

Senate leaders agree on housing relief

WASHINGTON – April 3, 2008 – A bipartisan Senate bill designed to ease the slumping housing market won tepid reviews Wednesday, and even its top sponsor acknowledged that much more is needed to help millions of families threatened with foreclosure.

The scaled-back proposal unveiled by Senate Banking Committee Chairman Christopher Dodd, D-Conn., contains an amalgam of ideas aimed at boosting demand for housing and helping homeowners saddled with subprime mortgages avoid foreclosure.

The plan contains \$4 billion in grants to local governments to buy and refurbish foreclosed homes, new authority for states to issue bonds to be used to refinance subprime mortgages, and a temporary \$7,000 tax credit for people buying new homes or properties in foreclosure.

Those provisions, and others, were the product of a bipartisan negotiation that produced a narrow, common-denominator approach to the crisis.

"There's a lot more that needs to be done," Dodd said. "But it's a step in the right direction."

The White House weighed in with serious doubts about the plan, and economists across the spectrum were skeptical that it would do much to ease the wrenching crisis in the housing market and the wave of foreclosures spreading across the country.

White House spokesman Tony Fratto said the administration likes some provisions, such as issuing mortgage bonds and modernizing the Federal Housing Administration to boost access to FHA-insured loans. But he added that the administration has "serious concerns" about other provisions such as the homebuyers' tax credit and aid to local governments to purchase foreclosed homes.

"Some of these provisions that are purportedly to help homeowners actually would not help them and in some cases could hurt them," Fratto said. For example, he said, the tax credit for buyers of foreclosed and newly constructed homes could force down prices for many other sellers.

While supporters said the measure would boost demand for housing, help people refinance adjustable-rate mortgages and help communities beset with abandoned homes, many economists cautioned that the measure's benefits would be modest – and would help banks and homebuilders while doing hardly anything for people facing foreclosure.

"They're good steps, but they're small steps and certainly not big enough steps to solve the problem," said Mark Zandi, chief economist for Moody's Economy.com. "I don't think it's going to be enough to solve the housing problem, at least not in 2008."

The measure also contains a provision dropped from February's stimulus measure that would permit homebuilders and other money-losing businesses to reclaim previously paid taxes, new disclosure requirements aimed at preventing unsophisticated borrowers from being duped by mortgage brokers, and additional money to provide counseling to people threatened with foreclosure and help them in negotiating with their lenders.

Republicans forced Democrats to drop efforts that Zandi and other economists said might have proven more effective in alleviating the crisis, including a controversial plan opposed by banks and their GOP allies to change bankruptcy laws to help borrowers trapped in subprime mortgages keep their homes.

Banking Committee Chairman Christopher Dodd, D-Conn., was also forced to leave out of the bill a plan to have the Federal Housing Administration guarantee perhaps \$400 billion worth of refinanced loans if lenders reduce loan amounts to reflect reduced home values. Dodd told reporters he would continue to work on the idea in hopes of advancing it later in the year.

Republicans won a scaled-back version of a plan by Johnny Isakson, R-Ga., to provide a temporary tax credit to people buying foreclosed or newly built homes. Isakson sought \$15,000 in tax credits spread over three years – aimed at boosting demand in the slumping housing market – but GOP negotiators settled for a \$7,000 credit awarded over two years.

Liberals and conservative economists alike questioned the merits of the idea, however, saying it would have relatively little effect on demand and that to the extent it would lift demand it would boost foreclosure sales for banks who made bad loans and homebuilders who built homes despite signs that the market was slowing.

"Basically, you're giving money to builders that overbuilt and banks that issued bad loans," said Dean Baker, co-director of the Center for Economic and Policy Research. "It's giving money to the villains in this story."

Economists also questioned how effective it would be to have local governments buy and refurbish foreclosed homes. Advocates of the idea say it would stabilize neighborhoods and protect home values, but the White House said it would benefit lenders most.

"The funding to purchase homes does nothing to help homeowners struggling to make their mortgage payments," Fratto said

The measure contains a broader rewrite of the FHA that permanently raises the dollar limit on mortgages that FHA can insure to \$550,000 in the most costly real estate markets. The economic stimulus bill approved by Congress in February temporarily raised the limit from \$362,790 to \$729,750.

But Republicans rebuffed efforts by Democrats and the White House to reduce down payments on FHA-insured loans.

The most costly element of the bill would allow home builders and other companies that are presently losing money to reclaim taxes paid up to four years ago instead of the two-year period currently permitted.

Altogether, the tax provisions in the measure would cost \$10.8 billion over the next decade, though the short-term costs are considerably higher.

The momentum behind the measure reflects voters' concerns about the economy in a pivotal election year. And there's even more pressure on lawmakers to help ordinary Americans after the Federal Reserve and the Treasury Department weighed in to prevent the collapse of Bear Stearns, the Wall Street investment house.



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