



White House foreclosure plan seen as too little

Analysts see it helping too few homeowners, not enough investors

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WASHINGTON - A government proposal to freeze interest rates on home loans made to borrowers with weak credit would have limited impact in stemming a surge of foreclosures, analysts say.

Treasury Secretary Henry Paulson is hashing out the plan's details with other federal banking regulators, mortgage industry executives and investors. Details of the plan are expected later this week.

However, less than a third of \$1 trillion in outstanding subprime mortgages are likely to qualify for the plan, said Guy Cecala, publisher of Bethesda, Maryland, trade publication Inside Mortgage Finance.

And the economic benefits are at best uncertain for many mortgage investors, Cecala added, even though he expects most players in the industry to participate — if only to avoid a tarnished reputation with the public.

Publicly opposing the plan, Cecala said, is "kind of like criticizing apple pie at this point."

Loan servicers, which collect and distribute payments to investors, are being asked to give extensions, which could range from two to seven years, for subprime mortgages due to reset at higher rates in the coming years.

The Bush administration's plan is being aimed at homeowners who are making payments on time at lower introductory mortgage rates but cannot afford a higher adjusted rate. The Federal Deposit Insurance Corp. estimates that 1.1 million borrowers are in that situation.

Still, many categories of risky loans are not included in the plan at this point, other analysts noted, including loans in which borrowers used home equity loans to finance a home purchase and loans in which borrowers were not required to document their income.

"Many government and policy makers feel this is a subprime problem, which is completely wrong," Friedman Billings Ramsey analyst Paul J. Miller Jr. wrote in a research note Tuesday. "The plan will not rescue the housing market."

And loan modifications, regardless of who qualifies, aren't a panacea, Miller added, estimating that about half of modified loans default anyway over the long run.

In a speech at a housing forum here Monday, Paulson said he believed the mortgage industry would implement the new program quickly.

"What was a fragmented, cumbersome process can be a coordinated effort which more quickly helps able homeowners," Paulson said, acknowledging the limits of who will qualify.

"Some of these homeowners will become renters again," he said.

President George W. Bush said Tuesday that the mortgage industry's complexity has meant the plan has "taken a while" to develop. You've also got people all around the world who now own U.S. mortgages," Bush said. "And so it's a complex assignment."

Some on Wall Street warn of a flood of lawsuits if the government tries to coerce loan servicers to modify mortgages held in complex mortgage securities to modify loans, without being certain that affected investors will benefit in the long run.

"It's a real mixed bag for investors " Brian Gardner, a Washington policy analyst with Keefe, Bruyette & Woods Inc. Some investors, he said, are likely to go along, realizing they'll take a small loss.

Others, notably speculators betting that mortgage securities will drop in value, are likely to be opposed, he said.

Meanwhile, Democrats and consumer advocates question whether the administration's efforts go far enough.

"It would be a sad irony if this attempt to correct the damage done by poor underwriting standards that extended too much credit to too many borrowers was undone by criteria that made loan modifications and workouts available to too few borrowers now," four Democratic senators including Christopher Dodd and Charles Schumer wrote in a letter to Paulson on Tuesday.

Democrats are pushing their own initiatives, including legislation — ardently opposed by lenders — to allow mortgages on primary residences to be modified in bankruptcy court. The Senate Judiciary Committee has scheduled a hearing on that proposal for Wednesday afternoon.

Consumer groups prefer that approach, saying it will help far more borrowers.

Through October, there were about 1.8 million foreclosure filings nationwide, compared with about 1.3 million in all of 2006, according to Irvine, California-based RealtyTrac Inc. With home loan defaults still rising, the trend is expected to worsen next year.

Meanwhile, subprime loans, which accounted for about 20 percent of mortgage loans in 2005 and 2006 have plummeted to 5 percent in the third quarter as lenders react to the spike in defaults, according to Inside Mortgage Finance statistics.

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