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Bankruptcy home loan bill heads for House passage

By JULIE HIRSCHFELD DAVIS, Associated Press Writer - 25 mins ago

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Distressed mortgages rise at end of 4Q

Americans with home loans past due or in foreclosure rose 20 percent at the end of 2008 - the seventh consecutive quarterly increase.

Home loans past due or in foreclosure, not seasonally adjusted



SOURCE: Mortgage Bankers Association

AP - Graphic shows percentage of home loans past due or in foreclosure by state

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WASHINGTON - A plan to give debt-strapped homeowners a chance to win lower mortgage payments through bankruptcy courts headed for House approval Thursday as a new report revealed that foreclosures and past-due home loans hit a record 5.4 million last year.

The legislation, part of President Barack Obama's housing rescue plan, is facing a much tougher road in the Senate from the same industry opposition and reservations from moderate Democrats that nearly derailed the measure in the House.

The House was set Thursday to pass the bill, and the Senate could consider it within weeks.

The legislation would give bankruptcy judges - who now can modify loans on cars and student loans but not for primary residences - new power to reduce the interest rate and principle on a home mortgage.

Supporters regard the threat of a mortgage modification in bankruptcy as a crucial tool to prod banks to negotiate with homeowners for more affordable terms. Critics argue the measure will create a flood of bankruptcy filings that ultimately will drive up mortgage rates and further destabilize the battered housing market.

A survey by the Mortgage Bankers Association released Thursday found that nearly 12 percent of homeowners were in foreclosure or behind on their payments at the end of 2008.

The House bill is the product of a compromise between dueling Democratic factions. A group of moderates broke with liberal backers last week and refused to support the measure unless it included several changes the banking lobby

had sought.

It took days of intense bargaining with an assist from Obama's team to get the measure back on track. The president dispatched his housing secretary, Shaun Donovan, to a closed-door meeting in the Capitol to explain to restive Democrats how the measure fits in with the \$75 billion housing initiative Obama unveiled this week.

The resulting compromise would bar homeowners from getting loan modifications in bankruptcy court unless they have first tried to work out a deal with their lenders and have no other way of affording their mortgages.

It also would let judges consider whether the home loan company had made a reasonable offer to change the terms to those embodied in Obama's housing plan - one that would let the homeowner reduce his monthly payments to about one-third of his income.

"This bill's not perfect, but the process has worked better than anyone expected," said Rep. Ellen Tauscher, the head of the centrist New Democrat Coalition who led efforts to revise the bill.

The legislation "will ensure that bankruptcy is the last option," Tauscher said.

Still, the divisions that nearly derailed the measure in the House run even deeper in the Senate.

A group of Senate Democrats seeking industry support for the bill cut a deal with Citigroup Inc. earlier this year to include some restrictions. They agreed to limit the measure to existing mortgages and cases where homeowners had sought rewrites from their lenders.

Sen. Dick Durbin of Illinois, the No. 2 Democrat who is an architect of the judicial loan rewrite plan, went further



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recently, saying he was considering scaling back the bill even further to apply only to subprime mortgages — another restriction the industry has been seeking.

Proponents of the measure see such changes as fatal for chances of passage.

In the House, "that kind of poison pill has not gotten any traction. The Senate, obviously, is a little more worrisome," said Austin King of ACORN, an advocacy organization for low-income people.

Republicans are bitterly opposed to the measure, which they say will prompt lenders to raise interest rates in anticipation of losses they could suffer if a bankruptcy judge decided to rewrite their loans.

"This legislation punishes the successful, it taxes the responsible, and it holds no one accountable," said Rep. Lamar Smith of Texas, the senior Republican on the Judiciary Committee.

Smith joined a group of GOP conservatives who were seeking to kill the measure and instead advance legislation to bar borrowers who lied on their loan applications and banks that violated lending rules from getting government assistance.

Obama's plan to offer cash incentives and other help for modifying mortgages could result in payments to both people who borrowed more than they could afford and lenders who wrote such mortgages.

The House measure is part of a broader housing package that would raise the Federal Deposit Insurance Corporation's borrowing authority and boost incentives for lenders to rework mortgages. The legislation would take \$1 billion out of the \$700 billion Wall Street bailout fund to bolster an existing program to allow homeowners to rework or refinance their mortgages.

The bill is H.R. 1106.

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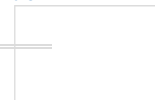


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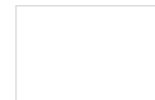


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