

YOUR VIEW: By EDWARD MARCUS

A BETTER ANSWER THAN 8 MILLION FORCLOSURES

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Homeowners stood up and cheered as President Barack Obama stepped into the legislative ring on their behalf recently, wrestling with banking and credit union lobbies to pass a so-called “cramdown” measure that would help stem the surge of home foreclosures.

Unfortunately, Obama was defeated roundly. He should try again.

Under Obama’s proposal, a bankruptcy judge could order a lender to reduce the outstanding balance on a home mortgage, helping prevent a foreclosure.

The plan was fought by a tag team of mortgage industry lobbyists, community bankers and two major credit union groups. Working together they killed the president’s proposal.

The administration’s efforts would have aided many of the 8 million homeowners who are now in or headed toward foreclosure. The vast majority of these homeowners are victims of the national mortgage crisis. Their financial plight is not the result of irresponsible borrowing or spending.

Obama’s proposal would have afforded millions of homeowners an opportunity to begin anew, to climb, inch by inch, out of the mire of foreclosure while reorganizing their finances through bankruptcy. In some cases, judges would have been given the option to order the remaining mortgage balance to be re-amortized over an extended term, lowering monthly payments to a more manageable level for the homeowner.

Opponents of the measure mistakenly claim that it was ill-conceived and would lead banks to raise mortgage rates as a means to recover potential losses. I do not believe that that argument has any merit. In fact, the income of banks would go up, not down, under Obama's proposal.

The country is in a major economic downturn in which droves of businesses and some banks are going under. Under President Obama's proposal, banks might not make as large a profit as they would with their original mortgages, but make no mistake, they would still make a profit.

The average bank collects about 300 percent of the purchase cost of a home with a 30-year mortgage. Dropping that margin to perhaps 250 percent, or even 200 percent, might require some adjustments in operating costs, balance sheets and executive bonuses, but it would not have anywhere near the effect that results from unpaid mortgages and foreclosures — and would not cut into profits as much as sitting on portfolios of unsalable real estate.

The mortgage market is intensely competitive. Banks raising mortgage rates to protect themselves will quickly find that home buyers will turn elsewhere for loans. As the economy recovers with a concurrent increase in home buying, competition among mortgage lenders will only increase, thereby preventing common sense bankers from unduly raising rates and driving customers elsewhere.

Homeowners must also be responsible. It is critical for homeowners to answer the phone calls and letters notifying them of payment lapses. Ignoring such letters, regardless of how strident, will not make the situation go away. It is surprising to see how many homeowners suddenly complain of facing foreclosure proceedings after ignoring a series of letters and phone calls from their lender.

Homeowners also should beware of any proposed quick fix. Those under pressure to find a way out of their financial difficulty can easily fall prey to inappropriate solutions offered by

predatory lenders, turning what first appeared to be an attractive solution into an ever uglier quagmire.

Those struggling to free themselves from the grasp of financial ruin would be well advised to remember the adage that there is no free lunch. Renegotiating current mortgage rates or conditions does not mean there will be no penalties. Homeowners ultimately will be expected to pay tax bills — even after a foreclosure starts — as well as costs associated with the renegotiation.

The president's proposal was not intended as an escape or panacea, but as a means to keep more homeowners in their homes. They still must work to resolve their financial problems, and return to solvency. President Obama should go back to Congress with new determination and continue to propose innovative solutions to a problem that threatens to destroy any economic recovery.

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