

Hope Later

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The Bush administration was too slow to wake up to the foreclosure crisis. Now it's asking Congress for more time to show results through Hope Now, a mortgage industry alliance created at the urging of the Treasury Department. Given the administration's poor record on the issue, lawmakers should not wait to pass their own foreclosure prevention plans. Most important is amending bankruptcy law to allow defaulting borrowers to modify the terms of their mortgages under court protection.

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Last year, in mid-August — as defaults were soaring, home prices falling and mortgage securities skidding — President Bush said his advisers believed housing was headed for a “soft landing.” In November, with conditions worsening, Mr. Bush admitted that the housing market was “challenged,” but said that all would be well, “particularly if we keep taxes low.”

In December, with no end to the housing bust in sight, the administration championed a five-year interest-rate freeze — starting in 2008. It is intended for many subprime borrowers whose payments would otherwise rise sharply. Under the plan, Hope Now would voluntarily implement the freeze and other loan relief.

Broad-based loan modifications are a good idea, but the plan is flawed in its scope. And since it is voluntary, if it doesn't work, there is nothing the administration can do. An estimated 3.5 million loan defaults are expected between now and mid-2010, when the last of the loans potentially eligible for the freeze are set to have rate increases. But according to several analyses, only an estimated 250,000 borrowers are likely to benefit from the plan's interest-rate freeze.

It's up to the White House to prove the critics wrong. Yet, at a recent Senate Banking Committee hearing, Robert Steel, an under secretary of the Treasury, told lawmakers that the results of the Hope Now modification efforts would be reported on a monthly basis, with a one-month lag, beginning in February and March. Translated: We're not likely to have a good handle on the effort until the second quarter of 2008, even as subprime foreclosures surge and defaults on higher-quality mortgages begin to rise.

In the meantime, Hope Now reported last week that members of its alliance had helped approximately 545,000 subprime borrowers in 2007. Of those, however, nearly three-quarters were not rate freezes or other modifications to make the loan affordable over time. Rather, they were "repayment plans," generally some kind of temporary break on interest or principal that allows the borrower to catch up on overdue payments. No less an authority than the chairwoman of the Federal Deposit Insurance Corporation, Sheila Bair, recently told the Senate Banking Committee that "temporary repayment plans will not provide stability to the borrower, investors, or the market."

There has been nothing, really, from the White House to inspire confidence in the administration's ability or willingness to tackle the foreclosure crisis in a meaningful way. But there is enough information to conclude that waiting for the White House to show results would be unwise. Congress must advance its own solutions — like bankruptcy reform — and the administration has to quit resisting efforts other than its own.

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