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New Obama Mortgage Plan: A Backdoor Bank Bailout

We are looking at tens of billions of taxpayer dollars again being funneled to the very banks behind the mortgage crisis.

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By MARK A. CALABRIA

From the Cato Institute

Today President Obama announced an expansion and modification of his Home Affordable Modification Program (HAMP). While one can debate the merits of incentives to keep unemployed families in their homes while they search for jobs — I personally believe this will more often than not keep those families tied to weak labor markets — what should be beyond debate is the various bailouts to mortgage lenders contained in the program's fine print.

Several of the largest mortgage lenders, including some that have already received huge bailouts, carry hundreds of billions worth of second mortgages on their books. As home prices have nationally declined by almost 30 percent, these second mortgages are worthless in the case of a foreclosure. Second mortgages are usually wiped out completely during a foreclosure if the price has decreased more than 20 percent. Yet the Obama solution is now to pay off 6 cents on the dollar for those junior liens. While 6 cents doesn't sound like a lot, it is a whole lot more than zero, which is what the banks would receive otherwise. Given that the largest lenders are carrying over \$500 billion in second mortgages that may need to be written down, we are looking at tens of billions of taxpayer dollars again being funneled to the very banks behind the mortgage crisis.

If that bailout isn't enough, the new plan increases payments to lenders to not foreclose, all at the expense of the taxpayer. While TARP was passed under Bush's watch, and he rightly deserves blame for it, Obama continues these bailouts in the name of avoiding a much needed correction in our housing market.

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