

A Get Out of Jail Free Card for Troubled Homeowners, and Other Mortgage Rescue Ideas

By Mary Kane 3/4/09 11:28 AM

Over at Economist's View, Christopher Thornberg offers some ideas for stemming the foreclosure crisis - and while you may not agree with them, I'd rate them all much higher on the scale than having former subprime lending executives make new fortunes buying up distressed assets.

From Thornberg, a California real estate economist:

How about a national tax break for buying not just any home, but only a foreclosed property? How about generating a new group of potential buyers by simply not allowing current defaults to be recorded on people's credit reports? How about streamlining the foreclosure process, making it quicker and easier for banks to clear properties and find a new buyers, thus reducing their losses?

I've previously talked about the possibility of wiping defaults away to let delinquent homeowners start over, calling it a Get out of Jail Free card for people too far underwater on their mortgages to keep their homes. That way, with clean credit credit, they can either find a decent rental or buy again someday, as Thornberg notes. I'm assuming they'll buy a less expensive home the next time.

The Atlantic's Megan McArdle also has had similar thoughts:

My lunatic proposal for the day: why not make it easier to move homeowners out of homes they can't afford? Set up a streamlined foreclosure proceeding where a current or mildly delinquent homeowner can simply give the house to the bank and walk away. Do this with two legal provisos:

1. No tax on the forgiven loan

2. No black mark on the credit record. The bank marks the loan as fully satisfied.

The homeowner gets a fresh start, and the bank gets the house without the huge administrative costs that are normally associated with foreclosure. Everyone loses something, but no one loses a crippling amount, and there is no net transfer between two parties who are both in financial trouble.

These aren't perfect fixes. I'd be rightly suspicious of trusting that banks and credit bureaus will be diligent in keeping their side of the bargain. Still, I'd rather explore ideas like these, instead of leaving the fallout to the former subprime wolves, who still seem to be at the door.