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Housing Bill Won't 'Perform Miracles'

Senate Approves Measure, but Critics Say Law Unlikely to Prevent Most Foreclosures

By [Lori Montgomery and Paul Kane](#)
Washington Post Staff Writers
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Even as a huge bipartisan majority in the Senate voted yesterday to send a sprawling housing bill to the [White House](#), economists, consumer advocates and other analysts said the package of programs for struggling homeowners and shaken mortgage lenders is unlikely to relieve the foreclosure crisis that is driving the nation toward recession.

"This is not the end of the housing crunch," said [Jared Bernstein](#), a senior economist at the [Economic Policy Institute](#). "Housing prices have already fallen 15 percent and they need to fall 10 percent more. This bill isn't going to change that equation."

The Senate voted 72 to 13 to approve the bill, which seeks to halt the steepest slide in house prices in a generation, rescue hundreds of thousands of families from foreclosure and restore confidence in the nation's largest mortgage-finance firms. White House officials said [President Bush](#) is likely to sign it by midweek, despite his opposition to nearly \$4 billion in aid to local communities.

During Senate debate, [Christopher J. Dodd \(D-Conn.\)](#), chairman of the Senate Banking Committee and one of the bill's lead sponsors, cited a litany of grim statistics about the mortgage crisis, including that an estimated 8,500 families a day are falling into foreclosure and that one in every eight homes is projected to enter foreclosure over the next five years.

"This legislation will not perform miracles. I want the American people

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About 5.5 million home loans are projected to default by 2009, but the bill passed yesterday is expected to prevent only 400,000 foreclosures. (By David Mcnew -- Getty Images)

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to have realistic expectations about what we're about to do," Dodd said. "But as others have said, it is a step, and an important step, towards putting our nation on the road to economic recovery."

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Both presidential candidates, Sens. [John McCain](#) (R-Ariz.) and [Barack Obama](#) (D-Ill.), expressed support for the legislation, though neither took a break from the campaign trail to attend yesterday's vote.

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"This is not the bill he would have drafted on his own. But it's time for action," McCain economic adviser [Douglas Holtz-Eakin](#) said.

Republican lawmakers, particularly in the House, have blasted some of the measure's key provisions as bailouts for irresponsible borrowers and risk-addicted financial institutions that could wind up costing taxpayers hundreds of billions of dollars. Last week, the House approved the bill 272 to 152, with three-quarters of [GOP](#) lawmakers voting against it.

With elections looming in November, many lawmakers felt compelled to respond to a crisis that has pushed more than 1.5 million families into foreclosure. But the move is not without political risk. A [Los Angeles Times](#)/Bloomberg poll conducted in late June found that 55 percent of those surveyed supported aiding homeowners "who have been caught between rising mortgage payments and falling home values and are in danger of losing their homes." But more than a third were opposed, with one in five saying they strongly opposed the idea.

Still, analysts said lawmakers had little choice but to act. "Everything is so unstable and people are so panicky that I see a lot of this as an effort to calm people down," said Deborah Lucas, a finance professor at Northwestern University's Kellogg School of Management. "The whole bill is an attempt to change the equilibrium."

The legislation was hammered out over the past two weeks in negotiations between lawmakers and Treasury Secretary [Henry M. Paulson Jr.](#)

Paulson's request for authority to prop up faltering mortgage giants [Fannie Mae](#) and [Freddie Mac](#) lent a final burst of urgency to legislation that had been proposed in March and propelled by crisis, starting with the collapse of the [Wall Street](#) investment bank Bear Stearns.

The measure grants Paulson's request for authority to extend an unlimited line of credit to Fannie Mae and Freddie Mac, a move aimed at reassuring global markets that the firms, which back nearly half of all outstanding mortgages in the United States, will not be allowed to fail. The package also contains provisions long sought by the Bush administration, including a strong new regulator for Fannie Mae and Freddie Mac and an overhaul of the [Federal Housing Administration](#), the nation's largest provider of mortgage insurance.

After yesterday's vote, Sen. [Jim DeMint](#) (R-S.C.) said the authority given the Treasury "crosses the line into socialism." Although congressional budget analysts have concluded that Fannie Mae and Freddie Mac are sound and unlikely to need any government help, they said there is an outside chance the companies could call upon Treasury for more than \$100 billion.

"It's pretty scary what could happen," DeMint said.

The centerpiece of the legislation is a plan to prevent as many as 400,000 foreclosures by authorizing the FHA to help people who, because of falling prices, owe the banks more than their homes are worth. If lenders agree to forgive a portion the debt and write new loans worth no more than 90 percent of the home's current, lower value, the FHA will insure the new loans and agree to pay off the lenders if borrowers default.

Homeowners also would get an immediate equity stake in their properties, which they would have to share with the government if they sell or refinance.

At a hearing Friday before the [House Financial Services Committee](#), representatives of the mortgage industry promised Chairman [Barney Frank](#) (D-Mass.), one of the bill's chief authors, they would take advantage of the new program.

"Clearly in areas where home prices have dropped, it's going to be utilized more," Steve O'Connor, senior vice president of government affairs for the [Mortgage Bankers Association](#), said afterward. "It also depends on the borrower's unique financial circumstances. Why are they struggling? Did they lose their job? If it's a temporary hardship, then you're not going to use this program at all. If it's something of greater significance, then this may be the best option."

But consumer advocates have their doubts. More than a year after the mortgage crisis began, banks are still foreclosing on far more loans than they modify. In May, as a coalition of lenders known as the Hope Now Alliance modified 70,000 loans, [RealtyTrac](#) reported 261,000 foreclosure filings. An April report by the State Foreclosure Prevention Working Group found that 70 percent of seriously delinquent borrowers were not receiving help.

"How effective can the FHA refinancing program be in light of how slow and ineffective mortgage servicers have been so far?" said [Alys Cohen](#), a staff attorney at the [National Consumer Law Center](#). "We're encouraged that steps are being taken. But we're worried."

Even if the program works, its goals are modest compared with the scope of the problem, said [Mark Zandi](#), chief economist for Moody's [Economy.com](#). He estimates that 5.5 million loans will default by the end of 2009, with about half of them going into foreclosure.

"If we're lucky enough to help 400,000 households," said economist Jared Bernstein, "I'm afraid it's a drop in the bucket."

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