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## U.S. Will Push Mortgage Firms to Reduce More Loan Payments

By [PETER S. GOODMAN](#)

The Obama administration on Monday plans to announce a campaign to pressure mortgage companies to reduce payments for many more troubled homeowners, as evidence mounts that a \$75 billion taxpayer-financed effort aimed at stemming foreclosures is foundering.

“The banks are not doing a good enough job,” Michael S. Barr, [Treasury](#)’s assistant secretary for financial institutions, said in an interview Friday. “Some of the firms ought to be embarrassed, and they will be.”

Even as lenders have in recent months accelerated the pace at which they are reducing mortgage payments for borrowers, a vast majority of loans modified through the program remain in a trial stage lasting up to five months, and only a tiny fraction have been made permanent.

Mr. Barr said the government would try to use shame as a corrective, publicly naming those institutions that move too slowly to permanently lower mortgage payments. The Treasury Department also will wait until reductions are permanent before paying cash incentives that it promised to mortgage companies that lower loan payments.

“They’re not getting a penny from the federal government until they move forward,” Mr. Barr said.

From its inception early this year, the Obama administration’s program, called Making Home Affordable, has been dogged by persistent questions about whether it could diminish a swelling wave of foreclosures. Some economists argued that the plan was built for last year’s problem — exotic mortgages whose payments increased — and not for the current menace of soaring joblessness. Lawyers who defend homeowners against foreclosure maintained that mortgage companies [collect lucrative fees](#) from long-term delinquency, undercutting their incentive to lower payments to affordable levels.

Last month, an oversight panel created by Congress reported that fewer than 2,000 of the 500,000 [loan modifications](#) then in progress had become permanent under Making Home Affordable. When the Treasury releases new numbers next month, it is expected to report a disappointingly small number of permanent loan modifications, with estimates in the tens of thousands out of the more than 650,000 borrowers now in the program.

More unsatisfactory data is likely to intensify pressures on the Obama administration to mount a more muscular effort to stem foreclosures beyond the Treasury's campaign this week. Populist anger has been fanned by a growing perception that the Treasury has lavished generous bailouts on Wall Street institutions while neglecting ordinary homeowners — this, in the midst of double-digit unemployment, which is daily sending more households into delinquency.

"I've been very frustrated by the pace of the program," said Senator [Jeff Merkley](#), an Oregon Democrat who sits on the Senate Banking Committee. "Very few people have emerged from the trial period."

Though the administration's program was initially proclaimed as a means of sparing three to four million households from foreclosure, "they're going to be lucky if they save one or one-and-a-half million," said Edward Pinto, a consultant to the real estate finance industry who served as chief credit officer to the government-backed mortgage company [Fannie Mae](#) in the late 1980s.

A White House spokeswoman, Jennifer R. Psaki, said the administration would continue to refine the program as needed. "We will not be satisfied until more program participants are transitioning from trial to permanent modifications," she said.

Capitol Hill aides in regular contact with senior Treasury officials say a consensus has emerged inside the department that the program has proved inadequate, necessitating a new approach. But discussions have yet to reach the point of mapping out new options, the aides say.

"People who work on this on a day-to-day basis are vested enough in it that they think there's a need to do a course correction rather than a wholesale rethink," said a Senate Democratic aide, who spoke on the condition he not be named for fear of angering the administration. "But at senior levels, where people are looking at this

and thinking ‘Good God,’ there’s a sense that we need to think about doing something more.”

Mr. Barr, who supervises the program, portrayed such deliberations as part of a constant process of assessment within the Treasury. He expressed confidence that the mortgage program had sufficient tools to deliver relief, characterizing the slow pace as reflecting a lack of follow-through, and not structural defects requiring a revamping.

“We’re seeing a failure by some of the bigger banks on execution,” Mr. Barr said. “We’re going to be quite focused and direct on particular institutions that are not doing a good job.”

The banks say they are making good-faith efforts to comply with the program and provide relief.

“We’ve poured resources into this,” said a spokesman for [JPMorgan Chase](#), Tom Kelly. “We’ve made dramatic improvements, and we continue to try to get better.”

Some senators contend that the Treasury program, addressing mortgages whose low promotional interest rates had soared, is outmoded. At this point, foreclosures are being propelled by joblessness, which is sending millions of previously credit-worthy people with ordinary mortgages into delinquency.

Within the Senate, some discussion now focuses on pursuing legislation that would create a national foreclosure prevention program [modeled on one](#) started last year in Philadelphia. That program forces mortgage companies to submit to court-supervised mediation with delinquent borrowers aimed at striking an equitable resolution before they are allowed to proceed with the sale of foreclosed homes.

Some Democrats say the time has come to reconsider a measure opposed by the Obama administration: giving bankruptcy judges the right to amend mortgages as a means of pressuring lenders to extend reductions.

Lawyers who defend homeowners against foreclosure increasingly say they doubt the Treasury program can be made effective. Under the plan, companies that agree to lower payments for troubled borrowers collect \$1,000 from the government, followed by another \$1,000 a year for up to three years. The program is premised on the idea that a small cash incentive will induce the banks to cut their losses and accept smaller payments.

But the mortgage companies that collect payments from homeowners — servicers, as they are known — generally do not own the loans. Rather, they collect fees from investors that actually own mortgages, and their fees often increase the longer a borrower remains in delinquency.

Under the Treasury program, borrowers who receive loan modifications must make their new payments on a trial basis and then submit new paperwork validating their income to make their modifications permanent.

But borrowers and their lawyers report that much of the required paperwork is being lost in a haze of bureaucratic disorganization. Servicers are abruptly changing fax numbers and mislaying files — the same issues that have plagued the program from its inception.

“People continue to get lost in the phone tree hell,” said Diane E. Thompson, a lawyer with the National Consumer Law Center.

Some lawyers who defend homeowners against foreclosure assert that mortgage companies are merely stalling, using trial loan modifications as an opportunity to extract a few more dollars from borrowers who would otherwise make no payments.

“I don’t think they ever intended to do permanent loan modifications,” said Margery Golant, a Florida lawyer who previously worked for a major mortgage company, [Ocwen Financial](#). “It’s a shell game that they’re playing.”

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