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Quarter of borrowers in anti-foreclosure plan are behind

Delinquencies worry some; other experts say it's too early to judge

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About 25 percent of borrowers helped under the administration's massive foreclosure prevention plan have already fallen behind on their new mortgage payments, according to government data that raise new questions about the program's effectiveness.

The delinquency figures reflect the latest troubles of the program, known as Making Home Affordable. Earlier this week, Treasury officials announced a campaign to put new pressure on lenders to do more to move struggling homeowners into loans with easier terms.

So far, more than 650,000 borrowers have been enrolled into the initial, or "trial," phase of the program and have seen their payments lowered by an average of $640 a month, or 40 percent. But a recent survey of large mortgage servicers published by the Treasury Department found that that more than 25 percent of borrowers in the program were not current on their trial payments.

Moving homeowners from the trial phase into a permanent modification has become the program's latest stumbling block. Borrowers must make three payments and submit documents proving they qualify for the program to move forward, but a bottleneck has emerged with few homeowners making it through. For example, at a conference last month, J.P. Morgan Chase, which signed up more than 178,000 homeowners, noted that 22 percent of borrowers helped didn't make their first payment.

Borrower confusion

If borrowers struggle to keep up with their modified mortgage payments, housing experts said, it could diminish the ultimate impact of the program, which the administration hopes will help up to 4 million borrowers. "I remain disappointed," said Richard H. Neiman, New York's superintendent of banks and a member of the Congressional Oversight Panel, which is monitoring the government's bailout programs. "I am concerned that a quarter of trial mods are not current."

Some borrowers have reported being confused about the trial modification process, including how their new payment was determined and when they need to begin paying, Neiman said. But the delinquency rate also reflects that some borrowers' financial conditions have eroded since they received the initial loan modification, he said.

"If the borrower qualified under that reduced income but then subsequently lost the job entirely, they are more likely to fall behind on the payments," said Andrew Jakabovics, associate director for housing and economics at the Center for American Progress. "Unfortunately, the program doesn't allow for a second bite at the apple."

But some government and industry officials say that it is too early to judge the program and unrealistic to expect all borrowers to keep up even after receiving help.

The purpose of the trial phase of the modification process is to give homeowners immediate relief while they submit proof that they qualify for the program and determine whether the reduced monthly payment is sustainable for them, said Meg Reilly, a Treasury spokeswoman. "Modifications may not be the right option for every homeowner," she said.

Beating expectations

In a written response to questions from the Congressional Oversight Panel, Herbert M. Allison Jr., Treasury's assistant secretary for financial stability, noted that "over 73 percent of borrowers are current," leaving more than 25 percent of them delinquent.

He also said Treasury has forecast an initial redefault rate of 40 percent on the foreclosure prevention program. That would be an improvement from the industry track record so far, which has seen more than half of borrowers become delinquent a year after their loans were modified, according to government data.

It may be that some modifications were given to borrowers who had no realistic expectation of keeping their home, said Mark A. Calabria, director of financial regulation studies at the Cato Institute. A few borrowers may be using the program to delay foreclosure and to find another way to save their home or just live for free, he said. "There is some positive amount of that," said Calabria. And some borrowers should be going "straight to foreclosure -- they aren't sustainable under any reasonable circumstances."

Many initial modifications were given to borrowers after a phone conversation with lenders but without written confirmation of their income or expenses, said Josh Denney, associate vice president of public policy at the Mortgage Bankers Association. The borrower "may have had a more optimistic outlook about how their finances were likely to go, how much income they would have available to make their payment on time," he said.

The Treasury Department is expected to release data next week showing that the vast majority of borrowers remain stuck in the initial phase of the program.

More than half of the borrowers eligible for a permanent modification by the end of the year have not submitted all of the required documents, from pay stubs to tax returns, including some who have provided nothing, government officials have said.

Housing advocates say in many cases borrowers have submitted the necessary documents, but remain in limbo as they await a decision by the lender.

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