

Obama May Prohibit Home-Loan Foreclosures Without HAMP Review

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The Obama administration may expand efforts to ease the housing crisis by banning all foreclosures on home loans unless they have been screened and rejected by the government's Home Affordable Modification Program.

The proposal, reviewed by lenders last week on a White House conference call, "prohibits referral to foreclosure until borrower is evaluated and found ineligible for HAMP or reasonable contact efforts have failed," according to a Treasury Department document outlining the plan.

"It is one of the many ideas under consideration in the administration's ongoing housing stabilization efforts," Treasury spokeswoman Meg Reilly said in an e-mail. "This proposal has not been approved and there are no immediate planned announcements on the issue."

She confirmed the authenticity of the document, which hasn't been made public.

At present, lenders can initiate foreclosure proceedings on any loan that hasn't been submitted for HAMP eligibility. Under current HAMP rules, foreclosure litigation can proceed while borrowers are under review for the program or even in a trial modification.

The proposed changes would prohibit lenders from initiating new foreclosure actions before loan screening by HAMP and would require lenders to halt existing proceedings for borrowers once they are in a trial repayment plan.

'Improved Protections'

The Treasury Department will soon release guidance "which will include a set of improved protections for borrowers" in HAMP, Phyllis Caldwell, chief of Treasury's Homeownership Preservation Office, said today in testimony prepared for a House Oversight and Government Reform subcommittee. She didn't provide details.

The proposal goes further than rules adopted amid the crisis by federally controlled mortgage-finance companies Freddie Mac and Fannie Mae, which require lenders to review borrowers for a federal loan modification before a foreclosed property can be sold.

Foreclosure proceedings can still be initiated without a review, said Freddie Mac spokesman Doug Duvall. Fannie Mae spokeswoman Amy Bonitatibus said it adopted the same policy last March.

About 89 percent of outstanding residential mortgage loans are covered by the voluntary HAMP program.

About 2.82 million U.S. homeowners lost properties to foreclosure last year and 4.5 million filings are expected in 2010, RealtyTrac Inc., an Irvine, California data company, said last month.

Seven Million

Obama's foreclosure prevention initiative, announced in February 2009 to help as many as 4 million Americans avert foreclosure, has modified 116,297 loans through steps such as lowering interest rates or lengthening repayment terms. More than 830,000 borrowers received trial repayment plans through January, according to Treasury data.

"Foreclosure processes differ among states, and the process is often confusing to homeowners already facing distress," Caldwell said in her prepared testimony. "Treasury has been reviewing guidelines around outreach and the foreclosure process as part of its continual assessment of program effectiveness and transparency."

Foreclosures may reach as many as 7 million mortgages, and an additional 5 million are at risk of default because borrowers owe more than the property is worth, Laurie Goodman, senior managing director at Amherst Securities Group LP in New York, said in a Feb. 17 interview.

Republican Criticism

"This is a problem of mammoth proportions," Goodman said. "You can't throw 12 million people out of their homes, so you need a successful modification program. My fear is that this isn't it, but I'm highly confident that the administration will continue to iterate until they succeed."

The Treasury proposal would require all borrowers who are 60 or more days delinquent on their mortgage to be sought out for participation in HAMP. Mortgage companies would need to try to contact the borrower at least four times by phone and twice by certified mail over 30 or more days before going to foreclosure.

Under current Treasury policy, foreclosure proceedings are only halted when a borrower receives a permanent modification plan.

House Republicans criticized HAMP as a failure today, saying in a report that it is prolonging the economic crisis and harming homeowners.

"By every empirical measure, HAMP has failed," according to the 18-page report released by Republicans on the House Oversight and Government Reform Committee. "In its current form, HAMP both hurts homeowners who might otherwise spend their trial-period mortgage payments on rent and also distorts the housing market, delaying any recovery."