



PRINTER-FRIENDLY FORMAT
SPONSORED BY

This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit www.nytreprints.com for samples and additional information. [Order a reprint of this article now.](#)

April 2, 2010

Help Paying Mortgages Elicits Anger

By TARA SIEGEL BERNARD

The angry [comments](#) flooded in after the federal government announced it was expanding its program to assist unemployed homeowners, as well as borrowers who owe more on their [mortgages](#) than their homes are now worth.

Why, some asked on The New York Times Web site, should we have to pay for the mistakes of homeowners who lived far beyond their means when credit was easy to get? Shouldn't they pay for their own mistakes?

A few wrote in to say the government was doing the right thing because helping those in need now would spare many more homeowners pain later.

All of the comments, however, went right to the heart of the criticism of all of the government's bailout programs. After all, the aid for homeowners comes in the wake of bailouts for the [banks](#) and the [American International Group](#), and then the auto industry. In every case, taxpayer money was on the line. So you can understand all of the anger about paying to fix problems not of their own making.

But it made me think about what would be at stake if the government did nothing at all. A government should consider the greater good over the long term, of course, and not just the immediate question of what is fair.

Still, the commenters raised a number of valid questions about the mortgage assistance program. Is the government just propping up the real estate market? Shouldn't the market just run its course? And why do

renters always fall so low on the economic totem pole?

Under the government's latest initiative, for instance, some unemployed homeowners will be permitted to make smaller mortgage payments while they get back on their feet — yet unemployed renters receive nothing. Another part of the program increases the incentives paid to the banks to permanently reduce loan amounts for some homeowners who simply owe more than their homes are worth, as long as they are still current on their payments. No hardship is required.

Is that fair? Of course not. Will some irresponsible homeowners receive help they don't really deserve?

Probably.

But let's not forget that many distressed homeowners were the victims of bad timing, poor understanding of the loans they were signing up for and a slumping economy. Many families stretched themselves too thin so they could buy into the American dream of home ownership — an idea supported by both Democrats and Republicans, not to mention the tax code. And some people simply had the misfortune to buy at the top of the market in precisely the wrong area.

“It shouldn't be something people should be punished for,” said [Robert J. Shiller](#), the Yale economist who helped develop [Standard & Poor's Case-Shiller](#) Index of housing prices. “It was a national mistake. President Bush, in his weekly radio addresses, was extolling the benefits of homeownership. Implicit in this, he was telling people they were doing the right thing to take these highly leveraged mortgage loans. We can't reasonably think people should be punished for doing that when there is a crisis that is not of their doing.”

[Mark Zandi](#), chief economist for [Moody's Economy.com](#), made much the same argument. “It isn't completely fair, but we are helping a large number of homeowners who got into this foreclosure nightmare through no fault of their own,” he said. “The odds are just too high that if we didn't do something like this, the housing crash would continue on and undermine the recovery.

“Nothing in our economy does all that well when house prices are declining,” he went on, “because it's still the most important asset in the family balance sheet.” Beyond that, he said: “No one will extend credit while home prices are declining. Further declines will push more homeowners underwater, resulting in more foreclosures and more house price declines.”

There is also the risk that more people will decide that they are so far underwater — that is, they owe so much more than their homes are worth — that it makes more sense to just walk away. Experts say people become more likely to walk once their mortgage exceeds their home value by more than 20 percent.

As of the third quarter of last year, more than 10 million homeowners — or about one in eight — owed more than 120 percent of their homes' worth, according to Moody's Economy.com. Nearly 4.6 million owed 50 percent more than their homes' value.

The numbers make it easier to understand why the government is trying to strengthen the program — earlier efforts have not come close to helping the three million to four million homeowners the Treasury initially hoped. Mr. Zandi said he expected that the federal initiatives would ultimately help a fraction of those troubled borrowers, about 1.45 million.

But to truly break the cycle of declining home values, most experts agree that mortgage servicers must reduce the principal of the mortgage. (To be fair, Bank of America recently announced a plan to cut up to \$3 billion for a select group of 45,000 borrowers.) As part of the expanded program, the Treasury is being paid higher incentives to erase principal. But some experts say they think banks will continue to drag their feet, which will prolong the foreclosure crisis.

Indeed, Casey Mulligan, an economics professor at the University of Chicago, argued that both the Bush and Obama administrations had focused too much on making house payments affordable, based on income levels, and not enough on reducing debt.

“What we are really doing is propping up the banks in another way,” he said. “They are very powerful politically and they are very good at getting the government to give them money. So I think that’s why we don’t deal with the real simple problem, which is negative equity. Banks believe, and they are probably right, that there are probably some homeowners they can squeeze the money out of and they don’t want to give up the opportunity to squeeze such people.”

Fred Block, a sociology professor at the University of California, Davis, said that a lot of the anger I saw in the reader comments should have been directed at the banks and the overall lack of regulation. For all those homeowners who may (or may not) have treated their homes as A.T.M.'s, there were lenders who permitted

the transaction. And for every lender that permitted the transaction, there were supposed to be some limits.

“What people should be angry about is that we’ve had an economy that has been marked by these bubbles,” Mr. Block said. “We all believe that people should be rewarded for hard work and ideas and so forth. But bubbles, by their nature, are capricious in what they reward, and they violate the moral principles that most people believe in. That is why financial reform legislation is so important.”

So you can blame the guy in Arizona who got in over his head. But that wouldn’t be entirely fair.

- -