

Housing rescue group steps up efforts

Hope Now members agree to more streamlined, uniform approach to foreclosure prevention. But community advocates say it isn't enough.

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NEW YORK (CNNMoney.com) -- Life may get a little bit easier for troubled borrowers.

Hope Now, the alliance of lenders, mortgage servicers, investors and community advocacy groups put together to fight the foreclosure epidemic, announced new guidelines Tuesday that should help speed up the process of helping borrowers who are trying to hang onto their homes.

"It may not be a panacea, but it will help a lot of people and lay a strong foundation for recovery," said Jonathan Kempner, president and CEO of the Mortgage Bankers Association.

Reaction from advocacy groups that offer foreclosure prevention counseling was subdued. The policies should have been introduced six months ago, according to Austin King, the director of the Financial Justice Center for the Association of Community Organizations for Reform Now (Acorn). And, he said, much of it doesn't go far enough.

"These changes, though admirable, still do not represent the major progress that will lead us out of the foreclosure crisis," said Maud Hurd, Acorn's president, in a press statement.

The guidelines, slated to take effect within 60 days, are designed to make the process of getting a loan workout faster, more uniform and more transparent.

Keep in touch. Hope Now members pledge to keep borrowers more informed about the status of their workout request than they have in the past, acknowledging workout requests within five business days, and issuing an approval or denial within 45 days.

Secondary loan-holders agree to step aside. Lenders have also agreed to do much more than they have in the past to keep homes out of foreclosure. The new guidelines stipulate that under certain circumstances lenders should give up any claims to a second lien - which is generally a home equity loan or line of credit - if that's what it takes to do a workout.

These secondary loans have been roadblocks for many troubled borrowers, because many of the secondary lenders refuse to approve loan workouts. They generally have little to gain by signing off on any changes.

"That we were able to get them to agree was a major concession on the part of these lenders," said Kempner.

"Hope Now seems to be taking one broad step forward with the automatic subordination of the second-liens," said King. "Many of the loan workouts we have been trying to do were derailed by second-lien holders who wouldn't subordinate."

Consider options such as short sales. The guidelines also call for servicers to delay foreclosure proceedings whenever there are other options possible. They specifically suggest that lenders give more consideration to other foreclosure prevention measures, including requests for a short sale.

In these transactions, borrowers find buyers willing to buy their homes at market value, which is generally less than the amount of the mortgage. Lenders have to approve these sales and agree to forgive any outstanding debt that isn't covered by the sale price.

Many mortgage servicers and lenders have been slow to approve short sales or refused such offers altogether. That often meant borrowers went into foreclosure. The new guidelines say members may suspend foreclosure actions to give borrowers time to complete approved short sales.

"That is a good thing," said Duane LeGate, president of House Buyers Network, which specializes in arranging short sales. "I can't tell you how many homes have had contracts for short sales, only to be lost to the foreclosure process."

The group also cites the option of a deed in lieu of foreclosure for lenders, which is when a homeowner gives the deed back to the bank without going through the foreclosure process. The bank then forgives the difference between what's owed on the mortgage and the home's market value.

These new policies may facilitate short sales and deeds-in-lieu of foreclosure, but they do little to help individual homeowners who still need a place to live, according to Mark Seifert, director of the East Side Organizing Project in Cleveland. He offers foreclosure prevention counseling to some of the hardest hit communities in the nation.

"Hope Now calls short sales and deeds-in-lieu workouts," he said. "How are they workouts? The people are still out of the house."

More accountability. The new Hope Now guidelines also call for new reporting standards that should help the industry better track its progress in a more comprehensive, uniform way.

Hope Now has been criticized that its claims of having helped more than 1.6 million borrowers are not backed up by enough concrete, detailed data, breaking down things such as the specific types of mortgage modifications completed.

All of this is progress, but community advocates like Acorn's King would like to see Hope Now shift its emphasis from repayment plans, which give borrowers a chance to catch up, to mortgage modifications, which lower payments by reducing a loan's interest, principal or both.

"Repayment plans are a recipe for failure," he said. "In cases where there is a structural lack of affordability, you don't solve it with a repayment plan."

In April, nearly 60% of the workouts that Hope Now members offered at-risk borrowers were repayment plans.

Hope Now also stressed that outreach is a critical part of the foreclosure prevention process. It's members pledged to send letters to all borrowers 60 days or more late with payments to inform them of their options. The letter would contain contact information for loan counselors as well as the loss mitigation department of the mortgage servicer.

Members also agreed to send out letters to borrowers with subprime adjustable rate mortgages (ARMs) 120 days before their loans are scheduled to reset to higher interest rates, informing them of potential payment increases and offering help should they need it.

Meanwhile, foreclosures have outrun Hope Now efforts to slow them. In April more than 73,000 people lost their homes to foreclosure, according to RealtyTrac, a online marketer of foreclosure properties. That was up 158% from May 2007. ■

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