

2 million troubled borrowers avoid foreclosure

Contributed by Sam Stamber
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The Hope Now coalition reports that it completed a record number of mortgage workouts in July - but that was outpaced by the increasing rate of foreclosures. By Les Christie, CNNMoney.com staff writer Last Updated: August 27, 2008: 2:40 PM EDT

NEW YORK (CNNMoney.com) -- Hope Now has helped more than 2 million at-risk borrowers stay in their homes during the past 13 months, according to numbers released by the coalition on Wednesday.

The alliance of mortgage servicers, counselors, and investors assembled to combat foreclosures fixed more than 192,000 problem loans during July, a one-month record that represents a 6% increase over June.

Despite this progress, foreclosures continue to climb; 91,752 families lost their homes in July. That represents an increase of 14% from June and more than double the number of July 2007, when only 42,043 homes went to foreclosure.

"The treadmill is still going a little faster than [Hope Now] can keep up with," said Nicholas Retsinas, Director of Harvard University's Joint Center for Housing Studies. "Foreclosures have outpaced the efforts to combat them."

So, Hope Now is stepping up its efforts to reach out to troubled borrowers to let them know help is available, according to Faith Schwartz, the alliance's executive director. The group has promoted its program through advertising, public announcements, as well as letters to at-risk borrowers and large foreclosure prevention events that it's holding around the country. Reluctant to seek help

But even now, after months of publicity, many borrowers still fail to respond to Hope Now's offers to help.

Of the nearly 1.6 million letters that have gone out since November 1, 2007 to borrowers 60 days past due, more than 80% of borrowers still had not called their lenders a month after receiving the letters, according to Schwartz.

"Outreach is crucial," she said. "Borrowers have to talk to their lenders. That's the most important message we communicate."

Still, that low response rate is better than the industry norm. Most loan servicers find only about 2% to 3% of delinquent borrowers contact them after receiving a notice, according to John Courson, chief operating officer for the Mortgage Bankers Association.

Hope Now has recently started partnering with community groups to put on large events that allow the thousands of troubled borrowers who attend to meet with foreclosure prevention counselors. It has hosted 20 of these events since March, with a total of 11,500 homeowners in attendance.

Last week Hope Now held several of these events in Florida even as Tropical Storm Fay buffeted the state; a total of 3,300 borrowers turned out for help.

"We are committed to helping as many borrowers as possible and we're not going to let anything, including a tropical storm, get in the way," she said.

Twenty different mortgage lenders and servicers participated in the Florida events including many of the industry's biggest players, like Bank of America (BAC, Fortune 500), JP Morgan Chase (JPM, Fortune 500), Wells Fargo (WFC, Fortune 500) and Washington Mutual (WM, Fortune 500).

"I think their outreach efforts are great," said Jared Bernstein, senior economist with the Economic Policy Institute, "and they're smart to go to ground zero [for foreclosures] to hold these events. But there's only so much they can do. They cannot change people's circumstances in enough cases to stave off the correction that has to occur." More help

And a change in lender attitudes has probably paved the way for more workouts, according to Harvard's Retsinas.

"The participating lenders have come to grips with the idea that the market is not going to get better soon, so they are cooperating more with borrowers. Hope Now numbers reflect that," he said.

Of the 192,034 total workouts completed by Hope Now in July, nearly 112,000, or 58%, were repayment plans, while the remaining 80,000 or 42% of the workouts involved permanently modifying the terms of a loan to make it more affordable. Last year at this time, less than 24% of workouts were modifications. Of the nearly 92,000 subprime loans that were

fixed, 52% of them were modifications.

Repayment plans simply give borrowers more time to pay lenders what they owe, either by extending the term of the loan or by raising monthly payments. They work best for borrowers who were thrown off the track by one-time events, such as an illness or temporary job loss.

But by and large they're considered to be fairly ineffective at preventing foreclosures in the long run, since borrowers often cannot afford the original terms of their loans.

Modifying a mortgage by lowering the interest rate, the principal, or both, is the most effective means of keeping owners in their homes.

Even modifications won't work for everyone, according to Bernstein.

"Home prices are still falling," he said. "There are probably 10 million folks underwater, owing more on their mortgages than their homes are worth and that's going to climb. Not everybody under water is going to foreclose. If you're close to solvency, these efforts can help pull you back from the brink. But if you're well underwater, you're probably going to drown."