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Obama Administration Unveils Incentives for Mortgage Servicers

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WASHINGTON -- The Obama administration unveiled a fresh set of incentives Tuesday for mortgage servicers to help strapped U.S. homeowners.

Under a new program, the government will pay mortgage servicers \$500 up front and \$250 a year for three years for successfully modifying a second mortgage, such as a home equity loan.

Second mortgages have complicated government efforts to help borrowers avoid foreclosure. According to the U.S. Treasury Department, up to 50% of at-risk mortgages have second liens and many properties in foreclosure have more than one lien.

Senior administration officials Tuesday told reporters they expect a significant amount of big banks to sign up for the updated federal program to bring relief to troubled homeowners. Once those firms sign necessary contracts, they'll generally be obligated to modify second liens when they've initiated a modification on the first, the officials said. They also noted that the second lien program will be funded by the \$50 billion in Troubled Asset Relief Program, or TARP, funds the administration had already projected to use for home affordability efforts.

Additionally, the administration unveiled a schedule of incentives for holders of second mortgages to extinguish those liens voluntarily.

The administration also announced a set of incentives for servicers and lenders participating in the Hope for Homeowners program, which aims to restore homeowners' lost equity by encouraging lenders to write down loan principal. The administration said it will take steps to incorporate Hope for Homeowners into its loan modification program. Servicers will be required to determine eligibility for a Hope for Homeowners refinancing and where it proves viable, the servicer would need to offer this option to the borrower.

While participation in the Hope for Homeowners program has been dismal, administration officials said they're expecting strong investor interest as the program is wrapped into the broader federal loan modification program. The administration also said it supports legislation to strengthen the Hope for Homeowners program so that it can function effectively as a key part of the administration's new housing efforts.

"With these latest program details, we're offering even more opportunities for borrowers to make their homes more affordable under the administration's housing plan," Treasury Secretary Timothy Geithner said in a statement Tuesday. "Ensuring that responsible homeowners can afford to stay in their homes is critical to stabilizing the housing market, which is in turn critical to stabilizing our financial system overall."

During a conference call, senior administration officials said they are continuing to work on key elements of the president's plan to stem foreclosures and agencies will be developing more details and guidelines going forward.

Tuesday's announcements are expected updates. The issue of second mortgages has been dogging policymakers ever since the onset of the foreclosure crisis. A large share of troubled borrowers also have a second mortgage on their home, which is typically owned by a different investor than the first mortgage. Such borrowers may not be able to

afford their monthly payments if only the first mortgage is modified.

The administration's effort on second mortgages is also aimed at soothing the concerns of investors, who have been crying foul over the Obama housing plan's incentives for servicers. They argue the first mortgage shouldn't be modified if the second one is left untouched. They also contend the banks that dominate mortgage servicing are conflicted because they own more than \$400 billion of second mortgages. Such banks stand to gain from modifying the first mortgage because the second mortgage is more likely to be repaid once the homeowner is saved from foreclosure.

Some of the largest U.S. banks, including Bank of America, Wells Fargo and J.P. Morgan Chase, have already agreed to sign on to the program, the official said. The rest of the industry will be encouraged to participate.

Under the program, servicers must agree to modify all second mortgages where the first mortgage has already been modified. To qualify for payment, servicers must extend the term of the second mortgage and reduce the interest rate to match the first mortgage. Then, the government will share the cost with the servicer of reducing the rate down to 1% for amortizing loans and 2% for interest-only loans.

Borrowers will receive payments of up to \$250 per year for as many as five years if they stay current on the loan. The payments will be applied to pay down principal on the first mortgage.

Changes to the Hope for Homeowners program are designed to place it in line with the taxpayer-assisted loan modifications. Launched last fall to help troubled borrowers refinance into more affordable government-backed loans, it has failed to gain traction due to onerous borrower requirements and the nagging problem of second liens.

The administration announced Tuesday a \$2,500 up-front payment to servicers that refinance borrowers into the program. Meanwhile, lenders that originate the new loans will receive \$1,000 a year for three years, if the loans stays current.

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