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Charlie Mead/MEDILL
A young girl waits as a HAMP application is compiled. In Late April, hundreds of struggling homeowners funneled through Chicago's Lane Technical High School for a chance to modify their home loans.

Where federal mortgage program stalls, Chicago events pick up slack

by **CHARLIE MEAD**
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La Tasha Cauley carried two mortgages on her Chicago home before unemployment pushed her into default.

After struggling to modify one loan through Citibank – a change that actually raised her monthly payments – Cauley attended an April mortgage event to apply for a government sponsored HAMP modification.

But weeks after wrangling with her lender, Cauley, ineligible for a HAMP modification because of her loan type, filed for bankruptcy and gave up her home.

“I got to the point where I said, ‘I’m washing my hands of it,’” she said. “If you’re not trying to help me, what can I do?”

More than a year after the government pledged tens of billions of dollars to help staunch the rise of home foreclosures, the success of the Obama administration’s mortgage modification program remains muted, raising questions about the program’s incentive structure and ability to help struggling homeowners.

By the end of March, a meager $242 million of the $75 billion committed had been paid out, and Treasury data released Monday shows nearly a quarter of the 1.2 million struggling homeowners given help through the government’s Home Affordable Modification Program, or HAMP, have fallen from the program’s rolls, either because of ineligibility or the inability to make the trial payments.

“Great idea, poor execution,” said Sylvia Alayon, a forensic mortgage analyst. “The focus and the concentration is not on getting loan [modifications],” she said Thursday as thousands of struggling homeowners filed into Chicago’s McCormick Place, hoping to reduce their monthly mortgage payments.

And while permanent HAMP loan modifications edged higher, to nearly 300,000 by the end of April, the rate of re-defaults also spiked. HAMP facilitated 68,000 loan conversions in April, up 13 percent from March, but the total number of canceled permanent modifications rose 30 percent to more than 3,700. A scant 81 loans have been paid off.

Stalled progress

“The program is clearly losing steam,” said Amit Seru, an associate professor of finance at the University of Chicago’s Booth School of Business.

The rate of trial modifications, the preliminary step before a borrower can get monthly payments permanently altered, fell more than 34 percent from February, to just over 47,000. The drop reflects a rule change requiring upfront documentation, such as proof of income, before a trial is awarded – a switch that should raise the rate of permanent conversions, but will also reduce the number of applicants.

With 47,000 active modifications, Chicago ranks third in HAMP activity among metropolitan areas nationwide. While permanent modifications in the area increased 31 percent in April, to nearly 15,000, the number of active trial modifications dropped by close to 8,000. Illinois comprises more than 5 percent of countrywide HAMP activity, trailing only the hard-pressed California and Florida markets, according to Treasury data.

Since 2007, 6.6 million foreclosures have been filed across the nation, according to a March 26 release by the Center for Responsible Lending. When HAMP was announced, Treasury officials projected between 3 million and 4 million borrowers would be helped by the program, an uncertain assumption dubbed overly optimistic by the non-partisan Government Accountability Office in March. Officials now estimate 1.7 million households will qualify for the program.

“We’re nowhere near stabilization,” said Alayon, vice president of operations at Fort Lauderdale-based Consumer Mortgage Audit Center, who expected upwards of 80,000 people to attend the Save A Dream Tour’s Chicago stop, a five-day mortgage modification event organized by the Neighborhood Assistance Corporation of America. The non-HAMP event brings lenders and borrowers together in the hope of permanently reducing an unsustainable payment schedule – essential help, Alayon says, that’s been too long in coming from the federal government.

Designed without teeth?

Treasury implemented HAMP, President Obama's primary tool to stabilize the nearly collapsed housing market, more than a year ago. The program is designed to help people save their homes by reducing mortgage payments to 31 percent of monthly income; delinquent borrowers must participate in a three-month trial period before loans can be permanently modified.

The Treasury-designed program, administered by a financially blighted Fannie Mae, suffers from a perverse incentive structure, Alayon said, in which billions of taxpayer dollars lack any mandatory performance demands. "We need performance rates, we need success rates," she said.

Along with up to $5,000 of assistance to homeowners, HAMP provides incentives for investors and lenders to modify delinquent loans through interest rate reductions, extended amortization and the potential deferral of some of the loan's principal. But the program is completely voluntary; lenders are neither required to participate nor to agree to adjustments.

"There is no serious intention to offer people loan modifications," said Michael Van Zalingen, director of homeownership for Chicago's Neighborhood Housing Services. "It's lip service."

That lip service, however, reflects the arduous balancing act between the nation's capitalist values and a need for social assistance to a degree and scope not witnessed since the Great Depression. And government modification programs, for all intents and purposes, are simply holding patterns awaiting job growth and economic recovery.

"Foreclosure is a symptom," said Alayon. "The disease is unemployment. Until we cure the disease, we will continue to have symptoms." The U.S. unemployment rate recently edge up to 9.9 percent in April, though the economy added 290,000 non-farm jobs. And with every foregone paycheck, the risk of mortgage default increases.

"There is no perfect solution here," said Itzhak Ben-David, an assistant professor of finance at Ohio State University's Fisher College of Business researching loan modifications. But the administration's preference to incentivize without force, Ben-David added, reaches a fair equilibrium between investor property rights and the suffering endured by millions of underwater homeowners.

On the one hand, Ben-David said, HAMP does a good job of reducing monthly payments for eligible homeowners, a prime determinant of success. But stringent participation requirements have also diluted the pool of those able to get help. "This is a big issue," Ben-David said. "It treats only about a third of the population."

Tax credits and depressed mortgage rates have buoyed anemic housing starts and sales a bit, but the outlook for loan performance is bleak. In the fourth quarter of 2009, the percentage of mortgage loans more than 90 days past due increased more than 20 percent, according to the latest mortgage metrics report released by the Office of Thrift Supervision.

Fannie Mae's foreclosure activity spiked 31 percent in this year's first quarter, according to its most recent earnings release, when the company posted a net loss of $11.5 billion. "The period of time that loans remain seriously delinquent continues to remain extended," stated the May 10 release. Single-family serious delinquency rates increased nine basis points, to 5.47 percent.

Even for those who continue to make payments, the frustration is palpable. "In my block, two homes were bought for under $140,000, and I have a $250,000 mortgage," said homeowner Richard Miller, at an April mortgage modification event. And he's angry.

"I'm not going to pay this mortgage, on this house, at this price," Miller said. "Because it's not fair. It shouldn't have happened in the first place."

Filling the program gaps

While some groups, like NACA, have bypassed the HAMP modification process – to great success, says Alayon – others have worked within the program's framework to help distressed borrowers. And for all the criticism over the program's sluggish achievements, the standardized modification process has saved homes and simplified the application procedure.

HAMP provided borrowers and lenders one plan with clear guidelines – a specter of uniformity that replaced a nightmarish swath of unique private modification programs with a standardized list of requirements.

"It changed the way loan modifications were done," Van Zalingen, of Chicago's Neighborhood Housing Services, said. "Before this it was very hit or miss."

The group, sponsored by the city and partnered with Chicago-based Attorneys' Title Guaranty Fund, has capitalized on that principle, streamlining the HAMP application process for thousands of homeowners with free Fix Your Mortgage events held throughout the Chicago area.

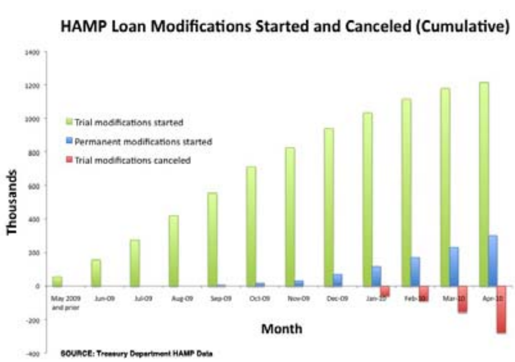
"The foreclosure crisis has become an economic crisis," said Ellen Sahli, first deputy commissioner of the city of Chicago's Community Development Department. "There's no shame involved in asking for help," she said as hundreds of homeowners weaved their way through the North Side's Lane Technical High School in late April during a Fix Your Mortgage event.

"In one day we've been able to accomplish what all of the housing agencies in Chicago would've taken a long time to get done," said Henry Shulruff, a senior vice president with Attorneys' Title Guaranty Fund. That April Saturday, more than 700 homeowners shuffled through makeshift mortgage stations at Lane Tech High as volunteer attorneys punched data into their computers and processed an entire HAMP application on the spot.

That conveyor belt-type simplicity is coupled with agency review. “In two weeks, NHS will be calling [lenders] and saying, ‘Hey, we submitted an application. Do you have it? Where are you at with that?” Sahli said. “This continued follow-up, this tenacity,” she added, is how NHS events achieve a much higher percentage of modifications – 34 percent of applicants – than homeowners who go it alone.

But ultimately, the crisis of consumer debt is not limited to mortgages. Even as HAMP modifications boast a median payment decrease of $512 per month for the lucky few that get modifications, other types of debt, such as credit cards or car leases, are still a severe burden.

Even after a HAMP modification, the median back-end debt-to-income ratio for borrowers – the share of monthly income devoted to debt payments – was 64.3 percent. “It is imperative,” said Seru, the Booth finance professor, “that given such a high incidence of debt many of the borrowers being given mods are going to re-default.”



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As trial modifications offered through HAMP taper off -- a symptom of stricter upfront documentation guidelines -- the number of cancellations are gaining on permanent payment changes.

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The next Fix Your Mortgage event is scheduled for June 5 at Curie Metro High School on Chicago’s Southwest side.