Consumer Federation of America

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U.S Treasury Report on Loan Modifications Shows Much Work Remains

The release today of the first metrics from the Making Home Affordable program launched in February, 2009 shows that while some progress is being made to help homeowners facing the loss of their homes, there is much more work that needs to be done.

“The information released today shows that many servicers have made hardly any progress at all in offering loan modifications to their customers,” said Barry Zigas, Director of Housing Policy for the Consumer Federation of America. “And the information itself lacks important detail that would give a more complete picture of how the program is really working.”

Zigas noted that while the report estimates the percentage of eligible loans 60 days or more late that have been offered and started trial loan modifications, it does not track how many borrowers who applied for a loan mod were declined, or for what reasons. “The report shows that more than 1 million borrowers requested information under Making Home Affordable,” Zigas said, “but fewer than half were offered trial modifications.”

“Until these reports provide a more granular level of detail,” Zigas said, “they provide only a partial insight into how this program is working.”

The report from Treasury states that out of roughly 2.7 million loans it estimates are eligible for the Making Home Affordable program, only 15 percent – 406,542 – have been offered trial modifications and only 9 percent –235,247 – have started them. The report shows wide variations between servicers, with trial modification starts as a percentage of estimated eligible loans ranging from a high of 25 percent to zero percent for some participating servicers. The report’s estimate of eligible loans also undercounts total eligible mortgages, since it does not include borrowers who are in imminent danger of default but not yet 60 or more days delinquent.

The report also does not distinguish between loans owned or guaranteed by Freddie Mac and Fannie Mae and those being serviced on behalf of investors in loans held in private label securities or of loans held in the lenders’ own portfolios. In a speech at the National Press Club last week, Fannie’s and Freddie’s regulator, Federal Housing Finance Agency Director James B. Lockhart stated that 108,000 of the total loans in trial modifications were owned or guaranteed by them.

"Under the government's conservatorship, Fannie and Freddie have been at the leading edge of modification efforts and any progress helping their borrowers is good news," Zigas said. "But while they hold more than half of all outstanding mortgage debt, these loans account for only 22 percent of serious delinquencies. Private label securities account for 13 percent of mortgage debt outstanding, but 42 percent of serious delinquencies. This crisis will not be solved unless the Making Home Affordable program can make serious inroads into these portfolios."

"Behind every one of these seriously delinquent mortgages is a family that is in imminent danger of losing its home," Zigas said. "The potential impact on them, their families, and their communities makes this an urgent crisis."

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The Consumer Federation of America (CFA) is a non-profit association of over 280 consumer groups that was founded in 1968 to advance the consumer's interest through advocacy, research, and education.