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Bernanke addresses growing foreclosures

During a visit to the Columbia Business School on Monday Federal Reserve chairman Ben Bernanke told an audience that the federal government needs to do more to stem the tide of rising foreclosures. His warning comes in concert with a recent report that was released by the Federal Reserve which found that banks are tightening standards for credit and lending. Less credit is being extended in the forms of student loans, home equity lines of credit and even credit cards.

The tightening has led to an increase in foreclosures despite continued historic interest rate cuts. "Finding ways to avoid preventable foreclosures is a legitimate and important concern of public policy," said Bernanke adding, "particularly the need to avoid programs that give borrowers who can make their payments an incentive to default." The Fed chairman also blamed subprime loans which require little if any down-payment and are targeted to borrowers with poor credit.

The problems in the credit market have complicated the problems facing the housing market. As credit becomes more difficult to obtain home prices and values have dropped causing some borrowers to go "upside-down" in their loan meaning they owe more than the value of their home. "The costs of foreclosure may extend well beyond those borne directly by the borrower and the lender," said Bernanke. When homes go into foreclosure the banks write-down the bad debt and then usually attempt to sell the property at a large discount. "Doing what we can to avoid preventable foreclosures is not just in the interest of lenders and borrowers. It's in everybody's interest," he added.

Mr. Bernanke is in favor of expanding the Federal Housing Administration's ability to refinance troubled loans facing foreclosure. Critics argue however that looser standards caused the mortgage crisis to begin with and that letting people restructure loans would be unfair to borrowers who took out a responsible loan given their situation. Right now a Democratic-led bill is being decided in Congress that would reform the FHA.