

5-year mortgage rate freeze looms

WASHINGTON – Dec. 6, 2007 – The Bush administration has come up with a plan to help strapped homeowners facing a daunting jump in their monthly mortgage payments. The proposal, reached in negotiations led by Treasury Secretary Henry Paulson with the mortgage industry, would freeze introductory “teaser” rates on subprime mortgages, preventing them from resetting to higher rates for five years.

President Bush, who was scheduled to announce the agreement after a meeting with industry leaders at the White House on Thursday, has stressed that the deal is not a bailout because no government money is involved.

The effort is aimed at stemming a threatened wave of foreclosures in coming years as 2 million subprime mortgages, loans provided to borrowers with spotty credit histories, reset from their introductory rates of around 7 percent to 8 percent to levels as high as 11 percent, adding hundreds of dollars to the typical monthly payment.

The mortgage companies will offer to freeze the loans at the lower introductory rates as long as the borrowers did not miss any payments at the lower rate.

The program is the biggest effort yet to deal with a tidal wave of mortgage defaults, which have piled up billions of dollars in losses for big banks, hedge funds and other investors as well as roiling financial markets around the globe. The defaults are the latest economic blow from the worst housing slump in more than two decades. Some economists believe the housing bust could become severe enough to push the country into a recession.

Two Democratic presidential contenders, Hillary Rodham Clinton and John Edwards, complained Wednesday that, given the risks to the economy, Bush's proposal did not go far enough. They put forward their own plans that would not only freeze mortgage payments but also declare moratoriums on further foreclosures for a period of time as a way of adding pressure on lenders to reach at-risk homeowners.

The financial services industry applauded the administration for negotiating a plan that will allow free-market forces to operate. The hope is that the five-year freeze will buy time for the housing industry to work down record levels of unsold homes and for sales and prices to start rising again.

A housing rebound would allow homeowners to refinance their current adjustable rate mortgages into fixed-rate loans with more affordable monthly payments.

The big sticking point in the lengthy negotiations was getting investors who have purchased the mortgages after they have been bundled into mortgage-backed securities to agree to accept lower interest payments. Critics have said even with a deal, there are likely to be lawsuits.

“The \$64,000 question remains: will investors who might balk at going along with this be able to maintain legal roadblocks and prevent the plan from going into effect?” said Sen. Charles Schumer, D-N.Y.

But officials representing major players in the mortgage industry said they believed the plan would withstand any legal challenges and would help at-risk homeowners avoid defaulting on their mortgages.

Steve Bartlett, president of the Financial Services Roundtable, a trade group representing the country's largest financial service firms, said the deal would benefit banks, investors and homeowners since there is a significant cost when a mortgage is foreclosed.

Under the administration plan, the rate freeze will apply to loans made at the start of 2005 through July 30 of this year and will cover loans that had been scheduled to rise to higher rates between Jan. 1, 2008, and July 31, 2010.

The plan represents an about-face for Paulson, who until recently had insisted the mortgage crisis could be handled on a case-by-case basis. However, he and other administration officials became convinced the tide of foreclosures threatened by the mortgage resets represented such a severe threat that a more sweeping approach was needed.



Copyright © 2007 The Associated Press, Martin Crutsinger and Alan Zibel (Associated Press Writers). All rights reserved. This material may not be published, broadcast, rewritten or redistributed. Associated Press writers Deb Reichmann and Nedra Pickler contributed to this report.

Related Topics: [Mortgages](#)

Questions, comments or suggestions on this article? Have a news tip? Send a letter to the editor to: Newseditor@floridarealtors.org.

