

Bergen Record

Homeowners' \$75B lifeline

Thursday, February 19, 2009, Page 1

Last updated: Thursday February 19, 2009, 9:00 AM

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NorthJersey.com

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President Obama's \$75 billion plan to prevent foreclosures won praise Wednesday from lenders and housing advocates, who said it should help many distressed homeowners keep their properties.

The funding is "sufficient in scope to have a significant impact," Diane Casey-Landry, a senior executive with the American Bankers Association, said in a statement.

Phyllis Salowe-Kaye, head of New Jersey Citizen Action, which advises homeowners facing foreclosure, called the proposal "the boldest plan that's come forth."

The Homeowner Affordability and Stability Plan would make it easier for owners to refinance their mortgages, even if they owe more than the property is worth; offers government funding to help modify loans so that monthly payments come to no more than 31 percent of household income; and offers incentives to lenders for modifying loans and to borrowers for keeping up with payments. Lenders' participation would be voluntary.

"All of us are paying a price for this home mortgage crisis, and all of us will pay an even steeper price if we allow this crisis to continue to deepen," Obama said in Mesa, Ariz.

The plan would affect an estimated 9 million homeowners. Details will be announced March 4, when the program starts.

One homeowner who recently faced foreclosure, Michael Esposito of Elmwood Park, welcomed Obama's plan. Esposito was able to get his loan renegotiated with the help of New Jersey Citizen Action, reducing his monthly payments from \$4,000 to \$3,000.

"Once you get the foreclosure notice, all kinds of lawyers' bills accrue, and all of these vultures start circling to get something out of you," he said. "If you can avoid foreclosure with some help from the government, that's a tremendous advantage."

Foreclosure actions rose sharply last year in New Jersey, although the situation is not nearly as dire as in such distressed housing markets as California, Florida, Arizona and Nevada. About 62,000 homeowners were in some stage of the foreclosure process in 2008.

In Bergen County, 410 properties were sold at sheriff's auction in 2008, up 68 percent from the 244 sold in 2007. In Passaic County, 600 properties were auctioned, up 72 percent from 348 the previous year.

"It's catastrophic," said Hackensack bankruptcy lawyer Ronald LeVine. "There's no end to the people in foreclosure now, and they're getting no help at all from the banks."

The government's earlier efforts to ease the foreclosure situation, including the Hope for Homeowners initiative announced last fall, have not done much to slow the tide, and some critics say that's because they were too little, too late.

In fact, even after their loans were adjusted, many homeowners got into trouble again, apparently because they still couldn't afford the payments. The federal Comptroller of the Currency reported in December that more than half of the home loans modified in the first quarter of 2008 fell delinquent within six months.

Obama's proposal includes allowing homeowners to refinance their loans to get a better rate even if they are "underwater," that is, they owe more than the house is worth. Now, many lenders require that homeowners have 20 percent equity in their properties before they can refinance. Under Obama's plan, homeowners who owe up to 105 percent of their home's value —

for example, a \$315,000 loan on a house now worth \$300,000 — can refinance if their loans are backed by Fannie Mae and Freddie Mac.

Mortgage broker Wendy Nastasi, owner of Crossroads Finance Discount Mortgage in the Pompton Plains section of Pequannock, said that could help many New Jerseyans who are underwater on their mortgages.

She cited one recent customer who in June paid \$278,000 for a Mahwah condominium, putting 20 percent down. The homeowner tried to refinance in December into a lower rate, but was unsuccessful because an updated appraisal set the condo's value at \$258,000, a 7.2 percent drop in six months.

But Obama's foreclosure programs won't be much help to the growing number of New Jersey homeowners who are unemployed, Nastasi noted. "Anybody who's lost their jobs, they're probably not going to qualify," she said.

Several of the observers who praised Obama's plan overall still had some reservations. Citizen Action's Salowe-Kaye, for example, would have liked the administration to take a harder line with lenders, requiring them to modify troubled loans, instead of just offering them incentives to do so. Banks that accept government bailout aid will be required to modify loans.

And John A. Courson, CEO of the Mortgage Bankers Association, said he was "encouraged" by the plan, but said it could leave loan servicers open to lawsuits from investors, and would not offer help to borrowers whose loans exceed their property value by more than 5 percent.

"This will limit the plan's success in some of the hardest-hit areas in California, Florida, Nevada and Arizona, as well as some areas on the East Coast," Courson said.

The Obama plan would also offer mortgage servicers a \$1,000 incentive, plus \$1,000 a year for three years, for each successfully modified loan. And borrowers who participate in the program would get \$1,000 a year, for up to five years, for a year's worth of on-time payments, applied against the mortgage principal.

In announcing his foreclosure plan, Obama endorsed a proposal in Congress to allow bankruptcy judges to lower mortgage payments for homeowners who have filed for bankruptcy.

Lenders strongly oppose the bankruptcy proposal, arguing that they would have to raise interest rates and tighten credit to offset the added risk, and that would impede a housing market recovery. "If that came in, you'd need higher credit scores and lower loan-to-value ratios to get a loan," said Alfred F. Buzzetti, president of Bank of New Jersey in Fort Lee.