

What the Mortgage Bailout Means for You



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On Dec. 6, Treasury Secretary Henry Paulson, with the support of President George W. Bush, unveiled a plan to aid certain homeowners who face the prospect of higher mortgage rates in the next few years. Paulson worked with banks and other mortgage companies to develop the initiative, and thanked them for their involvement. "We have worked through an evolving process to help minimize the impact of the housing downturn on homeowners, neighborhoods and the U.S. economy," he said. While the plan is ambitious and is designed to bring stability to the shaken economy, it will affect only a narrow slice of homeowners in the U.S. "This is not a silver bullet," said Paulson. Here are some answers to questions you may have.

Can you get your mortgage payments lowered because of the bailout?

It depends. If you've got an adjustable-rate mortgage, you may qualify under certain conditions. If you've got a standard mortgage with a fixed interest rate, you're not affected.

Which adjustable-rate mortgage holders are affected?

Only a small group. To qualify, you need to have received your loan sometime between Jan. 1, 2005 and July 31, 2007, and you need to be facing a reset of your interest rate sometime between Jan. 1, 2008 and July 31, 2010. If you're within this range, you may be eligible to have your interest rate frozen, so you can keep your current, lower rate for five years.

Who qualifies within that range?

The bailout is really designed for homeowners who could run into trouble if their mortgage payments are raised sharply and face the prospect of losing their homes. If you're well enough off that you can afford the higher mortgage payments after a reset, you won't qualify. And if you're in bad enough shape that you can't handle the current low interest rate, you won't qualify. For example, if you've already fallen behind on your mortgage payments, you're not eligible for the rate freeze.

Do you need to live in your home to qualify?

Yes. The plan excludes people who don't live in the homes for which they have mortgages so that speculators can't benefit.

Why is there going to be a bailout?

Bush, Paulson, and the Administration are concerned about the fallout from the housing slump. If many people fall behind on their mortgages and have to give up their houses, there will be a series of negative repercussions. First, tens of thousands of Americans could be forced to leave their homes. They would lose whatever equity they had. Consumer spending more broadly would likely slow, hurting the economy overall. In addition, home prices could fall even more quickly than they are now. That could hurt consumer confidence well beyond those people directly affected.

Is the bailout going to be enough?

It depends on your definition of enough. The deal will add some stability to the housing market, but it won't stop all the problems in the troubled sector. The same day Bush unveiled his plan, the Mortgage Bankers Assn. said that foreclosures had reached a record high in the third quarter. The share of mortgages that have entered foreclosure hit 0.78% in the quarter, up from the previous high of 0.65% set in the previous quarter. At the same time, delinquencies for all mortgages rose to 5.59%, from 5.12%, in the second quarter. None of the people who are delinquent or facing foreclosure will be helped by the plan.

The deal almost certainly won't stop the decline in housing prices. Investors are betting that there will be double-digit declines in home prices in nine of 10 major markets over the next year. The only exception is Chicago, and there the estimate is for a 5.6% drop in home prices.

So why not go further?

Some Democrats are criticizing the Bush Administration on that exact point. Senator Hillary Clinton (D.-N.Y.), among others, is arguing for a more ambitious approach, including at least a seven-year freeze on interest rates.

Who stands in the way of such an effort?

Investors in mortgages and mortgage-backed securities. If homeowners are going to pay less on their mortgages than originally planned, then somebody is going to lose money. These aren't just fat cats on Wall Street—although many such firms have invested in these securities—they're also pension funds for teachers, firemen, and police, as well as mutual funds whose clients include all sorts of individual investors. They probably even include homeowners who are facing the prospect of higher payments on their adjustable-rate mortgages.