Administration must get serious about mortgage relief

by Marc_H._Morial

With the economy on that slippery slope to recession, U.S. Treasury Secretary Henry Paulson took yet another small, albeit helpful, step toward easing the U.S. foreclosure crisis - the second in just a few months.

This time, he's reaching out to all delinquent mortgage holders, a sign that default troubles have expanded past the subprime market.

Not only are first-mortgage defaults going up, 5.7 percent of home equity lines and 7.1 percent of auto loans were in trouble at the end of 2007, up from 4.5 percent and from 6.1 percent at the end of 2006, according to Moody's Economy.com and Equifax. All of this is going on in the face of rising unemployment, especially among blacks, and collapsing home prices.

"Falling housing values, resetting adjustable mortgages for recent subprime borrowers, tighter underwriting standards and the weakening job market are conspiring to create the current unprecedented mortgage credit problems," observed Mark Zandi, chief economist of Moody's Economy.com, to a key House subcommittee late last month.

In December, the Bush administration unveiled Hope Now, which offers a moratorium on interest rate hikes for subprime borrowers still current on their mortgages. Now, it's Project Lifeline, and its scope includes delinquent mortgage holders of all types.

With the same six major banks he negotiated with in December to launch Hope Now, Paulson recently brokered an agreement to offer subprime and prime borrowers more than three months behind on their mortgages the opportunity to put a 30-day halt on foreclosure proceedings in order to work out new loan terms.

Since the peak of housing activity in mid-2006, home sales have fallen off 35 percent, housing starts are down nearly 50 percent and house prices are down 8 percent, according to Zandi's testimony. Two-thirds of the nation's housing markets have seen major price deflation, including double-digit percentage decreases in Arizona, California, Florida, Nevada and other regions.

Even in a healthy housing market, financial institutions take substantial hits on foreclosures. With a soft housing market, those losses rise substantially - to as much as 50 percent of the mortgage value. That is why loan modifications or renegotiations between lenders and borrowers facing default are, among other initiatives, necessary to help mitigate the crisis.

Through our local affiliates, the National Urban League offers housing counseling that includes creating so-called "workout plans" between mortgage holders and financial institutions. In the past year, we have been encouraged to see lenders showing an increased willingness to renegotiate with strapped borrowers. But their assurances in the past haven't necessarily translated into quick action: only 3.5 percent of adjustable-rate mortgages due to be reset in the first eight months of 2008 were in loan modification as of September, according to a 2007 Moody's Economy.com report.

Project Lifeline is a positive, but limited, measure to ameliorate the housing crisis. In theory, it could help up to 425,000 mortgage holders, according to Moody's Economy.com. But in reality, its effectiveness hinges heavily on industry enthusiasm. Or as a recent New York Times editorial noted pessimistically, what the participating financial institutions "actually do is anybody's guess."

We cannot expect to resolve this fiasco overnight. Incremental piecemeal reforms, while better than nothing, won't be enough to put a halt to the crisis. Or as Sen. Chuck Schumer, D-N.Y., revealed recently to the Times, "only meaningful and long-term loan modifications will help keep people in their homes."

It is unfortunate that the Bush administration needs to coax lenders to adopt business practices that would almost certainly maximize their profit. Given the high and rising foreclosure rate nationwide, our leaders must finally move beyond voluntary steps and adopt measures with some teeth in them to rectify the crisis and give homeowners faced with losing their homes some sense of security.

Or as the Times in its recent editorial wisely observed: "Even if the industry-led efforts were very successful, a big if, they're not expected to be anywhere near enough help to stop the damaging fallout from widespread foreclosures - on neighborhoods, cities and the broader economy."

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