Editorial

The American Dream in Reverse

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For the first time since the Carter administration, homeownership in the United States is set to decline over a president's tenure. When President Bush took office in 2001, homeownership stood at 67.6 percent. It rose as the mortgage bubble inflated but is projected to fall to 67 percent by early 2009, which would come to 700,000 fewer homeowners than when Mr. Bush started. The decline, calculated by Moody's Economy.com, is inexorable unless the government launches a heroic effort to help hundreds of thousands of defaulting borrowers stay in their homes.

These days, modest relief efforts are in short supply, let alone heroic ones. Some officials seem to think that assistance would violate the tenet of personal responsibility that borrowers should not take out loans they cannot afford. That is simplistic.

The foreclosure crisis is rooted in reckless — and shamefully underregulated — mortgage lending. Many homeowners — mainly subprime borrowers with low incomes and poor credit — are now stuck in adjustable-rate loans that have become unaffordable as monthly payments have spiked upward. Their predicament is not entirely of their own making, and even if it were they would need to be bailed out because mass foreclosures would wreak unacceptable damage on the economic and social life of the nation.

The relief efforts so far have been too little, too late. In August, the White House established a program to allow an additional 80,000 borrowers to refinance their loans through the Federal Housing Administration — on top of 160,000 who were already eligible. That's not enough. Foreclosure filings soared to nearly 244,000 in August alone.

Federal regulators and Treasury officials are urging mortgage lenders and mortgage servicers to do their utmost to modify loan terms for at-risk borrowers, but saying "please" hasn't worked. To be effective, modifications must reduce a loan's interest rate or balance or extend its term, or some combination of the three. Gretchen Morgenson reported recently in The Times that a survey of 16 top subprime servicers by Moody's Investors Service found that in the first half of the year, modifications were made to an average of only 1 percent of loans on which monthly payments had increased.

What's missing is executive leadership to bring together many players, including lenders, servicers, bankers and various investors. All of them are affected differently depending on whether and how a borrower is rescued, which makes it difficult to agree on a rescue plan. But all of them also made megaprofits during the mortgage bubble. Under firm leadership, they could come up with a way to modify many loans that are now at risk.

Democratic Congressional leaders have called on the Bush administration to appoint one senior official to lead a foreclosure relief effort. The White House dismissed the idea, saying, in effect, that it's doing enough.

Congress should move forward on other remedies. The most important is to mend an egregious flaw in the current bankruptcy law that prohibits the courts from modifying repayment terms of most mortgages on a primary home. Two bills, one in the House and one in the Senate, would treat a mortgage like other secured debt, allowing a bankruptcy court to restructure it so that it's affordable for the borrower. That would give defaulting homeowners and their advocates much needed leverage in dealing with lenders and servicers. Creditors would presumably prefer to cut a deal with a borrower rather than be subject to the decision of a bankruptcy judge.

The administration and Congress should work to avoid mass foreclosures. Meanwhile, bankruptcy reform would give borrowers a shot at keeping their homes.

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