

***Treasury Unveils Program to Fund Mortgages, National Public Radio, Morning Edition, October 20, 2009 10:00 AM ET.***

RENEE MONTAGNE, host:

This is MORNING EDITION from NPR News. I'm Renee Montagne. Good morning.

The federal government has a new plan to help the housing market. The government says it won't cost taxpayers money and could help provide loans to hundreds of thousands of first-time homebuyers. The Treasury Department announced the program yesterday, and NPR's Chris Arnold has the details.

CHRIS ARNOLD: The federal government will be propping up state-run affordable housing programs across the country. They're called housing finance agencies. In a normal year, they finance upwards of \$15 billion worth of home loans for first-time homebuyers, but the past year's credit crisis has made it really hard for them to raise money for these loans.

Ms. MICHELLE CROCKETT (Homebuyer Counselor): In your case you're putting down five percent.

Ms. NATASHA HENRY (Homebuyer): Correct.

Ms. CROCKETT: Okay, so that'll leave 95...

ARNOLD: In Boston's Dorchester neighborhood, housing counselor Michelle Crockett(ph) is going over the details of a loan with Natasha Henry(ph). Henry is a single mom, she's got a steady job, and she's about to buy her first house. She's taking it seriously. She has taken home buying classes through a nonprofit, moved back in with her parents to save for a down payment.

Ms. HENRY: I closed all my credit cards, paid them off, only held onto one, got my debt down.

ARNOLD: Henry is exactly the kind of homebuyer that economists say the housing market needs right now. She's actually buying a house that was foreclosed on, she's got money to fix it up. But in many parts of the country, one of the sources of affordable loans for people like Henry is in trouble.

Mr. STEVE SPEARS (California Housing Finance Agency): We've been out of lending for a year.

ARNOLD: Steve Spears heads up the California Housing Finance Agency.

Mr. SPEARS: Two years ago, we had record lending. We had a billion-seven in mortgages for first-time homebuyers. We're not making any loans at all really right now.

ARNOLD: So here's what's going on. Spears explains that a state housing finance agency like his in California basically works like a bank.

Mr. SPEARS: A affordable housing bank.

ARNOLD: The bank gets its money by issuing what are called tax exempt bonds. So people on Wall Street invest money in the bonds, and the agency uses that money to make home loans. But people on Wall Street are still pretty nervous about investing in anything related to the housing market, especially in areas where home prices have fallen a lot.

Mr. SPEARS: They're just not interested.

ARNOLD: So this is where the government's now going to step in. Michael Barr is assistant Treasury secretary for financial institutions. He announced the new effort to help the state agencies on a conference call yesterday.

Mr. MICHAEL BARR (U.S. Treasury Department): They have historically performed a critical function in serving first-time homebuyers across the country. The state of the current market has made it very, very difficult for them.

ARNOLD: So the government is now going to basically buy bonds from the state housing agencies to provide them with the money that they need to lend. Barr didn't say exactly how much money would be spent doing this, but it would likely be upwards of \$15 or \$20 billion. Still, Barr stresses that the government would be getting that money back down the road. It's in effect just loaning the housing finance agencies that money.

Mr. BARR: The expected cost to the federal government is zero. Expected cost is fully covered by the fees that HFAs are being charged for participation in the program.

ARNOLD: Still, there is, of course, some risk that things might not go as planned, but some economists say they think that the effort is worth that risk. Mark Zandi is chief economist of Moody's Economy.com. He thinks these so-called HFAs play a small but important role in the overall housing market, providing these affordable loans.

Mr. MARK ZANDI (Moody's Economy.com): At the moment, they just can't get credit liquidity and they may not survive if they don't get help.

ARNOLD: But other economists aren't so sure. Some say the government's already doing enough to promote home ownership.

Chris Arnold, NPR News, Boston.