

Detroit Press October 9, 2008

McCain floats aid for homeowners

Lost value is U.S. burden in plan

BY JUSTIN HYDE • FREE PRESS WASHINGTON STAFF •

WASHINGTON -- Even as the campaign of Republican presidential candidate John McCain pitched his \$300-billion plan to help millions of homeowners whose mortgages threaten their finances, aides to Democratic rival Barack Obama rejected the idea as "erratic policy-making at its worst."

The Homeownership Resurgence Plan McCain unveiled during Tuesday's debate draws from similar ideas proposed by Democrats, Republicans and independent experts. Many lawmakers, including Obama and McCain, have called for more aggressive aid to the 2 million homeowners expected to lose their homes to foreclosure by 2010.

McCain's proposal, which calls for the government to shoulder the entire loss in housing values, came as polls show the economy dominating other issues for voters.

Michigan has been among the states hardest hit by foreclosures. According to Default Research Inc., 2.7% of households in Wayne, Oakland and Macomb counties -- one in 36 -- has gone into foreclosure in the 12 months that ended June 1. With housing prices off 17% in Detroit and nationwide during the past year, roughly 9 million homeowners are carrying loans worth more than the value of the house, according to Moody's Economy.com.

Under the McCain plan, the U.S. Treasury would refinance the mortgages of homeowners who are facing foreclosure, falling behind in payments or facing steep increases in interest rates. The Treasury would pay off the old mortgage at face value and issue a new fixed-rate, 30-year mortgage reset to the lower price of the house. Douglas Holtz-Eakin, McCain's chief economic adviser, said the program would jump-start the housing market, lower mortgage rates and keep people in their homes.

Holtz-Eakin said McCain's previous suggestions to help homeowners relied on mortgage lenders to voluntarily take a cut in the value of the loan. That's the idea behind the Hope for Homeowners plan Congress passed earlier this year. That plan is expected to help 400,000 homeowners.

The campaign said some of the \$300 billion for the plan would come from the Federal Housing Authority, as well as the \$700-billion bailout plan, but did not offer specifics.

Holtz-Eakin told the Free Press that homeowners who get new mortgages under the McCain plan would keep any profits should housing prices recover and they sell their property. The government's Hope for Homeowners plan puts liens on houses, requiring that any future profits be paid back to lenders and the government.

Jason Furman, Obama's chief economic adviser, said the McCain proposal would reward companies that lent most aggressively to people with poor credit.

"John McCain wants the government to massively overpay for mortgages in a plan that would guarantee taxpayers lose money," Furman said in a statement. "The biggest beneficiaries of this plan will be the same financial institutions that got us into this mess, some of whom even committed fraud."