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# Bush subprime plan offers help to 1.2M

**Mortgage interest rates will be frozen only for ARM borrowers who are not yet in foreclosure.**

By Les Christie, CNNMoney.com staff writer

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NEW YORK (CNNMoney.com) -- President Bush's unveiled a foreclosure relief plan Thursday that he said **could** help 1.2 million distressed homeowners.

The program allows a **five-year freeze in interest rates** only for borrowers current with their monthly payments.

It will **streamline the mortgage modification process** for many distressed borrowers, according to Bush. It will offer "more relief to more homeowners, more quickly," he said.

**But the plan is limited. It excludes anyone more than 30 days late at the time the mortgage would be modified or anyone who has been more than 60 days late at any time within the previous 12 months.**

**It also only covers borrowers with adjustable rate mortgages (ARMs) resetting beginning in 2008 and leaves out any who are judged capable of continuing to make mortgage payments at the higher reset rates. And borrowers who can't afford the loan even at low introductory rates also will be ineligible,** according to Anne Canfield, executive director of the Consumer Mortgage Coalition, which represents lenders and mortgage servicers.

The president said 1.2 million borrowers could benefit. But of the 2.2 million subprime ARMs that are expected to reset through the end of 2008, **only 240,000 of those would be covered** according to an analysis made by investment banker Barclays Capital as reported in *The New York Times*.

"I think the **plan is good in theory,**" said Mark Zandi, chief economist for Moody's Economy.com, "**but, in practice, it's going to come up short.**" There are too many impediments to its widespread adoption by investors and servicers."

Obstacles include contractual obligations between servicers and investors as well as logistical difficulties. When loans have been sliced up and resold through the securitization process, it's hard to determine who ultimately decides what modifications are possible and still in the best interests of the investors.

Furthermore, said Zandi, "There's no stick in the plan; it depends on moral suasion."

But just because every homeowner won't benefit under the Bush plan, help will be available, according to Canfield.

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## Bush subprime plan limited but a step forward - Dec. 6, 2007

"The industry will still work to modify these loans," she said. "We have every incentive to do that."

Delinquent loans increase financial pressure on servicers because they still have to make payments to investors, as well as tax payments to local governments, according to Canfield.

The principle aim of the Bush plan is to streamline the modification process, at least for that limited number of borrowers, allowing them to get fast help. Lenders will examine readily available loan criteria, such as loan-to-value ratios, loan amount, credit scores and payment history, to make a quick determination of qualifications.

That makes it a "start in the right direction," said Darla Keegan, speaking for Novadebt, a national nonprofit housing and credit counseling agency, because it will move some borrowers through the system quickly. [Mortgage counseling services are currently stretched.](#)

For the rest, she said, "We can still see if lenders will work out agreements with lenders for these borrowers."

"Qualified borrowers will get their modifications much more quickly," said Kurt Pfothenauer, senior vice president for government affairs with the Mortgage Bankers Association. "A whole cohort will be done on an accelerated basis."

Still, said Bruce Marks, chief executive of the Neighborhood Assistance Corporation of America, a community advocacy group, "The number of borrowers affected by the plan is very small, but it sets the precedent and standard so that more borrowers can be helped down the road."

He expects more of that help to come. "An important point is why they're doing it. **They're seeing the numbers of delinquencies.** They can't say publicly that it will have a huge impact on the economy, but this action says that."

If the impact of subprime foreclosures increases, pressure will build for the government to do more.

The agreement does leap one of the thorniest hurdles to making wholesale mortgage modifications work: resistance from the investment community, who were sold a bill of goods, according to John Taylor, CEO of the National Community Reinvestment Coalition.

**"They were promised a product that looked very safe and had attractive rates," he said. "Now they're getting little or nothing in return and are being asked to take bigger losses."**

As the foreclosure crisis deepened it became apparent that many sensible modifications were being shot down because investors would not agree. An analysis by Moody's earlier this autumn revealed only about 1 percent of resetting ARMs had been modified this year.

The administration had to use its powers of persuasion to get investors aboard at all, according to Don Lampe, a real estate attorney who has testified before Congress on subprime mortgage issues. "Investor push-back probably weakened the plan," he said.

Despite all the criticism, the initiative was welcomed by nearly all the players, including consumer groups. Many wish it were stronger but were happy to see some response from the administration.

As Lampe put it, "Perfection is the enemy of progress."

The president also used the announcement as an opportunity to call on Congress to act quicker on passing mortgage relief legislation, including the FHA Modernization bill, the change in tax code and a bill enabling local and state governments to issue bonds to finance mortgage refinancings. All have been bottled up in the Senate for weeks or months. ■

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