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U.S., lenders ease delinquent loan workouts

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(11-11) 18:27 PST -- Government regulators and the mortgage industry started the broadest effort yet to stem the worsening foreclosure crisis, streamlining the modification process for hundreds of thousands of delinquent loans owned by mortgage giants Fannie Mae and Freddie Mac.

The Federal Housing Finance Agency, which took over the tottering government-sponsored enterprises in September, announced the plan at a news conference on Tuesday, in conjunction with Hope Now, an alliance of private mortgage companies. A majority of its members, which include several dozen major lenders and loan servicers, are voluntarily participating in the program.

It's considered more far-reaching than previous loan-workout efforts because Fannie and Freddie own or guarantee about 58 percent of nation's single-family home loans and often set the standards followed throughout the industry.

"They hold more than half the mortgages in the country, so they can make a real dent in the foreclosure process," said Ken Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at UC Berkeley. "This sounds like a very good attempt to set broad guidelines. Hopefully we'll see other holders of mortgages adopting (them)."

Some, however, feel the "Streamlined Modification Plan" won't do enough to help distressed borrowers, particularly those caught in the sort of subprime or large loans that Fannie and Freddie don't buy or back. "This is a step in the right direction but falls short of what is needed to achieve wide-scale modifications of distressed mortgages," Federal Deposit Insurance Corp. Chairman Sheila Bair said in a statement.

Under the plan, set to be implemented on Dec. 15, qualified borrowers could see their monthly housing payments reduced to no more than 38 percent of their household income. This will be achieved by reducing the interest rate on their mortgage, extending the loan term from 30 years to 40 years, deferring part of the principal due until later in the loan term, or some combination of the three.

To qualify, borrowers must be 90 days or more past due on their payment and owe at least 90 percent or more of the current value of the home, among other criteria. "Foreclosures hurt families, their neighbors, whole communities and the overall housing market," housing finance agency Director James Lockhart said, noting that foreclosures have increased nearly 150 percent from two years ago. "We need to stop this downward spiral."

Hope Now didn't specify which of its lender or loan servicer members would abide by the guidelines, but a spokesman for Wells Fargo & Co. of San Francisco said it is among those participating. The mortgage industry group backed the plan because it provides a consistent set of rules that will make it easier to quickly modify loans and prevent foreclosures, Executive Director Faith Schwartz said.

The most important part of the program is setting an industry protocol for the deferment of principal, said Michael Heid, co-president of Wells Fargo Home Mortgage. In this scenario, part of the loan is simply suspended interest free until toward the end of the mortgage term, lowering payments during much of the life of the loan.

Loans are rarely modified in this way now, because the lack of standards means such changes have to be negotiated and approved on a case-by-case basis.

"With the new guidelines, the (loan) servicer knows right up front if the customer meets these criteria," he said. "It also frees the servicer up to handle many more customers at the same staffing capacity."

But the plan won't address all troubled loans. Freddie and Fannie, which restrict the type and size of loans they buy and guarantee, control only about 20 percent of the seriously delinquent mortgages, Lockhart acknowledged. Home loans owned by multiple investors through private-label mortgage securities, which are not affected by the plan, represent 20 percent of all mortgages, but 60 percent of all serious delinquencies.

Lockhart asked investors and servicers of such loans to adopt the same standards, but some observers are skeptical that many will heed the request.

The plan "leaves out basically the entire realm of subprime mortgages, which are at the heart of the foreclosure crisis," said Tim Lilienthal, a spokesman with the PICO National Network, a faith-based organizing group advocating a systematic approach to preventing foreclosures.

The federal program comes on the heels of stepped-up efforts to renegotiate mortgages and slow foreclosures on the part of an industry that has often proved reluctant to do so.

Citigroup announced late Monday it is halting foreclosures for borrowers who live in their homes, have decent incomes and stand a good chance of making lowered mortgage payments. The New York banking giant also plans to reach out to 500,000 homeowners who are not behind on their mortgage payments yet, but who are on the verge of being delinquent.

Late last month, JPMorgan Chase & Co. expanded its mortgage-modification program to an estimated $70 billion in loans, which could aid as many as 400,000 customers. Bank of America has said that starting Dec. 1, it will modify an estimated 400,000 loans held by newly acquired Countrywide Financial Corp. as part of an $8.4 billion legal settlement reached with 11 states in early October.

Plan to ease loan modifications

The Federal Housing Finance Agency, other government agencies and Hope Now, an alliance of private mortgage companies, announced a plan to streamline the loan-modification process for hundreds of thousands of loans held by Fannie Mae and Freddie Mac.

How does it work? Under the plan, set to begin Dec. 15, qualified borrowers could see their monthly mortgage payments reduced to no more than 38 percent of their household income. This will be achieved by reducing the interest rate on their mortgage, extending the loan term from 30 years to 40 years, deferring part of the principal, or some combination of the three. Participating loan servicers will send letters to eligible borrowers. Borrowers can also call their servicer to see if they qualify.

Who qualifies? Borrowers who are 90 days or more past due on a single-family home payment, occupy the property and owe at least 90 percent or more of the current value of the home. They can be in foreclosure, but can't be in bankruptcy.

Why won't borrowers choose to skip payments to take advantage of the program? Any borrower who misses three monthly mortgage payments would suffer a steep decline in their credit rating. Also, if they can truly afford the current payment, they might not qualify for the program. Among other things, their mortgage obligations may already be below 38 percent of their household income, the goal of the loan modification.

What do Fannie Mae and Freddie Mac do? The companies were created by the government to increase homeownership and affordability in the United States. They inject liquidity into the mortgage market by buying loans, packaging them into securities and selling them to investors.

The Associated Press contributed to this report. E-mail James Temple at jtemple@sfchronicle.com.

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