

Point of view:

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Building a new mortgage foundation

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DURHAM - President Barack Obama's ambitious housing plan announced last week has the right goal in mind. It emphasizes keeping people who meet minimum requirements in their homes, while also expanding the pool of people who can qualify for loans.

Best of all, it does so in a way that ensures responsibility on the part of all parties -- the borrower, the bank and the government or other guarantors of the loan.

It's a good plan to stop the bleeding and stabilize the housing market. But what happens when the immediate crisis ends? Hopefully, that day will come and, if we've learned anything about avoiding future disasters, we should be anticipating it now.

While the country's attention is still focused on this issue, I would suggest we change the design of mortgages in three more ways. All three are simple, easy to implement and avoid relaxing standards for qualifying buyers.

First, extend the term of the loan from the current typical maximum of 30 years. Make it 50 years, or even 100 years.

The current 30-year standard term for loans was created in response to the Great Depression, but it is an arbitrary number. If I take out a 30-year, \$200,000 loan, I pay less per month (for example, \$1,074 at 5 percent) than I do if I take a 15-year loan (\$1,582 at 5 percent), but I still need to qualify for whatever the monthly payments are.

A 50-year loan would work the same way (the monthly payment would be \$908 at 5 percent), as would a 100-year loan (\$839 per month at 5 percent).

While the amount paid in lifetime interest for longer loan terms would be higher, many more people would truly qualify due to the low monthly payments, fewer would lose their homes in default, more could build equity and fewer banks would be taking over properties they do not want because owners could no longer pay their mortgages.

Second, allow mortgages to be assumable at no cost by the children of the borrower. For families with lower incomes, it may take a generation or more before they actually own their own home. But why is this a problem? If we have as a goal a larger middle and working class, with more assets and more ownership, then why not provide an incentive for parents and their children to build equity across generations? Under this scenario, mortgage periods of 100 years would make sense.

Third, do not allow mortgages to be sold for a substantial period of time -- let's say 10 years, 20 years, or longer. Part of today's crisis was caused by a financial system that puts at risk companies that were too far from the investment and the borrower. If those who lend

money could not get quick bonuses and then sell the bad loan to some sucker who has no idea who the borrower is or how sound the loan is, there would be an incentive to make loans only to sound borrowers without becoming too risk averse and freezing up the system.

We are a country firmly grounded in a strong middle and working class, but our current housing and financial crisis has put us in jeopardy. Home ownership is one of the foundations of our society. Responsible home ownership policies not only can help people stay in their homes and preserve our financial institutions, but also can simultaneously increase home ownership and begin to change the trajectory from a negative to a positive direction. These three steps will move us even faster in the right direction.

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