

President Discusses Housing Proposals in State of the Union

In his State of the Union address, President Obama announced two measures to address the ongoing housing and foreclosure crises. The programs will allow homeowners to refinance mortgages to take advantage of historically low interest rates and will crack down on mortgage fraud.

While the details and legislative language on the president's refinance proposal have yet to be released, the Administration is planning to use the Federal Housing Administration as a vehicle to allow "responsible" homeowners to refinance existing mortgages. Interest rates for 30-year, fixed rate mortgages are currently below 4 percent. The Administration estimates borrowers could save up to \$3,000 per year by refinancing existing mortgages to these lower rates.

The president proposes to offset the costs to the government by levying a tax on banks with assets of \$50 billion or more. This would exempt the overwhelming majority of community banks and credit unions from the tax, placing the tax burden on only the largest financial institutions. This tax proposal is a reiteration of previous attempts to assess a fee on large financial institutions that received taxpayer support through the Troubled Asset Relief Program, or TARP. This large bank tax has received stiff resistance in Congress each time it has been proposed. It is unclear if linking the bank tax to the president's mortgage refinance proposal will change the congressional dynamic.

The president also announced the formation of a joint taskforce of the U.S. Department of Justice and state attorneys general to investigate mortgage fraud. The federal government and several attorneys general are currently negotiating a nationwide settlement to resolve foreclosure violations, but several important states like California, New York, Nevada and Delaware have criticized the settlement as insufficient. These states have launched their own investigation into mortgage and foreclosure violations.

For the state attorneys general, the joint investigation taskforce will be led by New York Attorney General Schneiderman. This is a clear acknowledgement of concerns expressed by states that the pending settlement offers lenders and mortgage servicers broad immunity for violations of state law. The announcement may also impact the ongoing settlement talks as lenders cannot now be assured that most pending legal actions by the federal and state governments will be resolved in the settlement.