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## Borrowers exit troubled Obama mortgage program

Borrowers face foreclosure after Obama loan assistance program fails to provide help

 Associated Press

Companies: Bank of America Corporation Citigroup, Inc. Federal National Mortgage Association

Alan Zibel, AP Real Estate Writer, On Monday June 21, 2010, 8:09 pm EDT

WASHINGTON (AP) – The Obama administration's flagship effort to help people in danger of losing their homes is falling flat.

More than a third of the 1.24 million borrowers who have enrolled in the \$75 billion mortgage modification program have dropped out. That exceeds the number of people who have managed to have their loan payments reduced to help them keep their homes.

Last month alone, 155,000 borrowers left the program – bringing the total to 436,000 who have dropped out since it began in March 2009.

About 340,000 homeowners have received permanent loan modifications and are making payments on time.

Administration officials say the housing market is significantly better than when President Barack Obama entered office. They say those who were rejected from the program will get help in other ways.

But analysts expect the majority will still wind up in foreclosure and that could slow the broader economic recovery.

A major reason so many have fallen out of the program is the Obama administration initially pressured banks to sign up borrowers without insisting first on proof of their income. When banks later moved to collect the information, many troubled homeowners were disqualified or dropped out.

Many borrowers complained that the banks lost their documents. The industry said borrowers weren't sending back the necessary paperwork.

Carlos Woods, a 48-year-old power plant worker in Queens, N.Y., made nine payments during a trial phase but was kicked out of the program after Bank of America said he missed a \$1,600 payment afterward. His lawyer said they can prove he made the payment.

Such mistakes happen "more frequently than not, unfortunately," said his lawyer, Sumani Lanka. "I think a lot of it is incompetence."

A spokesman for Bank of America declined to comment on Woods's case.

Treasury officials now require banks to collect two recent pay stubs at the start of the process. Borrowers have to give the Internal Revenue Service permission to provide their most recent tax returns to lenders.

Requiring homeowners to provide documentation of income has turned people away from enrolling in the program. Around 30,000 homeowners started the program in May. That's a sharp turnaround from last summer when more than 100,000 borrowers signed up each month.

As more people leave the program, a new wave of foreclosures could occur. If that happens, it could weaken the housing market and hold back the broader economic recovery.

Even after their loans are modified, many borrowers are simply stuck with too much debt -- from car loans to home equity loans to credit cards.

"The majority of these modifications aren't going to be successful," said Wayne Yamano, vice president of John Burns Real Estate Consulting, a research firm in Irvine, Calif. "Even after the permanent modification, you're still looking at a very high debt burden."

So far nearly 6,400 borrowers have dropped out after the loan modification was made permanent. Most of those borrowers likely defaulted on their modified loans, but a handful either refinanced or sold their homes.

Credit ratings agency Fitch Ratings projects that about two-thirds of borrowers with permanent modifications under the Obama plan will default again within a year after getting their loans modified.

Obama administration officials contend that borrowers are still getting help -- even if they fail to qualify. The administration published statistics showing that nearly half of borrowers who fell out of the program as of April received an alternative loan modification from their lender. About 7 percent fell into foreclosure.

Another option is a short sale -- one in which banks agree to let borrowers sell their homes for less than they owe on their mortgage.

A short sale results in a less severe hit to a borrower's credit score, and is better for communities because homes are less likely to be vandalized or fall into disrepair. To encourage more of those sales, the Obama administration is giving \$3,000 for moving expenses to homeowners who complete such a sale or agree to turn over the deed of the property to the lender.

Administration officials said their work on several fronts has helped stabilize the housing market. Besides the foreclosure-prevention plan, they cited government efforts to provide money for home loans, push down mortgage rates and provide a federal tax credit for buyers.

"There's no question that today's housing market is in significantly better shape than anyone predicted 18 months ago," said Shaun Donovan, President Barack Obama's housing secretary.

The mortgage modification plan was announced with great fanfare a month after Obama took office.

It is designed to lower borrowers' monthly payments -- reducing their mortgage rates to as low as 2 percent for five years and extending loan terms to as long as 40 years. Borrowers who complete the program are saving a median of \$514 a month. Mortgage companies get taxpayer incentives to reduce borrowers' monthly payments.

Consumer advocates had high hopes for Obama's program when it began. But they have since grown disenchanted.

"The foreclosure-prevention program has had minimal impact," said John Taylor, chief executive of the National

**Community Reinvestment Coalition, a consumer group. "It's sad that they didn't put the same amount of resources into helping families avoid foreclosure as they did helping banks."**

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