at Fannie Mae. "Cuomo was pushing mortgage bankers to make loans and basically saying you have to offer a loan to everybody."

Pinto argues that Cuomo, now running for governor of New York, helped create the framework for the subprime crisis by pushing unrealistic and irresponsible affordable housing goals as head of the U.S. Department of Housing and Urban Development.

"He was a contributor in terms of him being a cheerleader, but I don't think we can pin too much blame on him," Dean Baker, co-director of the Center for Economic and Policy Research, said of Cuomo's role in the subprime crisis.

Baker sees Cuomo as a contributor because he advocated a philosophy that almost everyone should be able to own a home. And yet, he thinks others, most notably mortgage lenders and brokers, were the real culprits.

The debate over Cuomo's culpability in the subprime crisis has its roots in his eight-year record at HUD, most notably his role in:

- New requirements that Fannie Mae and Freddie Mac, two of the nation's largest finance companies, expand their purchase of mortgages held by low- and moderate-income homebuyers.

- A reform that allowed Fannie and Freddie to receive affordable-housing credit for buying private subprime mortgage-backed securities.
- Increased loan ceilings and looser underwriting standards at the Federal Housing Administration.
- President Bill Clinton's National Homeownership Strategy, an unprecedented private-public partnership that made financing more available and flexible.

Of all the initiatives endorsed by Cuomo, first as assistant HUD secretary and later as the agency's top guy, none is as controversial as the affordable housing goals he imposed on Fannie and Freddie with the blessing of the White House and Congress.

In reality, what those goals meant was to increase from 42 percent to 50 percent the percentage of affordable housing loans Fannie and Freddie were required to buy each year.

"It will strengthen our economy," Cuomo said at the time, and "it will help ease the terrible shortage of affordable housing plaguing far too many communities, and it will help reduce the huge homeownership gap dividing whites from minorities and suburbs from cities."

Well-intentioned?

Even critics say yes.

The question they're asking 11 years later is, was it wise or foolish?

Cuomo faces that same question as he embarks on his campaign for governor, an effort sure to result in renewed scrutiny of his HUD record, a record supporters say is filled with achievement.

Cuomo declined to comment for this story, but his campaign spokesman suggested it was the Bush administration, not the Clinton administration, pushing Fannie and Freddie into the subprime market.

"The GOP is trying to cover up the Bush administration's complicity in allowing Wall Street and the banks to turn mortgage lending into the Wild West," spokesman Josh Vlasto said in a statement. "It is a well-established fact that those institutions were the main source of risky lending."

'Kindling on the fire'

Not everyone shares the view that Cuomo is completely guilt-free.

"He definitely played a role," said Arnold Kling, a former economist at Freddie Mac who wrote about the subprime crisis on behalf of the Cato Institute, a conservative think tank. "Clearly, he decided to make a name for himself by trying to push the envelope."

Why was it so bad, so unwise to expand homeownership opportunities for lower-income families?

Kling says the government's mandated new goals put pressure on Fannie and Freddie to adopt looser lending standards and, in the end, buy the type of risky loans it historically had avoided.

"It promoted housing speculation, not homeownership," Kling said, "and the effect on neighborhoods has been devastating."

Experts say the pressure to buy more-affordable housing loans resulted in new mortgage products, most notably low- or no-money down loans that brought more homebuyers into the market and ultimately created higher home prices.

"He put the kindling on the fire," said Russ Roberts, an economics professor at George Mason University in Fairfax, Va. "What the requirements on Freddie and Fannie did was to push up the price of housing and that made it possible to lend money to people with no money down."

Roberts thinks there's plenty of blame to go around, but that Clinton and Cuomo deserve some of it.

"It was a bipartisan mistake," he said. "And it was a mistake because it promised a free lunch that wasn't free."

When Congress held hearings on the subprime crisis in December 2008, Kling and Pinto were among those who testified before lawmakers.

Pinto testified that Fannie and Freddie's entry into the subprime market had created an "orgy" of junk mortgage development and turned, "the American dream of homeownership into the American nightmare of foreclosure."

He said the blame starts with Congress, which created new affordable housing goals in 1992 and gave HUD the authority to make it happen.

"The pressure to change was enormous, and the way to change was through higher affordable housing goals," he told The Buffalo News. "Cuomo was the one to increase them to 50 percent."

The criticism of Cuomo isn't limited to the higher housing goals he imposed on Fannie and Freddie. xleg

Clinton's strategy

As assistant HUD secretary, Cuomo supported Clinton's National Homeownership Strategy and the looser underwriting standards that came with it.

He also helped lead the charge to increase lending ceilings at the Federal Housing Administration, or FHA.

And third, he was at HUD when it backed a congressional initiative that allowed Fannie and Freddie to receive affordable housing credit for buying billions of dollars in private subprime mortgage-backed securities.

It was that bundling and reselling of risky mortgages that ultimately triggered the finance giants' downfall and helped cause the recent economic downturn.

"It was too much too fast," said Daniel Tesson, an assistant professor of accounting at the Rochester Institute of Technology. "When HUD made these changes, it required lending institutions to be less stringent in their qualifying."

Tesson thinks HUD can be blamed for creating a framework that allowed brokers and lenders to abuse the system, but that it's unfair to lay it all on Cuomo.

"You can place some of the responsibility on HUD but not all of it," he said. "I also think it's difficult to lay the blame on one individual."

"Old fashioned greed"

The argument that Cuomo's expanded housing goals led to the subprime crisis and the collapse of Fannie and Freddie is not universally accepted. In fact, there are experts who say the real culprits are Fannie and Freddie.

They argue that the two companies got into trouble, not because of Cuomo's new affordable housing goals, but because the two finance giants were trying to increase market share and profits.

"I think Andrew Cuomo and his staff have gotten a bad rap," said Judy Kennedy, president of the National Association of Affordable Housing Lenders. "It makes me crazy that people blame the goals. It wasn't the goals. It was plain old-fashioned greed."

Kennedy is not alone in believing that Fannie and Freddie fueled their own decline.

Shaun Donovan, the current HUD secretary, told Congress last month that the two corporations were "chasing profits," not fulfilling their affordable housing goals, when they dove into the risky subprime market.

Donovan disputed the notion that HUD encouraged abusive lending and irresponsible underwriting standards that became a hallmark of the subprime crisis.

He pointed to a recent HUD study that found Fannie and Freddie had purchased just one-third of the "safe" loans available and that neither had been forced to buy risky loans.

"With this broad shift towards riskier products and looser lending standards, we all know what happened next: an unsustainable market began to unravel," Donovan told lawmakers.

Even among those who think HUD is partly to blame, some suggest it's wrong to lay it all at Cuomo's feet.

Kennedy, for example, thinks Cuomo could have done more to regulate mortgage brokers. But she is just as quick to note that, given the numerous forces that stood in his way — Congress, housing advocacy groups and Federal Reserve Board Chairman Alan Greenspan — it was close to impossible.

"There was no appetite for doing anything," she said. "It's hard when you're the HUD secretary and the chairman of the Fed is viewed as the oracle."

In defense of Cuomo

Cuomo has stayed out of the debate over his record but, at times, his former HUD colleagues have come to his defense.

When the Wall Street Journal, in an editorial titled, "Prosecutor, Charge Thyself," criticized Cuomo for his role in the subprime crisis, two of his former aides wrote a letter to the editor defending him.

"Those charges are absurd," said former HUD deputy assistant secretary Howard Glaser and former HUD Chief of Staff Jon Cowan.

Glaser and Cowan went on to claim that, from 2005 to 2008, at the urging of the Bush administration, Fannie and Freddie purchased or guaranteed more loans from risky borrowers than in all prior years combined.

Cuomo's defenders are just as quick to challenge the claim that he oversaw a decline in underwriting standards. They often point to a 2000 HUD study that recommended a four-point plan for "curbing predatory lending."

"Cuomo," spokesman Vlasto said in his statement, "put in place the toughest lending standards for Fannie and Freddie, prohibiting them from buying high-cost loans and making sure they could not make a loan unless they documented the borrowers ability to repay."

If any city should have an ax to grind with Cuomo or anyone else linked to the subprime crisis, it's Cleveland, home to more 62,000 foreclosures in seven years.

"The fire is still burning," said Cuyahoga County Treasurer Jim Rokakis.

Rokakis, a national leader in the battle against foreclosures, thinks most of the blame rests with mortgage lenders and brokers who used teaser rates, deceptive loans, punitive pre-payment clauses and other abusive products. He does, however, think the push for affordable housing, well-intentioned or not, helped create the framework for the subprime crisis.

"Who can be opposed to increased homeownership," he said. "It's motherhood and apple pie."

Does Cuomo deserve some of the blame?

"Do I think he bears some culpability? Yes," he said. "But I don't think those were decisions made at the level of an Andrew Cuomo."

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