



**Still Lagging Behind: Latest Bush Housing Plan Too Little, Too Late**

By David M. Abramowitz, Andrew Jakabovics

February 12, 2008

Faced with a housing crisis that is rapidly eroding millions of middle class borrowers, the Bush administration and our nation's lenders are once again a step or two behind the realities of the marketplace. Conservative policymakers and financial leaders continue to cling to the hope that the magic of the markets alone can prevent another trillion-dollar loss of American home equity. How mistaken they are.

More than 1 out of every 14 home mortgages in the United States are delinquent as of the end of September—a 30-year high. The Federal Reserve estimates that another 2 million families could face foreclosure in the next 2 years. Yet the White House continues to promote short, voluntary solutions to the foreclosure crisis without asking the obvious question: What happens when the administrator's new, 30-day voluntary moratorium ends?

A time out on foreclosures may help some borrowers work things out and is certainly a welcome respite, assuming mortgage-loan servicers use the time wisely to offer true loan modifications, writing down loan balances to the current value of the property. But homeowners can ill afford another administration-endorsed voluntary proposal that pays lip service to helping borrowers while using the time to find new ways to squeeze additional fees and charges out of desperate borrowers with few or no alternatives.

Indeed, taking a page from Herbert Hoover's laissez-faire economic playbook that resulted in a market crash and credit contraction that spiraled downward into the Great Depression, the Bush administration and key mortgage lenders unveiled their plan today that is almost sure to once again be too little, too late. The news follows yesterday's key release of the President's Economic Report. "The best course of action is often to simply allow markets to adjust," the report said yesterday. "Markets naturally self-correct, rewarding good strategies and punishing bad ones . . . any government actions mitigating the outcomes of risky behavior may create perverse incentives for reckless decisions by borrowers and investors who may come to rely on government interventions."

Markets will do their part, but not if they are frozen by a threshold in home prices that sucks in otherwise responsible homeowners. Homes are not just another commodity, when widespread foreclosures drive whole neighborhoods into rapid decline, the spillover costs to the economy and the quality of life in hundreds of communities and dozens of states calls for a plan beyond a short term voluntary truce.

The Center for American Progress has called instead for actions that will in fact free up clogged housing markets and allow price and loan adjustments to begin again in an orderly manner without the protracted and unnecessary pain that accompanies the administrator's well-and-use approach. Specifically, we propose two different solutions to help restore equilibrium to two different parts of the housing market.

First, CAF has proposed a Saving America's Family Equity, or SAFE loan program, which is modeled after the New Deal's successful Home Owners' Loan Corporation but uses existing government agencies and government-sponsored housing institutions to purchase pools of loans at current value and refinance those loans that are in default or have negative equity into fully amortizing, fixed-rate loans based on the current value of the property. This step would stabilize the primary and secondary mortgage markets and get a long way toward catching global credit markets.

Second, CAF has proposed that we create a Great American Dream Neighborhood Stabilization Fund, or GADSDNS Fund, which would provide money to local housing authorities and non-profit organizations to buy foreclosed properties from banks and return them to productive use as affordable housing. This step would help homeowners in low- and middle-class neighborhoods hit hardest by the subprime loan crisis, with the additional benefit of helping those who cannot now afford to buy a house find affordable living.

Together, these two proposals would stabilize neighborhoods, allow the housing marketplace find a bottom, and help the larger economy recover from both the mortgage crisis and the wider credit crisis. These are steps that Congress and the Bush administration need to consider now.

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