

The Miami Herald

Posted on Fri, Jan. 29, 2010

Home-loan aid altered

Miami Herald Staff and Wire Reports

Facing mounting criticism about the effectiveness of the government's foreclosure prevention efforts, the Obama administration announced Thursday that it will tighten the documentation requirements for borrowers applying for its marquee mortgage relief program.

Starting June 1, borrowers must prove they qualify for the mortgage help upfront, providing two pay stubs and other paperwork, before their payments can be lowered.

The change attempts to prevent a repeat of the current backlog of borrowers who received mortgage relief after a phone conversation with their lender but didn't satisfy the government's documentation requirements within three months.

More than 300,000 borrowers were at risk of losing their aid under the Making Home Affordable program by the end of January because they had not submitted required paperwork. But lenders were given new flexibility Thursday to make these loan modifications permanent despite the lack of documentation, Treasury officials said.

“Increasing the number of borrowers receiving permanent modifications under [the government program] is critical to our efforts to preserve affordable and sustainable homeownership,” William Apgar, a senior advisor for the Department of Housing and Urban Development, said in a statement.

While lenders blamed borrowers for not submitting their documentation on time, homeowners and housing counselors have complained that banks often lost the paperwork. In some cases, lenders have been slow to complete the loan modification even after the borrower met all the requirements, they have said. Government officials said the new paperwork requirements will be easier to understand and less onerous for borrowers.

Some people working in the trenches in South Florida to prevent foreclosures said the program changes don't remove the key obstacles to stemming the tide of foreclosures. With so many homes worth less than the mortgages outstanding on them, experts said, banks need to reduce the loan principals, because lowering interest rates and stretching out the time frame for repayment isn't enough.

“People need meaningful principal reduction,” said Roy D. Oppenheim, a senior partner at Oppenheim Law in Weston, who does foreclosure defense work.

Dennis A. Donet, a Miami-based foreclosure defense attorney, said the government program should adopt an electronic filing system instead of allowing the current situation, in which most lenders require borrowers to fax their documentation, which is then frequently misplaced. “There should be a way to upload documents electronically so the borrower gets

a confirmation," Donet said.

The government program has helped lower the mortgage payments of more than 850,000 borrowers by more than \$500 a month since it was launched in March.

But it got off to a slow start and only about 66,000 borrowers had moved all the way through the program and received permanent loan modifications by December, according to Treasury data.

About a quarter of the borrowers in the program are delinquent on their new lower payments, and thousands have been dropped from the program because they didn't make their payments or lenders learned they didn't qualify after all.

And economists and housing experts have been critical of the program's scope, complaining it does not do enough for unemployed workers and should include a reduction of principal for borrowers who owe significantly more than their home is worth.

The administration's changes to the program come as new data show the foreclosure problem is worsening. Freddie Mac said the delinquency rate for the single-family mortgages it backs has more than doubled to 3.87 percent in December, compared with the same period last year.

The mortgage financing company announced a pilot program Thursday to attempt to reach delinquent borrowers who have not been in contact with their lender. Borrowers will be invited to face-to-face meetings with housing counselors working with the mortgage financing company, avoiding the frustrating experiences of some homeowners who spend hours on hold with their lender when looking for help.

Miami Herald business writer Martha Brannigan contributed to this report, which was supplemented with material from the Washington Post Service.

© 2010 Miami Herald Media Company. All Rights Reserved.
<http://www.miamiherald.com>