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Government, industry craft plan to slow foreclosures

By Noelle Knox, USA TODAY

WASHINGTON — Treasury Secretary Henry Paulson plans to unveil on Thursday a plan being hammered out with the mortgage industry that's intended to slow the record number of homes falling into foreclosure and ease the damage from the housing recession.

Details of the plan would coincide with the release of data from the Mortgage Bankers Association. Those figures are expected to show that homes in foreclosure hit records for April through June, especially for people with subprime credit and adjustable-rate loans. Nearly 17% of those subprime borrowers missed at least one payment in the first quarter of the year. An additional 2 million homeowners will face their first interest-rate reset by the end of 2008.

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"This is the most serious housing recession since the Great Depression," says Mark Zandi, chief economist for Moody's Economy.com. Zandi predicts that home prices, on average, will fall 7% more through next year.

Paulson met with housing and banking regulators, lenders, loan-servicing companies and Wall Street executives last week to seek "an aggressive, systematic approach to fast-track able borrowers into a refinance or mortgage modification," he said Monday.

The plan, Paulson added, "does not, and will not, include spending taxpayer money on funding or subsidies for industry participants or homeowners."

Questions remain, though, about how many investors, who bought bonds backed by these mortgages and are spread out around the globe, will agree to change the terms of the loans.

Under the plan, borrowers will fall into four categories. Those who:

- Can afford their adjusted interest rate. They'll receive no assistance.
- Have been unable to make payments at their ARM's "teaser" rate. They will probably "become renters again."
- Can qualify for a refinance loan. Lenders should quickly get these borrowers into new loans.
- Have steady incomes and good payment histories and can afford the teaser rate but not the higher payments once their loan rate resets.

"We are focusing on this group," Paulson said. He didn't say how many homeowners might be saved. Interest rates for these borrowers could be frozen at the teaser rate for three to six years, according to some proposals on the table.

"We're talking about millions and millions of people" (with ARMs), says Greg McBride, a senior analyst at Bankrate.com. "And the judgment for who fits what category is somewhat subjective."

Paulson also said he wants state and local governments to be allowed to issue tax-exempt bonds to "temporarily" raise money to help some struggling subprime borrowers refinance.

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