Senate Democrats squabble over which homeowners to help

By Julie Hirschfeld Davis
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WASHINGTON — Disagreement among Senate Democrats over how many struggling homeowners should qualify for court-ordered mortgage relief has stalled a key part of President Barack Obama's foreclosure prevention plan on Capitol Hill.

Behind the scenes, top Democrats are offering banks and credit unions sweeteners to drop their opposition to the plan, hoping that even tepid support from lenders might win a few vital votes from skeptical Democrats and Republicans. The bill would give judges new power to lower the interest rate and principal on a primary home loan as part of a bankruptcy settlement.

The measure passed the House last week — but only after a mini-revolt by moderates forced Democrats to narrow who might qualify.

They made sure the help was restricted to people who couldn't afford their mortgages without a court-ordered rewrite to lower their monthly payments, and those who had already tried to work out more affordable terms with their mortgage company.

The House bill also lets bankruptcy judges consider whether a homeowner has already been offered a deal by the lender that matched the guidelines Obama recently laid out in his housing rescue plan — one with monthly payments amounting to no more than 31 percent of the owner's income.

Lenders cheered the changes as an improvement but were still opposed to the final bill. They have long argued that the measure would impose steep and unpredictable costs that would be passed on to homeowners as higher interest rates. A multi-million-dollar industry lobbying effort helped kill the measure last year.

Seeking to avoid a similar fate, Sen. Dick Durbin, D-Ill., is drafting an even narrower alternative.

Sen. Evan Bayh, D-Ind., is working on a rival plan that would allow still fewer homeowners to qualify for home loan rewrites imposed by a bankruptcy judge. Bayh and Republican Sen. Arlen Specter of Pennsylvania are discussing a measure that would be limited to subprime mortgages.

Bayh said the House bill would ultimately increase the cost of lending. "We have to work to strike a better balance and take into account some of the long-term concerns about driving up the costs of mortgages," he said.

Durbin, Sen. Charles E. Schumer of New York and other senior Democrats are shopping for a deal with industry players that could win the support of key centrists in their party, plus a few Republicans.

Currently, just 12.25 percent of a credit union's lending can go to businesses. Efforts to lift the cap have run into fatal opposition from the banking industry, which doesn't want the added competition.

Backing from credit unions could bring critical votes to the bankruptcy measure, because they are spread throughout the country and can activate a powerful grassroots network on Capitol Hill.

So far, however, credit unions aren't biting.

"We have been opposed, we are opposed, but we have always said that we would be willing to find common ground," said Dan Mica, who heads the Credit Union National Association.