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Home Emergency Loan Program

A second key element of the recession-relief proposal involves a program designed to help families avoid losing their homes through foreclosure as a result of unemployment or other sudden drop in income. While helping families, this proposal is also intended to help reduce the strain on hard-pressed lending institutions which are facing a rising tide of mortgage delinquencies.

This proposed new program – known as the Home Emergency Loan Program (HELP) – would assist homeowners experiencing financial emergencies by offering them loans to help them meet their mortgage payments. Lending institutions would contribute to this assistance by postponing repayment of principal and offering a concessionary interest rate during the period of emergency assistance. The homeowner, too, would be required to contribute to part of the payments each month.

To qualify for the program, the income of the individual or family would have to have dropped to less than 80% of the income level which originally qualified them for the loan. Qualification is not tied to unemployment per se, in order to make assistance available to people such as small business owners who may experience a precipitous drop in their income as a result of the recession but who are not actually "unemployed."

Under the program, qualifying homeowners would be eligible to receive a loan from the Federal Government equal to the lesser of 80% of the rescheduled mortgage payment or $200. The federal loan would be available for up to 18 months of mortgage payments, as long as the homeowner's income remains low enough to qualify. Repayment would begin after a six-month grace period, and would extend over three years. The interest rate on the loan would be equal to the interest rate on five-year Treasury notes, so as to cover the government's cost of borrowing. It would be paid out directly to the mortgage lender, and repayment would be enforced through deductions from tax refunds, if necessary.

The HELP program would benefit lending institutions as well as homeowners, because the availability of emergency federal loans would reduce the risk of mortgage lending by helping to avoid serious delinquencies and foreclosure. Consequently, the lending institutions would be required to contribute to the assistance package in order for their borrowers to receive aid through HELP. Specifically, as a condition of the borrower receiving a HELP loan from the Federal Government, the mortgage lender would have to agree to postpone repayment of principal on the mortgage during the period that HELP loans are received, and to charge a concessionary interest rate roughly equal to the lender's average cost of funds.

The cost of the HELP program is expected to be relatively small, as the emergency loans to homeowners would be repaid at roughly the same interest rate that the Federal Government pays on its debt. Further, the necessary paperwork would be handled by the lending institutions.

To illustrate how the program would work, consider a homeowner with a $70,000 30-year mortgage at a 10% interest rate. The regular monthly payment on that loan would be $614. If the loan had been made recently, that total would consist of roughly $582 in interest and $32 in repayment of principal. If the homeowner loses a job or otherwise becomes eligible for assistance, concessions from the lender under the HELP program (assuming a 6% concessionary rate) would temporarily reduce the monthly payments to roughly $350 per month, and the HELP loan would then cover $200 of this amount.

Assuming that the HELP loans continued at the $200 level for the maximum period of 18 months, the total loan balance would be $3,600. (In most cases, however, HELP assistance would be needed only for much shorter periods, and the total loan balances would be much lower.) Based on this maximum loan case, once repayment began (six months after the loans stopped), the payments on the HELP loan would be $113 per month for three years (assuming an interest rate of 8%).

Other Emergency Recession-Relief Programs

The proposal also calls for increasing funding for various federal programs that will be useful in providing aid to families for whom unemployment or income loss leads to personal and financial emergencies, such as loss of health coverage, loss of a home, or need for emergency help in buying food or paying fuel bills.

The programs selected are all well-suited to getting aid out quickly to those most in need, and all are non-entitlements, funded through annual appropriations. For most of these programs, the proposal calls for additional funding in both FY 1991 and FY 1992 equal to one-third of the FY 1991 appropriation; for a few programs, which are more broadly focused, the proposed increase is 20% (or 10% in the case of the two largest programs).

The one-third increase for the programs most closely targeted to emergency situations is designed as a very rough and conservative approximation of the increase in caseload that might be expected during the recession: even if the unemployment rate goes no higher than 7.0%, this will represent an increase of a little more than one-third over last summer's levels, and a report by the U.S. Conference of Mayors indicates that demand for emergency food and shelter aid had already increased by 22-24% in 1990.

The proposed additional appropriations would total roughly $1.3 billion in FY 1991 and $1.8 billion in FY 1992 (the difference arises because extra funding for low-income home energy assistance is proposed for FY 1992 only). The intention is that the funds be made available and spent as quickly as possible, and the programs included in the proposal were selected on the basis of their ability to get help quickly to those in need. If any funds from FY 1991 remain unspent, however, they would remain available in FY 1992.

Following is a brief description of the proposed increases:

- *FEMA Emergency Food and Shelter Program* — Provides funds to charitable organizations and local governments that run food and shelter programs for the homeless; additional funding of $44 million per year proposed.

- *Department of Agriculture Food Donation Programs* — Donates food for distribution to needy individuals