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A Rescue Hindered by Politics

By JOE NOCERA

Plans. Have I ever been inundated with plans. Deluged with them, actually. **Two weeks ago in this space, I trumpeted an idea to help struggling homeowners stay in their homes from Daniel Alpert, a founding partner of Westwood Capital, a small investment bank. He had no personal stake in stemming the rising tide of foreclosures, but as someone who has spent his career in and around securitization and structured finance, he felt he had something useful to offer.**

Mr. Alpert devised what he called his Freedom Recovery Plan because he wanted to try to help ease the terrible financial crisis we're in.

In publicizing his plan, however, I opened a spigot I hadn't known existed. It turns out that Mr. Alpert isn't the only smart guy who has been thinking hard about how to keep people from getting tossed out of their homes. It is a problem that is getting worse by the day, with more than 107,000 foreclosures in September alone, and one of every five mortgages underwater, by some estimates, meaning the homes are worth less — often substantially less — than the mortgage. (A quick refresher: the reasons it is important to tackle this problem are, 1. foreclosures hurt not only individual homeowners but entire neighborhoods and the American economy; 2. until housing prices stabilize, the financial crisis won't end, because housing is at the root of it; and 3. keeping people in their homes is the quickest, most compassionate way to begin stabilizing home prices.)

I heard, for instance, from William R. Hambrecht, the innovative founder of a firm that takes companies public through Dutch auctions, who believes that lenders should get equity in homes in return for reworking their mortgages, thus giving them some potential upside. Thomas Peterffy, the chief executive of the Interactive Brokers Group, believes the government should simply give every American homeowner $250 a month for five years to help pay the mortgage on their primary residence.

James Grosfeld, the former chief executive of Pulte Homes, walked me through his smart, interesting proposal for the government to buy up pools of mortgages at a discount and refinance them through Fannie Mae and Freddie Mac. If his plan works — and his argument is very compelling — the government could even make a profit in the process. (The details of all the plans discussed here can be found on my blog at nytimes.com/executivesuite.)

I found examples of nonprofit organizations, like American Homeowner Preservation, based in Cincinnati, that use tax-exempt bonds to buy homes and then lease them back to the former owners. I even discovered that the guy Barney Frank is planning to rake over the coals at a House Financial Services hearing he'll be presiding over in a few weeks has a plan.

The guy, William Frey, a broker-dealer in Greenwich, Conn., invested in a pool of toxic mortgages, along with hundreds of other investors. His big point is that because the contracts are so ironclad, and the interests of the various investors are diverse and often in conflict, there is no legal way to modify mortgages in those pools. He wrote a letter threatening to take action against any mortgage servicers who took steps to prevent foreclosures — thus raising Mr. Frank's ire.

Turns out that Mr. Frey had sent a letter to Treasury Secretary Henry M. Paulson Jr. and the Federal Reserve chairman, Ben Bernanke, seven months ago predicting that the government would have to take over Fannie Mae and Freddie Mac, but adding that the takeover offered the best way to help homeowners. Under his plan, which he outlined in the letter, the government would buy mortgages at face value, and then use Fannie and Freddie to write homeowners new, more affordable mortgages that reflected the current value of the homes. The government would have to absorb the difference between the original mortgages and the new ones. Mr. Frey acknowledged that it wasn't fair that both borrower and lender were made whole, while the taxpayer had to take the loss. But he believes that the securitization contracts make it impossible to solve the problem any other way.

"Theoretically, morally and logically, the investor should absorb the loss," he said. "But how do you get the loss to them? I don't see a way."

So yes, I'm swimming in plans — serious, smart, well-meaning plans that deserve consideration. And yet one plan is still missing. Where, oh, where is the government's plan?

It has been over a week since the Federal Deposit Insurance Corporation chairman, Sheila Bair, testified before the Senate Banking Committee, where she promised that a plan was on the way. "Everyone agrees that more needs to be done for homeowners," she said, adding that the F.D.I.C. was in discussions with the Treasury and the White House about a plan. "There is a policy process under way," she said. "We hope to be able to make some announcements soon."

In fact, Ms. Bair had hoped to be able to make the announcement that morning, in front of the committee. But the plan she has devised — and make no mistake, she is the driving force within the administration pushing to do something for homeowners — has been held up in endless wrangling with the Treasury and the White House.

According to an article by Vikas Bajaj and Eric Dash in The New York Times on Wednesday, Ms. Bair's plan would have the government absorbing half the losses on home mortgages when lenders agreed to lower the borrower's monthly payment for at least five years. The government would also guarantee mortgages that were renegotiated at a lower rate, so that the lender would not have to take additional losses if the homeowner later defaulted. The F.D.I.C. hopes to guarantee up to three million mortgages, at a cost that is estimated at around $50 billion.

As I understand it, the money is not the hang-up. Mr. Paulson and Mr. Bernanke have shown themselves more than willing to use many, many billions of dollars to keep the financial system afloat. Indeed, The Times estimates that the federal government has committed an astonishing $1.5 trillion so far in loans, investments and guarantees to the banking system.

No, the hang-up, apparently, is that aid is going to homeowners, not giant financial institutions, with the negotiations revolving around who will be eligible for the program and what will constitute an affordable new mortgage. Ms. Bair is arguing for a broad definition; the Treasury wants something narrow, which of course will mean fewer people will get help. This is hardly a surprise. One of the reasons previous efforts at helping homeowners have had such little success is precisely because the Treasury has insisted on defining the number of eligible homeowners as narrowly as possible.

It is also, of course, maddening. When it comes to the nation's financial institutions, the Treasury is willing to hand billions of dollars to healthy banks, like JPMorgan Chase and Wells Fargo, that don't even want the money. (It did so to disguise the fact that other, weaker banks, like Citigroup, do need the money.) Yet, inexplicably, it seems to feel that homeowners have to be treated much more severely.

The only legitimate reason for this is the one that my colleague David Leonhardt has put forth — that if the government says it is going to help homeowners in danger of foreclosing, it will create an incentive for a lot more homeowners to decide that they're in danger of foreclosing. But I would argue that the country is far better served at this late date by erring on the side of generosity. Isn't it better to let a few homeowners get relief who might not need it (just like JPMorgan!) than restricting the eligibility so narrowly that people in real trouble will not be able get their mortgages modified? Yet the Treasury instinctively prefers the latter.

It is also deeply aggravating that the urgency the government showed a month ago, when the banking system seemed at risk, seems absent now that the issue is homeowners. It took the Treasury and the Fed all of 36 hours to put forth a plan for a systemic bailout of the financial system. Yet they still can't agree on a plan to help homeowners; in fact, I hear that the Treasury is furious at Ms. Bair for getting out front of it on this issue, which may be another reason it won't sign off on her plan. More and more, it seems as if Treasury is acting like the Federal Emergency Management Agency after Hurricane Katrina.

I can't say with any certainty that the F.D.I.C. plan is demonstrably better than the plans that have been sent to me over the transom these last few weeks. Like any complicated plan, the devil will be in the details. What I do know is that the F.D.I.C. has a deeper understanding of the mortgage and foreclosure problem — and a greater sense of urgency — than any other agency of government.

In July, the F.D.I.C. became the conservator of a failing bank in California, IndyMac Federal. For the last few months, it has used the bank as a petri dish to see whether it could make mortgage modifications on a broad scale. Although the process is still in the early stages, the answer appears to be yes. So far, more than 3,500 homeowners have accepted the F.D.I.C.'s offer of mortgage modification, with thousands more lined up behind them. What's more, many of those mortgages were ones trapped in securitization pools.

In fact, the F.D.I.C. told me that it had sent out notices to 9,000 homeowners with securitized mortgages, offering to modify them. "We can do this on securitizations," said Michael Krimminger, the F.D.I.C.'s special adviser to the chairman for policy. “We can do it on a streamlined basis because we are applying a model.” The notion that securitization contracts would prevent mortgages from being modified was “a red herring.”

If the F.D.I.C. can help IndyMac borrowers, then presumably it can help borrowers all over the country. So enough with “the policy process,” as Ms. Bair so politely calls it. The time has come for the Treasury to swallow hard, sign off on the F.D.I.C. plan and let Ms. Bair begin carrying it out as quickly as possible. To delay any longer isn’t just short-sighted. It’s inexcusable.