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6 Things to Know About Bush's Plan

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The devil is in the details of President Bush's plan to curb the nation's escalating home foreclosures by freezing for five years the introductory "teaser" interest rates on many subprime loans. Borrowers who qualify—Bush estimates that up to 1.2 million might be eligible—will also have the option of refinancing into a new mortgage or switching to a loan insured by the Federal Housing Administration.



(Paul J. Richards/AFP/Getty Images)

Lenders had already been working out deals with strapped subprime borrowers, but only a small number of homeowners have been able to renegotiate their loans. Bush's plan aims to speed up these deals by laying out criteria to help lenders determine who is eligible for help. "We hope that these guidelines will be adopted as reasonable and customary standard practice across the entire servicing industry," said Treasury Secretary Henry Paulson, who helped broker the deal with other regulators and mortgage lenders. Here are six things you should know about the plan:

It will benefit only a small group of subprime borrowers. To qualify, borrowers must have taken out an adjustable-rate mortgage between Jan. 1, 2005, and July 31, 2007. Those mortgages are scheduled to reset between Jan. 1, 2008, and July 31, 2010. The rate freeze applies only to those who are keeping up with payments but can't afford the higher interest rate due when their adjustable-rate mortgage resets. Lenders will determine who qualifies by evaluating a set of criteria, which includes credit scores, income, and payment history. The plan excludes people who have been more than 60 days behind on their payments over the past year and those with more than 3 percent equity in their home at the time the loan was made. Anyone who purchased a property as a real-estate investment is also ineligible for assistance.

Borrowers must ask for help. Aid is available only for those who ask for it, Bush said. The administration set up a hotline to help people determine their eligibility (888-995-HOPE). Borrowers should also contact their lender or a nonprofit credit counseling agency, says Darla Keegan, housing supervisor for Novadebt, a national nonprofit housing and credit counseling agency. "It's surprising, but many homeowners never try to initiate communication with their lender when they're falling into

trouble—even when they're delinquent or going into foreclosure," Keegan says.

The plan is not a "silver bullet." Paulson acknowledged that the effort is not a quick fix. "We face a difficult problem for which there is no perfect solution," he said. It's important to keep in mind that the plan won't solve the housing market's woes, says Ron Greenspan of FTI Consulting. "It will make a difference to people in this small subset, but as far as the market at large, it's not even going to move the needle on the number of foreclosures." In the third quarter, the percentage of borrowers late with their payments rose to the highest level since 1986, according to the Mortgage Bankers Association. The delinquency rate for all mortgages rose to 5.59 percent during the quarter, up from 5.12 percent in the second quarter.

Questions remain about how it will work. Many hailed the plan as a step in the right direction, although critics have questioned how it will actually work. "This is likely to be logistically difficult, if not impossible to manage in any meaningful scale," says David Resler, chief economist at Nomura Securities. Critics also suggested that modifying loans may only help extend the crisis. "Freezing interest rates may [delay] the pain a bit, but the defaults are still going to come and property values are still going to continue to decline," says Dean Barber of Barber Financial Group.

This is an industry-led deal, not a government bailout. Both Bush and Paulson emphasized that the plan involves no government money and is entirely voluntary. "This is a private-sector initiative to deal with the volume of resets," Paulson said at a press conference Thursday. "You get approximately the same result as if you did it on a case-by-case basis." The administration has proposed allowing state and local governments to issue tax-exempt bonds to fund refinance programs for struggling subprime borrowers.

The plan will become a hot political issue. This is a bold step for an administration that has, until recently, insisted that the task of refinancing mortgage loans should be handled on a case-by-case basis. "There are obviously significant limitations on what they're willing to do, but I don't think we would have gotten this plan out of the administration that came into office in 2001," says Ellen Seidman, former director of both the Office of Thrift Supervision and the Federal Deposit Insurance Corp., who now heads a project at the New America Foundation. As the presidential election nears, the health of the economy—and how candidates will deal with the mortgage crisis—is gaining political importance. Some Democratic candidates argued that the plan doesn't go far enough and proposed their own plans. Hillary Clinton, for example, proposed an across-the-board rate freeze and a moratorium on foreclosures. John Edwards said he would freeze interest rates for seven years.

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