

Paulson Urges Congress to Act on Loan Woes

By MICHAEL M. PHILLIPS
And RUTH SIMON

WASHINGTON—The Bush administration is putting the burden on Congress to fend off an approaching wave of home foreclosures.

With two million borrowers in the U.S. expected to see interest rates jump on their adjustable-rate mortgages in the next two years, Treasury Secretary Henry Paulson urged the Democratic-controlled Congress to pass stalled housing legislation and support a new White House proposal to use tax-exempt bonds to refinance troubled subprime mortgages.

After months of criticism that he hasn't responded aggressively enough, Mr. Paulson implied that the administration was already doing all it could to stem the nation's mortgage woes, which have roiled markets, threatened many homeowners and raised the risk of recession. The secretary hopes the mortgage industry will announce this week an interest-rate freeze on certain ARMs. Privately, Treasury officials say they don't have any major home-loan-relief initiatives in the works beyond those they have already aired.

"The administration and the private sector are taking action," he said. "Congress now needs to also act."

Mr. Paulson's comments came as the president of the Federal Reserve Bank of Boston suggested in a speech that more than half of homeowners with subprime ARMs may be qualified to refinance into a less-costly loan by taking advantage of programs already available.

Boston Fed President Eric Rosengren said that 55% of borrowers with subprime ARMs for owner-occupied homes—about 1.2 million homeowners—haven't missed a mortgage payment in the past year. It is far from clear, though, that all of them could actually secure new mortgages. Some homeowners may have trouble refinancing, for example, because sharp declines in home prices have left them owing more than their houses are valued at.

Boston Fed research shows that 20% of borrowers with subprime ARMs nationwide should be able to refinance "relatively easily" into a prime mortgage or get into a loan-guarantee program, Mr. Rosengren said. At the time they took out their original loans, this 20% of subprime borrowers had relatively good credit scores, held at least 10% equity in their homes, provided full documentation of their income and assets and said they planned to live in the home.

In an interview, Mr. Rosengren said some borrowers with relatively good credit may have been steered into a subprime loan because it was more profitable for the lender. Other borrowers "who



Henry Paulson

◆ **The News:** The Bush administration is putting the onus on Congress to fend off an approaching wave of home foreclosures.

◆ **The Background:** Rates are expected to jump on two million ARMs over the next two years.

◆ **Second Opinion:** The Boston Fed's chief said existing programs could help many refinance.

might have been considered prime based on their credit score" wound up in subprime loans because they didn't have adequate funds for a down payment, didn't wish to document their income or assets or wanted to buy a home that was more expensive than they could have qualified for, a Boston Fed study found.

Sen. Chris Dodd (D., Conn.), a presidential hopeful and chairman of the Senate Banking Committee, reacted sharply to Mr. Paulson's putting the onus on Congress to act, saying in a written statement that the secretary "strained credulity" by claiming the administration has done enough to stop "predatory lending."

"The administration has repeatedly failed to use the tools at its disposal to protect home buyers from abusive lending," said Mr. Dodd, who himself has been criticized for failing to act on a House-passed bill to expand eligibility for Federal Housing Administration mortgage insurance.

Interest rates on as much as \$362 billion in subprime home mortgages are expected to rise in the coming year, according to Banc of America Securities.

Treasury officials are urging the mortgage industry—including lenders, loan-servicing companies and investors who own mortgage-backed securities—to finalize a sweeping plan to freeze subprime interest rates. Mr. Paulson initially resisted such a proposal, but he has recently embraced it as the centerpiece of a market-based administration approach that also includes

outreach and counseling for potentially struggling borrowers.

At the same time, Mr. Paulson, speaking at a Washington housing forum sponsored by the Office of Thrift Supervision, called on Congress to authorize state and local governments to issue more tax-exempt bonds over the next three years and use the proceeds to help strapped homeowners.

Even as the administration prods lenders to help troubled borrowers, Fannie Mae and Freddie Mac announced additional fees, or surcharges, that will raise the cost of some new mortgage loans. The surcharges, likely to be passed on to consumers, will affect certain loans purchased or guaranteed by the two government-sponsored mortgage companies after March 1. Some lenders already are starting to apply them, said Lou Barnes, a mortgage banker in Boulder, Colo.

The surcharges affect mortgage borrowers who have credit scores below 680, on a standard scale of 300 to 850, and who are borrowing more than 70% of the property's value. For instance, someone with a credit score of 650 would pay a surcharge of 1.25% of the loan amount for a mortgage to be sold to Fannie. On a \$300,000 loan, that would mean extra fees of \$3,750 for the borrower. That could be paid in cash or in the form of a higher interest rate than would normally apply.

Fannie and Freddie said they need to charge extra to reflect higher default risks, caused partly by falling home prices.

—James R. Hagerty
contributed to this article.

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Question of the Day: Do you support the Treasury's plan to freeze rates on some mortgages? Weigh in, at WSJ.com/Question. Plus, read the full text of Mr. Paulson's remarks, at WSJ.com/Economics.

[ECONOMIC SNAPSHOT]

Manufacturing Slipped in November but Avoided Recession Levels

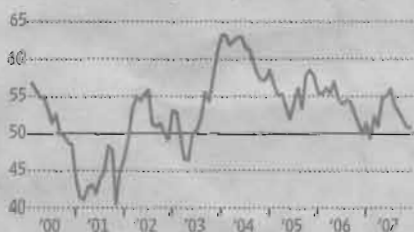
Manufacturing activity slipped in November but stayed well above recessionary levels, according to the Institute for Supply Management.

The group's manufacturing index fell to 50.8 from 50.9 in October. A reading above 50 indicates manufacturing is expanding; a reading above 41.9 over time generally indicates the overall economy is expanding.

New manufacturing orders and production both increased, and prices jumped. Employment dropped. The backlog of orders shrank—"certainly a sign of weakness" that could mean production will be pared in coming months, according to Norbert Ore, chairman of the group's monthly survey.

Export orders remained strong, but

ISM manufacturing index; seasonally adjusted



Note: Readings above 50 indicate expansion, below 50 indicate contraction.

Source: Institute for Supply Management

import orders remained unchanged at 47.5. That prompted J.P. Morgan economist Haseeb Ahmed to note that the last time the three-month average of import orders was lower was during the recession of 2001.

Corrections & Amplifications

A chart in yesterday's Investing in Funds section about mutual funds that have beaten the Standard & Poor's 500-stock index showed year-to-date figures for the funds this year through Oct. 31.

General Motors Corp. but wasn't the founder, as incorrectly reported in an obituary of Roger B. Smith in Saturday's edition.

national Realty was a co-listing agent on a Lakeville, Conn., property that sold for \$6.3 million, although he didn't handle the negotiations on the deal. In the Nov. 16 Weekend Journal, a Private Properties