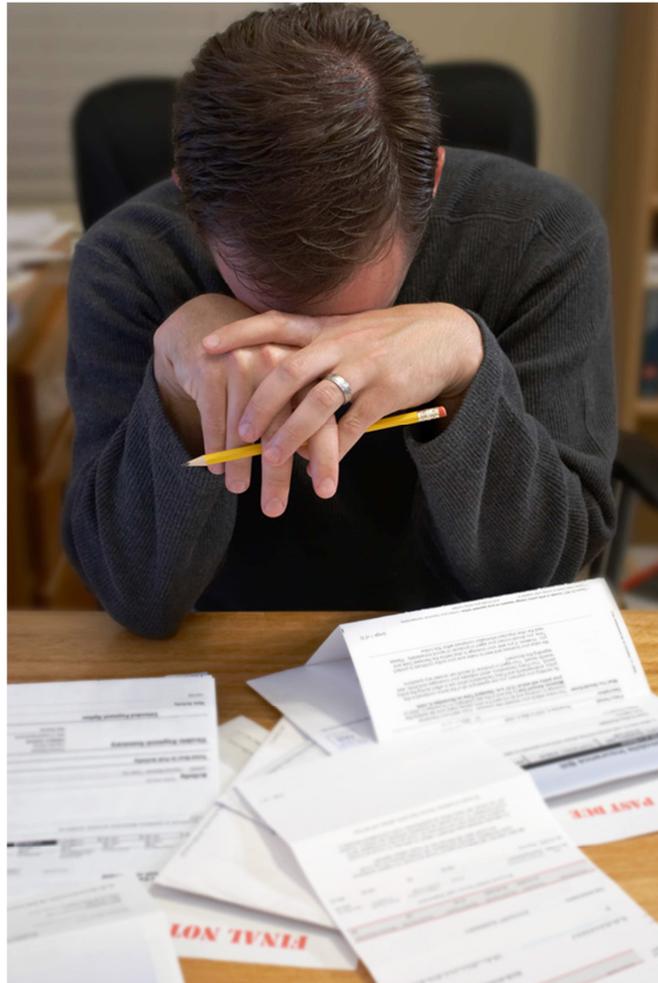




**CALIFORNIA
REINVESTMENT
COALITION**



Chasm Between Words and Deeds VI: HAMP Is Not Working

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Chasm between Words and Deeds VI: HAMP is Not Working

California continues to be hard hit by foreclosure and its impacts on working families and neighborhoods. Six of the top ten riskiest cities for homeowners, defined as those cities with the most borrowers 30 days late or more on their mortgage payments, are located in the state: Riverside, Stockton, Modesto, Bakersfield, Vallejo, and Fresno.¹

In February of 2009, the Treasury Department first announced the Home Affordable Modification Program (“HAMP”) and issued implementing guidelines in March 2009. Since that time, HAMP has been the nation’s primary foreclosure prevention program. HAMP’s unveiling came with lofty goals – 3 to 4 million borrowers would avoid foreclosure by modifying their loans under HAMP. But over a year into the HAMP program, the results are far short of early ambitious goals, and millions of families remain at risk of foreclosure and displacement.

The California Reinvestment Coalition (CRC) has been critical of government and industry efforts to stop foreclosure, dating back to the Bush Administration, when the HOPE NOW collaborative and early voluntary industry initiatives developed to deal with a wave of borrowers who were unable to make payments on problematic and unsustainable subprime and option ARM loans. The day after HAMP was announced in February 2009, CRC identified concerns and challenges to the program’s success, including the voluntary nature of the program, the failure to promote principal reductions, and the need for Treasury to require public reporting of loan modification data that include the race and ethnicity and location of borrowers receiving assistance under the program.

Since 2007, CRC has conducted five previous surveys of housing counseling agencies throughout California that are working hard to keep families in their homes and communities. These surveys began as an attempt to provide a reality check to industry press releases touting high success rates in modifying home loans. The press statements ran counter to reports by homeowners and housing counselors on the front lines in the fight to stop foreclosures of the frustrations and challenges they faced on a daily basis.

This report is the first of three that will look at data from housing counseling agencies in California collected in May and June of 2010. This report looks at the performance of HAMP and foreclosure prevention efforts in general, the second will look at individual servicer performance and provide more detail on loan modification terms, and the final report will look at the fair housing implications for borrowers receiving different loan modification outcomes.

Over 50 housing counselors from more than 40 housing counseling agencies responded to this latest survey. Counselors responding represent a cross section of those working with struggling borrowers throughout California. There are over 80 HUD approved housing counseling agencies in the state.

¹ Francesca Levy, “Riskiest Cities for Homeowners,” Forbes.com, on Yahoo Real Estate, July 12, 2010.

Counseling agencies responding report having caseloads totaling more than 14,000 borrowers in May and June of 2010.

HAMP is not working

Housing counseling agencies working to help families avoid foreclosure confirm significant challenges to HAMP and our collective efforts to preserve neighborhoods. Most of the counselors surveyed state that HAMP is not working.

While some counseling agencies report incremental progress in terms of servicer compliance with HAMP, this sixth survey reflects a growing frustration with the pace of servicer performance and the lack of accountability in the system.

The Congressional Oversight Panel of the Troubled Asset Relief Program (TARP) has criticized HAMP, noting that while only 350,000 homeowners received a permanent loan modification, 430,000 homeowners were kicked out of the program.² Updated information from the Treasury Department reveals that through June, 398,021 homeowners received a permanent loan modification, while 520,814 trial modifications were canceled.³

Counselor complaints fall into three broad categories: 1) HAMP is too limited in what it set out to do, and doesn't cover enough borrowers; 2) HAMP is not being followed by the servicers; and 3) The Treasury Department is not enforcing HAMP and there are no consequences for servicer failures.

Mortgage Counselor Comments:

“Servicers have not done a good job of complying with the rules, meaning that borrower outcomes are often a matter of accident rather than objective analysis under the guidelines.

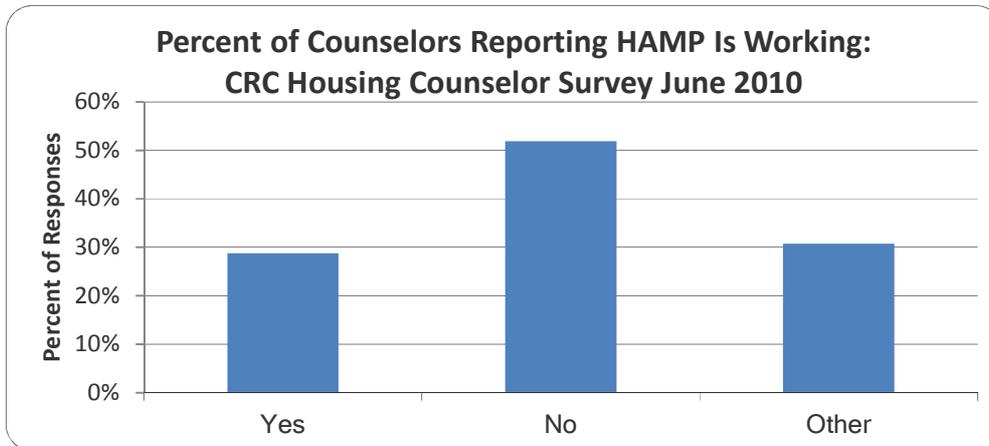
There are no consequences for violations no matter how extreme the harm. Failure to include principal reductions saddles borrowers who get HAMP modifications with even more debt, placing them in a difficult situation and setting everyone up for more defaults down the road.” -- Counselor from Oakland

“Very few servicers seem to be following the guidelines correctly. We see many clients either stuck in trial modifications, or stuck in MHA review for far longer than the time allowed under Making Home Affordable guidelines.” – Counselor from a large statewide housing counseling organization.

“HAMP guidelines are too strict and most homeowners do not qualify.” – Counselor from Los Angeles

² Cheyenne Hopkins, “Panel Knocks Program for Loan Mods,” American Banker, June 23, 2010.

³Department of the Treasury, “Making Home Affordable Program: Servicer Performance Report Through June 2010,” July 20, 2010, p. 2.



Banks continue to foreclose, even during loan modification negotiations

Given the complexity of both the foreclosure process and HAMP, there is ample opportunity for errors to occur. But HAMP appears to be failing at the most basic level, as servicers are unable or unwilling to prevent foreclosures from occurring while borrowers are in the midst of trying to secure a loan modification with them.

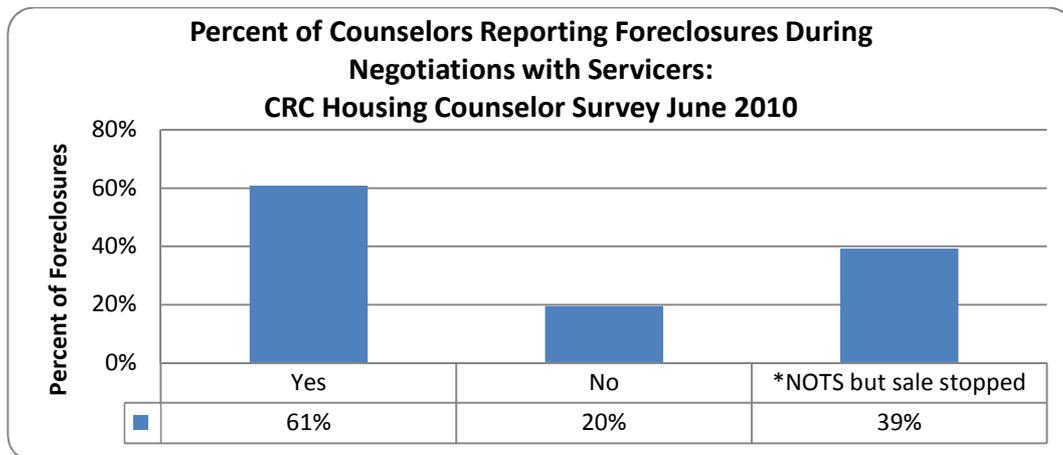
But as with all aspects of current foreclosure prevention policy, 100 percent of the consequences for servicer error fall on struggling homeowners. Borrowers who have done everything right in reaching out to their servicer, providing all requested documents and negotiating in good faith have still lost their homes.

At times, housing counseling agencies have been effective in stopping or rescinding wrongful foreclosures completed while the borrower was still negotiating a loan modification. But the majority of struggling homeowners who are not lucky enough to have found a counselor to help them navigate the process simply lose their homes in these situations. A surprising number of housing counseling agencies report that they have witnessed this problem.

The California Legislature is currently seeking to address aspects of this problem through SB1275 (Leno/Steinberg), a bill that clarifies servicer obligations and creates a limited private right of action in certain circumstances when a servicer wrongfully sells a borrower's home.⁴

Survey responses are very clear on the lack of responsiveness from loan servicers. Over 60% of housing counselors responded that they have had clients who suffered foreclosure while negotiating with their loan servicer. Nearly 40% of responding counselors noted they were able to help stop a scheduled sale of a home for a borrower who was already working with the loan servicer. A number of counselors replied both that clients had lost their homes AND that they were able to stop such sales. Only 20% of respondents said they had not seen this problem of foreclosure while negotiating.

⁴ SB1275 (Leno, Steinberg) bill language and history can be found at: http://www.leginfo.ca.gov/cgi-bin/postquery?bill_number=sb_1275&sess=CUR&house=B&author=leno



*NOTS: Notice of Trustee Sale

HAMP continues to face challenges

Stories of servicers losing faxed documents, dropping phone calls, experiencing high staff turnover and the like are rampant. Perhaps most Americans now have directly experienced, or know someone who has experienced, the nightmare of trying to secure a loan modification in the midst of all of the hurdles that have been put before struggling families.

Mortgage Counselor Comments:

“The banks seem to be processing applications a little faster but they are foreclosing faster too. Many homes that were just sitting in foreclosure are now going to auction.” – Counselor in Riverside

“We have seen a good amount of our clients attain a Step 1 trial modification, but these hardly result in finalized modifications, even when the client has been making the trial payment on time and sending in updated documents every time they are requested.” – Counselor from Los Angeles

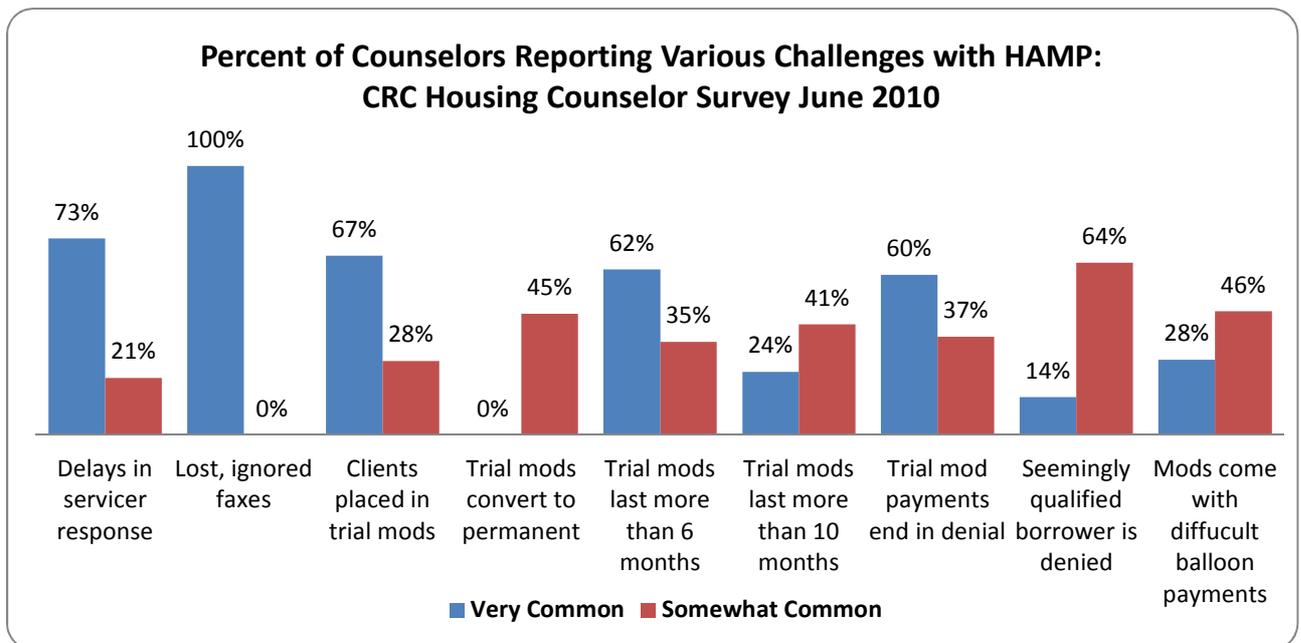
Counselors responded unanimously to only one question in this survey: 100% said that it is very common for servicers to request documents that the counselors had already submitted. On its own, this is extremely frustrating, is indicative of the systemic problems with servicer operations, and it results in a huge drain on the limited resources of housing counseling agencies and borrowers alike. But combined with the fact that 78% of counselors said it is also very common for servicers to deny loan modifications because they claim not to have received all borrower documents and we have to question the validity of servicer modification denials. Treasury’s most recent report on HAMP progress also cites incomplete documentation as a major cause of trial modifications.⁵

⁵“The most common causes of cancellations include incomplete documentation, missed trial payments, or mortgage payments already less than 31% of homeowner’s income.” Department of the Treasury, “Making Home Affordable Program: Servicer Performance Report Through June 2010,” July 20, 2010, p. 1.

HAMP was meant to put qualified borrowers quickly into trial modifications, with permanent modifications ensuing after three months of successful modified payments. This has not occurred. In fact, less than a third of loans in trial modifications for three months or more have been approved for conversion.⁶

Borrowers are stuck in extended periods of suspense, either in a trial modification or awaiting a decision on a trial modification. Worse still, many borrowers make several months of trial modification payments as instructed by the servicer, only to be told later they don't qualify for a loan modification.

Counselors report that several HAMP challenges are very common. While 100% of responding counselors had to re-fax documents already sent, nearly three-quarters (73%) also found servicer delay a very common problem. Approximately 60% reported it was very common for borrowers to be placed in trial modifications (67%), for trial modifications to last more than six months (62%), and disturbingly, for borrowers making trial mod payments to ultimately be denied a loan modification (60%).



Borrowers continue to receive bad outcomes

Ultimately, we need servicers to actually modify loans when it makes sense to do so. The first five CRC surveys of housing counselors were all sadly consistent in finding that the most common outcome reported for borrowers seeking to stay in their homes was foreclosure. A consistent note was sounded by a

⁶ Gene L. Dordaro, Acting Comptroller General of the United States, "Troubled Asset Modification Program Continues to Face Implementation Challenges," testimony before the Committee on Oversight and Government Reform, House of Representatives, March 25, 2010.

recent National Community Reinvestment Coalition survey of borrowers which found that less than half of HAMP-eligible applicants in the survey received a modification.⁷

This is the first survey in which foreclosure is not identified as the most common outcome. Instead, borrowers stuck in trial modifications is the most common status reported. Borrowers are placed into trial modifications when it appears to their loan servicers that they may qualify for a loan modification, and borrowers are then given a chance to make modified payments while servicers confirm borrowers actually qualify for permanent modifications. Borrowers are supposed to be in trial modifications no longer than three months before they are either denied or their trial modifications are converted to permanent loan modifications. For many borrowers, the trial modification period has lasted six months, nine months, or longer.

Mortgage Counselor Comments:

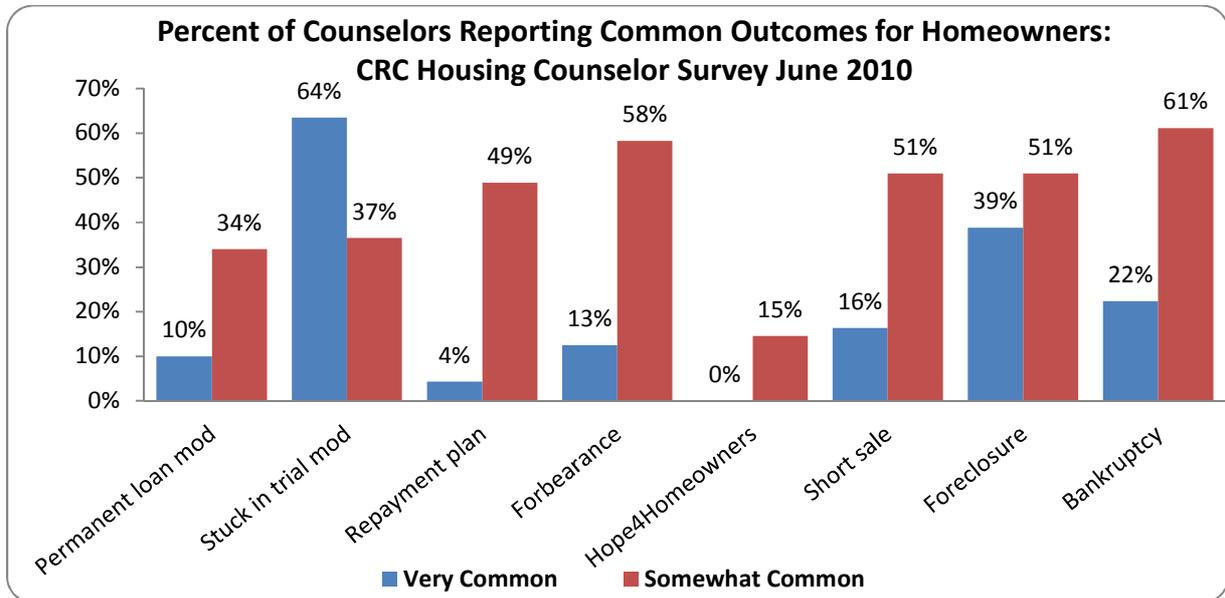
“It would appear, more and more, folks are turning to bankruptcy as the solution to the stagnation resulting from being unable to attain a permanent modification as they watch their reserves and resources being drained and depleted as the only choice left to them to protect their family from ruin. In the end, needing to do what they can to stay viable as a family unit, the only alternative is their last choice.”— Counselor in Fresno

And the low conversion rate of trial modifications to permanent ones suggests that many of these borrowers currently in trial modifications will eventually fall into foreclosure. As of the end of May 2010, servicers had converted only 347,000 temporary modifications (31% of the total eligible) to permanent status, while 430,000 trial modifications had been cancelled.⁸ In addition, as servicers focused on conversions, the number of new trial modifications declined.

After trial modifications, the second most common outcome for borrowers cited by responding counselors was foreclosure. Only 10% of counselors reported permanent loan modifications to be very common, and a whopping 56% said permanent loan modifications were not common. The chart below reflects the percentage of responding counselors who reported one or more outcomes as very common, somewhat common, or not common. Unfortunately, it is likely that the experience of the majority of borrowers who are unable to secure the assistance of a nonprofit housing counselor is worse than the results reported here.

⁷National Community Reinvestment Coalition, “HAMP Mortgage Modification Survey 2010,” Washington, D.C., 2010, p. 3.

⁸ United States Government Accountability Office, “Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs,” June 2010, p. 10.



Alternatives to HAMP are not working

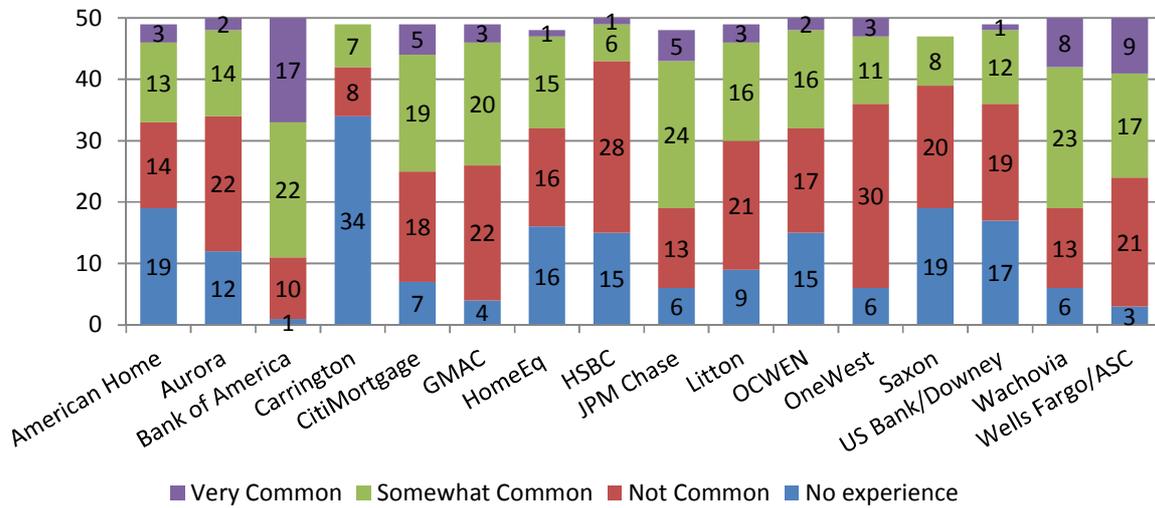
CRC and others have prioritized loan modifications as the best solution for borrowers as it allows them to remain in their homes. Most servicers are offering their own loan modification programs to borrowers who do not qualify for HAMP.

In fact, the Treasury Department recently touted these alternative modifications as a “highlight” in its Servicer Performance Report. Treasury noted that 45% of homeowners in canceled trial modifications entered an alternative modification, based on survey data from the eight largest HAMP participants.⁹

But housing counselors report that these alternative modifications remain elusive. And even when borrowers are able to secure alternative modifications, counselors report these modifications are not often affordable and sustainable for borrowers. While the terms of HAMP modifications are fairly uniform and tied to borrower income, servicer alternative modifications can have any of various terms. The following chart shows that for 15 out of 16 servicers, more counselors reported affordable and sustainable servicer loan modifications were “not common” than “very common.”

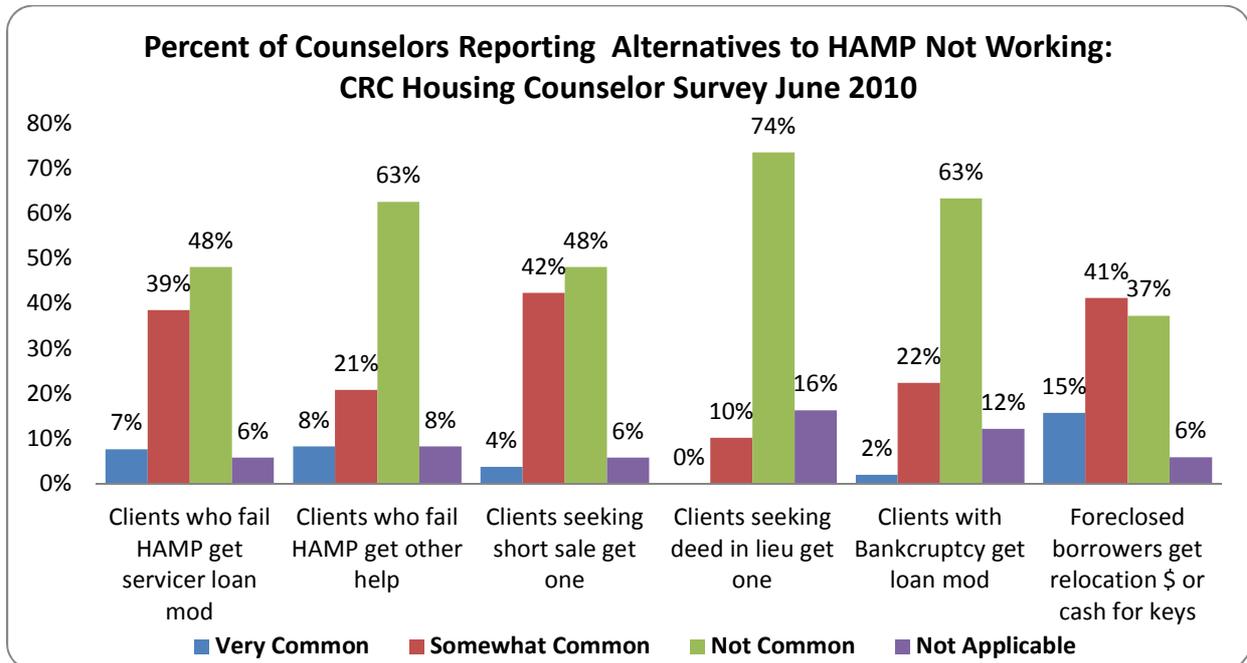
⁹ Department of the Treasury, “Making Home Affordable Program: Servicer Performance Report Through June 2010,” July 20, 2010, p. 1.

**Number of Counselors Reporting Servicer Mods Are Affordable:
CRC Housing Counselor Survey June 2010**



Given the reality that many homeowners will not be able to keep their homes, housing counselors and public policy have more recently focused on securing a “soft landing” for these households, providing alternatives to foreclosure that might lessen the otherwise harmful financial, emotional and credit consequences of foreclosure. To that end, Treasury has created the Home Affordable Foreclosures Alternatives Program (HAFA), which provides incentives to servicers, investors and borrowers to complete one of a few designated foreclosure alternatives, such as short sale or deed in lieu of foreclosure. Yet, counselors report these foreclosure alternatives are not common either.

Counselors were most likely to report the following foreclosure alternatives were “not common”: non HAMP servicer loan modifications; other assistance from servicer; short sale, deed in lieu, and clients in Bankruptcy attaining a loan mod. Servicers offering foreclosed homeowners cash for keys or other relocation assistance rated higher, though only 16% of responding counselors found this very common, with another 41% reporting this as somewhat common.



There is no meaningful appeals process and no consequences for servicer noncompliance

“Treasury does not have clear consequences for servicers that do not comply with program requirements.” – United States General Accountability Office, June 2010¹⁰

Loan servicers effectively have all of the decision-making power and control in loan modification negotiations. This puts borrowers in an extremely tenuous position as servicers may make mistakes or act in their own perceived best interests,¹¹ providing no recourse for homeowners who deserve a loan modification and have played by the rules of HAMP but are nonetheless denied. The Treasury Department has begun to create an appeals process for housing counselors and homeowners who feel aggrieved. But anecdotal reports suggest that this process, while it may result in communication between Treasury and the servicer, does not often result in a better outcome for the borrower.

These results should not be surprising, because the appeals process does not provide for an independent review of whether the loan modification denial was appropriate or not. According to the GAO, “neither the MHA Escalation Team counselor nor HAMP Solution Center staff review the borrower’s application

¹⁰ United States Government Accountability Office, “Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs,” June 2010.

¹¹ For more on servicer incentives to foreclose, see Diane E. Thompson, “Why Servicers Foreclose When They Should Modify and Other Puzzles of Servicer Behavior,” National Consumer Law Center, October 2009.

or loan file; rather, further reviews of borrowers are to be conducted by the servicers.”¹² In essence, the appeals process consists of asking the servicer to decide if it made a mistake the first time around.

In its recent HAMP report card, Treasury highlights servicer complaint rates to Homeowner’s HOPE Hotline, with a program to date average of only 3.9% of calls to the hotline relating to a complaint about a servicer. This sounds encouraging, but the GAO has noted that homeowners are not even made aware that they can complain to the hotline. In fact, neither the Treasury website nor the denial letters homeowners receive informing them of assistance available to them “fully informs borrowers they can call the HOPE Hotline to voice concerns about their servicer’s performance or decisions” and this may therefore limit the number of borrowers who use the hotline for these purposes.¹³

Mortgage Counselor Comments:

“There is no meaningful appeal process.”- Counselor from Oakland

“Voluntary participation with little oversight and accountability allows servicers to do whatever they want. We see a lot of HAMP violations.”- Counselor from Los Angeles

Government regulators have already identified evidence of significant noncompliance with various HAMP requirements by servicers. Freddie Mac, as part of its compliance audits, found that 15 of the largest 20 participating servicers did not comply with various aspects of the program guidelines in their implementation of the Net Present Value model, which is the formula used to determine whether a borrower will get a loan modification or not. According to the Treasury Department, the number of borrowers who were denied because of a servicer’s NPV errors could

range from a handful to thousands.¹⁴

Amazingly, there have been no public penalties or other consequences assessed servicers,¹⁵ despite nearly daily reports of servicer mistakes and harm inflicted. Does the United States really have a foreclosure prevention program if, when it comes down to it, servicers don’t really have to follow the program and modify loans?

Only 6% of respondents said that it was very common for servicers to properly evaluate loan files, though 69% of respondents found this somewhat common. When counselors tried to escalate or appeal cases to the servicing company, 20% of respondents report it was very common to receive a good outcome for the client, 43% reported it as somewhat common, and 37% found this to be not common. When escalating

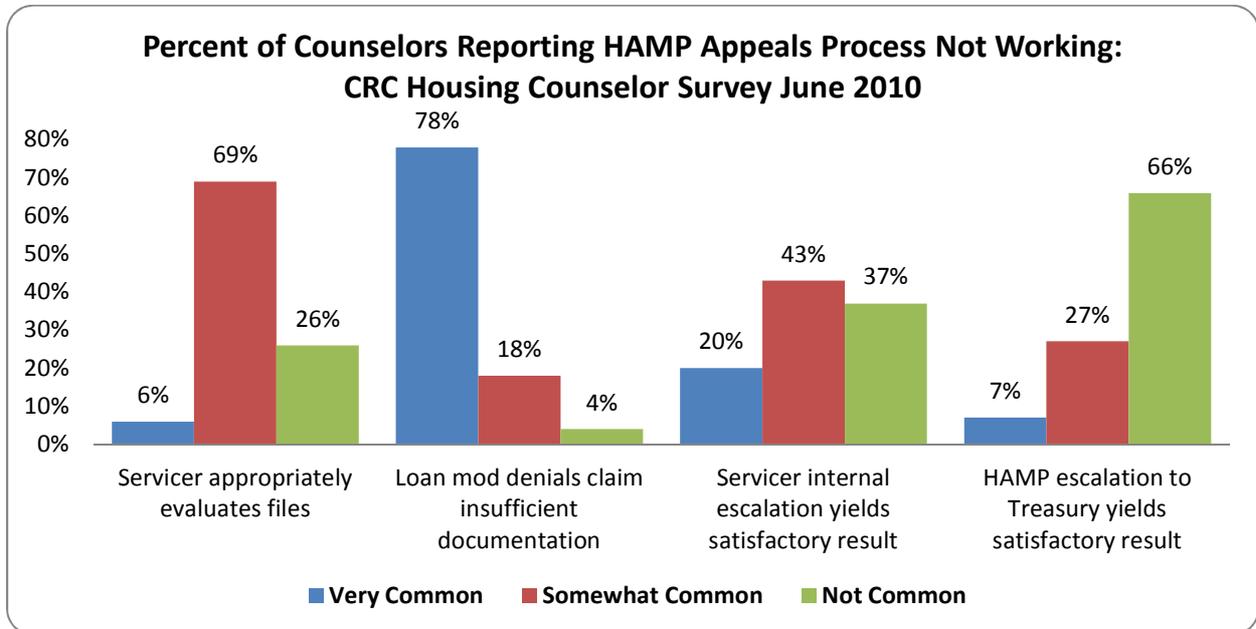
¹²United States Government Accountability Office, “Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs,” June 2010, 26.

¹³United States Government Accountability Office, “Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs,” June 2010, p. 26.

¹⁴United States Government Accountability Office, “Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs,” June 2010, p. 20.

¹⁵“According to Treasury, no financial remedies have been issued to date,” from United States Government Accountability Office, “Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs,” June 2010.

cases to Treasury, only 7% of responding counselors found it very common to get a positive result for their clients, 27% found it somewhat common, and fully 66% reported it was not common to get a good result for the client when escalating cases to Treasury.



Recommendations

1. **HAMP needs to be enforced.** Counselors complain that HAMP guidelines are not always followed by loan servicers. Yet there have been no consequences imposed by Treasury on loan servicers for their failures and mistakes. Instead, 100 percent of the consequences for servicer mistakes are borne by innocent homeowners and their neighborhoods. This must stop. To that end, CRC recommends:
 - a. **Designate a new oversight body.** HAMP should be removed from Department of Treasury control and placed under the Department of Housing and Urban Development or the soon to be created Consumer Financial Protection Bureau. We hope these agencies will be less inclined to accept industry excuses and self-assessments of their own performance.
 - b. **Impose penalties for servicer failings.** Servicers will not do a better job until they see there are consequences for an unacceptable status quo. Penalties should include fines, claw back of HAMP payments already made, loss of the company's ability to sell FHA loans or sell loans to Fannie Mae or Freddie Mac, imposing a moratorium on mergers with other financial institutions, etc.

- c. **Create a stronger appeals process.** The decision making power must be taken away from the servicers, at least in cases where an appeal is made. Borrowers and their advocates should be able to obtain all information that went into the servicer's denial decision, including the actual formula and inputs used in calculating the net present value. If investor refusal is the reason cited by the servicer for the denial, all relevant contracts, such as the pooling and servicing agreements, and contact information for the investor and trustee should be made known to the borrower. And borrowers must be clearly informed of their right to appeal and how to begin this process. All appeals must trigger an independent review of the case file to determine if the servicer acted appropriately.
 - d. **Create an express private right of action and an opportunity to be heard.** HAMP should create an express right of action for borrowers whose rights are denied by HAMP servicers. SB1275, a California bill, is attempting to do this in limited and egregious circumstances. No one should lose her home while making good faith efforts to negotiate a loan modification. If a bank wrongfully permits a sale of the home, the bank should be required to buy the home back for the injured borrower.
 - e. **Create transparency and disclose data.** Treasury is collecting detailed data about which servicers are modifying loans, where, and for which borrowers, broken out by race, ethnicity and gender. This data should be made part of Home Mortgage Disclosure Act data, be put under the purview of the new Consumer Financial Protection Bureau, and the data should be made publicly available.
2. **We need to get beyond HAMP.** To really make a difference for families and neighborhoods, we must admit that it's time to get beyond HAMP and develop other policy solutions to the crisis facing our neighborhoods. CRC recommends:
- a. **Impose principal reduction.** More and more families are struggling with underwater mortgages. A report by CoreLogic notes that negative equity and unemployment are the two most important triggers of default, and that in California, over one-third of all mortgages is underwater.¹⁶ According to Fannie Mae, through mid-April 2010, many borrowers continued to be underwater after a HAMP modification, with an average loan to value ratio of 150%.¹⁷ Servicers are now concerned about underwater borrowers walking away from their homes. Similarly, a high percentage of loan modifications are beginning to re-default because the terms of the modifications were not sustainable. Principal reductions provide a way for families to stay in their homes for the long term,

¹⁶ Additionally, Stockton, Modesto, and Vallejo-Fairfield all have 60% or more of mortgages underwater. CoreLogic, "New CoreLogic Data Shows Decline in Negative Equity," CoreLogic Real Estate News and Trends Media Alert, May 10, 2010.

¹⁷ United States Government Accountability Office, "Troubled Asset Relief Program: Further Actions Needed to Fully and Equitably Implement Foreclosure Mitigation Programs," June 2010, p. 10.

and this can in turn slow the increase in vacant homes and shadow inventory in communities.¹⁸

But servicers remain slow to modify loans and reduce principal. Congress should pass legislation requiring principal reduction in certain circumstances. Such a mandate should, at a minimum, apply to those financial institutions that have been recipients of federal Troubled Asset Relief Program (TARP) funds. Congress must revisit prior cramdown proposals which would reform the Bankruptcy Code's nonsensical and unfair treatment of homeowners who live in their homes yet are currently precluded from having a bankruptcy judge restructure their home loans in the way that makes the most sense, as can be done with virtually all other types of loans.

- b. **Promote creative strategies to minimize displacement and property vacancy for people who may not qualify for HAMP.** Too many families simply do not qualify for HAMP in its current form. We need solutions that minimize the impact of foreclosure on them and their neighborhoods. For example, policymakers should give a foreclosed upon homeowner the right to remain in the home as a renter, with an option to repurchase the property later.

A similar anti-displacement strategy should be employed for tenants living in foreclosed properties who can continue renting and maintaining the property, as opposed to current industry practice which is to evict tenants and allow vacant homes to bring down neighborhoods.

Another creative strategy would be to leverage the availability, when appropriate for the borrower, of Home Equity Conversion Mortgage (HECM) reverse mortgages. Older, longtime homeowners threatened with foreclosure, due in part to reduced income that is unlikely to rise, typically can't qualify for HAMP or other modifications. HECM proceeds, along with a small publicly funded subordinate loan, could pay off an existing lender at terms that many low-income seniors could actually afford. As they are paid off, the loans could be recycled to new elder borrowers in trouble who would employ the same solution to remain in their homes, avoiding unnecessary institutionalization and strengthening their communities.

- c. **Reinvest in neighborhoods.** At the same time that large financial institutions made and lost a lot of money betting on high cost mortgages, they have retreated from investment in community development activities that build up neighborhoods and help create assets. Now, in the midst of concentrated foreclosures, failed loan modification policies and high unemployment, neighborhoods are also faced with banks that don't want to lend. Communities need a new stimulus plan that promotes small businesses, jobs and

¹⁸ Loan modifications including principal reduction are less likely to re-default. "The difference in performance of option ARM mods is largely attributable to principal reduction," from "Option ARM Performance Improves, Mods Decline," Inside Nonconforming Markets, June 25, 2010.

infrastructure. And Community Reinvestment Act regulations must be enhanced to move financial institutions towards more sustainable lending and investment that is safe and sound but that also can help communities rebuild.

The *Chasm between Words and Deeds* reports are part of an ongoing analysis by the California Reinvestment Coalition investigating whether mortgage loan servicing companies and public policymakers are living up to their public commitments to help borrowers avoid foreclosure. These reports reflect the experiences of nonprofit home loan counseling agencies and legal services offices in California that are on the front lines of the foreclosure crisis, working hard to keep families in their homes. The first five surveys found that loan servicers were not modifying loans to any significant degree, were not conducting early outreach to borrowers facing rising mortgage payments, and that their most likely response to borrowers in distress was foreclosure.

This sixth report, *The Chasm between Words and Deeds VI*, focuses on loan counselors' experiences in May and June of 2010, more than a year after the release of the Obama administration's Making Home Affordable Plan, with HAMP as its centerpiece.

The California Reinvestment Coalition hopes these reports will inform the public dialogue around foreclosure prevention and loss mitigation, and will promote sound policies and business practices that will help preserve homeownership, wealth, tenancies and community stability in California communities.

This report was prepared by Kevin Stein with assistance from Tram Nguyen, Alan Fisher and Amelia Martinez. Helpful comments on earlier drafts were provided by Maeve Elise Brown of Housing and Economic Rights Advocates, Norma Garcia of Consumers Union, Judy Hunter of Rural Community Assistance Corporation, David Mandel of California Senior Legal Hotline of Legal Services of Northern California, and Sheri Powers of the Unity Council. Any errors are strictly those of the primary author.

California Reinvestment Coalition advocates for the right of low-income communities and communities of color to have fair and equal access to banking and other financial services. CRC has a membership of more than 280 nonprofit organizations and public agencies across the state.