August 20, 2010

U.S. Mortgage Relief Effort Is Falling Short of Its Goal

By DAVID STREITFELD

The Obama administration’s mortgage relief program, originally intended to shield three million households from foreclosure, now looks as if it will permanently help as few as one-sixth of that number.

While millions say they need help avoiding foreclosure and many struggling households applied, data released Friday showed the dropout rate from the Making Home Affordable Program was very high: 96,000 trial modifications were canceled by lenders in July. The number of canceled trials now exceeds 616,000.

Those numbers are leading some housing experts to call the program, which modestly rewards lenders for modifying mortgages, a failure. But administration officials say that many households were helped even if their modifications were only temporary.

“They were able to benefit from reduced mortgage payments each month at no cost to the taxpayers,” Herbert M. Allison, an assistant Treasury secretary, said during a briefing.

The high number of cancellations was attributed to the rush to set up the program, which encouraged lenders to enroll borrowers first and ask questions later.

When the paperwork was eventually reviewed, many modification seekers did not qualify for permanent status, either because their debt load was not heavy enough, they did not live in the house, their documents were incomplete or they simply failed to make the trial payments.

Many of these troubled borrowers went on to get other forms of assistance or even became current on their loan, Mr. Allison said.

The program, which now screens borrowers for eligibility before enrolling them, has been running out of steam for several months.

About 422,000 mortgage modifications overseen by the government were considered permanent as of July, up from 389,000 in June. But the pool of candidates is shrinking rapidly. Only 17,000 trial modifications were started in July, down sharply from the 150,000 enrolled in September when the program was new.

Critics say the program will provide little long-term relief.

“These borrowers are still up to their eyeballs in debt after the modification,” and many will default again, Calculated Risk, a popular financial blog, wrote after reviewing the new data.

Along with the modification numbers, the administration on Friday released its monthly housing scorecard. It is an attempt to knit together disparate data to show two things: that policy makers deserve credit for pulling housing back from the brink, and that the market is not as feeble as some reports suggest.

“There is some hope we are starting to move to a more positive environment,” Raphael Bostic, assistant secretary at the Department of Housing and Urban Development, said during a briefing. But he acknowledged that “rough patches” remained.

For many in the industry, those patches look miserable indeed.

Michael Feder, the chief executive of the real estate data firm Radar Logic, expects prices to “get whacked” this autumn.

“My concern is that if we have another protracted housing dip, it’s going to bring the economy down,” Mr. Feder said. “If consumers don’t think their houses are worth what they were six months ago, they’re not going to go out and spend money. I’m concerned this problem isn’t being addressed.”