



Lenders to Offer Reprieves To Delinquent Borrowers

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The Bush administration and six large mortgage lenders unveiled a plan yesterday to offer some homeowners facing foreclosure 30-day reprieves to work out alternatives.

The program, which will target homeowners who are 90 or more days late on payments, is the industry's latest attempt to untangle the mess caused by years of lax mortgage standards.

These homeowners will receive a letter offering a "pause" in the foreclosure process to try to work out a repayment schedule.

Delinquent borrowers have always had the option of calling their lender for help in advance of a foreclosure. But the foreclosure process typically continued during those talks. Under this plan, there would be a 30-day freeze in the process.

Unlike a government-endorsed rescue effort announced last year, the new program, called Project Lifeline, is not limited to subprime mortgages, home loans given to borrowers with weak credit. It also includes foreclosures triggered by home-equity loans, prime loans and second liens.

Modifications to loans would be made on a case-by-case basis, and not all eligible loans are expected to be salvageable, industry officials said.

Homeowners in bankruptcy protection will not be eligible for the program, which also excludes vacant and investment properties. The offer also will not apply to borrowers whose homes are scheduled for a foreclosure sale within 30 days.

"None of these efforts are a silver bullet that will undo the excesses of the past years," said Treasury Secretary Henry M. Paulson Jr. For example, the program won't help borrowers who put down little or no money and who don't want to continue to live in the house, he said.

Countrywide Financial, Bank of America, Citigroup, J.P. Morgan Chase, Washington Mutual and Wells Fargo

are participating in Project Lifeline. They are also members of the Hope Now Alliance, the industry-financed nonprofit group that has been coordinating efforts to reach struggling subprime mortgage borrowers.

"For some homeowners, that extra time will make the difference," said Floyd Robinson, president of consumer real estate at Bank of America.

The plan is a good-faith effort by lenders to reach out to delinquent borrowers, said Alex J. Pollock, a resident fellow at the American Enterprise Institute, a conservative policy research and advocacy group. "It seems to be a quite a reasonable, sensible program to be done along with other things," he said.

"There is obviously a lot of thinking going on."

Critics said the plan is still far short of what is needed to stem the tide of foreclosures, which cost lenders millions of dollars and are expected to increase as subprime borrowers face interest rate increases on adjustable-rate mortgages. The national foreclosure rate rose more than 50 percent last year.

"The industry and the Administration are running to catch up as fast as they can to a problem that is getting broader and deeper by the day, but they seem to be falling further and further behind," Sen. Christopher J. Dodd (D-Conn.), chairman of the Senate Banking Committee, said in a statement.

Giving borrowers an extra 30 days is prudent but a common measure, said John Taylor, president of the National Community Reinvestment Coalition.

"A lot of the industry under normal circumstances tries to avoid foreclosure and work with the borrower," he said. "The real problem is that most of these borrowers are in properties that are not worth what the mortgage is. They are locked into a loan they can no longer afford. This program doesn't get at any of that."

He said: "You can give them 60 more days, or 90 days. If there isn't a product that they can be refinanced into that matches their ability to pay, then we're

really not going to be helping eight out of 10 people."

The plan will probably assist only a small percentage of the estimated 425,000 homeowners who are 90 days or more delinquent on their loans, said Mark Zandi, chief economist at Moody's Economy.com. These homeowners are already under stress, and lenders would have to be willing to make significant changes, including reducing mortgage balances substantially, he said. "I would be surprised if we're talking more than tens of thousands of homeowners that are helped."

The mortgage industry has been fighting the perception that it is not doing enough to help troubled homeowners, pointing out that the number of loans modified, including freezing and lowering interest rates, has doubled in the past year. During the fourth quarter of last year, lenders modified 141,000 loans, up from 76,000 in the previous three months, according to the Hope Now Alliance.

Those numbers are likely to increase as lenders implement the program announced last year to freeze the interest rates of qualified subprime borrowers, industry officials said yesterday.

But Taylor said the industry has targeted the "low-hanging fruit" for modifications -- "those borrowers who have a strong financial condition, who with slight modifications would be able to continue under their mortgage."