

Obama mortgage plan aids banks, not homeowners

David Walsh
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The Obama administration's home mortgage modification program, launched with great fanfare earlier this year, has assisted a mere fraction of those in danger of losing their homes, and the outrage of homeowners is growing.

According to a US Treasury report August 4, mortgage servicers, under the Home Affordable Modification Program (HAMP), have offered to change 406,500 loans and have actually modified, on a three-month trial basis, only some 235,000, just 9 percent of delinquent borrowers.

A number of banks that have received billions in taxpayers' money, such as Wells Fargo, Wachovia and Bank of America, have modified even a smaller percentage of mortgages (6 percent or less).

These derisory figures come in the face of what a representative of the National Consumer Law Center (NCLC), in testimony before a Senate committee July 23, called "a foreclosure tsunami, which threatens to destabilize our entire economy, devastate entire communities, and destroy millions of families."

In her comments, the NCLC's Alys Cohen noted that Goldman Sachs estimates that starting from the end of the last quarter of 2008 through 2014 some 13 million foreclosures will be initiated. The Center for Responsible Lending "predicts 2.4 million foreclosures in 2009, and a total of 9 million foreclosures between 2009 and 2012."

Equifax and Moody's Economy.com calculate that 1.8 million foreclosures have already been tallied in the first half of this year, and Realtytrac reports that 300,000 homes go into foreclosure every month. Banks have repossessed 386,800 properties this year, 64 percent more than the total of mortgages modified under the government program! An estimated 15.4 million homeowners in the US currently "underwater"—i.e., they owe more than their houses are worth.

Even if the Obama administration met its goal, under HAMP, of assisting in 3 million to 4 million mortgage modifications by 2012, which would mean doing some 20,000 a week, and it is not close to being on target, that would "address no more than one-third of all foreclosures," Cohen commented July 23. She noted that the HAMP loan modifications, in any case, "are still only trial modifications, with no assurance that they will lead to permanent modifications." The modifications, she argued, "have not made a dent in the burgeoning foreclosures."

The HAMP program, under which certain borrowers who are at risk or in default may lower their monthly payments to no more than 31 percent of their pre-tax income, was never designed to resolve the foreclosure crisis. Like all the current administration's "reform" measures, the program was crafted with the interests of corporate

profits carefully in mind. Nothing could be done to impinge on the earnings of the banks, mortgage companies and other financial institutions whose reckless policies created the crisis in the first place.

The program is entirely voluntary, and as commentators (and many angry homeowners) point out, the various mortgage servicers are consistently ignoring government guidelines, stalling and, in some cases, deceiving borrowers, and generally doing what they can to obstruct the loan modifications process.

A July 30 *New York Times* article suggested that lenders "have little incentive to help homeowners." It notes that the main impediments to a greater number of loan modifications are not staff shortages and logistical issues, as the mortgage firms claim, but their reluctance "to give strapped homeowners a break because the companies collect lucrative fees on delinquent loans. Even when borrowers stop paying, mortgage companies that service the loans collect fees out of the proceeds when homes are ultimately sold in foreclosure. So the longer borrowers remain delinquent, the greater the opportunities for these mortgage companies to extract revenue—fees for insurance, appraisals, title searches and legal services.

"It frustrates me when I see the government looking to the servicer for the solution, because it will never ever happen," said Margery Golant, a Florida lawyer who defends homeowners against foreclosure" and used to work for a major mortgage firm, Ocwen Financial.

The *Times* observes that mortgage companies are paid to manage pools of loans owned by investors and typically collect a percentage of the value of the loans they service. "They extract their share regardless of whether borrowers are current on their payments. Indeed, their percentage often increases on delinquent loans."

A recent paper by the Federal Reserve Bank of Boston concluded, "The rules by which servicers are reimbursed for expenses may provide a perverse incentive to foreclose rather than modify."

As Cohen of the NCLC indicated in her Senate testimony, "Their [the mortgage servicers'] entire business model is predicated on making money by skimming profits from what they are collecting.... Servicers make their money largely through lucky or strategic investment decisions: purchases of the right pool of mortgage servicing rights and the correct interest hedging decisions. Performing large numbers of loan modifications would cost servicers upfront money in fixed overhead costs, including staffing and physical infrastructure."

A former governance project manager at Countrywide Financial and Bank of America, Rich Miller, told the *Times* that "Bank of America had been reluctant to modify loans, which hurt the bottom line. The company has been waiting and hoping the economy will improve and

delinquent customers will resume making payments, he said.”

In regard to the operations of the HAMP program, the NCLC has pointed to numerous abuses committed by the mortgage servicers, including charging upfront fees, incorrectly telling homeowners that they must already be in default before qualifying for a modification, and initiating foreclosure proceedings even when a homeowner is still being considered for assistance.

The Center’s Diane Thompson told another Senate committee July 16, “Servicers’ compliance with HAMP is, at best, erratic. There is widespread violation of the HAMP guidelines across many servicers. The lack of compliance arises in part from obvious and persistent shortfalls in staffing and training. Yet some of the violations of HAMP are embodied in form documents, perhaps reflecting a more conscious attempt to evade the HAMP requirements. Lack of transparency prevents homeowners from identifying violations. Lack of accountability prevents homeowners from obtaining any redress when violations are identified.”

Thompson even suggested that HAMP might be causing “a drop-off in loan modifications.” She referred to various stalling practices by the banks and other financial institutions. Advocates and homeowners “have been told...that their servicer is participating but that the servicer does not yet have a program to evaluate homeowners for HAMP. Ocwen, for example, told an advocate on July 1 that it did not know when it would be rolling out its HAMP modifications. Ocwen signed a contract as a participating servicer on April 16, two and a half months earlier.”

Meanwhile, the banks are making money hand over fist, with the connivance of the Obama administration.

CNNMoney.com made the mistake in June of asking its readers about their experiences applying for a loan modification or refinancing under the government’s plan. They asked: “Did you run into roadblocks or were you able to get a lower monthly payment and avoid foreclosure? We want to hear your experiences.”

They certainly “heard,” far more than they probably wanted to. (See the CNNMoney.com blog feedback page.)

The outrage and frustration, and sometimes despair, that pours from the more than 500 e-mails is extraordinary. The letters almost universally tell a story of endless obstruction (deliberate or otherwise), incompetence, and corporate maliciousness.

One e-mail from North Carolina reads: “My mortgage modification process under the Obama plan has been a nightmare.... I jumped through all of the hoops that the mortgage company told me I had to and supplied all the paperwork within days....

“After almost 4 months, it took me 23 telephone calls, 17 e-mails to five different people at my mortgage company, including the president and their Executive Resolution person, three complaints to the banking commission, an e-mail requesting help getting my mortgage modified to my state’s U.S. Senator and an e-mail to the White House asking for help, but my mortgage is finally being modified from 44 percent of my income to the max of 31 percent of my income.”

And that is one of the very few “success” stories. Most of the letter writers explain that their efforts to have their loans modified have so far failed.

A homeowner in Salt Lake City writes: “The plan does not work. As mentioned in many comments already posted, the plan requires every homeowner to pass through tons of red-tape, [so] that by the time the banks reach any kind of decision (accepted or rejected) you are more behind with less money, and in a deeper hole than when you began the process.... There is no relief. Obama, your plan is not working!!!”

From Manhattan, Kansas: “I received a mortgage 3 years ago and the friendly (and unregulated) bank simply lied to me about the terms of the loan, giving introductory rates that changed without telling me. Now these same banks are clearly NOT wanting to give up the draconian mortgages they have. Obama MUST find a way to force the banks to let go of this toxic paper, and fix the disaster that the lying son-a-bitches manufactured; banks still are determined to restore their fortunes by stealing people’s homes (just as originally planned) whether or not it destroys America....”

A woman in Elk Grove, California, writes: “I hate Chase. I hate Chase. I hate Chase. They lie. They are the worst bank. Have had my loan modification since March ’09, no receipt of fax. Then April I refaxed, they received. Said it was waiting to be reviewed. Called in July, many times before that and was told none of the files were looked at. We were lied to, but they couldn’t say why other than guidelines changed and it would be another 90 days. Over and over when I call, they want some other documentation. Still nothing as of today.”

A homeowner in Estacada, Oregon, who attempted to qualify for the mortgage modification program, concludes: “Bottom line, I think Obama’s claims of helping the middle class working people with their mortgages was a publicity stunt, to justify giving our tax dollars to the bankers.”

Another e-mail: “The system is broken! I don’t know if it’s the banks that took the TARP [Troubled Asset Relief Program] and don’t care, or a lack of oversight. We have the same story with Bank of America as everyone else and have been trying since March.... Just like most people, we hate the situation we are in, and we have always made our payment on-time for 15 years. So who’s going to help us? The Banks? The Administration? CNN?”

From California: “Obama’s plan is failing. The pathway to mortgage modification is so difficult and so full of pitfalls that the average homeowner cannot possibly pull it off. There will be another massive wave of foreclosures coming soon because of this. Obama’s plan is just talk and nothing more.”

A real estate appraiser in New York City writes: “As far as we can tell down in the trenches, banks (especially, the bailed out banks) are trying their hardest NOT to make any home loans, refinances or modifications, effective May 1st. There is no oversight, nor any channels available to the homeowners/purchasers for remediation of the outrageous behavior of the lenders who got us into this mess in the first place.”

The US Treasury issued a complacent press release Tuesday, headlined “Making Home Affordable Program on Pace to Offer Help to Millions of Homeowners.” It called servicer performance “uneven,” but cited “rapid progress” in “its comprehensive plan to stabilize the U.S. housing market.” The population, by and large, is not fooled.



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