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Report: Loan modifications too confusing

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Banks need to do a much better job of communicating with struggling homeowners seeking mortgage relief, says Katherine Porter, the UC Irvine law professor who serves as California Monitor for the $25 billion National Mortgage Settlement.

In a report released today, Porter said that lenders' letters to homeowners often have left them confused and that the burden to ease communication should be on banks, not on borrowers.

“Banks have the decision-making power and expertise; it should be their duty to explain their actions to consumers,” Porter writes in her latest update.

The 2012 settlement required the nation's largest lenders to address mortgage servicing and foreclosure abuses. State Attorney General Kamala Harris last year appointed Porter to oversee the process.

Porter's report cited ongoing problems when homeowners seek loan modifications or other assistance from their banks. She cited:

• **Missing document letters.** Banks often send vague, hard-to-understand letters to consumers about paperwork missing from loan modification applications. “Many missing documents form letters merely restate all of the required documents rather than explaining to homeowners what exact documents are missing.” After gathering consumer feedback, the California Monitor program came up with revised letters, and many banks are considering adopting the revisions.

• **Denial letters.** Lenders' explanations of why loan modification applications were declined often are poorly worded and confusing. “Ultimately, the denial letter, like the missing documents letter, puts the burden on the consumers to decipher complex denial reasons.”

• **Use of door hangers.** Many mortgage servicers leave door hangers on homes they've inspected during the foreclosure process to make sure they haven't been left abandoned or unsecured. “Consumers reported that they felt confused and alarmed by these door hangers. Instead of being reassured and seeing the hangers as an effort to help, consumers feared a new terrible problem with their mortgage had developed.”

Amid the criticism, Porter also praised some lenders for their consumer interactions. The report referred to Bank of America's outreach in extinguishing homeowners' second liens, CitiFinancial's letters informing borrowers they were approved for interest rate reductions and JPMorgan Chase's helpful website, including videos and checklists, as examples of successful communications with positive outcomes.

The report explained the California Monitor devised a “co-branding” project, which sent letters to hundreds of homeowners that included the state attorney general's name and symbol along with those of the banks. While the homeowners had not responded to repeated outreach from the banks, they often responded to the co-branded letters. As a result, 703 families received $151.3 million in principal forgiveness on their mortgages, the report said.

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