The Obama administration is hammering out a program to subsidize mortgages in a new front to fight the credit crisis, sources familiar with the plan told Reuters Thursday, firing financial markets.

In a major break from existing aid programs, the plan under consideration would seek to help homeowners before they fall into arrears on their loans. Current programs only assist borrowers that are already delinquent.

U.S. stocks shot up from session lows on the report, with the blue chip Dow Jones industrial average jumping 245 points, or 3.0 percent to close down just 6 points. Earlier in the day, stock prices had been testing the lows seen last November on investor worries about the economy.

Under the evolving plan, homes would undergo a standardized reappraisal and homeowners would face a uniform eligibility test, sources said.

Bank regulators have used 38 percent of gross income as a benchmark for one mortgage relief program. If a homeowner is spending more than that amount on housing, they may qualify for a streamlined loan program, but the Obama administration may choose a lower percentage as a trigger for relief in any new plan.

In an interview, James Lockhart, the regulator that oversees government-controlled mortgage finance companies **Fannie Mae** and **Freddie Mac**, told Reuters the industry was eager to have a standardized loan modification standard.

"I've talked to all the major servicers—both the big bank ones and the big independent ones—and they are all ready to go, they're chomping at the bit," Lockhart, the director of the Federal Housing Finance Agency, said. "The other thing they're asking for standardization."

Lockhart, however, declined to speculate on any plans the administration may be considering. The Treasury Department was not available for comment Thursday afternoon.

A rising wave of U.S. mortgages delinquencies has saddled the global banking system with big losses that have led banks to recoil from lending, choking economies around the globe.

U.S. Treasury Secretary Timothy Geithner on Tuesday outlined a plan aimed at taking up to $1 trillion in bad assets off bank books in the hope of restarting lending.

A lack of detail, however, has weighed on markets with investors worried that U.S. policy-makers were moving too slowly and timidly to address the financial crisis, the worst since the Great Depression.

On Thursday, Geithner told the Senate Budget Committee the administration would soon put a housing program in place that uses "a mix of incentive and persuasion" to get mortgage companies to rewrite loans.

"The key elements of the strategy are going to bring mortgage interest rates down to help avoid the foreclosures that we can reasonably expect to avoid," he said.

Sources said Fannie Mae and Freddie Mac would play a supporting role in the government's new plan, but said the two companies are not expected to expand their securitization of loans.

Under the plan being mulled, homeowners would have to make a case of hardship to qualify for new loan terms, according to the sources.

Officials weighed, but for now have shelved, another plan that would have seen the government stand behind low-cost mortgages of between 4.0 percent and 4.5 percent, sources said.

Lockhart said policy-makers are eager to prevent a large drop in home values from their current, deflated levels.

"Just as we had a large overshooting to the upside. Is there any way to prevent going much further to the downside?

That will cause tremendous harm to the U.S. economy, to the financial system and it's not necessary," he said.

Howard Glaser, a housing official under the Clinton administration, said such a program gives officials more "bang for the buck" than other plans being mulled that would see the government guarantee troubled loans.

"Federal purchase or guarantee of these same distressed mortgages would be vastly and prohibitively expensive," he said in a research note.

By subsidizing existing mortgages, officials also use the mortgage finance companies' own infrastructure rather than creating layers of bureaucracy.

John Silvia, chief economist at Wachovia, said the financial markets would welcome any policy to mitigate foreclosures and stabilize home prices.

"If you can get some sense of a benchmark, the financial markets will rally around it," he said. "I would ask, though, 'Are you committing to that on a sustained basis?' When you change those benchmarks people have to start repricing bonds, thinking about credit risk differently."