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Banks loath to rewrite loans

Homeowners seek aid for upside-down mortgages

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Kim Westenbarger wants Wachovia Bank to reduce the \$189,000 balance on her rental home's mortgage by \$49,000 and give her a fixed rate.

Otherwise, the Fort Myers-based mortgage broker says, she'll be forced to let go the property because she's losing money on it.

Until recently, residential mortgage write-downs generally weren't on the table.

But now, the government may be pushing for a change in that longstanding practice.

The federal government may put a mortgage-modification effort, called the Home Affordable Modification Program, or HAMP, into overdrive in coming years, pushing for reductions in the principal outstanding on home loans overseen by Fannie and Freddie, Bose George, an analyst at Keefe, Bruyette & Woods, wrote in a note to investors recently.

So far only 66,000, or 7 percent, of the 900,000 enrolled in the program have received help in the 11 months it's been in existence, the Treasury Department announced Friday. The program also includes interest rate reductions and extending the length of the loan.

Wachovia isn't buying a write-down for Westerberg, and she said she's getting frustrated.

"They won't even tell me what

they're going to do," she said, but failure to work out the situation could be disastrous: a foreclosure deficiency judgment means she could also lose her home and her two adult children's homes on which she co-signed the loans.

Kathy Harrison, spokeswoman for Wachovia and Wells Fargo in Florida (Wells purchased Wachovia in 2008), said "We don't comment on individual cases."

But she noted Wells released statistics on Friday showing that in 2009 the company did almost 500,000 mortgage modifications.

The statistics don't break out how many balance write-downs were done, but it's not unheard of, Harrison said — mainly in modifications of so-called option adjustable rate mortgages, in which the borrower has various choices about how to pay back the loan.

"As you might guess, it's not appropriate for every situation," she said, and too much money is involved to write down everybody. "If we did that across the board, my goodness."

For the time being, a reduction in principal is still a long shot, said Kevin Jursinski, a Fort Myers-based

attorney who often negotiates with banks on behalf of people in foreclosure.

"I haven't seen it where someone borrowed \$200,000, it goes down in value to \$100,000 and they write it down to \$80,000," he said. "Someone has to subsidize the lenders. Who's going to pay the other \$120,000? If the answer is, 'The government will write a check for \$120,000,' that still begs the question: Who's going to pay for all that?"

Jursinski said it's hard for a bank to do such a write-down because "They (the banks) have already got the loss. What you're asking them to do is enhance the loss: Then they've got to carry the \$80,000 from the borrower who couldn't pay them in the first place."

Almost half the home borrowers in Florida have a stake in what happens. A First American CoreLogic study showed 2 million mortgages in Florida, or 45 percent, are for more than the house is worth.

That compares to 10.7 million and 23 percent nationally, according to the study.

Dawn Marie Driscoll, a Cape Coral-based business ethics consultant, said the main thing is the need to create policies that let people stay in their homes.

"Whether you make the loans directly to homeowners or incentivize the banks to write down the mortgage, it lets people stay in their homes," she said. "I don't think any particular (policy) is wrong or right. I think they recognize a problem that needs to be solved."

Without help, Westenbarger said, she'll likely end up losing everything: her home, investment properties and children's properties plus her retirement account.

In the long run, she may be at the mercy of the economy to save her mortgages, Westenbarger said. "My only hope is the economy comes back good enough that I can go out and make enough money to go out and make them current."

Additional Facts

UPSIDE DOWN / BY THE NUMBERS

45 PERCENT

Of Florida mortgages were upside-down as of September 2009 — the balance is more than the value of the home

40 PERCENT

Of the mortgages written in 2006 were upside down nationally

10.7 MILLION

Mortgages, or 23 percent, were upside down nationally

\$210,300

Was the average value of an upside-down property

\$280,000

Was the average mortgage debt for an upside-down property

\$2.2 TRILLION

Was the total amount of upside-down homes

\$2.9 TRILLION

Was the total mortgage debt of upside-down homes.

SOURCE: First American CoreLogic
