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U.S. mulling mortgage aid for unemployed

Tue Jul 14, 2009 4:14am EDT

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By Patrick Rucker and David Lawder

NEW YORK/WASHINGTON (Reuters) - President Barack Obama is mulling new ways to delay foreclosure for jobless homeowners who are unable to keep up with monthly payments, an administration official said on Monday.

The official told Reuters it was reasonable for policymakers to consider options for loan forbearance -- allowing borrowers to delay, defer or skip payments -- that are more effective than those currently available in the private sector.

The number of failing home loans has been climbing for three years as risky borrowers have defaulted on their easy-to-get loans, property values have sunk and the unemployment rate has climbed.

But the official said the idea, which is still evolving, was difficult from a policy perspective and carries potential hazards. It could help more people struggling with economic difficulty, but it also could create perverse incentives that distort the housing market, said the official, who did not want to speak on the record about internal administration debates.

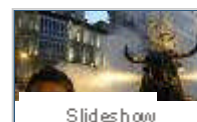
The official said such a program would be in keeping with other measures to help workers who have lost jobs in the current recession.

CONTINUED SLIDE

Officials have been frustrated as red-tape and rising mortgage rates have slowed a housing rescue plan announced in February that was meant to refinance 5 million borrowers and lower monthly payments for 4 million more.

A housing crisis of record defaults began at the end of a five-year housing boom of easy lending but the current crisis is being driven by climbing unemployment, say many analysts.

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"All these numbers keep going up. We are not anywhere near the bottom," said Jay Brinkmann, chief economist for the Mortgage Bankers Association.

Traditionally, homeowners have been tipped into default after a personal crisis, but the current downturn is worse as many borrowers have no home equity to soften the blow.

"What I don't know is will every job loss, every divorce, every death going to lead to a foreclosure because there is just not enough equity left in the home to avoid foreclosure?" Brinkmann said.

Recent data from bank regulators present a mixed picture for the industry in responding to the foreclosure crisis as more modifications are being offered while the number of tardy loans continues to grow.

Servicers implemented 185,156 loan modifications during the first quarter of the year, up 55 percent from the prior quarter, according to data from the Office of the Comptroller of the Currency and Office of Thrift Supervision.

The report also showed that seriously delinquent mortgages, defined as loans that are 60 or more days past due, increased by nearly 9 percent from the prior quarter to 5 percent of all mortgages in the portfolio.

The Treasury Department asked the largest 25 mortgage service companies last week to appoint a special liaison officer to work directly with government officials trying to stem defaults. **Continued...**

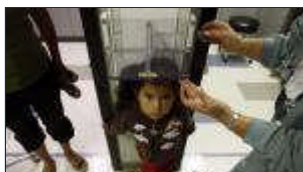
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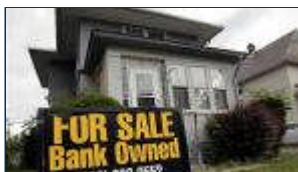
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