White House announces bank-friendly housing assistance modifications

Andre Damon
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The White House announced Friday a set of modifications to its foreclosure assistance program, which subsidizes banks to renegotiate mortgages with borrowers. The changes amount to a reshuffling of bank subsidies and provide no funds in addition to what has already been allocated.

The announcement comes only days after a devastating report by Neil Barofsky, the special inspector general for the Troubled Asset Relief Program, showed that the government's home loan modification program has helped only a tiny portion of those in foreclosure.

The White House's proposed changes will affect funds already allocated as part of the Home Affordable Modification Program (HAMP), initiated in February 2009.

One part of the program would compensate banks 10 to 21 percent of the amount by which they write down the principles on home loans that are "underwater"—i.e., when the value of the mortgage exceeds the market price of the home.

The program only applies to those who owe more than 115 percent of the value of their homes. The write-downs would be entirely voluntary for banks, and would be applied only if payments are made over the course of three years.

Another provision would require that banks offer to modify mortgages for unemployed people for three to six months. Since the average length of unemployment is six months, most people will only receive temporary modifications before having their interest rates rise again before they find a job. The new mortgage rates would be set at 31 percent or less of monthly income—an extremely high rate.

In the long run, the requirement would not impact bank bottom lines, since the temporary reductions during unemployment would be added to the principal of the loan, which borrowers would have to pay off later.

Tim Lilienthal of PICO National Network, an association of religious community organizations that is engaged in housing advocacy, said in an interview with the *World Socialist Web Site*, "If services don't want to modify mortgages, then there is no way to hold their feet to the fire." He added that, "thus far, all of the mortgage modification programs have consisted of incentives for lenders."

"Because of the recession, the number one cause of foreclosure now is unemployment," Lilienthal added.

Those who are most in need of assistance will continue to be forced out of their homes. The Treasury said that its housing plan was based on "the recognition that we cannot and should not help everyone," and was designed only to target "responsible" homeowners.

The Treasury's press release on modifications to the program claimed that "costs will be shared between the private sector and the federal government," but Todd Hagerman, a securities analyst at Collins Stewart Plc, told Bloomberg.com that the impact of the program on banks will be "minimal."

"I would not overstate, by any stretch, expectations that this is going to be a huge program in the investor community," FHA Commissioner David Stevens told the *Wall Street Journal*.

Indeed, the measures are entirely aimed at aiding the banks and investors. There is increasing concern that the collapse of the US housing market is not over, and that there will be a new wave of foreclosures and home price declines. The aim of the proposals is to keep some homeowners paying as much as possible, staving off home foreclosure, and stop homeowners from simply

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walking away from their loans.

From the beginning of the housing crisis, the Obama administration has rejected any measures that would seriously harm Wall Street—in particular, required reductions in the principle of home loans.

There were 2.8 million foreclosures in 2009, according to RealtyTrac.com, a property monitor. But even this figure is small compared to the 4.5 million foreclosures that the group expects for 2010.

Another analyst, First American CoreLogic, has estimated that about eight million American households have already had their houses foreclosed, or are behind on payments.

Because it is entirely geared to the interests of the banks, all of Obama's housing proposals have done little to help homeowners, including the latest measures. Tom Deutsch, executive director of the American Securitization Forum, a group that represents banks and investors, told the *New York Times*, "The magnitude of this program will likely be measured in the tens of thousands rather than the hundreds of thousands of borrowers."

In deliberately misleading language, the Treasury Department said in its statement that the changes help meet a goal "of stabilizing housing markets by offering a second change to up to 3 to 4 million struggling homeowners through the end of 2012." But the White House mortgage modification program has permanently modified only 168,708 mortgages, amounting to only 2 percent of this figure, according to the report by Barofsky.

"Defining success by how many offers are given can reasonably be perceived as essentially meaningless," Barofsky noted.

Barofsky's report noted that, while the number of people receiving permanent modifications is tiny, up to one million people have received "temporary" modifications, where interest payments are lowered for a few months, only to jump back up later.

Pointing to the real aim of the modification programs, the report stated, "There is an argument to be made that borrowers who enter trial modifications who do not get permanent modifications are actually harmed by the program." This is because borrowers "end up making several additional mortgage payments…and face foreclosure anyway." About 40 percent of the recipients of HAMP mortgage adjustments will re-default on their loans, and the figure is even higher for temporary adjustments.

The report said that the White House program risks "merely spreading out the foreclosure crisis over the course of several years, at significant taxpayer expense and even at the expense of those borrowers who continued to struggle to make modified, but still unaffordable, mortgage payments for months more before succumbing to foreclosure anyway."

It concluded that while the program may "in some circumstances benefit the lender/investors…it will have done little to accomplish EESA's explicit purpose to 'help families keep their homes.'"

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