Deregulation or take the money and run

In the late 1970's and early 1980's, with no debate, Congress quietly deregulated the home-mortgage lending industry and the credit card industry. The deregulation of the consumer credit industry produced many good things. There is an abundance of credit available. People can go out and borrow money at low interest rates. However, deregulation has also spawned a monster that is slowly devouring the heart of the American middle class. This monster has many faces, the ugliest of which is sub-prime lending, that is, lending to an individual or family that is already in financial trouble.

For example, a credit card company offers you a credit card at 6 percent interest, but if you run into financial trouble and miss a payment the interest rate skyrockets to 29 percent. Or, suppose you own your home with a mortgage at 6 percent. If you lose your job, or miss a few mortgage payments, there is an industry that will descend on you with offers to refinance to provide you cash in a pinch. However, the interest rates on sub-prime mortgages often double. In 2001, standard mortgage loans carried a 6.5 percent interest rate. The average sub-prime mortgage rate was over 15 percent. Obviously, there are enormous profits to be made. These vultures circle the financial carcasses of American families to the tune of tens of billions of dollars every year. Banks have every incentive to throw credit at any warm body they can. Wall Street bankers wearing Italian leather shoes and starched shirts are now charging interest rates that loan sharks didn't charge 25 years ago.

Sub-prime lenders defend their practices by arguing that they help more families own their own homes. However, 80 percent of sub-prime mortgages involve refinancing existing mortgages. The consequence of this burgeoning industry is that families are placing their homes on a roulette wheel, and increasingly families lose. Home mortgage foreclosures are up 300 percent in the last 20 years and bankruptcy filings are at an all time high. At the same time, the banking and credit card industry will generate over $70 billion in interest charges this year alone. The fastest growing sector of the lending industry is sub-prime lending.

To make matters worse, the banking and credit card industry has lobbied hard for years to pass bankruptcy reform legislation to make it more difficult for people of modest means to use the bankruptcy code to eliminate their debt. The bill, passed into law in 2005, gives the credit card industry what they've wanted for years. Not surprisingly, banks and credit card companies are among the most generous political donors. MBNA American Bank is the second largest issuer of credit cards and one of the top donors to President Bush's campaign. Until Congress decides to regulate the practices of these predatory lenders, beware of the wolf in sheep's clothing.