

## Will an Obama Economic Plan Include Enough Incentive for the Home Mortgage Industry?

The country is two months into 2009 and a few weeks into a new Presidential administration. More Americans are losing their jobs and the economy shows little signs of revival. The new President has made it clear that breathing life into the housing sector will be a focus of any stimulus plan. A plan introduced by Republicans the first week of February proposes targeting home mortgage rates directly. That plan could drop interest rates to 4 percent for a home mortgage. Interest rates are at the lowest point since the 1970s and, if Republicans have their way, they will drop even more. The average fixed home mortgage rate for a 15 years was well below 5 percent the second month of 2009. Proponents of a rate decrease think it will be enough to help hesitant buyers take the plunge into the real estate market. The inventory surplus of homes sitting on the market will slowly be trimmed down, if buyers are enticed to buy because of discounted home mortgage interest rates. According to a major real estate association, half a million sales can be sparked by just a one point home mortgage interest rate decrease. The hope is that by shrinking the inventory, home values will level off.

In addition to reducing home mortgage rates, Congress is debating other means to address the housing sector directly. One proposal is to extend a tax credit to all home buyers, rather than just those buying for their first home. The credit would also be increased from \$7,500 to as much as \$15,000. A buyer must make less than \$75K per year (double that for those filing jointly) in order to be eligible for the credit. Slowing the home mortgage default rate is certain to be included in any plan. Senator Dodd (D, CT) proposed a 90 day foreclosure suspension to allow distressed home owners time to try to establish a new agreement with their home mortgage lender.

Consumers, banks and investors are anxiously awaiting the specifics of the stimulus plan. Regardless of the various components being debated, it seems guaranteed that any plan will target the home mortgage foreclosure rates and encourage consumers to buy. In January, the new administration announced that it would like to use half of the remaining TARP funds to help reduce home mortgage foreclosures. He also supports giving banks incentives to work with certain qualified consumers who are behind on their home mortgage bills.

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