Mortgage Loan Modifications are Hard to Get

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Donna McCartney made phone call after phone call and wrote letters about her family's deteriorating financial predicament and their inability to make their mortgage payments.

She appealed to her mortgage company, beginning more than a year ago, hoping to get her interest rate reduced. She wrote to the president, her congressman and her senators.

Her husband, Brent, is an electrician whose industry was hit hard by the recession. He filed for unemployment insurance last year.

The couple's income has fallen $10,000 a year in the past four years. They are six months behind in their mortgage payment.

They got rid of their cell phones, Internet and cable services. They depleted their savings and 401(k) plans. Their van was repossessed. A powerboat that was written off by a bank still sits in their yard.

Her husband is working at a job two hours away in Chesapeake from their home in the Northern Neck.

Her persistence has paid off. A loan modification has come through -- after a certified mortgage counselor associated with the Virginia Foreclosure Prevention Task Force recently intervened on their behalf.

"I got my first night's sleep in over a year," she said.

Still, she is not thrilled. "It's a shame that you need a mortgage professional on the phone to say 'let's cut the crap and get down to business.'"

The offer will give them some financial relief. "It boggles my mind that the banks couldn't do more."

The McCartneys' story could be told over and over again -- with different names and circumstances.

Many are not so lucky, as foreclosures continue to mount in Virginia and across the nation. And people who thought they were negotiating for loan modifications end up losing their homes anyway.

In Virginia, 1.6 percent of households, or 52,127 borrowers, had trouble making their mortgage payments in 2009, up 220 percent from 2007, according to RealtyTrac, an online researcher of foreclosures.

Victoria Harris of Chesterfield County had her house foreclosed on Oct. 13, but she is still in the house and hopes to have the foreclosure rescinded.

Harris, a retired machine operator at Philip Morris, has lived in the house for nearly 14 years. She told the new owners that she hadn't sold her house and she was in the middle of a loan modification.

"This is not just something happening to my mother -- it is happening to a lot of people," said Berneatha Terrell, Harris' daughter. "People get tired, worn out. They are weary. They give up."

Sandra Russell lost her home in Ruther Glen in Caroline County Oct. 22, also in a botched loan modification attempt. She moved in with her daughter and son-in-law and their four children in a three-bedroom house with one bath.

"Right now, I am trying to pull myself together," said Russell, who works in customer service in the hospitality industry. "I've been depressed for two and a half months. I am trying to work through this and move forward."

It can take a year -- or more -- to get a loan modification, loan experts say.

The system is so bogged down with applications that borrowers often need to submit multiple financial packages to their lenders.

"The borrower submits information, but the lender can't get to the packet for three months and by then, the information is outdated," said Paula Sherman, lending protection coordinator for Housing Opportunities Made Equal of Virginia Inc., a housing advocacy group in Richmond.

If or when a loan modification comes through, a borrower's financial situation often is worse. Arrearages and late fees have piled up. A modified loan may end up costing more in monthly payments.

"The worst part is while these banks drag their feet, you're trapped," McCartney said. "You can't refinance because your credit is destroyed."

Harris' problems started early last year when she attempted to do a loan modification to reduce her monthly mortgage payments.

"President Obama said he had a plan to help homeowners lower their mortgages," Harris said. "That is all I was going on."

Making no headway with her lender, she contacted a third party in California who was supposed to negotiate for her. She paid $2,000 to him.

Harris was sent an eviction notice and was supposed to be out of the house Jan. 25. She posted a $5,000 bond as a last-ditch effort to stay in the house.

"My mother believed it was a mistake and the mortgage company would correct it," Terrell said. "She's still fighting trying to see if the mortgage company will take back the loan."

Housing experts warn homeowners to refuse to deal with people who offer for a fee to negotiate with mortgage companies and who claim they can stop or delay a foreclosure. They say homeowners should deal only with housing counselors certified by the Department of Housing and Urban Development.

Russell had an adjustable rate mortgage and had tried for years to get a fixed-rate loan.

Her lender would not consider a loan modification unless she was delinquent on her monthly payments.

She stopped paying her mortgage. Ten months later, her lender foreclosed on her house. The next day, the new owners knocked on her door.

Russell told them she was in the middle of a loan modification and they must have the wrong address. She had to move by Jan. 20.

She wonders what she would have done had she been unable to move in with family. "Would I be homeless? It's beyond scary."
Loan experts say it is not unusual for lenders to stipulate that borrowers must be delinquent with their payments before they can do a modification.

Borrowers should set aside their monthly payments while their applications are being reviewed, Sherman said. "Unless you heard it from your mortgage company, keep making your payments. Don't let someone other than your mortgage company make decisions for you."

The Obama administration's housing relief plan has helped about 12 percent of borrowers who have applied for loan modifications since the Home Affordable Modification Program was started a year ago.

The program was designed to help keep up to 4 million Americans in their homes by preventing avoidable foreclosures. To date, about 116,000 borrowers have had their monthly payments permanently reduced. Nearly 1.3 million borrowers have received offers for trial modifications.

Treasury officials say they are working with mortgage lenders to expedite the process.

"With the Obama stimulus package, we are seeing a huge increase in the number of customers who think they are automatically entitled to a loan modification," said Sandy Case, default administration manager for Virginia Housing Development Authority.

"It's a big downfall when they find out they are not eligible."

For a government-sponsored modification, the property must be owner-occupied. The borrower needs to document a financial hardship and have income to support a payment.

Lenders, including those working outside government programs, are coming through with loan modifications, but some are more forthcoming than others.

"It's still a major bureaucracy," said Connie Chamberlin, president and chief executive officer of Housing Opportunities Made Equal.

The process can require talking to seven departments within the same mortgage company and trying to get them to talk with each other.

A recent case in Richmond involved a person in one department who agreed to do a short sale, basically selling a house to another buyer for less than what was owed.

Meantime, a person in another department at the same company was proceeding with a foreclosure. "Even though there was a contract on the house for four months, it was foreclosed on," Chamberlin said.

The house sold on the open market for $30,000 less than the short sale offer, she said.

The McCartneys applied for the federal program. They weren't eligible. They contacted Housing Opportunities Made Equal, also to no avail.

"There is never any guarantee that a lender will do a work-out with you," Chamberlin said.

To qualify, a person would need to spend 31 percent or more of gross monthly income on housing costs. The general rule doesn't take into account household circumstances, such as the number of dependents.

Donna quit her job in 2007 when their son was born. She and her husband are raising four children, including their nephew whose mother was killed.

She said she hopes people won't judge them for their decision to send their nephew and oldest son to Fork Union Military School without knowing the difficult circumstances.

McCartney's husband is a Navy Gulf War veteran. She said they could have qualified for a Veteran's Administration loan when they bought their $180,000 vinyl rancher in 2006.

Instead, they went through a mortgage broker who has since gone out of business. They took out two high-interest, adjustable rate mortgage loans.

The couple had hoped they would get a market-rate loan -- a 30-year fixed rate with about a 5 percent interest rate -- in their negotiations.
Bank of America, their primary mortgage holder, offered to reduce their interest rate from 8.59 percent to 6.25 percent interest-only for the next five years, with principal added after that time.

Their second loan had an interest rate of 11.7 percent. CitiMortgage offered to reduce the rate, which will bring their total monthly mortgage payment to $1,232 from $1,632.

"The banks tried very hard not to help us," McCartney said. "The only reason we could get any relief is because I made so much noise and contacted as many people as I could."

Bank of America spokeswoman Nicole Nastacie said, "Bank of America is committed to helping customers facing financially difficulties remain in their home. We apologize for Ms. McCartney's experience."

The couple did not meet eligibility requirements for the government program, she said. "Bank of America went a step further and worked directly with the investor on their loan to develop a program that was affordable."