

Renae Merle and Michael S. Barr, *Foreclosure Prevention Program*, The Washington Post, August 6, 2009.

HIGHLIGHT: It has been five months since the Obama administration launched a \$75 billion program to help up to 4 million borrowers save their homes from foreclosure.

It has been five months since the Obama administration launched a \$75 billion program to help up to 4 million borrowers save their homes from foreclosure.

Under the program, known as Making Home Affordable, lenders are eligible for taxpayer-funded subsidies and incentive payments in return for lowering the monthly payments of distressed borrowers.

The administration issued the program's first report card Tuesday, Aug. 4, detailing how many modifications borrowers have received so far. Michael S. Barr, the Treasury Department's assistant secretary for financial institutions, was online Thursday, Aug. 6 at Noon ET with Washington Post reporter Renae Merle, to answer questions about the federal foreclosure prevention effort.

Renae Merle: Hello everyone and thanks for tuning in. We're here to discuss the government's foreclosure prevention program, known as Making Home Affordable. It attempts to lower borrowers mortgage payments to affordable levels through a variety of incentive payments and subsidies to mortgage lenders and servicers. I am here today with Michael Barr, a top Treasury official and one of the architects of the plan. Michael thanks for answering questions today. Now let's get started.

Here is a link to an article I wrote earlier this week on progress on the program.

<http://www.washingtonpost.com/wp-dyn/content/article/2009/08/04/AR2009080401134.html>

washingtonpost.com: Banks Slow to Modify Mortgages

Ashburn, Va.: How do you plan to hold loan servicers accountable in your foreclosure prevention efforts? They currently answer only to "investors" and have become a major obstacle for homeowners to get any relief.

Michael Barr: Loan servicers must sign contracts with Fannie Mae and Freddie Mac as Treasury's agent. These contracts require them to submit data to us on their performance under the program, which we are making public on a monthly basis. No servicer can receive a payment unless the three month trial modification results in a successful full modification, and servicers are paid over time for loans only as long as they continue to perform. Freddie serves as our compliance agent to ensure program rules are followed.

Columbus, Ohio: As someone on the ground working in the loss mitigation process, I am hoping to clarify what this means. My understanding is that up until this point, HAMP was unavailable to FHA borrowers. Starting August 15th, HAMP will now be available to FHA borrowers? Thanks.

Renaë Merle: I will start with this question.

Yes, last week, HUD issued rules to allow homeowners with FHA backed loans to get modifications similar to those offered under the Making Home Affordable program. It is not an exactly the same, though. For example, under Making Home Affordable, a borrower does not have to be delinquent to qualify for a modification. If they are current on their mortgage, but fear falling behind soon (known as imminent default) they can get a modification that lowers their payment. Under the FHA version of the program the borrower must be delinquent.

I can't find the FHA press release on this, but I will find it and post it later.

Renaë Merle: To find out more about foreclosure prevention efforts, here are two useful links.

To Washington Post page on foreclosure prevention efforts:

<http://www.washingtonpost.com/wp-srv/business/foreclosureprevention/>

Also, the government maintains a website for its program:

<http://makinghomeaffordable.gov/>

Ashburn, Va.: What does the administration plan to do for the millions of homeowners that do not qualify under the very narrow parameters set by officials?

Michael Barr: We expect up to 3 to 4 million homeowners will be able to obtain loan modifications under the program, and millions more will be able to refinance their mortgages because of the strong actions the Administration has taken to stabilize mortgage markets and provide more flexibility to refinancing. Modifications and refinancings benefit the whole community by stabilizing home prices for everyone.

Lorton, Va: Hello Renaë,

I am hoping that the lag between this program and the bank start-up is over. I think it is the most essential hold-up to our economy recovering. I also feel as though our administration will take the fall for this if the banks don't get moving.

I feel as though there is not good intent in the banking industry to get this done. The middle class is going to roar back to life if these modifications can be done.

Also, I have not found out how long the modification will run for, and I'm not sure how it plays out in the long run. I only found one paragraph on it on the MHA site.

Thank you. Lisa Harris

Michael Barr: The program has already helped over 200,000 borrowers get trial modifications, but banks need to do more. We have set a goal of 500,000 modifications by November 1, and we expect servicers to improve their performance in the coming months. We will be carefully monitoring their activities and publishing results of their performance.

Irvine, Calif.: My husband and I are both working, we make good money. We have a 7-year ARM that is due next year. Our home has depreciated in value so that our equity is less than 80%. Our credit score is 860 - yet we cannot refinance our home. It was not sold to Fannie Mae/Freddie Mac, but kept at Wells Fargo. We can not make the balloon payment next year and face foreclosure. Our bank told us to miss 3 payments and they would talk with us. We are NOT going to jeopardize our good credit. How is Obama's plan working for us - the working people supporting this country?

Michael Barr: You are right not to jeopardize your good credit. Current borrowers are eligible for the modification program if they face a meaningful hardship or change in circumstances that would put them in jeopardy of being in imminent default.

Liberty, Utah: I've submitted all the required paperwork and am unable to get any attention from BOA. BOA seems to be speculating that they will do better if the home is taken in foreclosure. My income makes this a win-win if they will lower the interest rate a bit. BOA appears to believe lowering the interest rate is not in their interest. I fit within all the wickets but BOA will not work on a modification. Since the program is actually just voluntary for the lender, how do I get them to actually modify the loan?

Renaë Merle: I can't tell from your question whether Bank of America has denied your request for a modification or just has not answered.

If it's a denial, then, yes, perhaps they determined that they would earn more from a foreclosure than from modifying your mortgage.

But if that's not the case, I would suggest that you are just in line behind hundreds of thousands of borrowers asking Bank of America for help. There is no question that lenders have been overwhelmed by the volume of people asking for assistance. My only suggestion would be to contact a nonprofit housing counselor and see if they can speed up the process.

Rockville, Md.: why are our tax dollars bailing out the lenders? They created this crisis by approving loans for anyone with a pulse. I would rather like to see the borrowers getting a break from the government.

Michael Barr: The Making Home Affordable program provides real benefits to homeowners by reducing their payments to affordable levels. The incentives are designed to get servicers and mortgage holders to modify loans and to provide borrowers with success payments that reduce monthly principal owed.

Ashburn, Va.: How does a homeowner get help under the government plans if they have second mortgages, helocs, etc. or if they owe more than 125% of the value of the home?

Michael Barr: Homeowners with high loan to value ratios or second liens ARE eligible for loan modifications if they meet the other program criteria. Call your servicer to discuss your own situation.

Arlington, Va.: Have you seen cases where loans have been modified to reduce the principal?

In my work I see quite a few loan modification agreements, but they all seem to be very minor changes and temporary relief. The borrowers seems to be just putting off the inevitable, and in most cases would be better off not throwing any more money into the same hole.

Michael Barr: Under the Making Home Affordable plan, servicers must modify loans according to set criteria that result in a meaningful reduction in monthly payments to 31 percent debt to income.

Other modification or workout plans outside of the program lack this consistent, affordable approach.

Manassas, Va.: Mr. Barr,

I'm a purchaser of a short sale property here in Virginia. I have waited 122 days for a response from SunTrust bank to accept my offer to purchase a home for appraised price. I do not need any government subsidies or incentives to make this purchase.

SunTrust Bank has received 4.9 billion dollars of TARP money and yet the system is backlogged. Making loans available will do little if they can not be processed, similar to the way a car that gets 100 mpg has little value if the highway is blocked.

Can the Treasury make demands of TARP-funded banks to create a more streamlined banking operation, so that mortgages may be processed faster for the large number of short sale properties?

James Manassas, Va.

Michael Barr: We agree that there are real problems in the short sale market and will be announcing Treasury guidelines and incentives soon to help address these barriers.

HUD News Release

Rena Merle: Here is a link to the HUD press release announcing that they would soon allow modifications of FHA backed loans similar to the ones offered under Making Home Affordable. I suspect that it will take a while for lenders to get up and running on this part of the program.

Centennial, Colo.: I just want to speak to the process. My husband lost his job at the end of February and we have been trying to modify the loan since early June. After requiring us to apply for refinancing (despite the fact we knew we didn't qualify due to our family's job circumstances) and taking 30+ days to process that application, they finally sent us another application to fill out (we had been reassured at one point that we had already submitted everything for the process). I've been told it could take another 4-6 weeks plus just to process this information (we have sent all of this information to the company before, just not the Freddie Mac form). We are burning through my husband's severance, the money which would allow us to stay in our home if we can just get it adjusted quickly enough. I own my own business and am working diligently and my husband is pulling together freelance jobs and two part-time jobs just to try and make this work. I am frustrated because we can get approved for a mortgage online in

a matter of minutes, but this may take us a half a year just to modify our loan so we can be responsible and make payments and stay in our home.

Renaë Merle: Just posting this comment. I hear from homeowners with these types of stories all the time. Like I said before, the loan modification process has been slow in part because of the overwhelming volume of people in need of help. But more to your point, lenders are also requiring lots of documentation before approving a modification. Homeowners should be aware that they will need to provide tax returns, pay stubs, bank statements etc.

Michael Barr: We recognize that many servicers need to ramp up their efforts to reach borrowers more quickly and more respectfully. Borrowers working hard to get their documentation in order should not have to wait for long periods of time, particularly while they are under such severe financial distress. We called servicers to Washington at the end of July to discuss these problems. We have released a public report of their performance. And we will be holding them to higher standards going forward.

Upper Marlboro, Md.: My question is what can be done when I am six months behind on mortgage payments due to a family medical hardship and my private investor (Wells Fargo) may only reduce my interest rate, but not the length of the loan. The private investor won't even do a workout for me, nor will they add the arrearage to the back end of the loan either. What can be done about private investors who just won't budge when it comes to assisting homeowners?

Michael Barr: Participants in our program must follow clear program rules. For assistance, you can go to the hotline, 888-995-HOPE.

Centennial, Colo.: As someone who is attempting to participate in this program, I would like to know why we will be reported as delinquent to our credit agency during the trial period even though we've made every payment on time to date and we would be making our payments on time during the trial period? My husband and I are trying to do the right thing by getting ahead of the curve and being responsible.

Renaë Merle: I am interested in this phenomenon too. I have heard from a few borrowers now complaining that they risked dinging their credit rating by applying for a modification. I am under the impression that lenders have some flexibility in this, so I am not sure what the thinking is.

Ashburn, Va.: With only 9% of qualified loans being modified, what percentage has the Treasury Department set as a minimum target? What will you do to the banks that fail to meet this target?

Michael Barr: We have told the servicers that they must ramp up their performance, and have set a target of 500,000 modifications by November 1. We're on track to see 3 to 4 million modifications completed under the program.

Lorton, Va.: Are the modifications in this report strictly MHAffordable type modifications or does it include the modifications the banks come up with themselves?

I believe there will be a huge difference between the failure rates and I wanted to make sure it's differentiated.

Michael Barr: Our report ONLY includes MHAffordable modifications. It does not include any other modifications, which as you correctly point out, might have quite different performance and may not help borrowers in the same way.

Renaë Merle: That is a point that Wells Fargo made to me. While some lenders performance on Making Home Affordable modification may not be stellar, they are pursuing other types of modifications as well that are not being tracked.

Generally, modifications work best when they lower a borrower's payments significantly. It also helps if the lender forgives some of the principal owed.

Upper Marlboro, Md.: If I'm \$250,000 underwater, what program of a loan modification can I really do right now to lower my monthly payments and principal balance? What company can we go to? Because dealing with the lender directly is a serious lost cause.

Renaë Merle: \$250,000!!!! Geez, I am going to guess you live in California, Arizona, Nevada, or Florida. The administration is working to revamp Hope for Homeowners, which attempts to restore equity to borrowers underwater on their mortgage. The program has struggled since being launched last year. (That is an understatement.) But the Department of Housing and Urban Development is supposed to be coming out with new rules soon.

To your question, have you tried a nonprofit housing counselor? Not many lenders have been willing to do principal forgiveness, especially of that magnitude. Good luck.

I am going to post a link to a story I wrote recently on the Hope for Homeowners program.

washingtonpost.com: Face-Lift for Foreclosure Prevention

Renaë Merle: Here is that story on Hope for Homeowners.

Diamond Bar, Calif.: Having spent nearly three decades in the financial services industry and working at or with approximately 1,000 financial institutions, I can unequivocally attest that the industry does NOT have any genuine interests in helping people unless there is an all but certain guarantee of profit. In fact, I left the industry after growing weary of trying to convince members of senior management that compliance with the law was not an option.

While I realize members of the administration may not have comparable experience, I must ask why the administration continues to deal with lenders and servicers as if they have ANY interest in assisting homeowners absent absolute assurances of profit?

Homeowners need guarantees of assistance, not the mere prospect of it such as they would receive at the "Making Home Affordable" website.

Walter Hackett

washingtonpost.com: Making Home Affordable

Michael Barr: Under the MHA program, incentives make it financial worthwhile for servicers, investors and borrowers to participate in the program and get modifications done.

New York: Any thoughts on the article a few days ago that states BofA/Countrywide has give about 4% of people looking for modifications any help? Countrywide was one of the worst offenders, clearly many of their people need help, and to only help 4% is beyond insane.

Michael Barr: We are publishing monthly servicer specific data precisely so that we and the public can evaluate the performance of servicers under the program. In our judgment, servicers can do more to reach borrowers quickly. Under the program, MHA trial modifications have helped more than 200,000 borrowers thus far. We have set a goal of reaching 500,000 borrowers by November 1, and up to 3 to 4 million borrowers during the program overall.

Dayton, Ohio: Investors/Servicers aren't open to principal write downs on mortgage balances. What is being down to help homeowners to get write downs, based upon 20% of homeowners are underwater? Dewberry in Dayton

Renae Merle: Again, Hope for Homeowners may be the best alternative for these types of homeowners. (I mentioned that program in a previous post.) This is a growing problem as home prices continue to fall. Some data has shown that prices have started to stabilize in some part of the country, but the economists I talk to say they could still fall another 5 percent to 10 percent by the middle of next year.

Arlington, Va.: Forgive me if I sound heartless, but a lot of these people should have known they would not have been able to afford the houses they purchased. Furthermore, the overall price of housing has become ridiculous, especially in the D.C. area. My generation (20's and 30's) will never be able to afford a SFH anywhere close to the city unless there is major price correction. I do not support my tax dollars being used to help people who bit off more than they could chew.

Michael Barr: Many families being helped under the program saw massive home price declines through no fault of their own or were sold loans with hidden, costly features. Helping homeowners stay in their homes and avoiding foreclosure benefits the whole community by stabilizing house prices for everyone and will help restore healthy mortgage markets on which all of us depend. This is good for every American family.

Derwood, Md.: Hi I am a home owner and my loan is not backed by Fannie Mae or Freddie Mac and I am in the same situation as others that needed to lower my rate and modify my loan as the home value dropped. I am sure there are hundred of thousands like me, why we do not qualify for the Make Home Affordable program? And if there is one for us, which is that?

Thanks.

Renae Merle: Here is a good opportunity to explain that there are actually two programs under Making Home Affordable. There is a refinancing program for borrowers current on their mortgage but because home values have fallen have little or no equity in their home. Under that program, the homeowner must have a loan backed by Fannie Mae or Freddie Mac. There is a

separate program for distressed borrowers that lowers their payments through a loan modification. Your loan does not have to be backed by Fannie Mae or Freddie Mac to qualify for that program. So here is the question for you, do you need a modification of your loan or just want to refinance?

Ann Arbor, Mich.: Renae- thanks. Can the administration change the metric to focus on the success rate of loan workouts instead of the number being done? I'm trying to get a modification from BOA, and based on their dismal showing earlier this week ,would this metric be a more powerful way to hold BOA accountable?

Michael Barr: Once we have data on performance of trial modifications, we will make that data available. To date, we have seen successful starts of more than 200,000 trial modifications.

Diamond Bar, Calif.: Why should lenders or servicers be permitted to keep money sent by homeowners without being required to actually offer a permanent loan modification?

Michael Barr: Lenders and servicers are NOT paid unless a trial modification is made permanent, and only receive ongoing payments if the loan stays current.

Hyattsville, Md.: Why won't the Administration make a stronger push to get Congress to pass a bill that will allow bankruptcy judges to modify troubled mortgages? It seems to me that if the Administration were really serious about helping distressed homeowners they would pressure those in Congress to pass this legislation which would put more pressure on the banking/mortgage industry to modify loans in an effort to help more homeowners and avoid cramdowns.

Renae Merle: What you are talking about here is "cramdown." It is a provision that would allow bankruptcy judges to modify the terms of troubled mortgages, lower the interest rate or the principal balance owed. It is a provision greatly disliked (hated) by the banking industry which lobbied (fought tooth and nail) to kill earlier this year. The measure died a painful death in the Senate.

BUT I have heard rumblings from some in Congress (Rep. Frank and Sen. Dodd) over the last few weeks that the measure could be revived if the foreclosure crisis gets much worse. Otherwise, stay tuned. Cramdown could be back on the table soon.

Kansas City, Mo.: Why have the banks not helped people with PMI even if they qualify for the Obama plan? Mine is with Wells Fargo and Freddie Mac owns the mortgage. I keep being told that they are not dealing with people that have PMI. Why?

Michael Barr: Loans with private mortgage insurance is eligible under the program.

Washington, D.C.: I have been working with a non-profit to submit my application to CitiMortgage for a loan restructuring. If approved, it would greatly benefit me as the non-profit would not charge closing fees.

However, the non-profit is terribly slow. I'm worried that if CitiMortgage does not accept the restructuring, then I will be forced to go with the Home Affordable program in a month or two when interest rates may have gone up.

I can't refi any other way as my home is worth essentially what I paid for it. I have a 5/1 interest-only ARM which resets in 2 years.

Any advice on what I should do?

Renae Merle: I think that you are mixing up two different programs here. If you are refinancing your loan, I am not sure why you would go through a nonprofit, so I am going to assume you have applied for a loan modification.

In that case, the loan modification process is slow. That's just how it works. Also, the loan is (or should be) modified to an interest that is affordable to you, so what current market rates are doing, shouldn't impact the process.

Lorton, Va.: I'm confused about whether the banks are required to modify under MHA or if they are doing it for incentives.

Will or can they be fined if deadlines are not met?

What contract did they sign?

Renae Merle: Unfortunately, Michael Barr just had to log off. He was summoned to some sort of senior staff meeting.

In his absence I will take a crack at this question.

Both. If lenders sign a contract with Treasury, they are required to implement the program. They sign the contract because of the money involved. The administration has said they expect to spend \$75 BILLION on loan modification efforts. That's a lot of incentive money.

Dayton, Ohio: Let's be honest in this discussion. We didn't get here overnight, we won't solve this overnight either. The industry nor the servicers have the capacity to handle this, nor the counselors. There is a real capacity issue here. It's going to get worse before getting better and there will be homeowners that will not be able to get help some enough or because of there situation. This program is not a cure all nor can private investors be made to comply if they aren't in the program...Just the facts!!!

Renae Merle: Agreed.

Even President Obama has acknowledged this program can't help everyone. The question is whether it can help enough people to allow the housing market to heal.

Bay Area, Calif.: You've had several questions from folks like me. I can make the payments on my loan, even when it adjusts next year, but my home value is now 40% below what I bought it at, and 25% below my loan balance. It's not a Fannie or Freddie loan, so the lender is just telling me to keep paying. All the market loss is on me. There is no help for me out there, right?

Renae Merle: Yup.

Until Hope for Homeowners gets up and running or your lender decides to eat the loss. The only reason they would do that is to encourage you stay in your home and not walk away.

Rockville, Md.: If a servicer hasn't officially signed a contract (according to home affordability website), are they still obligated to make loan modifications? Mine is One West Bank (formerly Indymac) and I have been waiting for 3 months.

Renae Merle: First, if they have not signed the contract, then no your lender is not obliged to give you a loan modification. But IndyMac has a pretty extensive loan modification of its own. You should be able to work out a deal with them. I will post a link to a story I wrote about them in a second.

Renae Merle: We're almost out of time here and I would like to thank everyone for tuning in before answering a few last questions. Also, please drop me an email at merler@washpost.com if you have any more questions. I can't promise a quick turnaround, but I will get back to you. I like hearing on the ground reports from homeowners, so keep me informed.

Ashburn, Va.: When lenders and servicers tell homeowners they don't qualify or they can't help when in fact they should qualify according to these plans, what recourse does a homeowner have? How do you plan to keep the banks honest?

Renae Merle: Freddie Mac is going to be providing oversight into this program. You should go to them with any concerns. I don't have a number you can call, but I have heard a lot about the need for an appeals process. I would say don't take no for an answer if you think you have been unfairly denied a modification. I wrote about a woman earlier this week who was incorrectly sent a denial letter. When I brought it to her lender's attention, they quickly admitted the mistake and determined she did qualify for a modification.

washingtonpost.com: U.S. Reworking IndyMac Mortgages By the Thousands

Renae Merle: Here is that story for the borrower with an IndyMac loan. They are in many ways the model for the government's current loan modification program so let me know how it turns out. merler@washpost.com

Bay Area, Calif.: H4H requires that I am "not able to pay my existing mortgage without help." So, as you said, I'm just SOL.

Renae Merle: Yup. Sorry.

Kansas City, Kans.: I have been told that the MHA program cannot offer me a modification since I lost my job 6 months ago. I have no savings left to continue paying my mortgage. Can Mr. Barr suggest something for me?

Renae Merle: Ok, this will be last question since I am already over my allotted time period.

I am hearing from lenders more and more that when they can't offer a modification, they will suggest a short sale. Under that scenario, you sell the home for less than it's worth. The downside, you walk away from the sale with nothing and potentially a bill if you have a second lien holder. The upside, a short sale is a more controlled transaction than a foreclosure. It also keeps a foreclosure off your credit report, though I get conflicting reports about its impact on your credit score.

Drop me an email. I would like to hear more about your case.
