

## Modifying home loans

by *The Milwaukee Journal Sentinel*

Each day that Congress dallies, more people face the prospect of losing their homes.

Foreclosures hit 1.5 million last year and could climb to 2 million during 2008. The number of homes entering foreclosure hit a record in the fourth quarter, and homeowners' share of equity in their homes is at a post-World War II low. Housing prices are expected to fall throughout the year.

The largely voluntary efforts championed by the Bush administration so far have done some good, but they haven't made enough of a dent in the biggest problem threatening the economy.

The simplest, most direct action that Congress could take would be to allow federal bankruptcy judges to modify the terms of some mortgage loans. Bills in both the House and Senate would do that. The legislation targets borrowers who have subprime or other nontraditional loans, who meet a means test demonstrating the ability to repay and who otherwise would lose their homes.

The Center for Responsible Lending, an advocacy group that works to limit predatory lending, believes such a move could help about 600,000 families overcome by bad loans.

Federal Reserve Chairman Ben Bernanke last week called on lenders to voluntarily reduce the principal of some struggling homeowners, noting that reducing interest rates doesn't address the problem of homes worth less than their mortgage. The government has also raised the cap on the size of loans that government-sponsored mortgage agencies - Fannie Mae and Freddie Mac - can buy. And the Hope Now Alliance, an industry group, said members had worked on more than 1 million loans since the crisis erupted last summer.

These are all positive steps, but giving bankruptcy judges the ability to modify loan terms for homes - just as they can for boats or cars now - would do more good. It would put disinterested arbiters in a position to have the final say, which would likely prompt increased workout agreements outside of the courts. And there is no cost to the federal government.

Keeping people in their homes is in the homeowners' interest, of course, but it is also in the interest of communities riddled by falling housing prices and of lenders who otherwise will recover less of their investment.

Congress should move quickly to give bankruptcy judges this power.

Reprinted from The Milwaukee Journal Sentinel â€“ CNS.

*Modifying home loans by The Milwaukee Journal Sentinel*