By Tom Bengtson, Publisher

Strong ownership

Strong ownership is necessary for a strong economy. The market crash and subsequent prolonged recession were the consequences of years of deteriorating ownership strength in the housing and mortgage markets. The advent of securitization significantly weakened the ownership of both homes and mortgage loans.

Before securitization, a homebuyer put 20 percent of his own money toward a mortgage, granted by a lender who thoroughly scrutinized the borrower before making the loan. Borrowers knew the best way to protect their 20 percent stake was to make timely payments. Lenders who owned those mortgages stayed close to the borrower. If borrowers ran into trouble, lenders would help them get back on track. A strong homeowner matched with a strong mortgage owner created a stable housing market.

Securitization changed all that. As mortgage originators worked to satisfy the investor appetite for mortgage-backed securities, they weakened requirements so borrowers with as little as 2 percent down — or even less — could get a house. Lenders no longer held onto their mortgages, so they had no incentive to maintain a relationship with the borrower. Mortgage ownership transferred to faceless Wall Street investors who had absolutely no relationship with the person living in the house. Weak ownership meant many borrowers didn't really care about the home they purchased and many mortgage lenders didn't really care about the mortgages they made.

How ironic that weakening ownership was seen as an effective way to increase ownership. During the last two decades, our country has worked to increase home ownership levels, a goal identified by administrations from both parties. The strategy reminds me of the old joke about the guy who was losing a dollar on every 90 cents of product he sold. When asked what he planned to do, he said, "Make it up on volume."

Financial reform legislation is a response to the financial crisis, largely rooted in the troubles of the housing and mortgage markets. Just as Congress tried to beef up home ownership by weakening it, it is attempting to strengthen the banking industry by weakening it. The proposed consumer financial protection agency will only make the industry less creative and less responsive. The Durbin amendment on interchange fees will only take away an important source of income for many bankers. A heavier regulatory burden will only discourage more bank owners.

Whether the subject is a home, a mortgage or a bank, ownership is important. Bureaucratic restraints don't build ownership strength. Rather than further tying the hands of community bank owners, real financial reform would free them up. ❖

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