

MERKLEY'S 4% PLAN

Restoring U.S. homeownership
through refinancing



PHOTO BY TODD COOPER

The foreclosure crisis has created a buzz nationwide, but another consequence of the subprime mortgage crisis is getting some attention from Oregon's Sen. Jeff Merkley: underwater mortgages. Merkley's "The 4% Mortgage: Rebuilding American Homeownership" proposal would create a temporary program allowing homeowners who now owe more than their homes are worth (but are current on their payments) to refinance at a lower interest rate.

Merkley says the program is essential to both speeding economic recovery and helping American families, and he will speak about the proposal and its social and economic impacts at 4:30 pm Tuesday, Oct. 9, at the EMU Ballroom at UO. The talk, part of the Wayne Morse Center's "Capitalism and the Common Good" speaker series, is free.

The Rebuilding American Homeownership (RAH) program would work by starting a trust funded by privately purchased bonds; the trust would then purchase qualifying underwater mortgages. Homeowners would continue to pay their mortgages, but at a rate just two points higher than the program would pay for the funds.

While a national plan has not yet been launched, states have received the go-ahead from the Treasury Department to use leftover funds from the Troubled Asset Relief Program to start pilot programs.

As a result, homeowners would recover the equity of their homes faster and have money to spend in their own economies. "That's a huge positive impact," Merkley says, "not only for up to 80,000 Oregon families who are in this situation, but certainly for all the businesses that would benefit from those 80,000 families spending a little more in their local economy."

Merkley says that only the perfect storm — the complete economic collapse of Europe and Japan, along with a total stall of economic growth in Asia — could create a public debt as a part of RAH. Columbia University economist Joseph Stiglitz and Mark Zandi of Moody's Analytics echoed that belief

in a *New York Times* opinion piece, "The One Housing Solution Left: Mass Mortgage Refinancing."

"Meanwhile, there's huge risk in doing nothing," Merkley says. "If you do nothing, you have many more families that are vulnerable to foreclosure because their payments are locked in at a much higher rate per month, and you have all these families that don't have the disposable income to spend in their communities, so you have a negative impact on small businesses."

Merkley says that RAH should be a temporary (approximately three-year) plan for the sake of its political viability — and because the housing crisis is unlike any since the Great Depression, one unlikely to be replicated with the proper precautions. To prevent a similar housing crisis from occurring in the future, Merkley says that lawmakers and citizens have to keep a sharp eye on the 2010 ban on monetary "kickbacks" to loan officers and on teaser-rate loans (which are low-interest for two years then jump), which Merkley co-authored.

The existence of kickbacks and teaser rates "created a nightmare," Merkley says. "There was a huge, huge transfer of families who qualified for prime loans but were signed onto subprime loans, often without their understanding the difference because they trusted the originator as a housing counselor, if you will."

In addition, Merkley says, the U.S. has to figure out a viable replacement for Fannie Mae and Freddie Mac, the government-sponsored programs designed to expand homeownership, but which Merkley says "are now at huge cost to the American taxpayer." He says that politically, making RAH permanent would alienate people who would associate it with Fannie and Freddie, and economically, the scale of the crisis of is unique enough that a permanent program is not needed.

Even before solving the Fannie and Freddie problem, Merkley says, it's essential that the government find a way to address underwater mortgages. "This is going to be the key to getting our economy on a faster track out of the recession. Housing brought us into this; it's a huge part of the economy." ■

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