Homeowner's Act: Not a panacea, but it will help

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Connecticut Post, Sunday, Aug. 10, 2008 Opposite Editorial Page

At what point should government step in and tinker with our tough economy? With the increasing strain on our housing industry — and its mushrooming impact through the rest of our economy, the time is right now.

Congress took an important step in July, passing the Help for Homeowners Act. This bill, recently signed by President Bush, is just one step that will help halt a downward economic spiral brought on by a host of factors that range from high oil prices to questionable loan practices by some (non-Connecticut) banks overeager to capture market share.

Some suggest that the Help for Homeowners Act amounts to rewarding bad judgment. I disagree. That is just a simplistic criticism of a solution to an extremely complex problem. The state of Connecticut has an opportunity to enhance the positive effects anticipated from the federal bill so our state can quickly gain a competitive edge in the midst of these economic doldrums.

Some banks and brokers provided mortgages on the assumption that home values would continue to rise — or at least remain stable — and homeowner incomes would grow sufficiently to manage potentially higher rates on adjustable-rate loans. Homebuyers and refinancers leapt at a chance to own a home, mistakenly believing that their future income would rise to handle modest increases in monthly payments. If rates went up too high, many believed they could refinance at a more attractive fixed rate, and increasing home values would add to their equity.

As we all know now, these assumptions didn't pan out. The economy sputtered and home values plummeted. Interest rates increased. Banks have become far more cautious in their lending practices as real estate values declined. A spiral downward began.

The Help For Homeowners Act is an important step toward halting that spiral. It is designed to aid some 400,000 homeowners facing foreclosure. It will enable families on the edge of their ability to pay to stabilize their mortgage payments and keep their homes.

While it is true that some of those mortgages never should have been approved in the first place, the majority were issued in good faith.

Now we face a ripple effect. Mass foreclosures result in mortgage holders taking possession of homes and subsequently being forced to resell them at reduced prices to recover at least a portion of their money. That, in turn, pushes down home prices everywhere. And the mushrooming continues.

Additional foreclosures continue to push the housing market down, eliminating the ability to refinance at favorable current market rates and exacerbating the cycle, with increasing numbers of reduced-priced homes hitting the market. Potential new buyers, anticipating further market declines, remain on the sidelines hoping for further declines so they can buy their dream home at a bargain price.

Desperate home sellers drop their prices, which in turn affects the value of other homes in the neighborhood, including those not for sale. Homeowners intending to use equity in their homes as collateral for loans for renovations, college tuition, additions or other needs find their equity drying up through no fault of their own.

This in turn affects other areas of the economy from home building and renovation businesses, building material suppliers, tool manufacturers and onward.

There is no guarantee that struggling homeowners will qualify for the Help for Homeowners Act. Banks must still approve the new loans and be willing to take a loss on the original loan. Homeowners should continue to pay their existing mortgages when due to avoid becoming a bad risk or worse.

Fortunately, we are not seeing foreclosures in Fairfield County on the scale they exist in other Connecticut counties, but many variable rate mortgages are about to be reset or have just been reset, with the potential for additional difficulties just around the corner.

We need to restore confidence in the marketplace. This is where the state of Connecticut can help. In its next session, the General Assembly should give high priority to ways to spur our housing market — and the entire Connecticut economy.

They should consider a reduction in real estate conveyance taxes (with appropriate compensation to municipalities who will lose income). We should also consider allowing the state pension fund to buy a limited number of mortgages, but only from Connecticut banks, to ease their capital requirements.

In the long run, improving the business climate in Connecticut is key. The Legislature should consider enacting a more aggressive program to eliminate so-called brownfields, particularly in our cities, so that the properties can be put back to productive use — with new jobs and new tax revenue.

Let's enact legislation to make doing business here more attractive with new incentives for creating jobs. Unfortunately, in past sessions, most bills directly related to business tended to have a negative impact.

If government assistance is in this economic downturn is inadequate, the general economy will suffer.

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