

Treasury Announces Plan to Prevent Foreclosures, National Public Radio, All Things Considered, March 26, 2010, 9:00 PM ET.

ROBERT SIEGEL, host:

From NPR News, this is ALL THINGS CONSIDERED. I'm Robert Siegel.

The Obama administration today announced a plan to dramatically expand its efforts to prevent foreclosures. It would reduce the amount some homeowners owe on their mortgages. The plan also includes a push to help unemployed borrowers.

The administration says the program can be paid for out of the \$50 billion Congress has already set aside for foreclosure relief.

NPR's Chris Arnold reports.

CHRIS ARNOLD: The Treasury Department is trying to tackle the problem of homeowners who are underwater. That is, people who owe, say, \$50,000 or \$100,000 more than their house is worth. Analysts say about one in four U.S. homeowners is stuck in that situation, and those people are much likely to give up making their payments and just walk away from their homes. And those empty houses keep dragging down the market.

Mr. MICHAEL BARR (Assistant Secretary, Treasury Department): What we're focusing on is the problem of people who are underwater who want to stay in their homes.

ARNOLD: That's Assistant Treasury Secretary Michael Barr. He wants lenders to actually forgive big chunks of what some homeowners owe. That way, the homeowners wouldn't be way underwater, their payments would be lower. But there is one catch: They have to keep making those payments for three years to get the debt forgiven permanently. That's an incentive for them to keep paying, and that would help the lenders, who often lose much more money in a foreclosure.

To help encourage lenders to do this, Barr says the government will pay them up to 21 cents on the dollar for the debt that they forgive.

Mr. BARR: We think we'll be able to reach more people under this program. We think that we'll be able to reduce the risk of re-default. So these are important changes that'll help - work better at serving families.

ARNOLD: Some economists like the new plan, especially since upwards of four million people right now are headed towards foreclosure. Chris Mayer is an economist at Columbia Business School.

Mr. CHRIS MAYER (Economist, Columbia Business School): The coming foreclosure wave is one of the biggest risks that could push us into a double-dip recession. So I think the government is doing well to put out a program to address that.

ARNOLD: Mayer, though is skeptical that these expanded efforts will be able to prevent as many foreclosures as the administration hopes, he thinks that the industry is just too tangled up to deal with so many loans on a case-by-case basis.

He is also a little nervous from a taxpayer's perspective. He worries that under one part of the plan, homeowners would get their loans refinanced and guaranteed by the Federal Housing Administration.

Mr. MAYER: And lenders are going to have a very strong incentive to give the FHA the most-at-risk mortgages, the ones that are most likely to default, and so the government is setting itself up for potentially higher costs in the future by guaranteeing some of these particularly risky mortgages.

ARNOLD: Another part of the plan that some people take issue with are the provisions for unemployed homeowners. Lew Finfer is with the PICO National Network, a faith-based group that's been pushing the government for more foreclosure help.

Mr. LEW FINFER (PICO National Network): It really makes us angry that banks got loans to bail them out, but Main Street, unemployed homeowners are getting zero loans to save their homes.

ARNOLD: Finfer's group had been hoping the government would offer cheap loans to out-of-work homeowners. Instead, he says, this new initiative will have lenders offer a three-month forbearance, where homeowners don't have to pay their full loan amount.

Mr. FINFER: The average length of unemployment is now about seven months. So a program that helps people for three months or so, you know, doesn't go very deep.

ARNOLD: Of course, some commentators are already decrying the program as an unnecessary government handout. They question why it's fair for some people to get taxpayer money to pay down their mortgages while most people won't get it.

Chris Arnold, NPR News.