For many, mortgage relief is mired in red tape

by Emmet Pierce

Homeowners desperately trying to save their dwellings from foreclosure in the subprime lending crisis say they are being led to a series of wrong turns, dead ends and blind alleys as they seek relief from lenders.

CONDO PRICES - Alex Rodriguez of Chula Vista, Calif., saw his condo payment jump from $2,000 to $2,672, well beyond what he and his family can afford. CNS Photo by Earnie Grafton. "Sometimes it takes 45 minutes to an hour just to get to the right person" on the phone, said Adeline Enriquez of the nonprofit Community HousingWorks.

Enriquez's job is to help financially strapped homeowners sort through the red tape of easing adjustable-rate loan payments that are ratcheting up.

"You have to be very persistent and call again," she said. "They put on the music. They disconnect the phone call. I mean it is a mess."

As defaults soar, President George W. Bush and California Gov. Arnold Schwarzenegger are calling on lenders to put loan modifications on a fast track. Although lenders say they are trying to keep up with the growing pleas for assistance, changing the terms of a mortgage remains a frustrating and confusing process.

"The governor and the president are putting out information, but that definitely hasn't trickled down to ground zero," said Ed Smith Jr., vice president of governmental affairs and industry relations for the California Association of Mortgage Brokers. "The feedback we get is (borrowers) go through the voice-mail rigmarole. The first person they talk to generally isn't someone who is in a position to make a decision. The customers get put into voice-mail hell."

Subprime borrowers have been hardest hit by the current credit crunch. Nationwide, nearly 2 million adjustable-rate subprime mortgages will reset from low introductory rates to much higher rates through 2008.

John M. Robbins, immediate past chairman of the Mortgage Bankers Association, said subprime borrowers who were the victims of predatory lending deserve help from the industry.

"Some of that went on without question," Robbins said.

Recently, the Federal Reserve proposed regulations to eliminate deceptive lending practices, but the new rules won't help hundreds of thousands of people who already are going into default. Some will see their monthly payments rise as much as 30 percent.

The situation for homeowners entering the foreclosure process may have eased temporarily in November, according to recent data, but analysts say the respite is likely to be short-lived. Amid growing political pressure, loan servicers have increased efforts to modify mortgages, DataQuick analyst John Karevoll said in explaining the November decline.

Karevoll expects defaults to "snap back up" in the year ahead. That's because home prices still are declining and a growing number of borrowers are finding themselves owing more than their homes are worth.

Although mortgage servicing companies are making progress on modifying loans, they will fall short of what will be needed in the year ahead, Moody's Investors Service reported in December.

Through August, servicers increased modifications to loans whose payments were scheduled to rise to 3.5 percent. That compares with 1 percent in an earlier survey that covered mortgages through July.

"Things seem to be getting better, but not significantly so," said Kevin Stein, associate director California Reinvestment Coalition.

A FASTER PACE

The loan initiative endorsed by the White House reflects a growing effort by lenders to rework loans, said Michael Gross, managing director for loan administration for Countrywide Financial Corp., the largest U.S. mortgage lender. "We are being very proactive in reaching out to borrowers who we believe are most at risk," Gross said.

Modifying loans is cheaper than foreclosing and trying to sell homes during a housing slump, Gross said. At Countrywide, modifications are accelerating.

"In November of 2006 we completed approximately 800 loan modifications," he said. "In November of 2007 we completed approximately 8,500."

In part, the Bush plan calls for freezing mortgage rates on subprime adjustables for five years for people who are likely to fall behind when interest rates rise.

Exactly how many households will benefit remains the subject of debate. The White House says 1.2 million homeowners could be eligible for either a fast track to refinancing or a fast-track loan modification. Final numbers will depend on economic conditions, housing prices and decisions made by borrowers and loan servicers, said Tom Deutsch, deputy executive director of the American Securitization Forum.

Roughly 600,000 households are likely to have their loans refinanced, while a large portion of a remaining 600,000 "will likely be eligible for an interest rate freeze," said Deutsch, whose agency developed the plan.

Paul Leonard, California director of the Center for Responsible Lending, said those predictions are much too optimistic. He estimates that only 145,000 households will benefit from fast-track rate freezes.

WHERE'S THE STICK?

Because the loan modification initiatives are voluntary, critics say there is no way to determine how effective they will be.

"There is no stick in the plan," said Mark Zandi, chief economist for Moody's Economy.com. "There is a significant number of investors who would rather see homeowners default and go into foreclosure."

In Chula Vista, Calif., Community HousingWorks client Alex Rodriguez needs to modify the terms of his adjustable-rate mortgage before he loses the condominium he shares with his wife and two children. His payments recently jumped from $2,000 to $2,672, well beyond what the family can afford.

Rodriguez sought help from Enriquez's agency after failing to negotiate new terms on his own.

"How do I try to save this property if they won't work with me?" Rodriguez said. "No one can refinance me because there is hardly any equity. All the doors are closed."

To make ends meet, Rodriguez, 35, holds two jobs. After eight hours in the shipping department of a pharmaceutical company, he works six to seven hours on a loading dock.

"It doesn't seem like the effort is paying off," he said.

Rodriguez, like many subprime borrowers, also must worry about a prepayment penalty. Such penalties can equal six months of mortgage payments, Enriquez said.

This fall, Stein's group reported that few loan modification requests have been granted in California. The reinvestment coalition surveyed 33 of the state's more than 80 mortgage counseling agencies. Fifty-seven percent of those surveyed reported foreclosure and 33 percent reported short sale as the most common outcomes for borrowers who can't make payments.

In short sales, lenders agree to accept less than they are owed so borrowers with declining home values can sell and avoid foreclosure. It often takes so long for lender approval that such sales fall through, said John Puhek, a broker and owner of a real estate and mortgage company in San Marcos, Calif.

If lenders have been slow to react to the lending crisis, it's because they weren't prepared for the surge in foreclosures that began this year, said Dustin Hobbs, spokesman for the California Mortgage Bankers Association. "They have had to up their productivity and staffing levels in a hurry."

Another reason for delays is that loans that were bundled into securities and sold to Wall Street investors can be difficult to untangle. A loss-mitigation officer may have to win modification approvals from Europe or Asia.

Gabe del Rio, homeownership director at Community HousingWorks, said access to modifications is improving gradually. Some lenders "are being aggressive with loan modifications," he said. "Certainly people are stepping up to the plate."

Borrowers should never assume that getting out of a bad loan will be easy, del Rio said. In the end, it's up to them and their counselors to convince lenders that a modification is appropriate.

"Contact your lender and expect it to be hard," del Rio said. "Get your paperwork together. Stick with it. Don't give up."