

Myth vs. Fact Helping Homeowners – Another Perspective

The looming mortgage crisis has affected almost everyone in all facets of life. When the homes stop selling the builders stop building, the carpenters stop nailing, the painters stop painting, paint stores stop selling and Home Depot stock hits record lows. Vertical damage is universal in almost all aspects of retail, services and durable goods. Let's face it, America is a nation that is fueled by land development and salesmanship. One look at all of the runways across the world and you can see that we have the greatest airplane sales people in the world. Unfortunately, ingenuity, invention and production have taken a back seat to Americans selling products owned or built by other countries. For Goodness sake, GM is second in sales to Toyota now, who'd a thunk it?

The reason for this article is not to bemoan today's economic footprint but to help people understand the most common myths that you hear about the housing and mortgage debacle. What you hear from our completely un-biased and non-partisan media auspiciously omits some of the important facts that might help the average American better understand exactly what we are up against.

Living in Atlanta, right around the corner from CNN, I have originated my fair share of mortgages for reporters and correspondents, who will remain nameless. I can honestly attest that news reporters, anchors and correspondents have the exact same blank stare and vacant head nod as John Q. Public does when loan officers dive into the details. However, now that we have a mortgage crisis they have mysteriously morphed into expert authors as they recite Democratic talking points. If questioned, most reporters that write columns about the mortgage industry have no clue as to the real life ramifications of the political solutions they publicize and promote.

As evidence I have taken excerpts from an article by Andrew Jakobovics named "Myth vs. Fact: Helping Homeowners" and corrected some of the Democratic talking points he has recited. Mr. Jakobovics writes for americanprogress.org, an organization that resembles the aforementioned non-partisan press. My initial intention was to post this article as a rebuttal to his article on his company's website. However, after taking a glance at the website it would appear that any article that fails to blame President Bush for personally orchestrating the entire debacle will fall on deaf ears.

The bill referred to in Mr. Jakobovics's article is the Federal Housing Finance Regulatory Reform Act of 2008; a bill that will raise taxes on mortgages to the tune of \$500 million per year. The bill is a part of a larger piece of legislation that will eventually transfer \$300 billion dollars of "at risk" mortgages that have been hand-picked from our nation's lenders portfolios. These loans will carry a higher default rate that will cost the Federal Housing Administration dearly that will be made up by additional funding from Uncle Sam. Guess where Uncle Sam gets his money.

The Mr. Jakobovics writes:

1) "Myth: The bill offers a bailout to speculators.

Mr. Jakobovics: All legislation under consideration requires owners to live in the homes they want refinanced."

Real Answer: Agreed, however I do not know how much of a "myth" this is. Let's move on.

2) "Myth: The bill offers a bailout to lenders.

Mr. Jakobovics's Fact: To take advantage of an FHA loan guarantee, lenders and investors must take a "haircut" and pay closing costs plus an insurance premium up front."

Real Answer: The bill is linked to legislation that takes the worst loans from our nation's lenders portfolio's and transfers them to the Federal Housing Administration which is Government funded. Am I missing something here?

Furthermore, "an insurance premium " PMI, MIP has always been on loans over 80% loan to value on ALL agency loans funded by Fannie Mae, Freddie Mac and FHA. The insurance premium will not represent a change from the norm as the writer infers. I assume that the "haircut" refers to the fact that all loans will be trimmed to the actual appraised value. This will still present FHA with an "at risk" loan at 100% LTV.

3) "Myth: The bill offers a bailout to homeowners.

Mr. Jakobovics's Fact: Under the House's Home ownership Retention Mortgage program and the Senate's Hope for Homeowners program, each part of the legislation now before Congress, individual homeowners would have to pay an ongoing insurance premium to cover the costs of the FHA credit enhancement."

Real Answer: Ditto

4) Myth: There is no need for Congress to act; the private sector's Hope Now Alliance has been very successful in making necessary workouts.

Mr. Jakobovics's Fact: Few borrowers have been offered substantive, long-term modifications to their loans. Moreover, a loan-by-loan approach to the housing crisis simply can't address the scale of the need.

Real Answer: I agree that Hope Now Alliance is inept. However it is the best response the Executive branch could muster with the Legislative branch bickering and fighting about which side of the aisle can claim credit for "solving" the mortgage crisis. A loan by loan solution is exactly what is needed; sweeping legislation that over regulates the banking industry will stifle the flow of money. History has proven time and time again the when congress tell the banks who and how to loan their money they simply stop loaning it.

The truth is, both sides deserve the blame here. In an election year neither Republicans nor Democrats are going offer much in the way of concessions that until after the election. The only difference is that the Democrats have ABC, CBS, NBC and every production being produced from Hollywood cheer-leading their point of view. Admittedly, the Republicans have Fox and Talk radio, until the Dem's pass the "Fairness Doctrine."

5) Myth: The housing crisis only affects irresponsible borrowers, so taxpayers who struggle to meet their obligations shouldn't pay for their mistakes.

Mr. Jakobovics's Fact: The housing crisis affects all homeowners and even renters.

Real Answer: Agreed, blaming homeowners for getting caught up in the mortgage fiasco is analogous to blaming kids in the 60's for smoking pot. By in large most people caught up in that atmosphere have learned from the experience and moved on.

In closing, none of the answers you have read here should be considered a "fact". The only fact is that we are in a serious financial crisis that is extremely fluid. What America needs is our top financial minds, this excludes a lot of politicians on either side, putting their heads together to come up with a non-partisan answer. The answer is not going to be solved by just letting the market "right itself" nor will it be solved by boot strapping federal agencies and private banks with a mandate that bails out everyone in a bad mortgage. The answer is in between those two answers.

Meanwhile, Democrats and Republicans are dragging their feet even more than usual because we are in an election year. The answer to this crisis has been lost with meaningless amendments and stalls that positions each side for concessions on larger issues. Neither side is willing to give up any ground with an election looming for fear that it may possibly give the other side bragging rights in November, ironically while their constituents suffer.

About the Author

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