Editorial

Hope When?

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A report issued Monday by Hope Now, the White House-backed mortgage industry group formed to help hard-pressed homeowners, makes one thing clear: homeowners aren’t getting the help they need.

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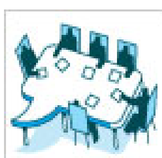Additional commentary, background information and other items by Times editorial writers.

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From July 2007 through January, Hope Now helped 638,000 subprime borrowers. But nearly 70 percent of them were simply given a chance to catch up on late payments — a quick fix that means borrowers can easily fall behind again, especially if interest rates rise.

The remaining 195,000 borrowers received loan modifications. Hope Now did not specify how the loans were altered. If, say, the loans’ introductory rates were extended briefly, a common fix according to borrower advocates, homeowners may simply default later. For those who owe more on their mortgages than their houses are worth, rate adjustments may not be the best medicine.

In a speech on Tuesday, Federal Reserve Chairman Ben Bernanke recommended reductions in principal for such borrowers as a possibly “more effective means of avoiding delinquency and foreclosure.” Unfortunately, the White House isn’t pushing lenders to take any specific steps — not even what the Fed chairman recommends.

The report’s lack of specificity clouds even its good news. In January, the pace of modifications picked up, to 45,320. If the acceleration continues and if the loans are modified in ways that make them affordable for the long run, Hope Now could make a lasting dent. Those are big ifs. More than one million subprime borrowers are now behind in payments and an estimated three million could end up in foreclosure over the next several years.

Industry’s (and the administration’s) latest claim is that lower interest rates are fixing the problem. In a speech on Monday, Treasury Secretary Henry M. Paulson Jr. credited “lower rates, rather than loan modifications,” for helping borrowers cope with their junk loans.

But lower rates are just a reprieve. The loans are still debt traps, wired to adjust upward explosively if and when rates rise again. As such, they still need to be modified.

Lenders knew or should have known that the subprime loans of the bubble years were unsuitable for many of the targeted borrowers. People who invested in those loans also should have known better. But they all piled in because it was profitable while it lasted. Now they are not doing enough to clean up the mess they created. And the administration is enabling their inadequacy.

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