

Bush announces 'limited' steps on loan crunch

By Noelle Knox, USA TODAY

President Bush announced a series of "limited" steps Friday designed to help homeowners struggling to pay their mortgages, expanding the role of the Federal Housing Administration and proposing a temporary change in tax law to prevent people from being penalized when they refinance risky "subprime" adjustable-rate mortgages.

The government's role in the ongoing subprime loan crunch is "limited," Bush warned at a Rose Garden appearance, and he said recent problems in the subprime market "are modest in relationship to the size of the economy."

But for families facing drastic increases in mortgage payments because ARMs had been adjusted upward by lenders, "this problem doesn't seem modest at all," he said.

Under Bush's proposal, an estimated 80,000 homeowners with bruised credit and subprime ARMs they can no longer afford will be able to refinance loans, which the Federal Housing Administration (FHA) would insure.

The move marks a historic expansion of the role of the FHA, a Depression-era agency that has traditionally served low- and moderate-income families and first-time buyers, but not delinquent borrowers. Nearly 16% of subprime borrowers are behind on their ARMs, and an estimated 2 million subprime ARMs totaling about \$600 billion will reset to higher rates through the end of next year.

To qualify for the new benefit, homeowners would have to prove they paid their loan on time before it reset to a higher rate and must have at least 3% equity in the home.

The program, which doesn't need congressional approval, should take effect early next year.

Under current rules, the maximum loan the FHA can guarantee is \$202,000 in most states and up to \$362,000 in high-cost states such as California and New York.

Bush also called on Congress to pass his proposal to reform the FHA, in part by raising those loan limits to \$262,000 in most states and \$417,000 in pricier areas.

He also proposed a temporary change in tax law. It would let homeowners avoid taxes on forgiven debt if a lender agrees to alter the terms of a loan.

The president also wants the FHA to be able to help other risky borrowers, beyond the 80,000, by broadening its lending criteria. To compensate for the added risk that the borrowers might default, the FHA would charge them higher premiums on the loans. Also, he wants to eliminate the 3% down payment requirement, though borrowers would have to pay at least some of the closing costs to secure the loan.

In describing the plan Thursday, senior administration officials avoided using the word "bailout." Friday, Bush also emphasized that the plan was limited in scope.

"It's not the government's job to bail out speculators or those who bought a home they knew they could not afford," he said.

Still, the plan is sure to incite critics. "If you're going to help someone to refinance, you're going to bail out the person who financed him in the first place," Peter Wallison of the American Enterprise Institute said Thursday night. "This will only cause the problem to arise again."

Wallison said the lenders who provided the financing in many of these cases likely knew that the borrowers couldn't meet the financial obligations of the loan.

"If we're going to allow (lenders) to be refinanced out, what we're doing is saving them from their own greed. ... It might be good politics, but it's very bad policy."

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Courtesy of JB Goodwin