



05/01/2008

Bair proposes new government loans

On Wednesday Chairwoman Sheila C. Bair of the Federal Deposit Insurance Corp. released a proposal calling on the federal government to start issuing 5 year interest-free loans with interest to be paid after the initial 5 years is up to homeowners behind on mortgage payments. She wants the Treasury Department to loan 20% of a homeowner's principle in an attempt to help them have enough to refinance their loan to a more manageable monthly payment.

Bair says the idea came as she met last week with citizens in Los Angeles for a housing forum. She described the participants as "anxious" saying she didn't "see many loan flippers or condo speculators." Her proposal would call upon a \$50 billion issuance of debt by the Treasury Department that would help over 1 million American homeowners. Bair claims her idea would ultimately not cost the government anything as the debts would be repaid. The plan would require Congress approval.

The Bush administration has not supported the proposal. They instead are concentrating on modernizing the Federal Housing Administration as well as increasing and streamlining the roles of mortgage financiers Fannie Mae and Freddie Mac. A Treasury Department spokeswoman confirmed the White House's plan saying that Bair's work is "appreciated".

In a statement the FDIC said "Only the federal government is in a position to help arrest the downward cycle in housing markets."