

Servicers Talk Down Hamp Hopes

By Kate Berry
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At the mortgage industry's biggest gathering of the year, servicers went out of their way to lower expectations for the government's loan modification program.

A common refrain was that many of the 500,000 borrowers who have begun trial modifications may not make the cut for a permanent modification because they have not submitted all of the required paperwork.

"Ninety-nine percent of the loan mod packages that get returned to servicers are either missing some of the documentation necessary or have errors in them," Michael W. Young, the chairman of Cenlar, a Ewing, N.J., subservicer, and the vice chairman of the Mortgage Bankers Association, said at trade group's convention in San Diego last week.

Similarly, Jerry McCoy, the vice president of business development for national servicing at Fannie Mae, called "borrower engagement" a major challenge for the Home Affordable Modification Program.

"There are still a great many borrowers that would qualify if they would just call back," he said. "How do we improve pull-through rates?"

Much is at stake in the next two months. The Treasury Department is expected to report the results of the first trial modifications in early November and early December. If the pull-through rate is low, the industry may face another backlash. That may help explain why servicers are talking down expectations for the program now.

"The servicers are very concerned about performing under Hamp, but nobody knows what's going to happen if the mods fail," said Chris Sabbe, an executive vice president at Sterling Home Retention Services, a provider of loss-mitigation services in Altamonte Springs, Fla.

For example, though the mortgage industry defeated bankruptcy cramdown legislation in April, there is a sense it would be revived if modification efforts fail.

"I think there is still a concern that bankruptcy cramdown is going to be revisited," said Michael Waldron, a partner at the law firm Patton Boggs LLP. "No one takes comfort that it won't be raised again and will be attached to the failure of these efforts."

Servicers continue to lobby the Treasury to loosen the Home Affordable program's guidelines, and officials appear open to their suggestions. This month Fannie gave an extension to defaulted borrowers, allowing them another two months to send in the documents necessary to complete the trial period. The company, which is operating under government conservatorship, also reduced the number of signed documents needed to just two.

"Our primary goal is to convert as many borrowers as possible to formal modifications," Laurie Maggiano, director of policy in the Treasury Department's Office of Homeownership Preservation, said at the MBA conference. "Servicers came to us and said they needed help, that the documentation requirements are too onerous." The Treasury also eliminated "some of the scary language" written in legalese, Maggiano said. That "should make it easier for borrowers to sign" documents verifying income, she said.

Of course, for more than a year, long before the government program was created, borrowers have complained of their inability to reach servicers. Beyond the long wait times and difficulties reaching

a live person at a call center, borrowers have complained that servicers have lost documents or just have not responded.

Sylvia Alayon, a vice president and director of operations at the Consumer Mortgage Audit Center in Fort Lauderdale, Fla., said that at many events held across the country, borrowers come prepared with two pay stubs, bank statements and two years' tax returns. "I've met borrowers at events and if they lack a document, they will drive home, get the documents and drive right back," Alayon said.

"The servicers are still overwhelmed and are managing expectations on what the public expects versus what they are able to deliver," she said. "Nine times out of 10 the borrower wants to save their home, even if they have negative equity."

Uncooperative borrowers or not, "the rubber really meets the road at the servicers," said Eric Schuppenhauer, a senior vice president at Fannie who oversees mod efforts. "It's now up to the servicers to make sure the borrowers are getting the documents in."

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