



BANKRUPTCY EQUITY FOR HOMEOWNERS

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Both the Tea Party and Occupy Wall Street can agree that too many policies in this country are tipped against the interests of the vast majority of Americans. The millions of homeowners struggling under the weight of a mortgage more expensive than the value of their home feel this frustration acutely. Bankruptcy is supposed to offer a legal means to escape from debt and get a second chance, but ordinary homeowners are denied this opportunity with their greatest source of financial distress: their homes.

Bankruptcy judges can modify mortgages for speculators but not homeowners. Current bankruptcy law prohibits modifying primary residence mortgages, but it allows modification for second homes or investment properties. For instance, if a speculator whose investment property lost half of its value files for bankruptcy, a judge can modify the loan, including reducing the balance to its fair market value and lowering interest rates. But the poor souls who purchased a home to live in are forced to play by different rules. They have no access to the bankruptcy process with their mortgage – instead, banks can foreclose on and seize their houses.

The Bankruptcy Equity Act provides bankruptcy judges with the power to align a homeowner's mortgage to its current value and puts ordinary homeowners on the same playing field as wealthy speculators. People who are in dire financial straits should not be denied the opportunity for a fresh start afforded to commercial business interests. This bill removes the provision in bankruptcy law that prohibits the modification of a primary residence mortgage.

The Bankruptcy Equity Act ensures that private and federally insured mortgages are eligible for modification. The bill gives the Federal Housing Authority, Veterans Administration, and the Department of Agriculture Secretaries the authority to pay out claims on insured mortgages that are modified in bankruptcy.

The Bankruptcy Equity Act gives leverage to homeowners when negotiating with financial institutions. Knowing that the bankruptcy process allows bankruptcy judges to modify primary residence mortgages encourages financial institutions to negotiate with homeowners before involving the courts. It will also help prevent the buildup of another housing bubble by encouraging financial institutions to take greater care to ensure they are lending to only responsible borrowers. The securitization of questionable mortgages that helped cause the housing crisis would not have been possible if homeowners were treated as businesses.

The Bankruptcy Equity Act provides an immediate solution to the foreclosure crisis and allows families to stay in their homes. Economists agree that the foreclosure crisis is the biggest drag on the economic recovery. Reducing the principal balance of underwater mortgages is the best way to prevent foreclosures, help families stay in their homes, and stop the domino effect that drives down home prices and creates foreclosures and vacant properties that can devastate communities.

For more information on Congressman Blumenauer's advocacy for fairness, contact Ryan Kunkel at (202) 225-4811.