

# Lenders: Mortgage Forgiveness Costly, Unfair to Others

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Principal forgiveness – a key part of the Obama Administration’s new foreclosure prevention efforts – would prove to be very costly to the industry and taxpayers, and ultimately unfair to the vast majority of homeowners who stay current on their unreduced mortgages, top banking executives said today.

The executives from some of the top mortgage lenders – Bank of America, Citigroup, JPMorgan Chase and Wells Fargo – testified before the House Financial Services Committee. The panel is seeking industry input on the potential of new strategies to improve the government’s Home Affordable Modification Program, or HAMP.

The executives oversee their institutions’ mortgage businesses and all expressed some skepticism over principal writedowns, the newest component of a drive by U.S. officials to help the growing number of borrowers who are “underwater,” or owe more than the value of their homes.

The executives said they are moving forward with mortgage payment reductions, the primary HAMP strategy, and will follow through with limited principal forgiveness, although they added that government administrators have yet to finalize key details on the new writedown programs.

“From the customer perspective, there is a fairness issue,” said Barbara Desoer, president, Bank of America Home Loans. “Within Bank of America’s residential servicing portfolio, nearly 86 percent of customers are current and pay their mortgages every month – some of them making difficult choices and sacrifices to do so.”

Nonetheless, Desoer said Bank of America will follow through in a “measured, responsible way” to help customers with “a legitimate hardship and genuine interest in maintaining homeownership qualify.”

Bank of America recently announced its own mortgage writedown program recently, but it is very limited to certain types of mortgages and to borrowers with a principal balance of 120 percent or more loan-to-value.

There is also the issue of forgiving second-liens, which would amount to writing down “past consumption by borrowers rather than housing investment,” said David Lowman, chief executive officer for Home Lending at JPMorgan Chase. More than 50 percent of borrowers used home equity loans proceeds for repayment of debt or personal consumption, he said.

“We do think that large scale, broad-based principal reduction programs raise serious policy concerns, for both first and second lien mortgage loans, and particularly for current borrowers with an ability to repay their obligations,” Lowman said. “In Chase’s view, such programs could be potentially very harmful to consumers, investors and future mortgage market conditions – and should not be undertaken without first attempting other solutions, including more targeted modification efforts.”

Lowman estimates that bringing underwater borrowers “even” to a loan to value ratio of 100 percent would cost the industry \$700 billion to \$900 billion. And the cost to the government-

sponsored mortgage financing companies, Fannie Mae and Freddie Mac, and the Federal Housing Administration, would be in the neighborhood of \$150 billion, Lowman said.

Fannie and Freddie have received bailouts of more than \$127 billion, and have an open credit facility with the U.S. Treasury for three years.

Sanjiv Das, president and CEO of CitiMortgage, said Citi considers principal reductions as one of many options that must be used responsibly to help borrowers avoid foreclosure.

“We will continue to be thoughtful in how we implement these programs in scale,” Das said. “Just as HAMP is not the only solution for all consumers, we believe principal reduction is not the only solution for those who are experiencing financial hardship.”