The New Government Plan to Save Homes Likely to Lead to More Bank Fees

February 2, 2012 - Yesterday, the President unveiled a new plan that he would like to implement to help prevent more foreclosures. The plan addresses one of the largest issues currently faced by borrowers who are still current on their mortgage payments but under water on the amounts they owe. People in this position have been unable to refinance their mortgages to take advantage of lower interest rates. But the President would like to pay for the plan by imposing a fee on banks. And that fee would likely be passed on to consumers.

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There is no doubt that anyone who owes more money on their home than it is worth but is still able to make their mortgage payments is in an unenviable position. Even though they are current on their mortgage and they may have perfectly good credit, they can't get anyone to refinance their home. No bank is going to be willing to lend them money when there is not enough collateral value in the home to cover the costs of the loan.
The President's new program would address this issue.

Essentially, the program would allow banks to offer new, federally guaranteed loans at lower interest rates on home loans that might be as much as 140% of the value of the home. Since the people who would qualify for these loans need to be current on their mortgage at the time they apply, they are lower risk than a lot of the other programs that have been pushed by the government.

There is no doubt that this area of the market needs to be addressed. Over the past two years, more and more homeowners who have been in this situation have made a business decision to simply walk away from their mortgage. In several states, banks are forbidden from suing these borrowers to recover their losses, and current tax law imposes no penalties on the amount of money forgiven by the banks. This means that by not refinancing, both the banks and the tax law are actually offering incentives to underwater homeowners to simply walk away from their mortgage.

But imposing a fee on the banks to cover the estimated $10 Billion cost of the program is a bad idea. Placing caps on certain bank charges was one of the primary functions of the Frank Dodd financial reform bill. We warned prior to that bill's passage that it would lead to new fees and the elimination of bank services that had previously been free. We were right on all counts. Just try to get a free checking account today as an average consumer.

Any new fees imposed on banks will simply be passed on directly to the bank's customers. Regardless of whether or not you agree with the banks that do this, the end result will be that the average bank customerâ€¦ meaning all of usâ€¦ will wind up funding the costs of this new program. Those fees would actually be nothing more than a hidden tax on consumers.

It remains to be seen if Congress will take up the President's plan. There is no doubt that the imposition of fees on the banks will face stiff congressional opposition. Any bill that emerges is more likely to be paid for with cuts in other programs given the current spending mood in Washington.

byJim Malmberg
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