As home crisis deepens

Obama, Democrats bow to banks on housing "rescue"

Tom Eley
5 March 2009

On Wednesday, the Obama administration released guidelines on its plan to stem the collapse of the housing market with its "Making Home Affordable" initiative, or Homeowner Affordability and Stability Plan (HASP). The plan claims to offer "assistance to as many as 7 to 9 million homeowners."

Part of the program, costing $75 billion, pertains to private lenders, providing funds to them if they agree to renegotiate home loans. A separate $200 billion component will make funds available to Fannie Mae and Freddie Mac, the two federally-backed mortgage lending giants, so that they can modify a share of the home loans they control.

The newly-announced guidelines pertaining to private lenders make clear that the program's primary aim is not to assist homeowners, but to further prop up the banks. The plan does not reduce the grossly overvalued debt homeowners owe banks. It will not affect homeowners "underwater" by more than 5 percent—that is, those who owe more than 5 percent more than their homes' current market value.

Not surprisingly, the plan immediately won the vocal support of the major banks, including Citigroup, JPMorgan Chase, Bank of America, and Wells Fargo.

Hurdles have been thrown up to prevent easy access to the program. In order to qualify, homeowners must submit an "affidavit of financial hardship," in addition to payroll documents, tax forms, and extensive information about other debts and assets in order to prove that they have made "every possible effort" to pay their mortgages. Some participating households will be required to seek debt counseling through government-approved "community organizations," funded by HASP.

The Treasury will assist banks in reducing monthly payments to 31 percent of loan recipients' income through reductions in interest rates or extensions to loan periods. Banks will receive a cash handout of up to $4,000 over three years for every mortgage they modify. Mortgage securities investors could also receive $1,500 per modified loan.

Significantly, only in cases where monthly payment reductions prove less costly to banks than forcing homeowners into foreclosure will lenders have to participate. That is, only under conditions where it is financially beneficial to them, will they be "required" to alter mortgage terms.

Separately, on Tuesday House Democrats agreed to change language in new housing legislation that would have given bankruptcy judges wide latitude to alter payment conditions for homeowners in foreclosure. Previously, Obama indicated that this would be the primary means to compel bank cooperation in the otherwise voluntary HASP program.

The legislation was waylaid last week after conservative Blue Dog Democrats and free market New Democrats, backed behind the scenes by the Obama White House, raised objections. They were responding to a fierce campaign waged by the finance industry against any legislation that would have granted bankruptcy judges new powers to rewrite mortgage contracts.

Should it pass both houses of Congress, the new legislation may well make it more difficult for homeowners to seek redress from the courts. To avoid judicial proceedings, banks would be able to present evidence indicating that they offered adjustments to payment plans. Homeowners would have to prove to a judge, with paper evidence, that they first tried to adjust their mortgages by appealing to the banks.

The change would also water down from the earlier version judges' ability to lower the principal (the outstanding balance on home loans) and would force homeowners who have gone through bankruptcy courts to hand over profits from the future sale of their home to the lender.

Democratic House Majority Leader Steny Hoyer explained that motivating the change was the fear that homeowners could take advantage of the banks. "The concern is that we want to ensure that those people who get relief have tried other avenues," he said.

An Associated Press article pointed out the financial industry's power in altering the legislation. "The changes bring the legislation closer in line to what President Barack Obama's administration has sought and what the banking lobby finds acceptable," the article notes. *The Washington Post* added that "the financial services industry, which has lobbied against the bill, fought for all [the new] provisions."

Democratic Representative Brad Miller, of North Carolina, was quoted by the AP as saying that the finance industry has "been giving it everything they've got. They still have remarkable influence." Democrat Representative Maxine Waters was more blunt. "These guys rule this place," she said.

New statistics on the housing market underscore the ineffectual character of the measures. On Tuesday, the consumer credit tracking firm TransUnion released data showing a surge in the number of Americans falling behind on their mortgage payments. Households missing at least two consecutive payments rose to 4.58 percent during the fourth quarter of 2008, up from 2.99 percent a year earlier.

According to Moody's Economy.com about 27 percent of homeowners, or 14 million out of 52 million households, are underwater, owing more than their houses are worth. A survey by First American CoreLogic, the research wing of a major real estate and home title firm, has found that the number of underwater homeowners is likely to increase markedly in the coming months. If home values should fall by the relatively modest figure of 5 percent, another 2.16 million homes would go underwater, according to the report. Housing values have already fallen by 26 percent since 2006 as measured by Standard & Poor's/Case-Shiller index.

Especially hard hit are the states of Arizona, California, Florida, Georgia, Michigan, Nevada, and Ohio. They combine for 62 percent of underwater homeowners, but only 41 percent of mortgages. However, the study anticipates that underwater home loans will mount in other states that have so far been resistant to collapsing home prices.

The foreclosure crisis, which touched off the global financial crisis, is now being pushed forward by layoffs. On Wednesday, ADP Employer Services released data showing that nearly 700,000 private sector jobs were lost in the US in February, and revised January job losses upward to 614,000 from 522,000.

The author also recommends:

Obama's housing plan and the American ruling class [21 February 2009]