

## The Washington Post

# Making mortgage payments on an underwater loan? You deserve a break too.

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The government has bailed out Wall Street firms, giant banks, creditors of Fannie Mae and Freddie Mac - and is trying to bail out people who've defaulted or are about to default on their mortgages.

But let's say you're part of a hardworking family that has done nothing wrong except buy a home when the housing bubble was at its peak a few years ago. Your mortgage is now way underwater, but you're still making payments because you want to stay in your home - and you're honorable. You're paying for everyone else's bailout, but because you have no equity in your house, you can't refinance to take advantage of the ultra-low mortgage rates that Uncle Sam's bailout strategy has produced. To use the technical term, you're being screwed.

Enter Keith Gumbinger, a leading mortgage expert, with an interesting proposal for how the government can help you, help the housing market and even help whoever owns your mortgage. Gumbinger, a vice president at the HSH Associates mortgage consulting firm, wants the federal government to issue what he calls "value gap coverage." It would reduce your interest payments, reduce your incentive to walk away from your mortgage and show that behaving well doesn't make you a sucker.

"This is for people who are underwater on

their mortgages but still current on them and have every intention of remaining so, and hope to remain in their homes for the foreseeable future," says Gumbinger. "These people are being compelled to pick up the tab for reckless borrowers and failing banks, and get absolutely no help from anywhere for themselves. How about a reward for doing the right thing for a change?"

Let me show how this would work, using HSH numbers that I've rounded for simplicity's sake. Say you bought a house for \$350,000 in July 2006 - those were the days of 100 percent financing, so you borrowed \$350,000 on a 30-year, fixed-rate mortgage at 6.8 percent. The house is now worth \$280,000, but your mortgage balance is \$334,000. The current rate for a 30-year, fixed-rate loan, if you could get one, is 4.7 percent.

Under Gumbinger's plan, you'd get a new

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\$280,000 mortgage at 4.7 percent, and the government would guarantee the other \$54,000, on which you'd pay 4.7 percent interest to the current mortgage holder. This would reduce your payments by \$6,700 a year, or roughly 25 percent. Your mortgage holder wouldn't have to take a write-down, because the shortfall would be guaranteed by Uncle Sam. You get lower payments, preserve your credit rating and save your pride by not becoming a deadbeat.

The government is probably on the hook, in one way or another, for some of your shortfall now. This way, everyone gets breathing space for the home market to recover. The government's exposure would shrink over time as house prices began to rise modestly (or so we hope) and your payments gradually reduced the principal on your loan. You wouldn't have any equity in your house until its market value exceeded the loan balance plus the government's guarantee. But then again, you don't have any equity now.

Gumbinger says there are many differences between his proposal and the government's latest mortgage relief effort, including the fact that theirs requires mortgage holders to take a writedown, and his doesn't. You can find Gumbinger's detailed plan, with the fees he proposes to cover costs, at [www.hsh.com/ValueGapRefi.html](http://www.hsh.com/ValueGapRefi.html).

Sure, this plan isn't perfect. Among other things, we'd have to make sure people didn't immediately sell their house, stick the

government with the \$54,000 bill, then buy another house with a low-down-payment FHA mortgage to reduce monthly payments and have all the equity upside.

But Gumbinger's idea strikes me as a better place to start than current restructuring programs, which sound great but somehow don't seem to work out.

How much would this cost the government? Who knows? But it has to be cheaper financially and socially than leaving millions of honorable homeowners at higher risk of foreclosure and forcing them to pay above-market rates on underwater loans.â€

*Allan Sloan is Fortune magazine's senior editor at large.*

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