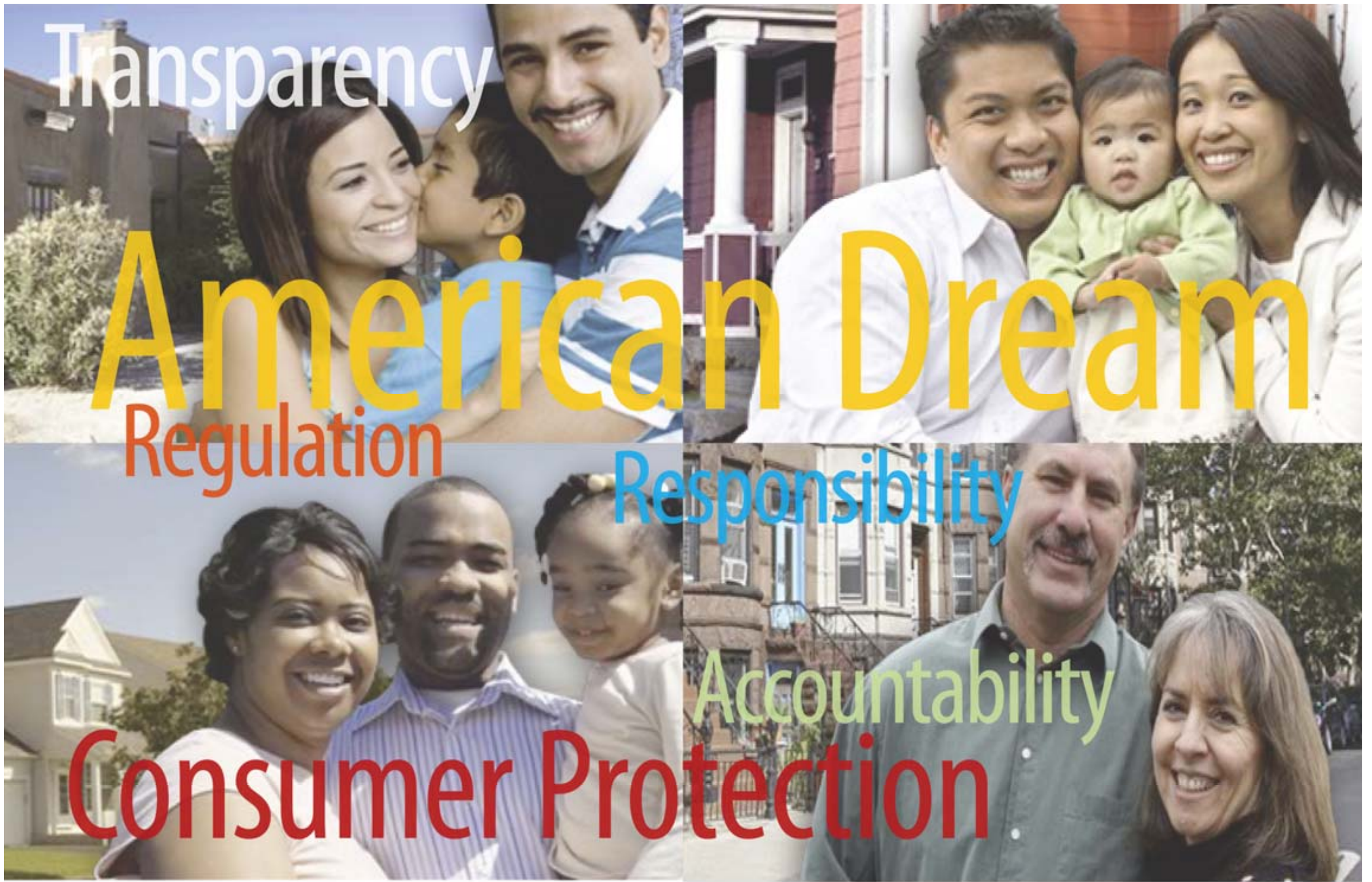


MESSAGE MANUAL

A Responsible & Accountable Financial System:
The Real Solution to the Mortgage Crisis

A RESOURCE FOR ADVOCATES

SPONSORED BY THE FORD FOUNDATION

About This Manual

This manual has been developed with the input of, and provided as a resource for, policy advocates and analysts working to enact stronger consumer protections, more effective regulation and greater transparency in the financial system to prevent a future mortgage and credit crisis.

To conduct an effective advocacy campaign, advocates must deliver a consistent and compelling message to break through on a complex issue in a cluttered media environment. Advocates must use the same stories, the same themes and the same language over and over again for these concepts to register with policymakers and the public.

This Message Manual provides content and guidance to help supporters of reform at the state and national levels deliver consistent messages. It provides key messages, core words and phrases, a 1-minute message, stories and responses to opposition statements. You can cut and paste template language from this document for presentations, interviews and written materials.

The approach taken in this manual draws on research-based models and best practices employed in marketing and communications for persuading and motivating people through language that both informs and inspires.

Using the themes and language in this manual in all communications will help us communicate more consistently and powerfully about the need to reform the financial system in a way that protects consumers.

Contents

1. **Situation Overview.** Outlines the political context and the need to reframe the debate about the financial crisis to focus on consumer-oriented solutions.

2. **Research Findings & Implications.** Summarizes the findings and implications of a landscape analysis and interviews conducted with consumer advocates and policymakers.

3. **The Method.** Explains our approach to message development and previews themes that will be used throughout the manual.

4. **The Message.** Presents key messages that we must communicate to achieve success.

5. **The Narrative.** Presents the causes of the crisis and conveys a sense of urgency about the need for policy change.

6. **Policy Descriptions.** Provides key messages about the three categories of policy changes that we seek: stronger consumer protection, more effective regulation and greater transparency.

7. **Key Words & Phrases.** Highlights key terms and phrases, and explains why these words have been strategically selected.

8. **Sound Bites & 1-Minute Message.** Offers succinct statements of the key themes and provides an "elevator pitch" that conveys them in plain, spoken language that can be delivered in less than a minute.

9. **One-Liners on Policy Proposals.** Provides short sentences in plain language to describe each of our proposed policy solutions.

10. **One-Liners on Ineffective Proposals.** Provides succinct rebuttals to policy proposals that would be less effective in preventing a future crisis.

11. **Stories.** Provides examples of unethical lenders that took advantage of responsible homebuyers to vividly illustrate the need for our policy proposals.

12. **Deceptive Lending Practices.** Highlights egregious deceptive lending practices that contributed to the mortgage crisis.

13. **Responses to Opposition Statements.** Suggests answers to tough and/or commonly asked questions. A number of themes in the manual anticipate and preempt some of the more critical questions.

Situation Overview

We face a tough policy landscape for passing stronger consumer protections, because some members of the media, policymakers and even consumer advocates have blamed consumers for causing the mortgage and credit crisis. This manual contains research-based messages designed to reframe the debate around the actions of irresponsible lenders and financial institutions – and highlight the need for greater consumer protections to prevent a future crisis.

The Issue

Weak consumer protections, poor transparency, weak regulations and lack of enforcement caused the mortgage and credit crises. Steps must be taken to avert another crisis. However, members of the general public and many policymakers do not understand the causes of the crisis – and are distracted from focusing on effective solutions to prevent a future mortgage meltdown.

The Threat

The opposition blames "irresponsible homebuyers" for the economic crisis. This argument takes the focus away from the lenders and financial institutions that were a central cause of the crisis – and blocks meaningful policy dialogue about strengthening consumer protections, improving regulations and increasing transparency.

The Context

Reframing the debate is key to winning the policy battle. Multiple staffers in leading House and Senate offices indicated that advocates for reform would be unable to pass legislation mandating stronger regulation and enforcement "unless we beat the 'blame the consumer' message," in the words of one high-level Congressional aide.

The Strategy

Reframe the debate around the irresponsible actions of lenders and financial institutions. Focusing attention on their role in the crisis – and the weak rules and structures that allowed them to act irresponsibly – will help ensure that policy solutions focus on making lenders and financial institutions responsible and accountable.

Research Findings & Implications

To develop the messages presented in this manual, we conducted a landscape analysis of media coverage on the issue; reviewed statements by top federal policymakers; and interviewed representatives of policy, advocacy and constituency organizations that are grantees of the Ford Foundation. The messages developed through this research were then tested with policymakers through interviews with high-level staffers in key Congressional offices and the Obama Administration (see page 8). The main findings of this research are below.

Grantees and policymakers on both sides of the aisle blame consumers. When asked who caused the crisis, many grantees and policymakers in both Democratic and Republican offices began their responses by referring to "irresponsible homebuyers."

Members of the general public also feel homebuyers acted irresponsibly. Seventy-two percent (72%) of American adults in a recent Washington Post / ABC News poll said consumers deserved a "great deal" or a "good amount" of blame for the credit crisis.

Few policymakers singled out lenders as the cause or accused lenders of illegal or unethical activity. While most policymakers understood that lenders acted recklessly, many did not believe lenders acted illegally or contributed more to the crisis than other actors.

Weak consumer protections were not volunteered by most policymakers as a cause, and few viewed strengthening consumer protections as a key solution. While grantees were unanimous in singling out weak consumer protections as a cause of the crisis and strengthening consumer protections as the most important solution, only a minority of policymakers mentioned consumer protections as a valuable solution.

Some conservative policymakers blamed community banks. While few policymakers followed the lead of conservative pundits who blamed the Community Reinvestment Act, some made unsubstantiated claims that community banks acted irresponsibly.

Policymakers agreed with grantees on a number of the causes of the crisis, including: unsustainable levels of borrowing and spending; inadequate enforcement of regulations by the Bush administration; inadequate or non-existent regulations, especially of non-bank lenders and financial institutions; a lack of transparency which allowed excessive risk taking and hiding of debt; financial incentives poorly aligned with the common good; and conflicts of interest that weakened the rating system.

Policymakers are advocating regulatory solutions that most grantees consider ineffective or incomplete, including: a systemic risk regulator, an ethics review board and centralization of regulatory authority at the federal level.

Policymakers are also less likely to advocate for some effective solutions, including: stronger consumer protection laws, regulating loan products through a Financial Products Safety Commission or similar entity, and ending the preemption of state regulatory bodies.

Research Implications

These findings suggest the following strategies for message and public education efforts:

Focus on lenders, not consumers. The message must focus first on the bad actions of lenders, not on consumers who were victimized. If consumers are the focus of communication, it is easier for opponents to argue that, had consumers just been more careful, there would not have been a problem. Focusing on bad lenders forces opponents (at least indirectly) to defend the bad practices of lenders, should they attempt to redirect attention to "irresponsible consumers."

Educate policymakers about deceptive lending practices using stories and metaphors. Many stories and metaphors are circulating that illustrate the actions of irresponsible consumers, but very few were used to illustrate the deceptive practices used by lenders. To educate policymakers about the need for stronger consumer protections to rein in lenders, it is essential to use metaphors and tell stories about bad lending practices.

Seize the opportunity to frame the message and policy agenda, since policymakers have yet to decide on a firm list of solutions. While policymakers are not focused on consumer protections as central to averting a future crisis, the will to reform the financial

system is strong and policymakers are willing to consider strengthening consumer protections. As the Chief of Staff to one prominent lawmaker put it, "There isn't consensus on a solution yet, but anyone who doesn't come out of this crisis seeing the need for greater regulation is insane."

Use an aspirational and emotionally compelling message. People choose to affiliate themselves with an issue or policy solution based on appeals to their personal aspirations and values, by social and cultural influences, and by emotional benefits they derive from their identification with social groups and causes. When your message appeals to people on all of these levels, you can generate higher levels of support for your policy solutions. While it's tempting to dive into the details of the necessary policy changes, especially with an issue this complex, it is essential to communicate at these higher levels to effectively connect with your audience. This guide provides language that will appeal at these levels, in addition to articulating the details of policy solutions.

Ensure that the language we use speaks to policymakers, as well as the public. For example, advocating for more "oversight," even though this term polls well with the public, does not drive policymakers to think of the solutions offered by grantees (e.g., stronger consumer protections and more effective regulations). Most policymakers interpret calls for more "oversight" as a request for more Congressional oversight of existing agencies in the Executive Branch, not as stricter regulations or consumer protections. The terms "consumer protection," "regulation" and "transparency" were well understood by policymakers and drove them to think of the policy solutions most grantees advocated.

Avoid using "mortgage fraud." "Mortgage fraud" was used frequently by Republicans to describe the actions of consumers who used unethical tactics to obtain mortgages they did not qualify for; many Democrats used the term to label lenders' actions as fraud. Advocates attempting to highlight the bad practices of lenders should avoid this term, as it does not cleanly convey that lenders deserve the blame.

Sources

David Axelrod	Senior Advisor to the President
Sheila Bair	Chair, Federal Deposit Insurance Corporation
Max Baucus	Chair, Senate Committee on Finance
Ben Bernanke	Chair, Federal Reserve
Christopher Dodd	Chair, Senate Committee on Banking
Shaun Donovan	Secretary, Department of Housing and Urban Development
John Dugan	Director, Office of the Comptroller of the Currency
Dick Durbin	Chair, Senate Subcommittee on Financial Services
Barney Frank	Chair, House Financial Services Committee
Timothy Geithner	Secretary, Department of the Treasury
Charles Grassley	Member, Senate Committee on Banking
Donald Kohn	Vice Chair, Federal Reserve
Carolyn Maloney	Vice Chair, Joint Economic Committee
Peter Orszag	Director, Office of Management and Budget
Scott Polakoff	Director, Office of Thrift Supervision
Charles Schumer	Chair, Joint Economic Committee
Richard Shelby	Ranking Member, Senate Committee on Banking
Lawrence Summers	Director, National Economic Council
Paul Volcker	Senior Economic Advisor to the President

The Method

The messages in this manual speak to people at multiple levels – their emotions, social influences, values and aspirations. These are powerful influences that shape people's opinions and drive their actions. They are the foundations on which a strong message is built. Below are key themes with language that will speak to policymakers and the general public at each level. These themes are reflected in the messages presented throughout this manual.

Aspirations / Values

Mortgages are about helping people achieve the American Dream – not helping financial speculators get rich quick. Every player in the financial system must be held responsible and accountable for protecting consumers and the integrity of the system.

Emotional / Social

The crisis was caused by fast-talking mortgage brokers who steered people into unfair loans and Wall Street speculators who passed on dangerous levels of risk to investors – and the system failed to protect responsible, hardworking Americans who lost their homes and life savings.

Information

Our solutions – stronger consumer protections, effective regulations and greater transparency – will ensure that homebuyers have access to loan products that are fair and transparent, and the country has a stable financial system that produces a reliable supply of capital to grow the economy.

Comparative

Our solutions will prevent a future crisis because they address the root causes of the problem – a lack of consumer protections, regulations and transparency. Proposals that do not address the root causes will not prevent a future crisis.

The Frame

"One way of looking at American politics right now is through the frame of responsibility. The vast majority of ordinary Americans are doing what they are supposed to do, and all the other institutions [are] not, especially in corporate America. And the government, under a Republican administration, failed to hold these institutions accountable."

– David Axelrod, Senior Advisor to the President

To effectively frame the debate in a way that drives policymakers to focus on consumer protection, regulation and transparency as the solutions, advocates must: 1) position our solutions as helping to achieve aspirational values; 2) articulate a vision for a credit and mortgage system that will work for consumers and all players in the financial system; 3) place blame on lenders and financial institutions – not consumers – for causing the problem; 4) offer solutions that address bad behavior by lenders and financial institutions; and 5) highlight the benefits of these solutions to all Americans.

The values of "responsibility" and "accountability" should frame the debate around reforming the system. Using this frame will be especially effective, because the Administration, as the quote above indicates, is already using it – so key policymakers will be more likely to repeat our message.

The Message

"Mortgages are about helping people achieve the American Dream – not helping financial speculators get rich quick. Every player in the financial system must be held responsible and accountable for protecting consumers and the integrity of the system. The mortgage crisis was caused by fast-talking mortgage brokers and Wall Street speculators – aided and abetted by weak regulation and consumer protections, little enforcement and no transparency. Unethical lenders pushed homebuyers into taking unfair loans, betting that the loans would be passed off to investors before they went bad. We need stronger consumer protections, greater transparency and more effective regulations to address the root causes and prevent a future crisis. These reforms will ensure that people can buy homes at a fair interest rate – while promoting financial stability and a reliable supply of capital to grow the economy."

The Message Explained & Expended

Values

Mortgages are about helping people achieve the American Dream – not helping financial speculators get rich quick.

The government helps banks underwrite mortgages so that Americans buy decent homes, establish roots, and build a stable life for themselves and their children. Families who want to make a good life for themselves shouldn't have to worry about lenders deceiving them into taking unfair loans. The government did not create the market in home mortgages so that Wall Street investors could get rich by repackaging and selling off bad mortgage loans.

(Beginning with the values statement reminds people what the issue should be all about.)

Vision

We need a financial system in which all players share responsibility and accountability for protecting consumers and the integrity of the system, not one that enriches irresponsible speculators at the expense of everyone else.

(This vision articulates a values-based goal that most people want to achieve, which is important to build support among policy makers.)

The Problem

The mortgage crisis was caused by fast-talking mortgage brokers and Wall Street speculators looking to get rich quick – aided and abetted by a lack of regulation, consumer protections and transparency.

They pushed homebuyers into taking unfair loans, promising that home prices never fall and refinancing would always be available. Then they passed off the bad debt to other investors. When the housing bubble burst, mortgages failed, investors stopped buying debt, and banks couldn't cover the loans they made. Responsible, hardworking Americans

lost their homes and life savings. Families and communities were devastated, and the economy went into a tailspin.

(Places blame where is belongs and sets the stage for our policy solutions.)

The Solution

Stronger consumer protections, more effective regulations, and greater transparency will address the root causes and prevent a future crisis.

Purchasing a home represents one of the most important financial decisions most Americans will ever make. We must ensure that Americans have access to fair loan products. We must establish stronger consumer protections and enforce them to shield consumers from the unfair loans and deceptive lending practices that were allowed to flourish in the last five years. We must close all gaps in the regulatory system and enforce the rules to hold all players equally responsible and accountable. We must require transparency of all products, players and practices in the financial system – and reform the Federal Reserve Board so that it's more accountable to the American people, not just Wall Street banks.

(This presents a complex agenda in a simple statement and positions our solutions as the best way to prevent a future crisis.)

The Benefits

These reforms will ensure that people can buy decent homes on fair terms without being taken advantage of – and promote financial stability and a reliable supply of capital to grow the economy.

Our solutions will ensure that everyone in the financial system behaves responsibly and that consumers are treated fairly. These changes will ensure that homebuyers have access to loan products that are fair and transparent, and the country has a stable financial system that produces a reliable supply of capital to grow the economy.

(Shows the benefits of our solutions to policymakers, constituents and the economy as a whole.)

The Narrative

This section provides an expanded version of the problem statement, with the focus on unethical lenders and Wall Street speculators – not consumers.

Lenders looking to get rich quick took advantage of weak consumer protections, ineffective regulation and poor transparency. They used deceptive practices to push consumers into unfair loans: falsifying buyers' financial information to trap people into larger loans, loading up mortgages with hidden fees and pushing higher-cost loans on people who qualified for lower rates.

Some irresponsible investment bankers also saw an opportunity to get rich quick. They repackaged risky mortgages and passed them on to investors like a game of hot potato, and rating agencies paid by the bankers gave the new "products" secure ratings they didn't deserve.

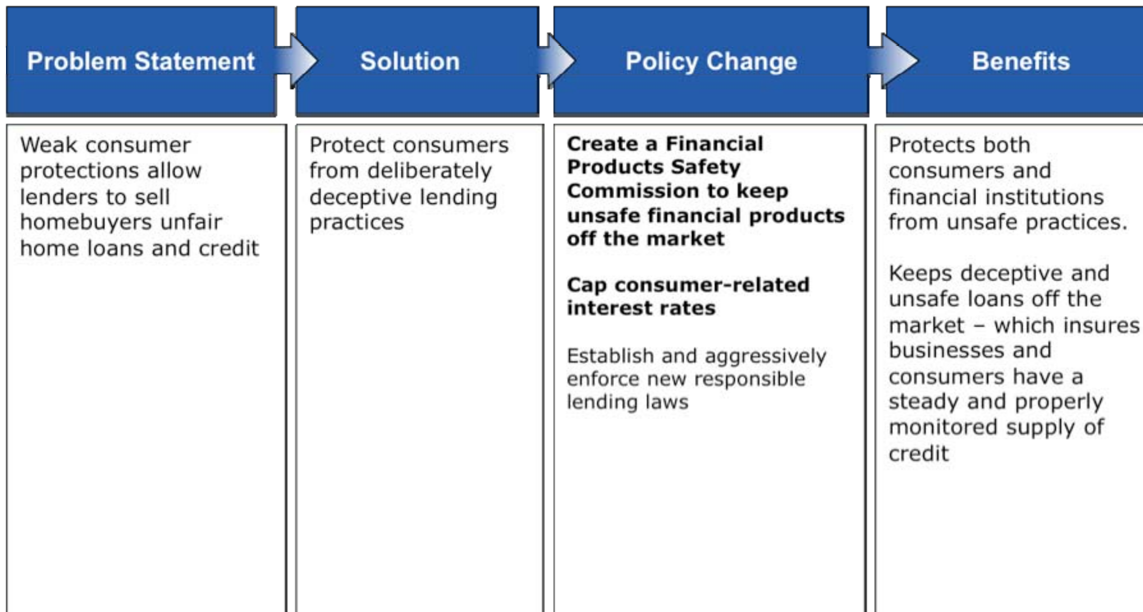
After these products saturated the market and the housing bubble burst, many of these risky mortgages failed, bankrupting banks, investors and insurers. Responsible, hardworking Americans lost their homes and life savings. Families and communities were devastated, and the economy went into a tailspin. The heart of the problem was the risky loans deliberately and deceptively marketed by lenders – first to homebuyers and then repackaged as securities and sold to investors.

Mortgages are about helping people achieve the American Dream – not helping financial speculators get rich quick. Policymakers have an opportunity now to address the root causes and prevent another crisis. We must establish stronger consumer protections, greater transparency and more effective regulation to ensure responsibility and accountability for everyone in the financial system.

Policy Descriptions

The message grids below outline the three broad policy remedies to prevent a future mortgage crisis – stronger consumer protections, more effective regulation and greater transparency. These grids present these solutions in a logical flow: the problem, the solution, the policy changes needed to achieve this solution, and the benefits of these changes. Each grid is followed by a narrative statement using the key themes. These descriptions use everyday language so that these policy changes can be understood by the media, public and policymakers.

Stronger Consumer Protections



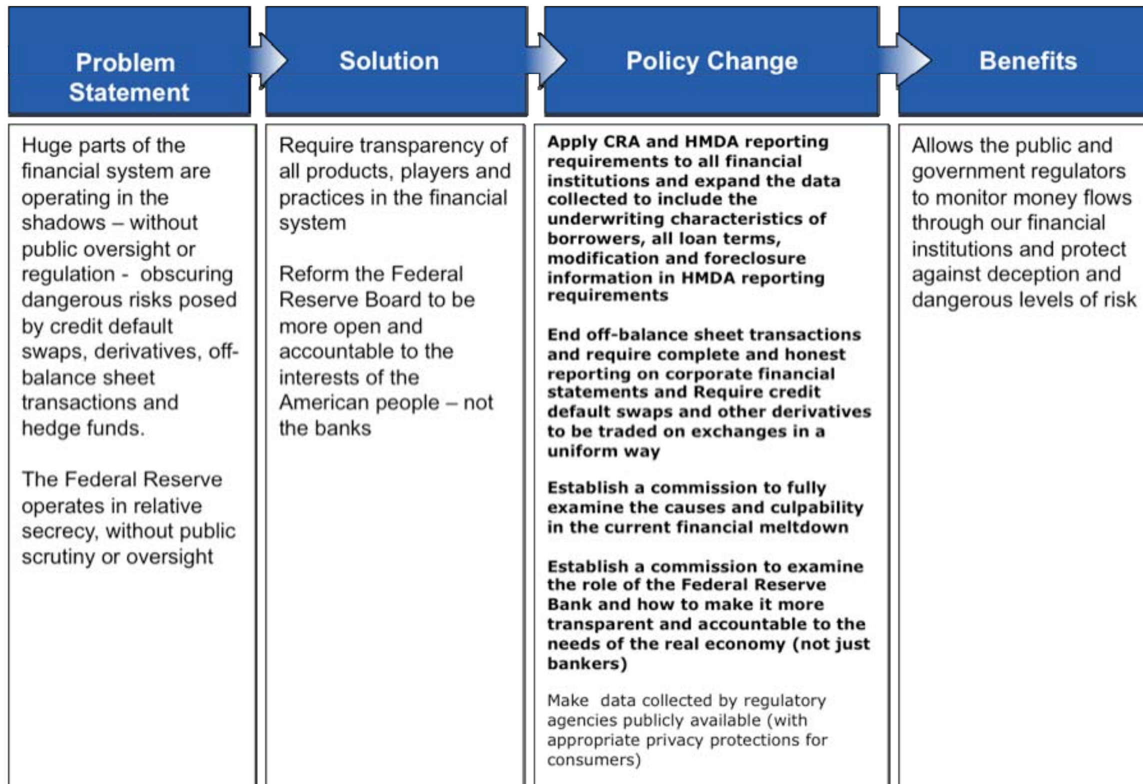
Problem Statement	Solution	Policy Change	Benefits
Weak consumer protections allow lenders to sell homebuyers unfair home loans and credit	Protect consumers from deliberately deceptive lending practices	**Create a Financial Products Safety Commission to keep unsafe financial products off the market** **Cap consumer-related interest rates** Establish and aggressively enforce new responsible lending laws	Protects both consumers and financial institutions from unsafe practices. Keeps deceptive and unsafe loans off the market – which insures businesses and consumers have a steady and properly monitored supply of credit

Unethical lenders took advantage of weak consumer protections and engaged in deceptive lending practices to trap homebuyers into unfair loans. We must:

- **Create a Financial Products Safety Commission**
- **Cap consumer-related interest rates**
- Establish new responsible lending laws
- Enforce existing consumer protection laws more aggressively

These changes will keep unfair financial products off the market and prevent unethical and deceptive lending practices. These changes will keep their keep families from losing their homes, ensure that financial institutions take on less risk and ensure that the credit market remains stable.

Greater Transparency



Problem Statement	Solution	Policy Change	Benefits
Huge parts of the financial system are operating in the shadows – without public oversight or regulation - obscuring dangerous risks posed by credit default swaps, derivatives, off-balance sheet transactions and hedge funds. The Federal Reserve operates in relative secrecy, without public scrutiny or oversight	Require transparency of all products, players and practices in the financial system Reform the Federal Reserve Board to be more open and accountable to the interests of the American people – not the banks	**Apply CRA and HMDA reporting requirements to all financial institutions and expand the data collected to include the underwriting characteristics of borrowers, all loan terms, modification and foreclosure information in HMDA reporting requirements** **End off-balance sheet transactions and require complete and honest reporting on corporate financial statements and Require credit default swaps and other derivatives to be traded on exchanges in a uniform way** **Establish a commission to fully examine the causes and culpability in the current financial meltdown** **Establish a commission to examine the role of the Federal Reserve Bank and how to make it more transparent and accountable to the needs of the real economy (not just bankers)** Make data collected by regulatory agencies publicly available (with appropriate privacy protections for consumers)	Allows the public and government regulators to monitor money flows through our financial institutions and protect against deception and dangerous levels of risk

Poor transparency allowed huge sections of the financial system to operate in the shadows, obscuring dangerous risks posed by credit default swaps, derivatives, off-balance sheet transactions and hedge funds. The Federal Reserve, with members appointed by the banks, still operates in secrecy. We must require transparency of all products, players and practices in the financial system and reform the Federal Reserve Board to make it more accountable to the American people, not just Wall Street banks. We must:

- **Apply CRA and HMDA reporting requirements to all financial institutions**
- **Include loan origination, modification and foreclosure information in HMDA reporting requirements**
- **End off-balance sheet transactions and require complete and honest reporting on corporate financial statements**

- **Require credit default swaps and other derivatives to be traded on public exchanges in a uniform way (so the public can see the transactions that occur)**

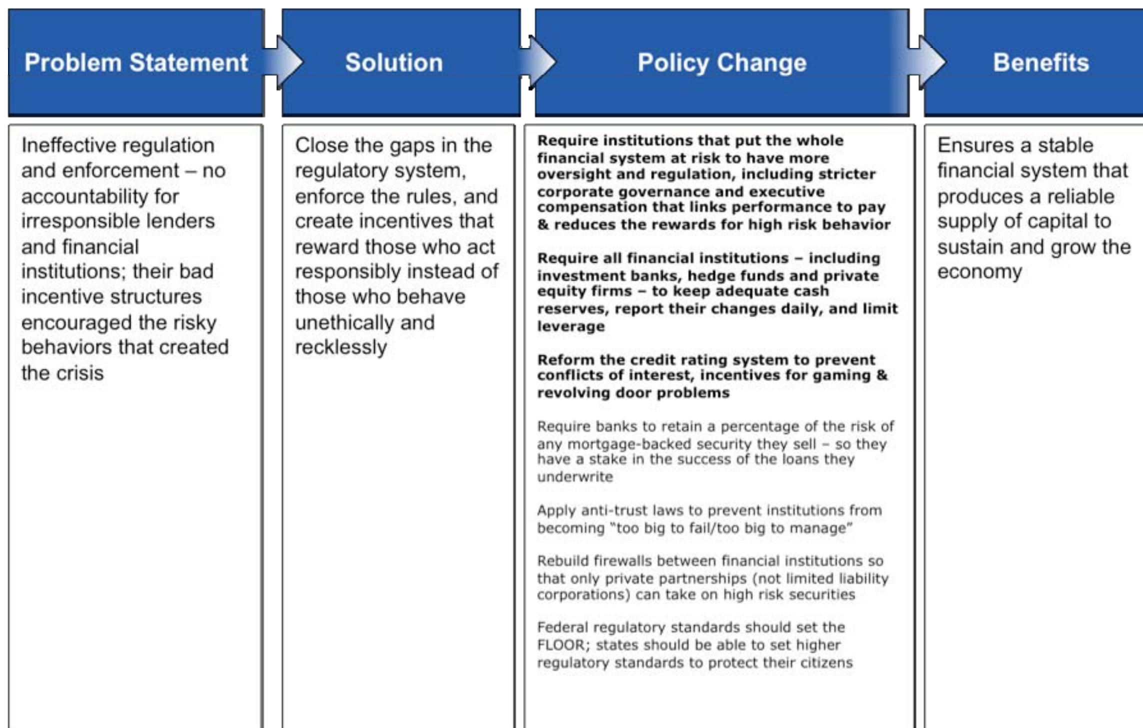
- **Establish a commission to examine the role of the Federal Reserve in our economy and how to make it more transparent and accountable to the American people (not just the banks)**

- Establish a commission to fully examine the causes of the financial meltdown and the culpability of various actors

- Make data collected by regulatory agencies publicly available (with appropriate privacy protections for consumers)

These changes will allow the public and government regulators to see how money flows through our financial institutions and protect against deception, conflicts of interest and dangerous levels of risk.

More Effective Regulation



Ineffective regulation of the financial system meant no accountability for irresponsible lenders and financial institutions that caused the crisis. We must close all gaps in the regulatory system and enforce the rules to hold all players equally responsible and accountable. We must:

- **Require the institutions that can destabilize the whole financial system to have more oversight and regulate, including stricter corporate governance rules and executive compensation rules that link pay to performance and reduce the rewards for high risk behavior**

- **Require all financial institutions – including investment banks, hedge funds and private equity firms – to keep adequate cash reserves, report changes daily, and limit leverage**

- **Reform the credit rating system to prevent conflicts of interest, incentives for "gaming" and revolving door problems**

- Require banks to retain a percentage of the risk of any mortgage-backed security they sell, so they don't profit from passing on bad loans to investors and have a stake in the success of the loans they underwrite

- Apply anti-trust laws to the "too big to fail/too big to manage" to split them into more manageable institutions

- Rebuild firewalls between financial institutions so that only private partnership (not limited liability corporations) can take on risk

- Set national regulatory standards through federal law and allow states to set higher standards to protect their consumers

These changes will ensure a stable financial system that produces a reliable supply of capital to grow the economy.

Key Words & Phrases

Use these words and phrases often when writing and talking about the issue.

"American Dream"
This commonly used phrase activates a widely held value and helps to position homebuyers in a favorable light.

"Responsibility and accountability"
The values of "responsibility" and "accountability" should lead the discussion about reforming the system.

"Reliable source of capital to grow the economy"
This positions our solutions as a benefit to the economy overall and guards against charges that our solutions will prevent business growth.

"Consumer protections"
While key policymakers are open to strengthening consumer protections to prevent another financial crisis, it is not their top priority. To help push consumer-focused solutions higher on the policy agenda, lead with this term.

"Transparency"
This is a useful term because of its extreme popularity – over 80 percent of the public supports increased transparency of both government and business. In interviews, the term also resonated with policymakers and drove them to think of our solutions.

"Regulation"
This term was well understood by policymakers. While "oversight" does better than "regulation" in public polling on this issue, the term "oversight" should be avoided, because it does not drive policymakers to think of stronger regulation or consumer protections.

"Unethical, irresponsible" lenders and financial institutions
These terms characterize the institutional actors that caused the problem in language that sets up our vision of a financial system where everyone is accountable and responsible.

"Wall Street speculators"

This phrase puts a face on institutions that caused problems by over-leveraging, hiding the risks of mortgage-backed securities, etc. Most of these problems stemmed from speculation that housing prices would continue to rise – and that financial institutions could pass on risky securities to investors.

"Fast-talking mortgage brokers"

This phrase conveys that mortgage brokers manipulated consumers into unfair loans using deceptive practices. It puts a face on the "unethical lenders" that connects to actual consumer experiences.

"Deceptive, manipulative" lending practices

Using these words when describing bad lending practices will keep the blame on the actions of lenders, not consumers. These words convey that unethical lenders intentionally pushed homebuyers into mortgages the lenders knew to be unfair.

"Unfair loans"

It is important to avoid terms like "unaffordable" or "high-cost" when describing bad loan products, because they allow the opposition to turn blame back on consumers who "should have read the fine print." "Unfair" suggests that consumers could not have known that these loan products would present problems.

"Fair loans"

Fairness is a basic American value. It's hard to argue against making loan products fair to consumers.

1-Minute Message & Sound Bites

1-Minute Message

Mortgages are supposed to help people buy homes, not make financial speculators rich. The crisis was caused by fast-talking mortgage brokers and Wall Street speculators looking to get rich quick.

They took advantage of weak consumer protections, ineffective regulation and poor transparency to deceive homebuyers and then passed on risky loans to other investors.

We need a financial system that serves the interests of the American people, not Wall Street speculators. Every player in the financial system should share responsibility and accountability to protect consumers and the integrity of the system.

Stronger consumer protections, effective regulation and greater transparency will address the root causes and prevent another crisis. These reforms will ensure that people can buy good homes without being taken advantage of – while promoting financial stability and a reliable supply of capital to grow the economy.

15-Second Sound Bite

Mortgages are supposed to help people buy homes, not help financial speculators get rich quick. We need accountability and responsibility in the financial system to rein in Wall Street speculators and fast-talking mortgage brokers who caused the crisis.

Sound Bites

Values. Mortgages are about helping people achieve the American Dream – not helping financial speculators get rich quick.

Vision. We need a financial system where all the players play by the same rules and consumers are protected from deliberately deceptive lending practices.

Problem. The crisis was caused by fast-talking mortgage brokers and Wall Street speculators looking to get rich quick. They manipulated homebuyers into taking unfair loans and then passed on the risky loans to other investors – and the regulatory rules failed to stop it.

Solution. To address the root causes and prevent a future crisis, we need stronger consumer protections, greater transparency, and more effective regulations.

Benefits. These reforms will help people buy good homes without being taken advantage of – while promoting financial stability and a reliable supply of capital to grow the economy.

Comparative. Proposals that don't include stronger consumer protections, more effective regulations and greater transparency will not prevent a future crisis, because they do not address the root causes.

One-Liners on Policy Proposals

This language is designed to help explain complex issues and solutions in simple terms that policymakers and the public will understand.

Policy Proposal	Description / Benefit
Financial Products Safety Commission	Keep unfair loan products off the market and prevent problems from occurring in the first place.
Responsible lending laws	Prevent deceptive lending practices and rein in fast-talking mortgage brokers.
Uniform reporting requirements for all financial institutions	Apply CRA and HMDA reporting requirements to all financial institutions to ensure all players are held to better standards of due diligence and reporting.
Capital requirements for all financial institutions	Make sure lending institutions have a reasonable amount of capital on hand to cover bad loans; outlaw unsafe leverage ratios.
Accountability for regulatory agencies	Make all data collected by regulatory agencies publicly available so that the public can judge whether these agencies are doing their jobs.
Corporate financial accountability	End off-balance sheet transactions and require complete and honest reporting on corporate financial statements to keep investors fully informed about the companies they invest in.
Accountability for the Federal Reserve	Make the actions of the Federal Reserve Bank more transparent so citizens can judge whether it is meeting public needs (rather than responding only to financial interests)

Rules of the road for "systemically significant" financial institutions	Require stricter rules and oversight for financial institutions that can destabilize the whole system, including stricter corporate governance and executive compensation rules.
National regulatory standards supplemented by state regulatory standards	Set national *minimum* regulatory standards through federal law and allow states to set higher standards to put more cops on the beat to protect consumers.
Establish cash reserve requirements for all financial institutions and limit their exposure to leverage	Require all financial institutions – including investment banks, hedge funds and private equity firms – to keep adequate cash reserves and set leverage limits to ensure a steady supply of capital to grow the economy.
Assignee liability	Require banks to retain a percentage of the risk of any mortgage-backed security they sell so they cannot pass on all the risk of shaky securities to others.
Expansion of HMDA reporting requirements	Include loan origination, modification and foreclosure information in HMDA reporting requirements to shine a light on the health of mortgages that underpin mortgage-backed securities and other financial instruments.
Stronger enforcement	Enforce existing consumer protection laws more aggressively to prevent deceptive practices and fraud.
Restrict lenders influence on housing appraisers	Do not allow lenders to choose and pay housing appraisers directly to avoid conflicts of interest.
Anti-trust action against the "too big to fail" financial institutions	Apply anti-trust laws to unmanageably large financial institutions to split them into more efficient institutions.
Prohibit watchdog shopping	Prevent lenders and financial institutions from shopping around for the most lax

	regulator.
Stop rating agency conflicts of interest	Change the funding structure for rating agencies so that they are not paid by the companies they oversee.

One-Liners on Ineffective Proposals

This section provides succinct rebuttals to policy proposals that would be less effective in preventing a future crisis.

Ineffective Proposal	Why It Won't Work
Systemic risk regulator	We already have one called the Federal Reserve, and it didn't do its job.
Ethics review board	A review board would not prevent a crisis – it would only act after the damage is done.
Federal preemption of state regulations	Preemption ties the hands of states that need to do their part to protect consumers and prevent a future crisis.
Rely on free-market system	This crisis happened because the market ran wild – Wall Street can't police Wall Street.
No restrictions on securitization or leverage	If we don't put reasonable limits on the kind of leveraging and securitizing that got us into this mess, it will happen again.
Consumers should be more responsible	Predatory consumers didn't cause this crisis, predatory lenders did.
CRA repeal	Lenders regulated by the CRA didn't cause the crisis – it was the unregulated lenders.

Stories

Telling a story that puts a human face on the issue is the most effective way to create an emotional connection with your audience. A good way to educate people about the consequences of weak consumer protections and ineffective regulation is to talk about the specific actions of an individual lender. Below are two examples.

The broker who doubled the mortgage payment of a bedridden man.

Story Sound Bite

A fast-talking mortgage broker manipulated a bedridden man and nearly doubled his mortgage payment without his knowledge. The man died, and now his wife has to pay three-quarters of her Social Security income to cover the mortgage payment.

Full Story

Mr. and Mrs. James Thomas lived in their home for 26 years and dutifully paid their mortgage every month. When a tree limb fell on their garage and collapsed the roof, Mr. Thomas, who was bedridden, called a contractor to make the needed repairs. Mr. Thomas requested a small loan to help pay for the repairs, so the contractor came to the Thomas' house with a mortgage broker. Mr. Thomas's illness made it difficult for him to see, and the broker deceived him into thinking that he was taking out a loan for the repairs when actually the broker trapped him into a huge loan to refinance the entire house. The broker and the contractor made $4,380 in commissions, fees and kickbacks. Shortly after the signing, Mr. Thomas died in the ICU. His elderly wife, on a fixed income of $1,100 a month, now pays more than $900 in monthly mortgage payments.

This story was provided by the Cuyahoga County Court of Common Pleas.
For more information, please call the Legal Aid Society of Cleveland: (216) 861-5590.

The broker who falsified the income of a senior on Social Security to trap her into an unfair loan.

Story Sound Bite

An 80-year old woman living on Social Security lost her home after a fast-talking mortgage broker inflated the woman's income on the loan application to trap her into an unfair loan.

Full Story

Helen Hillis is 80 years old and has lived in her home since 1973. In 2007, she met with a loan officer to refinance the mortgage on her house. After Ms. Hillis signed the required documents, the loan officer forged her income, inflating it to five times the value of her fixed income from Social Security. The forgery enabled the loan officer to push her into a larger loan. Ms. Hillis was unable to make her inflated mortgage payments and lost her home.

This story was generously provided by Colorado Legal Services.
For more information, please call: (303) 866-9356.

Deceptive Lending Practices

Consumer advocates have identified many deceptive lending practices. These are some of the worst – and are difficult to blame on consumers.

Lenders falsified borrower incomes to deceive them into loans that the lenders knew they could not afford. Unethical mortgage companies specifically trained and pressured their employees to inflate income levels in loan agreements to trap borrowers into larger loans. Legal complaints have been filed by borrowers who were given loan papers with incomes they never reported.

Lenders unfairly pushed borrowers, especially minorities, into higher-interest loans – even when they qualified for lower rates. African-American and Hispanic neighborhoods were targeted by unethical lenders for subprime and high-interest loans, even though many minority homebuyers qualified for prime loans with reasonable and stable interest rates. A report from the Center for Responsible Lending found that African-Americans who had the same income, assets, and credit scores as white home-buyers were 34 percent more likely to be steered to a higher-rate loan by unscrupulous mortgage brokers.

Lenders deceived buyers into Option Adjustable Rate Mortgages (Option-ARMs), convincing them that they could simply refinance their homes when the adjustable interest rate increased – even when the loan terms disallowed or charged huge penalties for refinancing. Many of these homebuyers were unable to refinance, and lost their homes.

Responses to Opposition Statements

These are suggested responses to those who oppose reform.

Stronger consumer protections will stifle innovation.

The best way to protect the American economy is to protect the American consumer. Keeping unfair loan products off the market stops the problem at the source – keeping the horse in the barn by locking the door, instead of running after it once it escapes. These protections will encourage innovation aimed at helping homebuyers, not padding the pockets of the fast-talking mortgage brokers and Wall Street speculators.

Eliminating federal preemption of state regulations will create dueling regulatory systems.

More cops on the beat means more protection for consumers and more accountability for everyone in the financial system. Eliminating preemption will create competition among regulators over who can best protect consumers – and that's what we need to prevent another crisis.

Too many regulations will drive banks and financial institutions to set up shop in other countries.

Ensuring responsibility and accountability in the financial system will maximize profitability for business while ensuring safe and sustainable growth. Other countries are already following our lead and establishing new regulations to prevent problems that caused the meltdown in the United States.

The Community Reinvestment Act (CRA) caused the crisis because it forced lenders to provide subprime loans to people who couldn't afford them.

Lenders regulated by the CRA didn't cause the crisis – it was the unregulated lenders. Twenty-one of the 25 top providers of subprime loans were unregulated. CRA-regulated banks are required to perform due diligence to ensure that borrowers can afford to repay

loans. If non-bank lenders that originated most subprime loans had been regulated under CRA, we could have averted the mortgage and credit crisis entirely.

Homebuyers who received subprime loans knew they were getting loans they could not afford.

Homebuyers were deceived. Some mortgage brokers manipulated homebuyers into loans they knew borrowers couldn't pay back, because they faced no accountability and no risk if those loans failed.

Fannie Mae and Freddie Mac caused the subprime boom.

Hedge funds and other investors began purchasing large shares of subprime mortgage bundles in 2002. Fannie Mae and Freddie Mac only began purchasing these bundles in 2005, and at much slower rates than private banks had. They only responded to market trends set in motion by financial speculators.