Stop House Foreclosure with State Government Funds

May 12, 2010 Jennifer Ciotta

A house in foreclosure could be saved by state governments if the Obama administration continues with its plans to have taxpayers bail out bad mortgages.

Families in serious risk of home foreclosure may have financial relief heading their way. The Obama administration has sent $1.4 billion to the four states of Arizona, California, Florida and Michigan to help those who are unemployed and defaulting on their mortgage loans. These states have chosen to use this money to cover the defaulted mortgages, thus protecting the property values of all homeowners.

Unemployed and Don't Qualify for Loan Modification?

The Obama administration rolled out the Hardest Hit Fund in February 2010 to help those "unemployed and underwater" (CNNMoney.com). In other words, delinquent mortgage borrowers who cannot afford to pay their mortgages and are in default. The federal government has given $2.1 billion to 10 states, including North Carolina, Ohio, Oregon, Rhode Island and South Carolina.

The federal government resorted to the Hardest Hit Fund because they are not able to stop the downward spiral of home prices and the amount of foreclosures across the United States -- now at a record high.

Those who qualify for the program are unemployed homeowners or those who owe more than their home is worth. Borrowers in this category also would not qualify for loan modification programs due to second lien loans. Homeowners take a second lien out on the home when they cannot afford to pay the first or primary mortgage loan.

The Controversy of Paying Off Default Mortgages to Stop Home Foreclosure

This new plan to pay off mortgages of the unemployed and financially struggling does not come without controversy. Many taxpayers who are responsible and never defaulted on their mortgages feel that it is not their responsibility to cover these delinquent borrowers. Many opponents also say that paying off the loans for the unemployed will not provide them with incentive to look for work.

In addition, the state governments ask mortgage lending companies to match their financial aid and help pay off the mortgage debt together. However, lending providers are reluctant to do so because they will not receive any substantial benefit from aiding these unemployed and underwater borrowers. Yet, according to Mark Calabria, director of financial studies at The Cato Institute, the banks would profit greatly. Calabria reports, "not only would [the banks] have government money securely in hand, but they'd avoid the time and expense of the foreclosure process" (CNNMoney.com).

As the Obama administration continues to give money to states who have a large amount of delinquent mortgage borrowers, the states must decide exactly how to allocate the money. For an unemployed and underwater homeowner who fits into this category, contact the state government to find out the exact qualifications of this program.

"States: Let taxpayers cover your mortgage" by Tami Luhby, CNNMoney.com, May 12, 2010.