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Gov't increases pressure on mortgage industry

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Faced with sluggish progress in its foreclosure-prevention effort, the Obama administration will spend the coming weeks cracking down on mortgage companies that aren't doing enough to help borrowers at risk of losing their homes.

Treasury Department officials said Monday they will step up pressure on the 71 companies participating in the government's \$75 billion effort to stem the foreclosure crisis. They will start this week by sending three person "SWAT teams" to monitor the eight largest companies' work and requesting twice-daily reports on their progress.

The mortgage companies, also known as loan servicers, have had a hard time getting borrowers to complete the needed paperwork for the administration's loan modification program. Nearly 60 percent of the 375,000 borrowers who qualify to have their loan modifications completed by year-end have either submitted incomplete paperwork or none at all.

"Borrowers must understand the urgency of getting their completed paperwork in so they do not miss out on the opportunity for more affordable mortgage payments," said Phyllis Caldwell, who recently was named to lead the Treasury Department's homeownership preservation office.

The program, announced by President Barack Obama in February, allows homeowners to have their mortgage interest rate reduced to as low as 2 percent for five years.

The administration is feeling intense pressure from lawmakers and consumer advocates to speed up progress. As of early September, only about 1,700 homeowners had finished all the paperwork and received a new permanent loan. About one-third of borrowers who have submitted complete applications are still waiting for a decision.

In an effort to shame the companies into doing a better job, Treasury will publish a list next week of the mortgage companies that are lagging. While big lenders like Citigroup and Wells Fargo have made double-digit gains in the percentage of eligible borrowers they have signed up for trial modifications, other companies like Ocwen Financial and American Home Mortgage Servicing have only increased their borrower participation by 6 percentage points or less since July.

Paul Koches, executive vice president of Ocwen, said his company had already saved 90,000 of its roughly 370,000 distressed homeowners from foreclosure before the government program began. As of October, Ocwen had started trial modifications for 11 percent of its borrowers, up from 5 percent in July.

At American Home, spokeswoman Christine Sullivan said the company has a "large, dedicated team" working on the Obama plan, but also noted that the company modified more than 60,000 loans outside the Obama plan over the past year.

"We are addressing the needs of distressed borrowers and are confident that we are doing all that we can reasonably do to avoid foreclosure," she said in an e-mail.

Some companies have barely made any inroads. HomeEq Servicing, a division of Barclays Capital, only signed up in August. As of October, it had only started 91 trial modifications out of a pool of nearly 41,000 eligible homeowners.

"We have solicited thousands of borrowers for the financial information and documentation necessary ... and expect the number of trial modifications to increase substantially in the coming weeks," company spokesman Brandon Ashcraft said, noting that the company has modified 45,000 loans outside the government program over the past two years.

The participating mortgage companies signed contracts earlier this year that give the government the right to withhold incentive payments or end their contracts with Treasury. But mortgage companies don't receive those payments until they make a modification permanent, so there is little leverage over companies that aren't performing well.

That difficulty, consumer advocates say, highlights the program's key flaw: Since participation was voluntary, the government has little it can do besides shaming the industry into doing better.

"There's no meaningful accountability," said Diane Thompson, counsel at the National Consumer Law Center. "If you just aren't doing the loan mods, so what?"

And then there's lender limbo. About one-third of borrowers have submitted complete applications but haven't received a decision.

"In our judgment, servicers to date have not done a good enough job" of making the modifications permanent, said Michael Barr, an assistant Treasury secretary. Companies, he said, "that don't meet their obligations under the program are going to suffer consequences."

Industry executives acknowledge there have been problems.

"The documents were confusing. Borrowers did not understand the process wasn't closed until the documents came in," Sanjiv Das, chief executive of Citigroup's mortgage unit, said earlier this month. "Even when the documents came in, they were not always complete."

Mortgage finance company Freddie Mac has hired an outside company, Titanium Solutions Inc., to send real estate agents around the country to knock on borrowers' doors and help them complete the paperwork.

"It can be a little bit intimidating," said Patrick Carey, Titanium's chief executive. "They don't, in many cases, understand exactly what is being asked of them."

Analysts, meanwhile, say the foreclosure crisis is likely to persist well into next year as rising unemployment pushes more people out of their homes.


About 14 percent of homeowners with mortgages were either behind on payments or in foreclosure at the end of September, a record level for the ninth straight quarter, according to the Mortgage Bankers Association.

Homeowners who may be eligible for assistance can call 888-995-HOPE, or visit <http://www.makinghomeaffordable.gov>.

AP Real Estate Writer Adrian Sainz contributed to this report.



FILE - In this March 6, 2009 file photo, a chain and padlock take the place of door knobs and locks on a foreclosed home in the Bronx, N.Y. With the foreclosure crisis showing no signs of relenting Monday, Nov. 30, 2009, the Obama administration plans to expand a program aimed at helping people remain in their homes.(AP Photo/Julie Jacobson, file)

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