

Another Take on Solving the Foreclosure Crisis Loans to Jobless Homeowners

The mortgage crisis remains a major problem for the US economy. Foreclosure rates are still at record levels and Making Home Affordable, the new Obama plan which requires lenders to modify mortgages, is off to a slow start as lenders have yet to gear up to do modifications. Foreclosures caused by unemployment are becoming a greater and greater portion of the foreclosure problem. Estimates are that 5.5 million homes will enter foreclosure in 2009 and 2010.

The Treasury Department is taking steps to make Making Home Affordable more effective by pressing mortgage servicers to put additional resources and staff into providing loan modifications that make mortgages affordable for homeowners. However, the scale of the problem is huge and the ability and willingness of servicers to do the work necessary is in question. The loss of 7.2 million US jobs since the start of the recession complicates the crisis as many jobless won't even have enough income for a loan modification to be effective.

A series of programs put forward over the past two years, designed to foster loan modifications, have made little impact on the foreclosure problem. Making mortgage servicers handle the somewhat complicated job of redoing mortgages has ended in homeowners and housing counselors facing horrendous delays, exasperating phone systems, lost paperwork and frustration while resolving far fewer mortgage defaults than anticipated when the programs were rolled out to great fanfare.

The new Making Home Affordable program has allocated \$75 billion in TARP funds to provide financial incentives to encourage participation by mortgage servicers and homeowners. It has a strong commitment by the Treasury to compel the involvement of the servicers. However, the Treasury estimated that only about 12% eligible borrowers (360,000) had received trial loan modifications through August 2009, while over 1.5 million homeowners were threatened with loss of their homes in the first half of 2009 according to Realty Trac, Inc. Doing large scale loan modifications was not the job servicers signed on for and they are not doing it very well. While they are getting up to speed (if they get up to speed) tens of thousands will lose their homes and the housing market will continue to crater.

Meanwhile the recession continues and unemployment reached 9.8% in September. Long term unemployment is at its highest level since data began to be collected in 1948. Over 1.5 million workers are expected to exhaust their unemployment benefits by the end of 2009.

Modifying mortgages for the unemployed can be ineffective if their income is insufficient to pay even the reduced payment of the modified loan. "When people don't have any income, then it becomes really, really tough," said Deputy HUD Secretary Ron Sims recently. Many servicers won't offer loan modifications to the jobless.

Bankruptcy reform has been the preferred solution of many housing advocates and Democrats, but the banking lobby killed the legislation in the Senate and it is highly unlikely that it can be resurrected at this time.

However, there is a logical solution that has yet to be tried. That is to provide loans to unemployed homeowners to pay their mortgages until they get back to work. The state of Pennsylvania has a program enacted in the severe recession of 1983 that does just that. The Homeowners Emergency Mortgage Assistance Program (HEMAP) has provided loans to over 43,000 homeowners since 1984 at a cost to the state of \$236million. Assisted homeowners have repaid \$246 million to date which works out to a \$10 million profit for the state after 25 years of helping families keep their houses. To be eligible for HEMAP homeowners must be in default through no fault of their own and have a reasonable prospect of resuming their mortgage payments within 36 months.

This spring economists from the Boston Federal Reserve posted a paper arguing for helping homeowners who had a “significant income disruption” through bridge loans of up to 24 months. They argued that this would be more effective than loan modifications as it would offer adequate funds to prevent the foreclosure, circumvent problems with investors and servicers who may resist reducing payments and offer help when it is needed.

A loan program could use TARP funds already allocated for foreclosure prevention to directly cure mortgage defaults for the unemployed. As the economy recovers most jobless workers will get back to work and be able to resume their mortgage payments. The loans would cure arrears and provide continuing assistance until the homeowners gets back to work or for 24 to 36 months, as in the Pennsylvania HEMAP program. Even a portion of the \$75 billion set aside for Making Home Affordable could make a lot of mortgage payments to bring homeowners current and not have them at the mercy of a mortgage servicer who is poorly equipped to offer them help.

Such a program could be run much more efficiently than the time consuming loan modification program. If a homeowner indicated that he or she were unemployed they would provide verification of their unemployment compensation to the servicer and automatically be approved for a loan that would pay any mortgage above 31% of their family income (the target amount in Making Home Affordable modifications). The Treasury would make payments for the homeowner who is then current on the mortgage. Some unemployed homeowners might still need to take part in the loan modification process and could then receive a loan, if needed, to meet the terms of the loan modification.

Loans would repayable with interest, but interest would not accrue nor repayments begin until the homeowner’s income was sufficient to allow payment based on a formula to be developed. Such a loan plan would cut through much of the disarray of the MHA loan modification program, thus stream lining approvals and slowing the numbers of foreclosed properties on the market.

Representatives Barney Frank, Chaka Fattah, Elijah Cummings, and Senator Jack Reed have embraced this concept and introduced bills to offer loans to the unemployed. Rep. Frank’s TARP for Main Street bill would provide \$2 billion in TARP money to make loans to pay mortgages if they don’t qualify for other assistance. Fattah would set up a HEMAP style program for the nation. All would get funds directly to homeowners to get their mortgages paid.

We have tried everything else. The Treasury has already allocated far more than \$2 billion to prevent foreclosures. It seems likely that much of these funds will not be spent in a timely manner by mortgage servicers modifying loans. Its time to get people's mortgages paid directly and to begin to slow the pace of home losses that are destroying families and crippling our overall economy.

Prepared by the Save Our Homes Coalition, a Philadelphia based coalition comprised of housing advocates, Legal Services and other attorneys, housing counselors, city officials and homeowners.

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