

Loan Aid Leaves Some Worse Off

One in Four in Government's Mortgage Program Is Dropped; Tales of Exhausted Savings

By [JAMES R. HAGERTY](#)

The government's mortgage-modification program has left some struggling homeowners worse off than they were before.

The Treasury reported Monday that nearly one in four homeowners who were offered lower payments under the Obama administration's 15-month-old effort have been weeded out of the program. Many people were removed from the trials because they failed to make payments, didn't provide all the financial documents needed to qualify or were found to be ineligible.

Homeowners are first offered trial modifications under the program, which provides incentive payments to loan servicers, investors and the homeowners. If borrowers make the payments and satisfy other criteria, those trials are made permanent, ensuring a cut in payments for five years.

While awaiting answers, some borrowers keep making payments, exhausting their savings in what may be a futile effort to save their homes. They also incur fees from the banks and delay taking action that might give them a fresh start in a more affordable home.

Some borrowers had unrealistic expectations about loan-relief programs, which were never designed to prevent all foreclosures. Another big problem is that banks often take six to 12 months to determine whether applicants are eligible.

"I had to learn the hard way and deplete my savings doing it," said Mia Parry, a manager at a mortgage brokerage in Scottsdale, Ariz., who has spent nearly two years seeking a loan modification. She now wishes she had put her home on the market.

Most struggling borrowers do benefit from seeking help, said Aaron Horvath, a senior vice president at Springboard Inc., a nonprofit counseling service based in Riverside, Calif.

Some win modifications, cutting monthly payments by hundreds of dollars. Others who ultimately can't get modifications at least are allowed to stay in their homes for months, making either no payments or reduced payments.

But "if you're draining your savings" in a vain effort to hang onto a home, he said, you may end up worse off.

Eager for quick results, the Obama administration last year prodded banks to start people on trials without first obtaining documents proving they were eligible. That has led to many crushed hopes. The Treasury earlier this year changed its rules and told banks to start trials only after getting documents that proved borrowers qualified.

The Treasury said in a monthly report on the government's \$50 billion Home Affordable Modification Program, or HAMP, that about 1.2 million trial modifications had been started under the plan, and about 281,000 borrowers had washed out by the end of April.

Only about 30% of borrowers who seek help from the main foreclosure-prevention counseling program at Neighborhood Housing Services of South Florida end up with modifications, said LeeAnn Robinson, chief operating officer of the Miami-based nonprofit. Many borrowers don't have enough income to support even reduced loan payments; others give up before completing the paperwork.

On average, it takes seven months to resolve a borrower's situation, up from four months a year ago, Ms. Robinson said. Banks and other loan servicers can't keep up with the demand for help, she said.

Ms. Parry bought a home in Phoenix in 2005 for \$535,000, but she believes it now would sell for around \$250,000. She has been seeking a modification from a unit of Citigroup Inc., the servicer of her two mortgage loans, since June 2008.

Ms. Parry's application was turned down in late 2008, but President Obama's announcement of HAMP in February 2009 rekindled her hopes. Ms. Parry decided to keep making payments on her loans because she expected to qualify for this new program.

Citigroup started her on a HAMP trial in June 2009, and she made three payments. Then Citigroup told her there had been a mistake and she would need to go through another three-month trial.

At the end of that second trial, Ms. Parry said, Citigroup told her the investor that owned her first mortgage wasn't participating in HAMP, so she couldn't get a modification under that plan. During her trial period, Citigroup charged her more than \$1,300 of "late charges" and "delinquency expenses," she said.

Ms. Parry said Citigroup should have been able to determine that the investor wasn't participating before she went through the trial. Citigroup recently offered her another type of modification that she said fell short of the HAMP formula and wouldn't lower her costs enough to make keeping the home worthwhile. Unless Citigroup improves the offer, she will try to sell the home.

A Citigroup spokesman said: "We have worked diligently with the borrower and the investor in an effort to find a solution that meets both the borrower's needs and the investor's requirements."

Martha Wright, a marketing executive whose income has dropped, has been trying since February 2009 to work out a deal with J.P. Morgan Chase & Co., the bank that services the \$1.1 million mortgage on her Avalon, N.J. home.

The bank denied her request last summer, but Ms. Wright said she kept trying because the responses from the bank were unclear and inconsistent, and she believed she still might qualify. Meanwhile, she said, by continuing to make payments, she cut her nonretirement savings to about \$500 from \$63,000 in early 2009.

A spokesman for J.P. Morgan said the bank told Ms. Wright on three occasions that she didn't qualify for a modification. "Modifying the loan would produce less value to the loan's owner than foreclosing," he said.