

U.S. Warns Lenders on Mortgage Foreclosures, National Public Radio, All Things Considered, November 30, 2009 9:00 PM ET.

MELISSA BLOCK, host:

From NPR News, this is ALL THINGS CONSIDERED. I'm Melissa Block.

MICHELE NORRIS, host:

And I'm Michele Norris.

The number of homeowners facing foreclosure is at a record high. And today, the Obama administration stepped up pressure on the banking industry to do something about it. It wants to see more loan modifications. And toward that end, the Treasury Department threatened to fine companies that aren't doing enough. But some economists think the administration's plan to help millions of struggling homeowners is itself in trouble.

NPR's Chris Arnold reports.

CHRIS ARNOLD: In announcing the new efforts today, Assistant Treasury Secretary Michael Barr acknowledged that there is some growing skepticism over the president's foreclosure plan. But he said he also remembers all the skeptical predictions back when the program was first announced.

Assistant Secretary MICHAEL BARR (Treasury Department): We'd never get anything done. We'd never get the program off the ground. It wouldn't help anybody. And we're showing that that's not the case.

ARNOLD: Barr says he still thinks the program can help upwards of three million people. And already a lot of people have been started on new trial loan modification plans with much more affordable payments.

Asst. Sec. BARR: We've helped 650,000 borrowers as of last month. And those borrowers on average already, every month, are saving \$576 a month. So we're helping real people right now today and have been for many, many months. And I think the facts will overcome the skepticism.

ARNOLD: The current problem, though, is that the vast majority of those homeowners are still in the temporary trial stage of the program. To qualify for the permanently lower payments, the borrowers have to submit all kinds of documents, proof of income. And the banks, or they're called loan servicers, have to keep track of all that. And that seems to be where things have been breaking down here.

Mr. MARK PEARCE (Chief Deputy Banking Commissioner, North Carolina): The major problem is servicers have been unable to manage their own system in processing all of the numbers of people that they have in their system.

ARNOLD: Mark Pearce is the chief deputy banking commissioner for North Carolina. He's been tracking the foreclosure crisis with the group of state prosecutors and gathering data from the major banks.

Mr. PEARCE: Every day we see situations where homeowners are trying very hard to get a loan modification, where they're sending in all the requested documents. They are sitting on hold with their servicer for hours trying to get to talk to someone. And they're hearing different stories every time. They're told one thing one day and then another thing another day.

ARNOLD: Pearce says the banks lose the documents, homeowners have to resend them. The banks say that homeowners send incomplete documents and given the millions of people involved, it's just a giant paperwork nightmare. And some economists we spoke to today are skeptical that the administration is going to be able to untangle that mess. Still, some in the industry are more optimistic. John Jelavich is the vice president overseeing foreclosure prevention at PMI Mortgage Insurance Company.

Mr. JOHN JELAVICH (Vice President, Foreclosure Prevention, PMI Mortgage Insurance Company): Well, I think big picture, I think it's working. And, you know, getting this program up and running to the degree that, you know, the government expects is like turning a battleship in a lot of ways, you know. I think it's just going to take some more time.

ARNOLD: Jelavich wants this program to work. That's because foreclosures cost his insurance company a lot of money. He thinks that most of the banks are trying hard to implement the plan, but there are just a lot of problems. For example, some banks tell them that 80 percent of their inbound calls are now from people who are not delinquent or facing foreclosure.

Mr. JELAVICH: When you have current borrowers flooding the system, you're taking resources away from those who really need the help.

ARNOLD: You mean these are people who aren't defaulting on their loan yet, but who are saying, well, look, but my wife lost her job, and I think we're going to be in trouble. Or...

Mr. JELAVICH: Right. Or neighbor's loan got modified and they want a deal, too, kind of thing. You know, I do think that there's a lot of people who are exploring.

ARNOLD: In other words, people who don't really need the help, but who are clogging up the system with calls. Meanwhile, many economists say it's very important that the financial system figures out a way to prevent more foreclosures. Otherwise, they worry that home prices could keep falling and that and job losses are the two big things that are threatening the fragile economic recovery that's underway.

Chris Arnold, NPR News.