Bush administration, banks announce another token measure on home foreclosures

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US Treasury Secretary Henry Paulson on Tuesday announced a new initiative prompted by the rising tide of home foreclosures and loan defaults, which are increasingly impacting prime as well as subprime home loans as well as other forms of consumer and commercial credit.

At a Washington DC press conference, Paulson, flanked by Housing and Urban Development Secretary Alphonso Jackson and a Bank of America executive, said that six of the largest home loan originators had agreed to offer the possibility of a 30-day grace period to some homeowners who have failed to meet their payments, before the bankers eject them from their homes.

Paulson dubbed this miserly plan “Project Lifeline.” Banks and mortgage lenders that account for 50 percent of US mortgages have signed up for the program. These include Bank of America, JPMorgan Chase, Citigroup, Countrywide Financial, Washington Mutual and Wells Fargo.

Belying its name, the program does not commit the lenders to actually grant a pause in foreclosure proceedings or agree to less onerous mortgage terms to distressed homeowners who seek help. It applies only to borrowers, both prime and subprime, who have missed more than three months of mortgage payments, and excludes those who have filed for bankruptcy and those who face foreclosure within 30 days.

According to an analysis by Moody’s Economy.com, some 425,000 homeowners are eligible for Project Lifeline, while, in practice, only a fraction of these will receive help. This compares to an estimated 2.8 million whose adjustable rage mortgages will reset to sharply higher rates over the next two years. The Mortgage Bankers Association estimates that some 1.3 million home loans are either seriously delinquent (meaning 90 days late) or already in foreclosure.

More than 2.2 million foreclosures were filed in the US in 2007, according to RealtyTrac, an online marketer of foreclosed properties, and some projections place the number of new defaults at 3.5 million by 2010.

Under the plan announced by Paulson, homeowners who are 90 days or more behind in their mortgages will receive a letter from their lenders asking them to call. They must respond within 10 days. They must declare that they wish to remain in their homes and agree to provide up-to-date information about their wages and debts.

It is then up to the lenders to decide whether to grant a 30-day pause in the foreclosure process. If they do, they will use the delay to decide whether or not to modify the terms of the loan. Any loan modifications will be provisional. Only if and when homeowners make on-time payments on the new terms for three months will the loan adjustment become permanent.

As these provisions indicate, the entire scheme is dictated by the interests and concerns of the banks and mortgage companies, not the homeowners. That the burden is placed squarely on the shoulders of the homeowners was underscored by statements made by Paulson at the press conference.

“No program can bring every struggling borrower into the counseling and evaluation process,” he said, adding that “we cannot help those who choose not to honor their obligations.” At another point he said, “If you can’t afford to live in a home you will go back to being a renter”—a euphemistic way of saying you will be thrown onto the street.

This scheme for temporary and provisional pauses in some foreclosures follows the plan announced in December by Paulson and the same group of mortgage lenders offering a five-year freeze on entry-level mortgage rates for a small section of subprime borrowers whose adjustable rate loans are scheduled to reset over the next two-and-half years. That program, which covers only some 250,000 of the millions of homeowners facing sharply higher interest rates, has done virtually nothing to stem the upward spiral of foreclosures and downward plunge in home prices.

The *Wall Street Journal* reported Wednesday that since the earlier plan was announced, the hotline set up to take calls from distressed home owners has received roughly 176,000 calls, but has provided counseling to just 36,000 borrowers, of whom less than 10,000 have received proposals for loan workouts.

The Bush White House hailed the new plan announced Tuesday. Dana Perino, Bush's press spokesperson, said, "No single program will solve all the problems in the housing market, but the president believes these efforts will help us get through this rough patch in our economy."

However, housing advocates and some financial analysts dismissed it as little more than a publicity stunt. Quincy Krosby, chief investment strategist at the Hartford, a financial services company, called the plan "one gesture, one of many." James W. Paulsen, chief investment officer at Wells Capital Management, said, "It didn't look like any of it had teeth. I didn't see where there was anything new."

In fact, Project Lifeline, like the plan announced last December, is motivated by the deepening crisis of the banks and major financial institutions resulting from the collapse in the US housing market and resulting failure of speculative investments linked to subprime mortgages. Banks in the US and Europe have already written off some $150 billion in subprime-backed securities, and the continuing fall in home sales and prices threatens to drive the total losses up to $400 billion or more.

These massive losses have undermined investor confidence in the US and global financial system, leading to a sharp contraction in credit. The credit crunch has, in turn, produced a severe contraction in economic growth, a rise in joblessness and the threat of a deep and protracted recession.

Last year saw the biggest fall in US home sales in twenty-five years and the first full-year fall in home prices since the Great Depression. As long as home prices continue to fall there can be no respite from the financial crisis, since investors and banks are reluctant to extend credit when they cannot determine the actual value of the homes upon which trillions of dollars in securities are ultimately based.

Moreover, as the *Wall Street Journal* reported on Tuesday, the contagion of loan devaluations and defaults is rapidly spreading to markets well beyond the subprime market. The newspaper cited data showing a steep decline in the value of high-risk corporate bonds, so-called "junk bonds," used to finance the leveraged buyout spree of recent years. Wall Street banks are unable to sell these loans and are faced with the prospect of huge write-downs of these assets still on their books. Securities backed by commercial real estate, student loans and municipal bonds are also in jeopardy.

The banks and mortgage companies have a vested interest in stanching the flood of foreclosures. With home prices falling, lenders are losing an average of $50,000 for every home they take possession of. And the greater the glut of foreclosed homes, the steeper the downward trajectory of home prices.

According to an Associated Press (AP) comparison of 2007 home sales and foreclosure data published Wednesday, a growing proportion of sales are of foreclosed properties, especially in states hardest hit by the housing slump. In some parts of California, nearly half of home sales came from foreclosed houses last year.

The AP reported that the trend is most pronounced in Nevada, Colorado, Tennessee and Michigan, and is also evident in Ohio, Georgia, Florida and Arizona. In Nevada, for instance, 17.5 percent of home sales were from foreclosures, more than four times the number in 2006. As a result, banks and mortgage companies are rushing to unload foreclosed properties at fire-sale prices rather than carry the costs on their books—further depressing home prices.

RealtyTrac reported Wednesday that metro Detroit, a region devastated by the near-collapse of the US auto industry and massive layoffs, had the highest foreclosure rate in the country in 2007. The company reported that nearly 5 percent of all homes in the city were in foreclosure.

And as Paulson acknowledged at his Tuesday press conference in speaking of the subprime mortgage crisis, "The worst is just beginning."