




Get ahead of now.

Discover the new
MarketWatch.com

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

See a sample reprint in PDF format.

Order a reprint of this article now

THE WALL STREET JOURNAL

WSJ.com

FAMILY FINANCES | JUNE 17, 2009

Loan Redos Get Tangled in Thicket of Red Tape

By ROBIN SIDEL

IRVINE, Calif. -- Kellina Lawrie used to be a mortgage broker, pitching loans to borrowers who in the end couldn't afford them. Her current job is working through the wreckage.

Ms. Lawrie is one of thousands of J.P. Morgan Chase & Co. employees trying to modify mortgages for Americans who are in danger of losing their homes. "I feel badly for them, but I also have a responsibility to the bank," says the 30-year-old Ms. Lawrie, who was forced to sell her own home and trade in her Mercedes for a Toyota when the housing market went bust.

Flobbored by the recession, millions of homeowners are asking for help from mortgage lenders like J.P. Morgan's Chase unit, the nation's third-largest servicer of mortgages behind Bank of America Corp. and Wells Fargo & Co. Large and small banks have responded with programs that reduce interest rates, stretch out payments and provide other assistance. These efforts are getting a boost from the Obama administration's housing-rescue plan, which gives lenders financial incentives to modify as many as nine million mortgages.

But the competing interests, red tape and raw emotions that collide in Ms. Lawrie's cubicle and in the loan-counseling center where she works show how hard it will be to overhaul those troubled loans.

More than 9% of 45 million U.S. mortgages, or about four million loans, were delinquent in the first quarter of 2009, according to the Mortgage Bankers Association. That is the highest level since the group started tracking such data in 1972. As of the end of April, though, just 518,155 home loans had been modified, says Hope Now, a coalition of mortgage companies, investors and housing counselors.

Getting a mortgage modified can take months, slowed by thin staffing and mountains of paperwork. With so many loans bundled and sold to investors, it's sometimes hard to figure out who even owns them. The new federal program requires borrowers to meet slightly different requirements than bank programs do, meaning banks need to navigate two procedures.

Chase's mortgage business collects monthly payments and handles other chores on \$1.5 trillion of mortgages. It owns about a fifth of those loans, having sold the rest to investors. Since October, the bank says it has prevented about 180,000 foreclosures, mostly through mortgage modifications. An additional 15,000 loans modified by the bank follow the guidelines set by the White House plan.

Roughly 3,500 Chase employees are trying to restructure troubled mortgages, and 1,000 counselors have been added this year to cope with demand. Chase has opened 24 walk-in offices around the U.S. where borrowers can seek face-to-face assistance.

Bill Campbell, a self-employed electrician in Covington, Ky., recently got a new 20-year mortgage from Chase with an interest rate of 2.75% that will rise no higher than 4.75%, compared with his previous rate of 5.375%.

Mr. Campbell, 60, fell three months behind last year on the loan for his 114-year-old house when his business began to slow. "This is absolutely wonderful for me, and I can tell that I will start having more money coming in because I'm starting to get more work," he says.

Joe Figueroa, a 42-year-old county worker in Cleveland, hasn't been so lucky. He says he fell behind on his \$133,000 mortgage after an illness that forced him to take unpaid medical leave several years ago. Once he went back to work, he tacked additional money onto his monthly \$1,300 payments for a while, but remains behind. Mr. Figueroa says he can't persuade Chase to halt foreclosure proceedings on his 150-year-old Victorian house, though he filed modification paperwork five months ago.

"I didn't borrow more than I could afford and I'm not asking to keep the house for free," says Mr. Figueroa.

Chase spokesman Tom Kelly declined to comment on Mr. Figueroa's case, but said the bank typically puts foreclosures on hold while an application is reviewed. "We can't process modification requests until we receive complete information from the customer," he said.

Other borrowers say that help can be slow -- and that when they do get approved for a modification, it's not a sure thing. Maria Sanchez, a 51-year-old single mother in Bayonne, N.J., refinanced her two-family house three times to escape credit-card debt. The interest rate on her \$412,000 mortgage rose to 9.943%, and by last year, she couldn't afford her \$4,735 monthly payment.

It took her 10 months of working with Chase to get a lower rate. She was recently approved for a trial modification program that will cut her payments by nearly 40% to \$2,937. "This has been the most grueling 10 months of my life," she says.

Charles Scharf, who runs J.P. Morgan's consumer-banking operation, acknowledges that customers are frustrated by the delays, but says the bank is working as fast as it can through the backlog. "It is taking us longer than we want it to take, but we will do everything we can to build up our resources," he says.

One hurdle in restructuring loans is that counselors have to gather so much information. Borrowers who were required in the past only to assert their income to qualify for a "liar loan" now must hand over tax returns, pay stubs and letters explaining how they fell into trouble.

Chase steers a chunk of the applications and phone calls it gets to its call center in Irvine, a glass-and-brick building that once housed another mortgage company. Ms. Lawrie spent more than a year there slogging through mortgages owned by EMC, a former unit of Bear Stearns Cos. that specialized in subprime and other risky borrowers. J.P. Morgan inherited these loans when it bought Bear Stearns last year.

Ms. Lawrie knows all about easy credit. As a freshman at California State University, San Bernardino, in 1997, she went to work as a loan processor at Town & Country Credit Corp., part of now-defunct subprime lender Ameriquest Mortgage Corp. Pulling credit reports and making sure loan applications were complete was more pleasant than the smoky casino where she'd been a part-time cashier since high school. Her 12-hour shifts at Town & Country paid \$2,800 a month, plus \$50 per loan file.

As the housing bubble inflated, Ms. Lawrie hopscotched to several other subprime lenders. She jumped into sales, making increasingly risky loans, and says she was astonished to see the approval of applications by fast-food cashiers who claimed to make \$10,000 a month.

In her senior year, Mr. Lawrie switched to part-time status at college, and then dropped out. At one point, Ms. Lawrie earned as much as \$25,000 a month, she says. She leased a metallic-blue Mercedes CLK 350 convertible for \$900 a month and bought a 3,800-square-foot house in Redlands, Calif. "I was pretty loaded," she says.

In 2005, Ms. Lawrie opened a mortgage-brokerage firm called House 2 Home Financial Services, running it from a small storefront in San Bernardino with 15 employees. The company arranged loans for 50 lenders, including EMC and Washington Mutual. She married her longtime boyfriend, who was still working in the casino.

Before long, Ms. Lawrie was hearing rumors that some lenders were scaling back. She began scanning a Web site called the Mortgage Lender Implode-O-Meter, which tracks mortgage companies that may be running into trouble.

"Doomsday," as she calls it, came in April 2007. Ms. Lawrie placed a routine call to New Century Financial Corp. to make the final loan arrangements for clients about to move into a new home. "I called all day," but no one answered, she says. New Century, one of the country's largest subprime lenders, had filed for bankruptcy protection.

Ms. Lawrie closed her doors five months later. "I felt like I failed. There were all those promises and commitments that I had made that I didn't follow through on," she says.

In 2007, she took a job in what was then EMC's loss-mitigation department, which handles loan modifications and other programs for customers behind on their payments. About 6,000 to 7,000 strapped homeowners call Chase's mortgage hotline each day for help with their loans. Ms. Lawrie worked in a small cubicle in an area with 50 other loan-modification counselors, answering calls and following up on loans already in the restructuring pipeline. Counselors like Ms. Lawrie earn nearly \$50,000 a year plus overtime.

On each loan, Ms. Lawrie is pulled in three directions: Lenders want to collect as much as they can from modified loans. Investors who own loans may not want to accept lower principal and interest payments. Strapped borrowers may still not be able to afford the lower rate.

One afternoon this spring, Ms. Lawrie juggled calls from frazzled borrowers while wrestling with the file of a suburban Chicago woman. Chase had temporarily cut the woman's monthly payments 25% to \$1,175 from \$1,565, but she needed a permanent fix. Ms. Lawrie scrolled through the borrower's tax returns and pay stubs, stopping to read a letter the woman had written about her circumstances. After losing her job and getting a new one that paid \$15,000 less a year, the borrower had sold stock to help pay the mortgage. "I have no more to sell," the borrower wrote.

At that moment, a green light flashed on Ms. Lawrie's computer, signaling an incoming call. It was a woman from a firm that charges homeowners to help them pursue loan modifications. Such firms have been criticized as cheating unsuspecting borrowers who don't know that the loan-overhaul process is free. The caller said she represented someone who got approval for a loan modification in January, but then hit a roadblock because an investor who had bought a slice of the mortgage refused to accept the new terms.

"You need to tell the borrower that she needs to get on a forbearance plan," Ms. Lawrie said after reviewing the customer's file. Such plans stop the foreclosure clock temporarily, with the goal of giving the borrower time to catch up on payments.

Ms. Lawrie turned back to the file of the borrower in suburban Chicago. The loan carried a fixed rate of 7.85% and a balance of \$160,000. Ms. Lawrie tapped on her keyboard, checking to see if the investor who owned the loan would permit a lower rate. After several minutes, she came up with a calculation that would extend the life of the borrower's loan and permanently reduce the monthly payment to \$1,400 from the original \$1,565.

In April, Ms. Lawrie moved from the Irvine call center to the bank's new walk-in loan-assistance center in Rancho Cucamonga, about 50 miles away.

She prefers the face-to-face contact. One couple showed up with five children and assorted cousins, all of whom chip in toward a mortgage they still can't afford. Another couple cried while explaining that they couldn't afford to send their daughter to her high-school prom because the father couldn't get enough work as a contractor.

Ms. Lawrie says she always tries to be sympathetic, but has to balance those feelings against what is financially feasible. "A lot of us have equal responsibility," she says.

Write to Robin Sidel at robin.sidel@wsj.com

Printed in The Wall Street Journal, page A1

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com