

## **The mortgage crisis – it's time to reinstitute tried and proven solutions**

Each month we continue to be surprised by new statewide and national historic highs in the number of foreclosed houses, as we learn about another historic glut - - the growing number of unsold houses on the market in our communities. The U.S. Treasury Secretary, Henry Paulson, has been quoted as saying, the “unfolding housing crisis presents significant risk to the economy.” Even though Secretary Paulson does not advocate a program to bail out the mortgage lenders for their mistakes, there are specific actions the government can take now to ease this crisis at little or no cost to taxpayers, mortgagors and lending institutions.

The majority of problem loans are in adjustable rate mortgages. Congress and state governments should enact legislation that would void clauses in mortgage instruments that prohibit assumptions. And, to have an immediate impact on our economy, they should seriously consider making such provisions retroactive. This change would make all adjustable rate mortgages assumable. Assumptions could be “qualifying” assumable, where the original mortgagor is released from liability and the new mortgagor has to qualify for the mortgage. The assumptions also could be “non-qualifying” assumable. The “non-qualifying” assumptions would not release the original mortgagor from liability from the loan, but would require adding the new purchaser to the obligation. This would improve the security of the loan by having two obligated parties.

The rationale for making all adjustable loans assumable is simple: lenders require professional appraisals on all properties to insure that each loan is secured by a valued asset; and with qualified buyers at the closing table, these properties should be all the security that lenders require and are due. In the late 60's and early 70's, most mortgage loans were assumable using this same rationale. By taking prompt action now, we would be reinstituting a tried and proven financial tool into the mortgage lending industry that would aid in stabilizing jittery financial markets, and benefiting homeowners alike.

Another measure worth considering is retroactively limiting the prepayment penalty; perhaps up to 2% of the original mortgage amount, multiplied by the percentage of the prepayment period remaining on a loan. This would be a fair penalty, instead of the punitive penalties some lenders are currently charging. This is another free-market approach to making existing homes on the market easier to sell, while providing an additional mechanism for reducing the number of foreclosures.

The problems affecting the mortgage and real estate industries clearly indicate that the current system is not working. New as well as tried and proven changes are needed now.

