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HOUSING

Help (Still) Wanted: Banks go slow on fixing bad home loans

A protest in Manhattan in May against banks whom advocates say are refusing to modify mortgages for distressed homeowners. Photo: Marc Fader

New York neighborhoods have been struggling with the aftereffects of the subprime- and exotic-mortgage boondoggle for the better part of three years now. Despite a surfeit of government programs intended to cajole banks into helping homeowners climb out from under, most New Yorkers who are behind on their mortgages are not getting the help they seek.

And those who are getting help might be better off without it. Foreclosure prevention counselors who work closely with distressed homeowners are raising serious questions about the quality of what few loan modifications are being made. As hard as it might be to believe, modification might be making some home loans even worse.

The federal government launched the Home Affordable Mortgage Program (HAMP) in March 2009 to encourage the banks that service mortgages to help homeowners avoid foreclosures by rewriting the terms of unaffordable loans, whether by lowering interest rates, extending repayment periods or lowering mortgage principal. The program, initially budgeted at $75 billion, pays banks for each mortgage they modify.

Nationwide, 1.7 million people are eligible for the program, but only 295,348—a mere 17 percent—have had permanent changes made to their loan terms, according to the most recent monthly data collected by the U.S. Treasury, which administers the program. Treasury officials says HAMP is improving because the servicers are being goaded to be more responsive. "Our focus now is on improving the homeowner experience and holding servicers accountable for their performance," Phyllis Caldwell, chief of Treasury's Homeownership Preservation Office, said in a statement.

With help from foreclosure prevention counselors across the city, 2,987 New Yorkers applied for permanent loan modifications in the past two years. Only 428 got them, according to figures collected by the Center for New York City Neighborhoods, a nonprofit that coordinates a citywide network of dozens of housing counselors and legal providers.

Far more common than modifications that actually make mortgages affordable are endless delays and obfuscation from banks, several housing counselors told *City Limits*. In May, the Urban Justice Center (a nonprofit advocacy organization) sued JPMorgan Chase for allegedly flouting HAMP guidelines and refusing to make permanent modifications to the mortgages of three Queens homeowners. Later in the month, a coalition of advocates and distressed homeowners including the Neighborhood Economic Development Advocacy Project, a longtime watchdog of bank lending in low-income areas, disrupted Chase's shareholder meeting, protesting the bank's intransigence toward homeowners.

Housing counselors say they are put on hold for hours when they call lenders and that borrowers fax applications to banks over and over again, only to be told they were lost.

"I swear, someday 10 years from now, someone is going to open a closet and be killed by a pile of lost faxes," says Jennifer Murphy, lender servicer relations director at the Center for New York City Neighborhoods. When a state banking department official recently asked CNYCN's executive director, Michael Hickey, what would improve HAMP, he had a simple answer: "Get banks to answer the phone."

Nationally, 1.2 million trial modifications have been offered under HAMP. But if homeowners are offered a three-month trial modification but denied a permanent modification, they can be worse off than when they started.

"If you are in a trial mod and they come back and say, 'Actually, you don't qualify,' they can ask you to pay the arrearages that you were not paying" during the trial modification period, Murphy says. Of the more than 3,000 homeowners who applied for modifications through the CNYCN network, 641 were offered trial modifications.

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But even a rare permanent modification, intended to be a lifeline, can be more like a pair of concrete shoes. Counselors say banks commonly insist on extended loan terms, $90,000 balloon payments that come due when the mortgage is paid off and loan amounts that increase the often already inflated value of the home.

"I think these programs are very, very problematic, even if you put on your rosiest-colored glasses," says Rebekah Cook-Mack, a staff attorney at South Brooklyn Legal Services. "The modifications are making the loan amounts higher."

No counselor in the New York City foreclosure prevention network has seen a modification that actually reduced loan principal, Cook-Mack and others who participate in a housing counselor Listserv contend.

Cook-Mack wonders if banks even want to help. She cites two of her clients, 80-year-old retired civil servants in Bedford-Stuyvesant who refinanced their home to make repairs. They approached Wells Fargo for help with a $630,000 mortgage on which they had made $60,000 worth of payments. The bank's best offer: a $739,000, 40-year mortgage with a balloon payment. "Someone somewhere knows that these things are still crap," Cook-Mack says.

Banks collect more fees the longer they hold a mortgage in limbo. Modifying a mortgage, particularly for homeowners who have paid off a substantial amount, is not as profitable to the bank as foreclosing on the house and selling it, especially if the bank is calculating the net present value of the loan with overly optimistic figures.

JPMorgan Chase, which services 18 percent of loans in the CNYCN's network, is committed to helping homeowners, says Michael Fusco, a spokesman for the bank. "As a national leader in foreclosure prevention, we have continued to expand upon and improve our programs to keep families in their homes," he says. According to Treasury, JPMorgan Chase had 246,185 HAMP-eligible borrowers as of March 31. It has completed 39,507 permanent modifications and begun trials on 189,014 under the program.

—Eileen Markey

POVERTY

Costs and Benefits: The pros and cons of policing welfare fraud

Brooklyn District Attorney Charles Hynes made headlines in April when