



Housing relief plan won't help all at risk

Guidelines, due March 4, will help decide who gets help — and who doesn't

By John W. Schoen

Senior producer

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The Obama administration's sweeping plan to stop foreclosures is expected to help millions of Americans save their homes from the sheriff's auction. But as the broad outlines of the plan sift through the lending system, it's already clear that millions more won't be helped.

With as many as 10 million households expected to face foreclosure in the next four years — more if the job market continues to deteriorate — the scope of the problem is just too big for the measures announced so far.

That means that not all of those who are eligible for help will get it.

Despite the government's pledge to standardize the process, the decision to modify a loan to make it more affordable still rests with individual lenders, loan servicers and investors. That means that two homeowners in comparable situations dealing with different servicers may get two different outcomes.

"There's \$75 billion targeted for this program, and there is a much bigger hole than \$75 billion," said David Resler of Nomura Securities International. "So who do you pick?"

The \$75 billion plan is intended to slow foreclosures by offering a package of financial incentives to prod lenders and mortgage servicers to modify more loans. Another \$200 billion will be spent to provide more capital to mortgage giants Fannie Mae and Freddie, and raise by \$50 billion the limit on how many loans those agencies can acquire.

Banks and mortgage servicers are already gearing up for the expected flood of calls from millions of desperate homeowners. Until the details of the plan are finalized March 4, it's too soon to know exactly who — and how many — will benefit from the plan.

But officials in charge of the plan acknowledge it isn't big enough to help everyone facing the prospect of foreclosure. The plan's funding, in fact, represents only about 8 percent of the expected \$1 trillion in residential mortgage losses, according to projections by Goldman Sachs. (That figure doesn't include losses on mortgages owned or sold by government mortgage giants Fannie Mae and Freddie Mac.)

While the program is widely seen as an improvement on the lending industry's voluntary efforts to date, it's far from clear how many of the 9 million homeowners the plan is targeting will get help. Much depends on how private lenders, loan servicers and investors who hold mortgages respond. To date, the logjam in modifying loans has centered on the loan servicers hired to collect payments from homeowners and dole them out to investors.

Servicers who modify loans say they risk getting sued by investors, who may claim the changes in terms cost them money. The Obama final plan did not include earlier proposals to offer servicers legal protection from those lawsuits.

Critical plan details — including the government's standard guidelines for modifying a loan — have yet to be worked out. Those guidelines are intended to speed the glacial pace of negotiations created by legal complications that ensued when hundreds of loans were bundled together in a pool and sold to thousands of investors.

"Right now we're caught between the borrower and the investors," said Jeannine Bruin, a spokeswoman for ResCap, a GMAC unit that servicers roughly 2.8 million home mortgages. "We're just waiting for further specifics on those guidelines."

In the meantime, banks and loan servicers like ResCap, which is already making 5 million outbound calls a month to homeowners, are bracing for a heavy volume of incoming calls sparked by the announcement of the foreclosure relief effort.

"Fortunately, even before the plan came out we had started hiring and increased our lending and servicing staff by 40 percent," said Bruin. "Now we need to anticipate what kind of calls are going to come in. How do we route the calls? What's the most efficient way to handle the volume? What kind of materials will callers have received? Should we be

more proactive in terms of contacting them?"

Officials in charge of the program acknowledge that, while the plan is expected to help millions, an unknown number of those callers won't get helped. And it may take months for them to learn the final decision.

"We're going to see that as we go through this process, that some of these houses are empty, and they're going to be foreclosed on," said James Lockhart, director of the Federal Financing Housing Agency, which oversees Fannie Mae and Freddie Mac. "But to the extent we can save a homeowner, we can help save their neighborhood and their community."

The administration is hoping to help two major groups of homeowners who are at risk of losing their homes. The first are those whose income isn't big enough to keep up with their monthly payment. Some were tricked into signing loans that 'reset' to unaffordable payments; some were approved for a loan that consumed more than half their monthly income; some lied about their income on the loan application; and others have lost their job since taking on the loan.

Some of these borrowers will be helped by government payments to lenders aimed at reducing the borrower's monthly payment to 38 percent of their income through various means, including stretching out the term of the loan to 40 years or reducing the interest rate. The government will then further reduce the monthly payment to 31 percent of a borrower's monthly income.

But many homeowners won't qualify. For starters, they'll have to show that 31 percent of their income will cover a monthly payment for the full principal amount at 5.1 percent interest. Those who were too overextended to begin with, or who have lost their jobs, won't be able to sustain the lower payment and won't be eligible.

The plan also only applies to owner-occupied homes. Those who may have rented out their house because they can't afford the mortgage will be considered "investors," none of whom will be eligible.

Mortgage modifications made under the plan expire in five years. The hope is that the housing market and borrower incomes will have recovered by then. If not, the payment reverts to the higher, unaffordable level.

"Having these modifications unwind after five years might spur the problem down the road, having it reappear just as the housing market and economy are beginning to recover," said John Taylor president of the National Community Reinvestment Coalition.

A second, and growing, group of borrowers now owe more on their mortgage than their house is worth. Roughly one in five homeowners with mortgages are in this category.

Many have tried refinancing to a lower rate, but lenders currently won't loan more than 80 percent of a home's value. The Obama plan would raise that limit to 105 percent of the current market value on loans held or sold by Fannie Mae and Freddie Mac.

That will help homeowners who are "mildly" underwater, but not those who owe 105 percent or more of their home's value. The offer is being extended only to loans held or sold to investors by Freddie Mac and Fannie Mae. The majority of the most troubled loans were funded and sold to investors by Wall Street banks and other large lenders, who aren't required to adopt the new maximum loan-to-value ratio.

For homeowners who are more deeply underwater, the holder of the mortgage would have to agree to cut the principal amount back to 105 percent of the home's value. About three-quarters of homeowners underwater owe more than 10 percent over what their house is worth, according to Goldman Sachs.

So far, lenders have reacted coolly to cutting principal; there's little in the plan to warm them up to the idea.

"I would expect that term extension, rate reduction will continue to be the primary tools used to lower the monthly payment, just because it has the biggest bang for the buck," Michael Heid, co-president of Wells Fargo Home Mortgage, told CNBC.

Homeowners who do convince their lender to forgive part of their principal face another hurdle in a falling real estate market, according to Resler.

"It might get them from under water to above water for now," he said "but how much of a percentage decline from here would it be to put them back into the current situation?"

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