



This is a great article and really hits the nail on the head that as much as the government would like to help, they just sometimes are not listening or asking the right questions. When loans are pooled and bought by investors they are no longer in the hands of the banks. Investors are not going to understand or want to participate in any program that starts off with a principal write down or loss on their investment until other means have been exhausted. Just like the Loan Limit Increase (HR5140) this will be yet another failed attempt to help the over leverage homeowner. We believe that loan modifications will become more sought after and more likely the chosen path for the investors and lenders at this point.

Editor: National Mortgage Network

Lenders to FHA: Thanks but no thanks for your help

Testifying before Congress, lenders praised the FHA's foreclosure prevention program but indicated that they'd prefer to handle their own mortgage workouts.

By Les Christie, CNNMoney.com staff writer
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NEW YORK (CNNMoney.com) -- As part of the massive housing rescue bill passed by Congress in July, troubled borrowers will be able to refinance their home loans with the backing of the Federal Housing Authority (FHA) starting on October 1.

But at a congressional hearing today in Washington, lenders didn't seem terribly enthusiastic about the program, dubbed Hope for Homeowners.

The program calls for lenders to voluntarily refinance delinquent mortgages by reducing loan balances to 90% of a home's current market value. The new loans will be backed by the FHA, which will receive 5% of the new loan balance as a payment from the lender.

"I think lenders will be enthusiastic about the program but they have other things they'd like to do before they do a principal write down," said Brian Montgomery, Assistant Secretary for Housing at the Department of Housing and Urban Development.

One lender's representative, Marguerite Sheehan, Senior Vice President for JPMorganChase ([JPM](#), [Fortune 500](#)) Home Lending, testified about the drawbacks of Hope for Homeowners.

"Under the Program, [investors in the loans] will take a loss when the principal balance is written down," she testified, adding that they won't have a chance to make up that loss if home prices recover. Sheehan added that Chase can make borrowers' monthly payments affordable simply by reducing their interest rates, rather than loan principle.

She added that JPMorganChase will use the program when it is deemed to be the best option for investors and borrowers, but that investors would prefer to use alternative loan workouts that give banks and investors the chance to share in any future home price appreciation. That's similar to the program recently announced by the FDIC for IndyMac Bank.

Banks stress their own efforts

Bank of America ([BAC](#), [Fortune 500](#)) managing director Michael Gross said that the new FHA program was just one of many loan workout options that the bank is employing.

And he stressed that the bank's own efforts to save troubled loans, especially those B of A inherited when it bought Countrywide, have been successful. He said that the bank increased its loan modifications by 450% this past August compared with August of 2007.

When asked whether the program would be considered a last resort by lenders, all the members of the panel, including Gross, agreed that it would be.

And Mary Coffin, speaking for Wells Fargo ([WFC](#), [Fortune 500](#)), testified that relatively few of her bank's borrowers owe more on their mortgages than their homes are worth, meaning they would be unlikely to benefit from the FHA's refinancing and write down program.

"We estimate as many as 30,000 to 40,000 customers who ... may qualify for Hope for Homeowners," she said, and committed to using the program in those cases.

Even Sheila Bair, who heads the Federal Deposit Insurance Corporation, praised the FHA program but said that few borrowers with IndyMac, the bank that the FDIC took over in July, would use it.

She said that her responsibility to maximize profits for the investors would probably limit the number of IndyMac borrowers who would take advantage of Hope for Homeowners

On its own, her agency has been very aggressive in heading off foreclosures at the troubled bank. About 60,000 of IndyMac's more than 740,000 mortgages are more than 60 days past due, according to Bair. The FDIC has already offered 7,400 of them workouts. Some 1,200 workouts have been completed, giving borrowers an average monthly savings of \$430.

Bair also said that she thinks the FDIC's programs could be used as a model for other lenders to use in their workout efforts. ■