

OUR REGION

How everyone benefits from mortgage rescue

By Robert T. Boyer

Lenders have voluntarily agreed to freeze the teaser interest rates for up to five years for borrowers, whose loans had an initial fixed rate term of three years or less, starting between Jan. 1, 2005, and July 31, 2007. But not everyone will benefit. There are some strict requirements.

Homeowners must be paying their current mortgage, living in their house, and their credit score has to be too low for them to qualify for a refinance to a traditional fixed mortgage.

Some in our business community think it is wrong for Uncle Sam to step in and mess around with the markets.

I disagree. The teaser freeze is a win-win for everyone and something San Diegans should embrace — not fear.

How much is this going to directly cost taxpayers? Nothing. This is completely between the lenders and the borrowers. As such, it is not actually a government bailout. This is a win for taxpayers.

Some think "these people," from the borrowers to the lenders to the investors fueling the fire, deserve what they get — and worry that a "bailout" sends the wrong message. If it were truly possible to isolate "these people" from the rest of our economy, I might be tempted to agree. But the reality is, when a home gets dumped on the market, below its true market value, the innocent neighbor is also hurt because the value of their home then declines by association.

For example, several signs that read "For Sale: Bank Owned" on a Scripps Ranch street could potentially bring down the property value of the whole neighborhood. "But, they signed a contract and should be stuck with it." "Bad" contracts are renegotiated every day. "But, they were irresponsible." Yes.

Is it possible the stress in their lives has taught them the lesson? They will learn — or not.

Some are concerned that this will further affect credit markets adversely in San Diego, reducing demand for mortgage-backed securities. Also, it is claimed that many public pensions and other public funds were heavily invested. Any rescue merely improves a correctly calculated risk premium for investors because instead of the losses associated with failed loans, they now have loans being salvaged, albeit at a lower rate. Win.

Potentially as many as 1.2 million families may avoid foreclosure. This means there might be 1.2 million fewer homes on an already glutted market, thus potentially stemming the decline in home prices. Win.

Will some borrowers get breaks they don't deserve? Yes. But, if your neighbor randomly buys a stock,

Boyer is an investment analyst for San Diego's Finest Real Estate.



The reality is, when a home gets dumped on the market, below its true market value, the innocent neighbor is also hurt because the value of their home then declines by association.

and it doubles in price, did he or she deserve it? No. Do you "lose"? No.

In fact, in this case, if you own a home in San Diego County, you actually win, because the value of your home is not declining as fast — the artificial rise and fall of the market is tempered.

If you have been delaying your entry into the American dream of owning a home, suffering the confines of a cramped apartment to avoid a loss of equity, a stabilizing housing market that bottoms out can allow you to improve your quality of life. And fewer foreclosures means fewer renters means less upward pressure on rents. Win.

If the lenders are responsible for predatory practices, are they ad-

equately punished? Maybe. A foreclosure may be more painful, but extending the teaser rate another five years surely sends a message.

You know there will be plenty of new legislation to go with all this. I believe there ought to be investigation into borrower fraud before allowing their rate to freeze. Similarly, lender/loan officer fraud ought to be examined.

We have identified that borrowers win, current and future homeowners win, renters win, the landlord doesn't gain as much, taxpayers win, lenders win, and investors win. Any action, including no action, has unseen consequences that people will worry over unnecessarily, but at this point, I don't see any real los-

ers. Some think that not enough is being done, claiming the 1.2 million affected is more like 340,000, about 8.3 percent of the 2.9 million sub-prime loans.

The pendulum swings both ways. At one end, to do nothing and let the chips fall, punishes everyone, not just the "guilty." At another end, doing more to bail out everyone, is too much interference. Anyone who knows how to canoe or steer a boat knows that the best results are achieved with minor, frequent course corrections. Correcting until you are pointing the right way is, in fact, over-correction.

Baby steps. Moderation in all things.