



Written by [Michael Tennant](#) on August 30, 2010

For Mortgage Help, Market Outperforms Government

“Surprise! Banks help more homeowners than Obama” is the headline of an August 30 CNN Money report.

Of course, this is only a surprise to those who believe that government programs, which benefit some people at the expense of others, are more helpful than private enterprise, in which both parties to an exchange benefit. One rests on force; the other, on cooperation.

“Banks,” writes CNN’s Tami Luhby, “are doing nearly twice as many modifications under their own foreclosure prevention initiatives than under the Obama administration’s signature Home Affordable Modification Program, known as HAMP.”



Luhby adds: “Servicers completed nearly 644,000 so-called ‘proprietary permanent modifications’ in the first half of this year, compared to 332,000 such adjustments made under the Obama program, according to Hope Now, a consortium of mortgage servicers, investors and housing counselors.”

The reason is simple, says Luhby: “Banks have realized that foreclosing on home after home after home may not be in anyone’s best interest — least of all their own.”

If nothing else, in a bad housing market, banks could end up saddled with numerous houses they simply can’t sell. Modifying loans to help borrowers continue to make payments may do the banks more good than being stuck with a bunch of empty buildings.

Obama’s program asks loan servicers to reduce monthly payments to 31 percent of pre-tax income — an entirely arbitrary percentage that may not make sense in every situation. In fact, Luhby [reported](#) on August 20 that the number of delinquent borrowers getting help from the program was falling and that others were having their permanent modifications under HAMP canceled.

“About half of borrowers who don’t land a permanent HAMP modification are given an in-house adjustment, according to federal statistics,” writes Luhby in her August 30 report. “‘The vast majority of modifications getting done are happening outside of HAMP,’ Mike Heid, co-president of Wells Fargo Home Mortgage, told a House of Representatives panel in June.”

Although “housing advocates are increasingly calling on banks to reduce principal because many homeowners owe so much more on thier [sic] mortgages than their home [sic] are worth,” says Luhby, banks have not done so for the most part, “and virtually no government-subsidized modifications involve this step, in large part because Fannie Mae and Freddie Mac do not allow it.”

Nevertheless, banks have begun reducing principal out of necessity, with Wells Fargo saying “it has reduced more than \$3.1 billion in principal on nearly 60,000 loan modifications in the past 18 months,” according to the report.



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Of course, as in any market transaction, *caveat emptor* is the rule. Borrowers should consider the terms of their loan modifications carefully before accepting them; though, admittedly, if the choice is between accepting less than optimal terms and undergoing foreclosure, it isn't much of a choice. (Keep in mind, however, that in the present economy the lender is in just about as tough a spot as the borrower.)

"Housing counselors say they have heard of some unfavorable terms," Luhby writes. Then again, these terms are being compared to those of HAMP, which is not exactly a fair comparison because many HAMP loans are guaranteed by Fannie and Freddie, i.e., taxpayers.

Once again, as is always and everywhere the case, the free market helps far more people than the government does. Too bad the folks in Washington don't understand this. They keep mortgaging every American's future on the most unfavorable terms imaginable.



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