Frank proposes home loan plan for jobless

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$2b program part of package designed to prevent foreclosures

By Jenifer B. McKim, Globe Staff | July 9, 2009

Congressman Barney Frank wants to prevent unemployed homeowners from losing their houses by giving them government money to pay their mortgages.

The Newton Democrat, chairman of the House Financial Services Committee, will hold a hearing in Washington today on his proposal to spend $2 billion to prevent foreclosures on borrowers who don’t qualify for other mortgage aid programs because they are unemployed. The funds would come in the form of loans, and borrowers would have to pledge their homes as security.

The catalyst for the proposal is a growing jobless rate that reached a 26-year high of 9.5 percent in June, Frank said.

“It’s not a forgiveness program,’’ Frank said yesterday in an interview with The Boston Globe. “We do have serious unemployment.’’

The proposal is a revival of a 1975 program called the Emergency Housing Act, which was enacted during a recession. Frank would fund his program with the dividends the US government is getting from financial companies that received taxpayer funds from the $700 billion industry bailout.

Among those scheduled to testify at today’s hearing is Brian A. Hudson Sr., the chief executive of the Pennsylvania Housing Finance Agency, which since 1983 has been providing similar mortgage help to residents facing a short-term setback such as illness or unemployment.

“There has to be a reasonable likelihood that the homeowner will be able to resume making the mortgage payment without state help,’’ Hudson said in prepared remarks released by Frank’s committee, because the “assistance is temporary.’’

So far, 42,700 Pennsylvania families have received help, with the average loan at $10,500, or “less than the $35,000 it costs to complete most foreclosure actions,’’ Hudson added.

The hearing comes just days after the Federal Reserve Bank of Boston released a study that showed lenders are reluctant to modify mortgages of most delinquent borrowers because they either are likely to again have trouble making payments, or conversely, can fix their problems without the financial help.

Paul Willen, a Boston Fed senior economist and coauthor of the study, had called for nearly exactly what Frank is now proposing: directing government aid to borrowers.

“This will work,’’ he said. “If you are assisting a borrower to pay their monthly payment, the lender can’t complain. That will prevent foreclosures.’’

Frank’s proposal would also spend $1 billion to build and preserve affordable housing, $1.5 billion to redevelop foreclosed and abandoned homes, and $2 billion to protect tenants in apartment buildings whose owners can’t pay the mortgage.

He calls the $6.5 billion package, “TARP for Main Street,’’ a reference to the government’s Troubled Assets Relief Program. To date, the Treasury has received about $6.7 billion in dividend payments from its TARP investments, according to the Government Accountability Office.

Sheila Crowley, the president of the National Low Income Housing Coalition, said Frank’s proposal would help allay criticism the government bailout is helping bankers more than people suffering from the country’s financial crisis.

“For people who are truly suffering in the recession, TARP is most likely seen as a bail-out of the very people who are to blame for getting us into this mess,’’ she said in prepared remarks.

But Mark Calabria, director of Financial Regulation Studies at the Cato Institute in Washington, said the TARP dividends should be used to offset losses the government may incur from the bailout program.

“Diverting those dividends for purposes other than offsetting TARP losses will only leave the taxpayer with a larger hole to fill,’’ Calabria said in a written testimony submitted to Frank’s committee.

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