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# Talks Stall on Mortgage Program

By JESSICA HOLZER FOR THE WALL STREET JOURNAL

WASHINGTON—Talks have stalled between the Obama administration and U.S. banks on how to fix the only federal effort geared toward homeowners who owe much more on their mortgages than their homes are worth.

Under Hope for Homeowners, a program first launched by the Bush administration, lenders must agree to extinguish a second mortgage before borrowers who are deeply underwater can refinance into a more affordable first mortgage. As many as half of seriously delinquent borrowers have a second mortgage, such as a home-equity or down-payment loan, according to analyst estimates.

Typically banks that hold a borrower's second mortgage don't hold the same borrower's first mortgage, putting them in a position to delay refinancing even though it may make sense for the borrower and the holder of the first mortgage.

The Department of Housing and Urban Development has been talking to large national banks and their regulators for months about payments to induce banks to relinquish second liens. But banks demanded a higher level of compensation than the government was willing to pay, people familiar with the discussions said.

HUD will nevertheless launch a revamped program soon with a schedule of payments to extinguish the second liens. But the payments will likely be too low for many banks.

"They're going to pay a small amount to extinguish the liens. That's not going to be enough," said Laurie Goodman, a senior managing director of Amherst Securities Group, a mortgage investor. In the banks' view, "it won't be sufficient for them to write it off," she said.

As a result, the program could continue limping, despite several other changes being readied by HUD. Hope for Homeowners has so far helped only 95 borrowers refinance into government-backed mortgages.

"We appreciate the fact that there will be some second lien holders that won't go for this," said a senior HUD official. "And the program isn't for everyone. But it will serve a substantial niche."

The program may work for borrowers who don't have a second mortgage, as well as those who are so underwater that the second-lien holder has little hope of recovering anything, said the HUD official.

The deadlock could overshadow improvements HUD is making to Hope for Homeowners. More than 16 million homeowners owed more than their homes were worth at the end of the second quarter of 2009, representing nearly one third of all homeowners with a first mortgage, according to Moody's Economy.com.

The Obama administration inherited Hope for Homeowners, conceived by congressional Democrats and enacted last year as part of sprawling housing legislation. Administration officials have worked to iron out kinks in the program. But the bulk of Obama administration efforts have gone to ensuring the success of its own initiative—a program to provide millions of homeowners with government-loan modifications.

That effort, however, is unlikely to help deeply underwater homeowners in the long run because it hasn't typically resulted in smaller mortgages.

HUD's retooled version of Hope for Homeowners is intended to bring it more in line with the loan-modification program and eliminate some onerous requirements.

Vital to its future is the cooperation of mortgage servicers. The largest servicers—J. P. Morgan Chase & Co., Wells Fargo & Co. and Bank of America Corp.—are also the largest holders of second mortgages. Banks may be reluctant to extinguish second mortgages if it means they will be required to immediately write off the entire mortgage.

A J.P. Morgan spokeswoman declined to comment. Spokesmen for Wells Fargo and Bank of America did not return calls requesting comment.

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