

UPDATED: 9:27 p.m. December 06, 2007  
Deal reached for 5-year freeze on some mortgage rates  
Homeowners with delinquent payments won't qualify

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Cox News Service

Published on: 12/06/07

WASHINGTON — Hoping to keep as many as 1.2 million financially struggling Americans from losing their homes, President Bush on Thursday unveiled a mortgage bailout plan that would let some borrowers freeze their interest rates for five years.

Foreclosure "is a terrible burden for hard-working families, and a source of concern for entire communities and neighborhoods across our country," Bush said. In addition, "the rise in foreclosures would have negative consequences for our economy. Lenders and investors would face enormous losses."

Bush said his administration hammered out a voluntary agreement among federal regulators, lenders and investors because "some lenders made loans that borrowers did not understand, especially in the subprime sector."

"We should not bail out lenders, real estate speculators or those made the reckless decision to buy a home they knew they could never afford," Bush said after meeting with industry leaders at the White House. "But there are some responsible homeowners who could avoid foreclosure with some assistance."

[Treasury Secretary Henry Paulson](#) said the plan involves no government money. The voluntary framework was issued by the American Securitization Forum, whose members package mortgage loans and sell them as securities.

The goal is to freeze [mortgage rates](#) on subprime adjustable rate mortgages for five years for people who have been making their payments on time, but who will fall behind when their interest rate rises in coming years. The White House plan also would help people who don't have enough home equity or cash to refinance.

To qualify for the freeze, people must live in their homes, face a payment hike of more than 10 percent, and have a credit score too low to qualify for traditional fixed mortgages. Other subprime borrowers whose payments are up to date would be guided into refinancing.

Borrowers who are already delinquent on their mortgages would not qualify for the rate freeze. Also, the deal does not apply to subprime ARM borrowers whose rates already have reset.

Ben Bernanke, chairman of the Federal Reserve Board, which sets short-term interest rates, declared the White House plan "a welcome step in helping Americans protect their homes and communities from the consequences of unnecessary foreclosures."

Some critics said the plan doesn't go far enough. "This plan covers too few borrowers and places the profits of investors and lenders above the basic economic security of working families and neighborhoods," Dan Immergluck, an associate professor of city planning at Georgia Tech, said in an emailed assessment.

Rep. Barney Frank, D-Mass., who chairs the House Financial Services Committee, said the plan is skewed too much toward helping people who allowed their credit scores to fall. People whose credit scores are below 660 out of a possible 850 would get priority for an interest-rate freeze.

"Literally all of us -- conservative, liberal, Democrat, Republican, etc. -- we have all been telling people: 'Please don't get into debt beyond what you can handle. Try and keep your credit score up,'" Frank said at a House hearing. "Now we have a situation where people listened to us -- who got their credit scores up -- are now going to be worse off."

While the deal does not have the force of law, it does have the support of major mortgage investors who can grant loan servicers the flexibility to rework mortgage terms to keep people out of foreclosure.

The deal covers loans originated between Jan. 1, 2005, and July 31, 2007, and which will reset between Jan. 1, 2008, and July 31, 2010.

The White House is responding to the growing problems faced by people with irregular income or spotty credit records who bought or refinanced their homes with subprime mortgages, which typically offered low introductory monthly payments.

Those mortgages, made during the peak of the housing boom from 2002 to 2005, are now becoming more and more expensive as the teaser rates expire and interest rates rise. In many cases, borrowers say they were not aware of just how dramatically their payments could rise.

On top of that, the U.S. housing market has been slumping for two years. With home prices falling nationwide, borrowers with rising mortgage payments have been finding it impossible to either refinance or sell their houses.

Bush's estimate that 1.2 million Americans needed help to avoid losing their homes reflects the tsunami of foreclosures that some experts see ahead.

On Thursday, the Mortgage Bankers Association said the percentage of subprime adjustable-rate mortgages that entered the foreclosure process jumped to a record 4.72 percent in the third quarter, up from 3.84 percent in the second quarter. And in an

ominous sign, late payments on subprime mortgages shot to a record high of 18.81 in the third quarter, up from 16.95 percent in the second quarter.

Bush said his administration is working to "limit the disruption" caused by the mortgage crisis, and noted that the overall economy remains strong.

The "downturn in housing comes against the backdrop of solid fundamentals in other areas, including low inflation, a healthy job market, record high exports," he said.

Bush also called upon Congress to approve his proposal to modernize the Federal Housing Administration, to fund mortgage counseling, and to change the tax code to provide more help for struggling homeowners.