

Las Vegas Sun
the economy:

Is Obama's mortgage refinancing plan too narrowly focused?

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A foreclosure-riddled neighborhood in east Las Vegas was a fitting backdrop for President Barack Obama to discuss his plan to help some of the nation's homeowners who have been financially decimated by the real estate crisis. Not only is Las Vegas the nation's foreclosure capital, but of those who are still hanging on to their homes, about 60 percent owe more on their mortgages than their homes are worth.

Whether that plan could actually help the homeowners who stepped from their stucco and tile-roofed homes Monday to hear his remarks was a matter of debate.

To critics, Obama's announcement that more underwater homeowners will be eligible for refinancing amounted to political grandstanding in a state sorely in need of a true solution to the foreclosure crisis.

To those more sympathetic, it was a sincere effort to address a problem so large that only a series of case-by-case policy fixes will lead to a solution.

Experts on both sides of the political divide, however, agreed that the program designed to stem the tide of foreclosures may help some homeowners, but will do little to address the larger foreclosure crisis.

The program is aimed at a narrow category of homeowner — those who can pay their mortgages but who owe much more than their houses are worth — but it's a category that describes many Las Vegans.

"It would be surprising if it did something transformative for the economy," said Robert Lang, director of Brookings Mountain West. "But if a person is impacted by that specific circumstance, it helps you."

But the fact that the new rules are so narrowly targeted fired up critics who see them as a political sop.

"I'm just not somebody who thinks that the biggest problem is people with jobs, who have no problem paying their mortgage but are stuck with 6 percent rates," said Mark Calabria, a fellow at the Cato Institute, a libertarian think tank. "It's a weird priority. It's going where the votes are."

Under the new program, homeowners who are current on their payments, have government-backed mortgages and who are up to 25 percent underwater will qualify for refinancing to a lower interest rate.

Although the program doesn't address principal balances, it would make monthly payments more affordable, giving homeowners more money to spend, stimulating the economy.

The new program would also increase the ability of major banks to compete for the refinancing business, eliminate the need for an appraisal in many cases and reduce refinancing fees — all good things for Nevada homeowners, said Nasser Daneshvary, director of the Lied Institute for Real Estate Studies at UNLV.

"This is huge," Daneshvary said. "If this is implemented, people really can find solutions now."

Lower monthly payment could reduce the incentive for homeowners who like their neighborhoods and don't want to move in order to strategically default.

But the new rules could do little to assuage those with homes that may never again be worth what is owed — a fundamental problem in Nevada.

The majority of homeowners who take advantage of federal refinancing programs eventually default anyway, Daneshvary noted.

“I think these refinancing options, not requiring appraisal, reducing the fees for refinancing are all the elements that will help,” Daneshvary said. “But I think the bigger solution is add to it some ... principal reduction.”

Obama’s speech counters the stance taken by most Republicans vying for the chance to oust him from the White House.

“No. 1, the barrier will be lifted that prohibits responsible homeowners from refinancing if their home values have fallen so low that what they owe on their mortgage is 25 percent higher than the current value of their home,” Obama said in his Las Vegas speech.

“And this is critically important for a place like Las Vegas, where home values have fallen by more than 50 percent over the past five years.”

While in Las Vegas last week, most GOP presidential candidates advocated a hands-off approach, arguing the government needs to get out of the way and allow the market to take care of the problem — even if it is a painful correction for many homeowners.

At the heart of the argument: Is there still a role for government to play in the crisis?

Obama’s answer is clearly yes.

And that aligns with what many experts, both conservative and liberal, believe — that the foreclosure crisis is too great to simply leave to the market.

“It’s better to put positive structures in place and hope for a universal lift to the economy than it is to not attempt intervention in something as serious as a housing collapse,” Lang said.

But if the government is going to intervene, find a better target, Calabria argued.

“If you can afford your payment but would rather have a 4.5 percent rate, is that any concern to me as a taxpayer?” he said. “If I went and gambled away everything on the tables in Las Vegas, do we decide the taxpayer has to underwrite that? How is this a tragedy for them?”

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