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Obama Administration Eases Foreclosure Rules for Unemployed

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WASHINGTON -- The Obama administration is making it easier for out-of-work homeowners to stay in their homes, as it tries to revamp its troubled foreclosure-prevention program.

Starting Aug. 1, the Federal Housing Administration will extend the period for unemployed homeowners to miss mortgage payments to a full year from three or four months. That will allow qualified homeowners to go without making a monthly payment for 12 months before the foreclosure process begins.

The extended grace period only applies to FHA-backed loans, which are usually given to low- and middle-income borrowers and represent about 14 percent of all active mortgages and roughly 25 percent of new mortgages, and homeowners in the government's Home Affordable Modification Program.

But the change will likely only help "tens of thousands" of homeowners, Housing and Urban Development Secretary Shaun Donovan said Thursday.

Last year, roughly 17,000 homeowners received a government-supported delay on their mortgage payments. About 3,500 borrowers with FHA-insured loans fall behind on their mortgages each month due to unemployment, officials said, and another 10,000 unemployed homeowners have taken advantage of a three-month delay in mortgage payments in the past year.

Donovan said administration officials hope private lenders and government-controlled mortgage companies Fannie Mae and Freddie Mac, which back 90 percent of all new mortgages, will adopt a similar policy.

"Our hope is that this will have broader effects," Donovan said during a conference call.

Fannie Mae and Freddie Mac had no initial comment on Donovan's push for a broader, industry-wide grace period for the unemployed.

But new rules going into effect Oct. 1 for the mortgage giants to allow for long-term forbearance when a home or a place of unemployment has been destroyed; if the homeowner or a dependent has a long-term disability or illness; or if the borrower has died and the property is in probate. Mortgage payments can be put off for up to a year in those cases.

"It can be extended and has been extended for people for a variety of reasons," said Brad German, a Freddie spokesman.

The government launched its chief foreclosure program in 2009 to help those at risk of foreclosure by lowering their monthly payments. Borrowers start with lower payments on a trial basis. But the program has struggled to convert them into permanent loan modifications.

More than 1.6 million troubled homeowners received trial modifications over the past two years. But a majority of the applicants, about 854,000 homeowners, have dropped out of the program entirely.

In recent weeks, administration officials have acknowledged that housing has become a significant drag on the economy. President Barack Obama said the housing market has "been most stubborn to us trying to solve the problem," during a town-hall-style meeting Wednesday on Twitter.

He admitted that the government's programs to help homeowners were "not enough" and said the administration was "going back to the drawing board."

Homeowners accepted into the foreclosure assistance program receive interest rates as low as 2 percent for five years. They can repay their loans over a longer period. The median savings for those who remain in the program is about $526 per month.

Those who have their payments delayed must repay them, with interest.

But many homeowners have complained that the program has been a bureaucratic mess. Some have said they were disqualified after banks lost their documents and failed to return their phone calls. Banks have blamed homeowners for failing to submit needed paperwork.

Last month, the Obama administration blamed the three largest U.S. mortgage lenders for the failures of the foreclosure program, saying they hadn't done enough to help people at risk of losing their homes. The Treasury Department said it was withholding financial incentives that amounted to up to $1,000 per permanent loan modification, arguing the three lenders had incorrectly determined that many people were ineligible for assistance.

The lenders, Wells Fargo & Co., Bank of America and JPMorgan Chase & Co., disputed the data, saying they were based on old reports, not audits from the first quarter of the year as the government claimed.

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