



## **Illinois Program Seeks To Help Underwater Borrowers**

Mercy Housing, a non-profit group in Illinois, is hoping to start a \$200 million program to reduce mortgage principals for those who owe more on their homes than their worth. Even though this program hasn't even gotten off the ground yet, it has created a very polarized field of supporters and critics.

This new program would use \$100 million from the federal Troubled Asset Relief Program, the Obama administration's foreclosure prevention plan. Mercy Housing wants to use that money to buy up underwater mortgages at a deep discount from banks, then lower the homeowners' principal balance so that they no longer owe more than the home is worth. During the next year the homeowner will receive fiscal counseling and be required to make all payments on time. After one or two years, the managers of the program would then sell those loans back to the secondary market at a profit.

The end result, the proponents say would be fewer foreclosures (Illinois had the 10th highest foreclosure rate as of the first quarter of 2011), and would end up paying itself back, so no taxpayer money would be lost.

Opponents, however, say the picture is a little too rosey.

"They are being very optimistic," said Mark Calabria, director of financial regulation studies at the Cato Institute as quoted in a [MarketWatch article](#). "You won't see the price improvement that they need to pay back the costs of buying the loans."

He doesn't believe banks will be willing to sell the troubled mortgages with as deep of discounts as Mercy Housing is predicting. And he further doesn't believe that the loans could truly be sold off to the secondary market within a year or so.

What's worse he says, is that this program will encourage some homeowners to strategically default.

"Less people will continue to pay their mortgages if [government gives] some a cash writedown if they don't pay their loans," Calabria said. "If we subsidize this, then other people will be less willing to pay the mortgage and this will increase delinquencies in the long term."

Still proponents are confident it will save more homes than not (as many as 6,000). And if this program gets the federal approval it needs and does well, other states may follow suit.

“This could have an appeal in the current atmosphere,” Miriam Axel-Lute, associate director at the National Housing Institute said. “It is great that many states are getting engaged and supporting versions of this.”

Amber Nelson on May 23rd 2011 in [Mortgage News](#)