

## Federal program's daunting paperwork discourages use of foreclosure aid

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Heather Franz has just lived through a homeowner's worst nightmare.

A year ago while visiting California where her mother lay dying, Franz got word over the phone she'd lost her job back in Wisconsin as a senior kitchen designer.

Facing unemployment in a tight job market, Franz knew she'd have trouble making the monthly mortgage payments on the \$240,000 Lodi area home she shares with her husband, Jeff, a UPS delivery driver, and his four school-age children.

So Franz called CitiMortgage, told them of her situation, and asked for help through one of the government programs created to help struggling homeowners caught in the recession.

But Franz quickly discovered it wasn't easy. She spent hours on the telephone just trying to find someone who could answer questions. There were misplaced forms, endless delays and conflicting stories from talking to different loan servicing agents.

"I was trying to be proactive by getting ahead of the situation, but honestly, I never knew if I was on the phone with someone from India or not," says Franz, 39.

Finally, she connected with **GreenPath Debt Solutions**, a nonprofit consumer finance group with an office in Madison. With their help, she worked out a permanent loan modification with CitiMortgage that dropped the interest rate from 6.75 percent to 2.125 percent, cutting her monthly payments by more than half.

"At the end of the day I suppose it was a success story although I still feel I paid a big price for it," says Franz, who grew so stressed during the ordeal she needed extensive dental work to repair two front teeth damaged from grinding them in her sleep.

Yet by most accounts, Franz is one of the fortunate borrowers who have avoided a mortgage foreclosure via the federal Home Affordable Modification Program, or HAMP.

When HAMP was unveiled in 2009, Treasury Department officials boldly predicted it would help 3 million to 4 million Americans stay in their homes. The idea was to take \$75 billion from the Troubled Asset Relief Program intended to prop up stressed banks and give it directly to homeowners in need.

The results to date, however, have been underwhelming.

A recent audit by the Office of the Special Inspector General shows that only 230,000 borrowers have received permanent modifications to their mortgages — even as some 8 million families are more than 60 days behind on their payments and facing foreclosure. In Wisconsin, 2,347 homeowners have had their mortgage payments reduced under HAMP through March.

U.S. Rep. Tammy Baldwin, D-Madison, urged Treasury officials to make the process more efficient and helpful for consumers, and she says foreclosure counselors are now allowed to do more to help homeowners, but she's not satisfied yet. "Some progress has been made, but we must do more."

Those on the front lines of the nation's housing crisis say the help is coming too little, too late to keep most people from losing their homes and enduring the disruption that comes with it.

Mark Borns, a Madison bankruptcy attorney, says he hasn't run across one homeowner yet who's gotten government relief. He says people either don't know about the programs or can't wade through the paperwork in time to avoid a foreclosure or bankruptcy.

"I'm always hearing that things are pending, things are pending," he says. "Well in a lot of cases, it seems like they are pending forever."

Borns posted an e-mail to the listserv for the National Association for Consumer Bankruptcy Attorneys asking if anyone had a client who'd received a government-backed mortgage modification.

"Answers came flying in from all over the U.S. and most were 'never seen one,'" says Borns. "One attorney thought it was like the yeti; it's out there but no one has seen one."

According to the March figures, 158 homeowners in the Madison area, which includes Sauk and Columbia counties as well as Dane, have received permanent modifications to their mortgages under HAMP. But that's a small percentage of borrowers here who are behind on their payments.

There were a record 1,695 foreclosures in Dane County alone last year and if trends continue, 2010 is going to be even worse. Through March, foreclosure filings in Dane County are already running 16 percent ahead of last year.

"It's a problem that's not going away any time soon," warns Dan O'Callaghan, an attorney with Michael Best & Friedrich who co-chairs the Dane County Foreclosure Prevention Task Force.

"Despite small signs of economic stabilization here and there, I don't think we'll enjoy a true economic recovery until the foreclosure problem has been solved," he says.

For the most part, Wisconsin managed to avoid most of the subprime mortgage meltdown that hit hardest in places like California, Arizona and Florida starting in the mid-2000s, sending home values plummeting and sparking the nation's worst recession since the 1930s.

The U.S. saw its first big wave of foreclosures then as many low-interest adjustable rate loans started to renew at higher rates. In some cases, borrowers who thought they could refinance out of trouble were suddenly left "under water" — real estate parlance for owing more to the bank than a property is worth — when the value of their homes began to crash.

But O'Callaghan says he's now seeing foreclosures filed against homeowners who may have lost a job, had their hours cut or faced some other economic setback. He says people in financial straits may scramble to keep making mortgage payments for as long as possible but eventually have to face the music.

"Wisconsin didn't have a lot of the subprime stuff, but it's had plenty of unemployment, and that's what we're seeing now," he says.

Nobody knows where it might end.

Nationally, another 1.1 million home loans have gone bad since the beginning of 2010. That puts the number of noncurrent, first-lien mortgages and bank-owned properties at more than 7.9 million — or 10.2 percent of the total home loans in the U.S., according to Lender Processing Services, a national mortgage data service company.

Morris Davis, a real estate professor at the University of Wisconsin-Madison, doesn't expect any slowdown in foreclosure activity in the near future. He says the double whammy of high unemployment combined with stagnant home values is continuing to drive many borrowers over the edge.

"With unemployment rates over 9 percent and assuming the relatively slow house price appreciation, we should expect to see 2 million-plus foreclosures per year for the next two or three years," he predicts.

The connection between unemployment, the housing crisis and the recession hasn't been lost on professor Andy Lewis, a community development specialist with UW-Extension.

Lewis says historically, a 1 percent increase in the unemployment rate results in a 3 to 9 percent jump in the foreclosure rate. Wisconsin's jobless rate stood at 8.8 percent in March, compared to 3.9 percent in 2006.

"It's common sense that if you lose your job, it's going to be difficult to afford any mortgage whether it has been adjusted or not," he says.

Still, Lewis notes that unemployment was even higher during the 1981-82 recession and mortgage interest rates were running at 13 to 17 percent. Why was there no housing crisis then, he asks?

"I think the difference now is that homeownership had just hit an all-time high and perhaps we had too many owners who should have been renters," says Lewis.

Homeownership rates peaked nationally in 2004, with 69 percent of American households owning their own shelter, but that has since fallen to 67.8 percent, according to 2008 Census figures. Wisconsin's homeownership rate peaked at 73.1 percent in 2004 but has dropped back to 70.4 percent.

Because homeownership has come to represent the biggest piece of the "American Dream," the implications of a 10 percent mortgage default rate are serious and far-reaching. Stressed banks can't clear their books and make new loans, Real estate agents can't move existing housing inventory, homebuilders can't get their employees back to work, and families are put out on the street.

Even borrowers like Franz who managed to keep their homes find their credit rating damaged and their confidence in the nation's economy shaken.

"I've gone through almost a year's worth of agony to get everything modified," says Franz, whose career as a kitchen designer is also linked to the housing crisis.

The endless stream of foreclosures is dragging on the banking industry as well. Lenders would generally rather explore various payment options with their customers before going through a lengthy and expensive court-ordered foreclosure. Moreover, banks would always prefer to finance a piece of real estate than own it.

While officials at CitiMortgage declined to speak about Franz's struggles with getting her mortgage modified, the lender maintains it's committed to working with customers who have fallen behind on their payments.

"Our employees have rallied around the idea that helping families stay in their homes is the right thing to do," says Citi spokesman Mark Rodgers. The company has added additional staff to handle the high number of calls, which have reached 900,000 since 2007.

Government figures show that Citi has been one of the more successful lenders in getting customers into a mortgage they can afford, with some 22,500 permanent loan modifications and another 9,500 pending.

Lenders who participate in HAMP receive compensation from the government to cover the difference in interest payments and other costs associated with a mortgage modification.

Mike Semmann, government affairs director for the Wisconsin Bankers Association, says nearly a dozen lenders in the state have signed on to participate in HAMP. But he says the program is difficult to navigate and the rules keep changing.

"I know they've been trying to improve things, but it's been a consistently moving target," says Semmann. "It's also seems like there's a big lag time before any (money) actually trickles down into the field."

The HAMP audit noted those problems, among others. It offered advice for making the program run more effectively, including having the Treasury Department set specific goals for how many mortgages might realistically be modified, and creating a public relations campaign to reach borrowers who need help but don't know where to turn. Department officials did not respond to a request for comment.

The audit also warned that even if 1.5 or 2 million mortgages are modified, it doesn't guarantee those borrowers won't default again, especially after the five-year modification period expires. Under HAMP, interest rates are capped for five years before rising back up to market rates.

But bailout critics say the U.S. government has invested far more money in protecting big banks and their investors instead of directing resources to families in need.

The Madison-based Center for Media and Democracy reports that while the Federal Reserve, U.S. Treasury and the Federal Deposit Insurance Corp. have disbursed a total of \$4.7 trillion in the Wall Street bailout, just \$90 million has trickled down to Main Street. This comes as foreclosure filings nationally again hit historic highs in March at nearly 370,000.

"More must be done to stop this daily tragedy of American families losing their homes," says Mary Bottari, director of the center's Real Economy Project.

**Ellen Bernards**, a counselor at the **GreenPath Debt Solutions** office in Madison, is hoping to avoid any tragedies on her watch. She says one of her biggest worries is that a client might actually commit suicide over financial troubles.

Bernards says many emotions come to the surface when housing matters are involved but adds that in some cases, borrowers would be better off just letting go. Struggling to continue paying a big mortgage can be worse than facing reality and making a clean start, she says. "Unfortunately, a lot of people are just not psychologically in a place where they can let a home go."

Lewis of the UW-Extension says it might be time to rethink the whole emphasis on homeownership. He says too many people got in over their heads in pursuit of the dream and are now paying the price.

"I've often wondered why renters are somehow considered 'second-class citizens,'" says Lewis, noting that the best deal he ever enjoyed on housing was renting a 4,000-square-foot place on a river in Burnett County for \$250 a month.

If nothing else, the bursting of the housing bubble may convince Americans to think of their homes first as a place to live, rather than as a way to get rich. Because as millions have learned over the past several years, investments can go down far more quickly than they go up.

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