

Housing rescue will benefit economy

Prudent borrowers might not like seeing the government picking up the slack for foolish homebuyers in over their heads.

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A lot of Americans will oppose President Barack Obama's \$275 billion plan to stem the tide of foreclosures. Their anger is justified, for way too many people took out home loans they couldn't afford — and way too many lenders gave them those loans and looked the other way.

For those who have worked hard, kept up their house payments and bought less house than a lender told them they could get a loan for, it is aggravating to see the government try to rescue those who borrowed to the hilt to buy homes they couldn't really afford.

But as tempting as it may be to let those borrowers lose their homes and lenders to fail, their sheer numbers are dragging down the entire economy. Until the housing mess is cleaned up, it will be harder to get credit, find another job and see the value of retirement savings start to recover — or at least stop falling in value.

Besides, not everyone the government seeks to help is a deadbeat. Many homebuyers could make the payments until they lost a job. Others who were financially naïve were exploited by a greedy lender.

Under the Obama plan, the government will spend \$75 billion to modify the loans of borrowers who are in foreclosure or close to it. The government and a lender would each contribute financially to lower a troubled borrower's monthly payment to 31 percent of his or her income.

The other part would put \$200 billion more toward the Fannie Mae and Freddie Mac programs to provide more credit for home mortgages — that would make it easier for many, including those who are up to date on their mortgages, to refinance at lower interest rates.

The program won't help everyone. It will not help, for example, those who bought homes only as investors, expecting to "flip" them to another buyer at a higher price. Nor will it help many, perhaps millions, who are so far "underwater" — owing far more on their home than it is worth — that there's no practical way to refinance.

Implementing the plan won't be easy. Just the administrative task of working through millions of individual mortgage agreements is "a jobs program in itself," said John Heasley, general counsel of the Texas Bankers Association.

One of the Obama administration's most important proposals is to give bankruptcy judges much more power to reduce monthly payments for homeowners in their courts.

The lending industry has strongly opposed the "cramdown" authority, arguing that it would mean higher risk in making mortgages and, therefore, higher mortgage interest rates — for everyone.

But that works both ways: Lenders who know that their investment could be reduced in bankruptcy court are a lot more likely to ensure the credit-worthiness of borrowers on the front end, reducing the risk of foreclosure and bankruptcy in the first place.

The Obama administration's plan to start cleaning up the housing mess might only partially resolve the problem. But that's more than we've seen to date, and any progress would be welcome.