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Subprime crisis: mixed messages

In 1998, the U.S. Conference of Mayors blamed "redlining" for the "homeownership gap" in major cities. Though never documented, that was a common complaint for decades. In reality, the gap had less to do with discrimination than low demand for urban housing and banks' reluctance to lend money to people who can't repay.

Still, it wasn't long before lenders cowed by political correctness began lowering their underwriting standards and issuing variable-rate mortgages to high-risk borrowers. The Department of Treasury says 21 percent of all mortgages written from 2004-06 were so-called subprime, up from 9 percent from 1996-2004. And naturally, it wasn't long before rising interest rates hung subprime borrowers out to dry.

At their annual meeting this year, the mayors absolutely savaged the mortgage industry for doing precisely what they demanded nine years ago and called on the government to end predatory lending schemes. Then as now, the conference's criticisms ignored personal responsibility, specifically borrowers' obligation to understand the terms of their loan before signing. Not surprisingly, that angle also was absent from nearly two-thirds of the nightly news coverage on the "subprime crisis" in the 10 months ending Aug. 31, a new Media Research Center report reveals.

And personal responsibility was absent again last week when Gov. M. Jodi Rell authorized a $50 million bailout of Connecticut's subprime lenders and borrowers, and when the preliminary findings of a gubernatorial task force blamed rising foreclosures on lenders while essentially calling on them to redline borrowers.

Gov. Rell says the state has an "obligation to protect and secure" homeownership. Why? Because it's compassionate; it certainly isn't economically sound.

Banks have been foreclosing on houses for centuries, yet Gov. Rell inexplicably waits until now to reward some of the most irresponsible borrowers and lenders in state history with fixed, below-market refinancing terms unavailable to homeowners with good credit histories. And she does it without ever inquiring whether the borrowers' financial troubles are rooted less in rising interest rates than in their own irresponsible spending habits.

Gov. Rell should have left it to the borrowers and lenders to negotiate refinancing terms and then let the market shake out those who as yet are unable to afford the price of admission to the American dream.