

The New York Times

Penetrating the Maze of Mortgage Relief

Vivian S. Toy

June 12, 2009



MAILBOX WATCH Seema Agnani is the executive director of an agency that has helped about 50 homeowners in Richmond Hill, Queens, apply for loan modification. So far no response.

SINCE President Obama unveiled a mortgage modification program in March to help people who are at risk of losing their homes, housing counselors in the New York area have fielded hundreds of calls along the lines of: “How do I get one of those 2 percent mortgages?”

The answer has often been, “Well, it’s not that simple.”

Housing advocates who work with homeowners in foreclosure or on the verge of it say that while the loan modification program could help thousands of New Yorkers, it has been slow to get off the ground and a majority of people who have applied for help have yet to hear whether they will receive it.

One thing is clear: Homeowners who have a HUD-approved housing counselor championing their cause are more likely to get a modification than those who try it on their own. Housing counselors say they often understand the program’s guidelines better than the people answering phones for lenders, so they know how to pursue a case aggressively.

The Center for New York City Neighborhoods, a public-private agency that connects homeowners with HUD-approved counselors at about 70 neighborhood organizations, has

overseen 400 applications for the administration's Making Home Affordable program. So far, only about 100 of those mortgages have been modified; the rest are still pending with the lenders, with people often waiting more than 60 days for a response.

"The promise of this program is enormous," said Rafael Cestero, the commissioner of the city's Department of Housing Preservation and Development. "It's a brand-new program and it's a very complicated issue, but we all share the feeling that it's been moving too slowly." The federal program offsets some costs for banks that agree to modify mortgages.

Mr. Cestero estimated that in addition to the 400 applications handled by the center, other agencies have probably processed 400 applications. "When you think that almost all of those are in southeast Queens and some in eastern Brooklyn," he said, "that's a lot of people in need in a not particularly big area."

Housing counselors say that while 15 lenders — including major ones like Bank of America, CitiMortgage, Chase and Wells Fargo & Co. are participating, many have yet to fully train people to process the applications.

As a result, housing counselors say they often receive mixed signals, with different lenders offering different interpretations of the guidelines, including whether foreclosure actions can proceed while a loan modification is being considered and whether you have to be current on your payments to be eligible for a modification. (They can't and you don't.)

In addition, the many mortgages that were bundled and sold to investors are now being handled by debt collectors known as servicers, not the banks themselves. "That model doesn't work now because the servicers were set up for the good times and they're not prepared to deal with the catastrophe we're facing," said Michael Hickey, the executive director of the Center for New York City Neighborhoods.

The recession looms large, he added, as most of the people contacting the center now are having trouble paying their mortgages because they have taken pay cuts or lost work, not because their rates have reset at higher levels or because they have subprime loans. They include housekeepers who now have fewer houses to clean, construction workers and mechanics who have lost overtime, and limo drivers who are getting fewer rides and smaller tips.

Homeowners who have received foreclosure documents from lenders and those who may soon miss a mortgage payment are eligible for the program. To be eligible, a homeowner must have a monthly mortgage payment larger than 31 percent of their gross income. The monthly payments of those who qualify are lowered to the 31 percent limit. Lenders can do this by reducing interest rates to as low as 2 percent, by extending the term of the loan to 40 years or by deferring principal.

Economists at the Federal Reserve estimate that about 500,000 people in the city meet the most basic criteria for eligibility — namely that they themselves own and occupy the home, they received their mortgages before Jan. 1, 2009, and they owe less than \$729,750. The estimate

does not, however, take into account whether their payments are worth more than 31 percent of their current income.

About 100,000 homeowners across the country so far have been extended loan modification offers, according to Meg Reilly, a spokeswoman for the Treasury Department. “We are absolutely working to make things move faster and provide relief to more homeowners as soon as possible,” Ms. Reilly said in an e-mail message. “We are encouraging servicers to staff up, establishing a hotline for homeowners, looking for new tools to expedite this process, working with communities to get the word out about resources available to homeowners.”



Chester Higgins Jr./The New York Times
Lionel Ouellette, the executive director of Changer.

The good news, Mr. Ouellette said, is that “I see now that banks like Chase and Wells Fargo are utilizing a uniform contract, so moving forward, it should move a lot faster.”

Kareen Esson of Jamaica, Queens, is working with Mr. Ouellette, and is one of the first to benefit from the program. She bought her two-story home for \$417,000 in July 2007, at just about the height of the market.

But she lost her job in mid-2008 and went into foreclosure after missing several mortgage payments. Her bank, Wells Fargo, refused to modify her loan last year. Ms. Esson found a new job working for the Salvation Army last fall and went to Changer for help in

fighting foreclosure. Then, last month, because of the administration’s program, the bank called her to say she might be eligible. She was told two weeks ago that she did indeed qualify.

Mr. Ouellette helped to compile Ms. Esson’s modification package, which includes tax returns, pay stubs, account balances for credit cards and other debts, and a hardship letter that details her financial situation and explains why she was struggling to pay her 7 percent interest-only mortgage. She has been told that her \$2,897 monthly payment will be reduced to \$2,123 for the next three months.

But Mr. Ouellette hopes to have it reduced even more because, by his estimate, \$2,123 is close to 39 percent of her household income, which includes Ms. Esson’s salary and financial help from a cousin and a brother who live with her.

Ms. Esson fits the profile of a homeowner well suited to the loan modification program, he said. She is a salaried employee with a steady income and “a responsible homeowner who is organized and on top of her finances.”

Mr. Ouellette and many other housing advocates in the city are concerned that the relative strength of the city’s housing market may ultimately mean that the city will receive a disproportionately smaller share of loan modifications.

The program allows servicers to run what is known as a net present value test, which essentially determines whether a present-day loan modification would be a better value for the mortgage investors than foreclosure.

In places where property values have tanked and many people owe more than their properties are worth, servicers are more likely to opt for loan modifications because the homes would not be worth much to them in foreclosure, said Josh Zinner, a co-director of the Neighborhood Economic Development Advocacy Project, known as NEDAP.

“But in New York City, where values are still high and loan amounts are much higher than elsewhere, servicers might have to adjust the loans a lot more to make them affordable,” Mr. Zinner said. “We’re concerned that a lot of the calculations will come out in favor of foreclosure instead of modification.”

One problem, according to James Lewis, the program director at Changer, is that servicers are not required to tell borrowers how they run their net present value tests and how they determine a home’s value. “Remember, the servicers didn’t come to this with open arms — they came kicking and screaming,” Mr. Lewis said. “There needs to be more transparency. If you go to school and fail a test, you know why you failed; why shouldn’t a homeowner know why they failed?”

Under the program, the Treasury will subsidize every modification by paying lenders and mortgage servicers a share of the borrower’s monthly reduction. Servicers are also given additional \$1,000 incentive payments for every modified loan.

Mr. Cestero said that modifications would be tracked to make sure the city was not unfairly put at a disadvantage. “While overall conditions are better than most places,” he said, “all you have to do is drive around southeast Queens and you can feel the market dislocation in those places.”

The Chhaya Community Development Corporation works with people from South Asia in Richmond Hill, Queens, and has helped about 50 homeowners apply for the modification program. It has yet to receive a single definitive response. “A lot of these people had bad loans to begin with,” said Seema Agnani, the executive director of Chhaya. “And now they’ve had losses of income, not necessarily job loss, but they may be drivers who depend on tips or workers who depend on overtime.”

Many of the homeowners also relied on rental income to meet their mortgage payments, and they have run into trouble because tenants have stopped paying rent. Some borrowers also have second mortgages, which they used for a down payment, Ms. Agnani said.

“You can debate whether these people deserve help because they may have loans that they shouldn’t have gotten,” Ms. Agnani said. “But if we don’t offer assistance now, they will lose their homes and that impacts everybody.”

Bonita Dowling, a housing counselor at the Pratt Area Community Council in Bedford-Stuyvesant, said she recently helped three homeowners get temporary modifications.

One homeowner who runs a cleaning business had fallen four months behind on her mortgage. Her monthly payments were more than \$4,500 on a 10-year interest-only loan with an 8.5 percent interest rate; they have been reduced to \$2,480 for the next three months. “She has an awful loan and like a lot of my clients, she didn’t understand what she was getting into,” Ms. Dowling said.

She and other housing advocates urge homeowners to seek help from housing counselors, not companies that charge for help. In fact, the Web site for the federal modification program states repeatedly: “Beware of foreclosure rescue scams — help is free!”

“Homeowners don’t know how to get past the collections people and to the people who can actually help them,” she said.

That’s apparently the case in the suburbs as well. Joanie LaFemina, the homeowner services program manager for the Community Development Corporation of Long Island, said that servicers may offer a modification, but keep it out of the administration’s program to keep the reduction above the 31 percent debt-to-income ratio.

One of her clients, a couple in the town of Brookhaven, did get into the program and recently had their mortgage payment cut from \$2,172 to \$1,684, reducing their 10 percent mortgage rate to about 6 percent. Their bank refused to modify their loan last year. “But after the president announced his program, it went from ‘No deal’ to ‘Let’s make a deal,’ which is the whole point of the plan,” she said.

April Newbauer, the lawyer in charge at the Legal Aid Society in Queens, said that in theory, when the servicers signed up for the program, “they should have been ready to swing into action and communicate with the people on the ground what to do.” But she was not surprised by the slow start.

“It’s hard to change institutional practices and business models,” Ms. Newbauer said. “And that’s what we’re talking about here.”