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## Panel Says Obama Plan Won't Slow Foreclosures

By [PETER S. GOODMAN](#)

A day after the Obama administration proclaimed significant progress in its effort to spare troubled homeowners from foreclosure, an oversight panel on Friday sharply criticized the program and declared it would leave millions of Americans vulnerable to losing their homes.

In a report mild in language but pointed in substance, the Congressional Oversight Panel — a watchdog created last year to keep tabs on taxpayer bailout funds — said the administration's program would, "in the best case," prevent "fewer than half of the predicted foreclosures."

The report rebuked the administration for failing to shape a program that addressed the most significant engines of the foreclosure crisis — soaring joblessness and exotic mortgages with low introductory interest rates that give way to sharply higher payments over the next three years. Many of those mortgages are too large to qualify for modification under the administration's plan. People who lose their jobs often lack enough income to qualify for relief.

The administration's plan appears "targeted at the housing crisis as it existed six months ago, rather than as it exists now," asserted the oversight panel in its report. "The panel urges [Treasury](#) to reconsider the scope, scalability and permanence of the programs designed to minimize the economic impact of foreclosures and consider whether new programs or program enhancements could be adopted."

In a telephone briefing with reporters, the oversight panel's chairwoman, Elizabeth Warren, said the administration's housing program was so limited that it was unlikely to keep pace with the growing wave of foreclosures.

"Even when Treasury's programs are running at full speed, foreclosures are estimated to outpace modifications by about two to one," Ms. Warren said. "It simply isn't clear that the programs in place will do enough to tame the crisis and have a significant impact on the broader economy."

The Treasury acknowledged that its anti-foreclosure program was limited, with the effect of rising unemployment not fully checked. But the department said other relief efforts, like extended jobless benefits

and continued health insurance for people who lose work, were better suited to alleviating economic distress than the housing program.

“In developing this program, it was critical that we address challenges that could be solved quickly with the tools available to us to ensure the most effective use of taxpayer money,” said Meg Reilly, a Treasury spokeswoman.

The administration’s decision to limit the cost of its one program aimed at helping homeowners could become more contentious as the foreclosure crisis grinds on. Populist anger has flashed over the rescues of major institutions including [Citigroup](#) and the [American International Group](#) — the most prominent components of a \$700 billion taxpayer-financed bailout — while homeowners struggle.

“These Treasury people are all from Wall Street, and they’re not doing anything but protecting Wall Street,” said Melissa A. Huelsman, a Seattle lawyer who represents homeowners fighting foreclosure. “They don’t care in the least about protecting homeowners.”

When the Obama administration began its \$75 billion Making Home Affordable program in March, it said the plan would spare as many as four million households from foreclosure. On Thursday, Treasury announced that 500,000 homeowners had since had their payments lowered on a trial basis, celebrating this as a milestone.

But the report from the oversight panel directly challenged the administration’s characterizations.

Most prominently, the panel had grave uncertainty about whether large numbers of the trial loan modifications — which typically run for three months — would successfully be converted to permanent terms.

As of the beginning of September, only 1.26 percent of trial modifications that had made it through the three-month trial period had become permanent, the report found. Of course, very few of those trial loans had reached their three-month expiration because the program only recently began processing large numbers of applications. As of Sept. 1, the Obama plan had produced 1,711 permanent loan modifications.

Some homeowners complain they have received trial modifications only to have them canceled for what seem dubious reasons — checks sent but supposedly never received, documents once in the file but suddenly missing.

“We’re on the phone arguing with mortgage companies every day,” said Dan Harris, chief executive of Home Retention Group, a company that negotiates with mortgage companies for loan modifications on behalf of homeowners, adding that trial modifications for four of his clients had been canceled over the last month.

“It’s incredible.”

Major mortgage companies say they have significantly increased staffing to better manage the flow of paperwork, while notifying customers of the need to send in fresh documents to make their trial modifications permanent. But the companies offer no assurances that a large number of trial modifications will indeed become permanent.

“The process is too new,” said Dan Frahm, a spokesman for [Bank of America](#). “We don’t know the number.” He estimated that 15 percent to half of all trial modifications would fail to become permanent.

The Treasury expressed hopes that a newly streamlined process that allowed borrowers to submit documents to mortgage companies more easily would help make large numbers of trial modifications permanent.

“We are intent on working with servicers to ensure that eligible borrowers receive permanent modifications,” said the department spokesperson, Ms. Reilly.

The oversight panel’s report expressed chagrin that the vast majority of loan modifications did not lower loan balances, leaving many homeowners still “under water,” or owing more than their homes were worth.

This tends to lower all property values, the report noted, because underwater borrowers have less incentive to care for their homes, and greater reason to stop making payments and default.

An Obama administration official who spoke on condition of anonymity, citing a lack of authorization to speak publicly, said the Treasury would have preferred that the program focused more on writing down principal balances but ultimately opted against it because “that would make it significantly more expensive to the taxpayer.”

In Wauwatosa, Wis., Theresa Lutz, 47, has been seeking to lower the payments on her home for several months. She is a graphic designer whose working hours were cut last summer. In September, her employer cut her salary by 6 percent. That has made it difficult for her to pay her monthly mortgage of \$1,307.

As Ms. Lutz described it, her mortgage company, [Wells Fargo](#), initially agreed to lower her payments. But then, last week, the bank informed her that she would have to come up with a fresh \$3,000 to compensate the investor who owned her loan.

A Wells Fargo spokesman, Kevin Waetke, said that information had been conveyed “in error” and “the customer has been notified that payment does not need to be made.”

As Ms. Lutz struggled to clarify her agreement with Wells Fargo, she expressed dismay at news of the oversight panel's report, and its finding that not enough help seemed to be on the way.

"It looks to me like Wall Street is too invested in our government," she said. "Big business is winning out over the average person."

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