

Helping out, not bailing out

by *The San Diego Union-Tribune*

After many billions in federal aid to the banks and two of Detroit's Big Three, it might be time for federal aid to residents who own the home they occupy. But hold the celebration. There are some devils in the details, and President Barack Obama is to release still more details next month.

So far, Obama has tried to make the essential distinction between people who have hit an unexpected rough patch and, as he put it, "folks who bought homes they knew from the beginning they would never be able to afford."

Distinguishing the two is imperative to keep the outrage of 92 percent of homeowners to a low roar. They make their mortgage payments, and many if not most are not pleased to be on the hook for the 8 percent who botched the math.

Obama figures his plan will keep some 9 million homeowners from foreclosure; that is, 9 million who qualify for this aid and whose lenders voluntarily cooperate.

He does not intend to throw "good taxpayer money after bad loans." So another 3 million or so homeowners in no financial shape to make the least decent payment won't qualify. So quite a few owners deepest in debt will still lose their homes and possibly rental properties. Many are poor and/or minority owners who were grossly misled into untenable ownership, and congressional Democrats may yet to subsidize them anyway. That's in part what got us to this point in the first place. It's a yet to resist.

Obama's plan aims at two groups of owners who can hang on to their homes if their payment is lower.

For the 3 million to 4 million who are either close to foreclosure or can't make their current monthly payment now or soon can't, the plan offers considerable incentives to lenders to reset the house payment to 31 percent of borrowers' income.

For another 4 million to 5 million who owe more than their houses are worth, the plan offers the possibility of refinancing at a lower rate through Fannie Mae or Freddie Mac if their original loan involved one of those agencies.

Congressional Democrats, meantime, propose a counterproductive change to bankruptcy law that the president should but may not stop cold: For homeowners whose only option is bankruptcy, bankruptcy courts

could grant borrowers and impose on lenders lower monthly payments and lower loan principal.

That proposed reward for stiffing lenders presents not only a grievous moral hazard. It also presents a huge financial dilemma: If lenders can't be certain of repayment amounts, borrowers are less likely to find a loan.

Fortunately, Obama's own plan steps gingerly on a path fraught with pitfalls: helping homeowners who will use help wisely without eroding most Americans' habit of repaying home loans or taking the usual painful consequences.

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