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REWORKED LOANS AREN'T WORKING AT INDYMAC BANK

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The mortgage-modification program of IndyMac Federal Bank, hailed by many as a template for allowing delinquent homeowners keep their houses, is an outright failure, an eye-opening report by a mortgage analyst reports.

After a two-month state moratorium on foreclosures pending the intensive modification program, IndyMac's foreclosures in November skyrocketed 242 percent from October, according to the report by Mark Hanson, of the Field Check Group.

The Federal Deposit Insurance Corp., headed by Sheila Bair, which pressed for the modification program, comes under particular pressure from Hanson, who asserts the plan turns thousands of homeowners into renters - forking over a monthly payment with no equity in the home now or in the near future.

"Homeowners - SMARTEN UP!" Hanson wrote in the report. "The FDIC program keeps you fully in debt, you're basically renting your home without a chance to pay it off for the rest of your life."

Hanson, echoing many federal lawmakers, said that as long as a modification program tinkers only with the interest payments and not a reduction in principal, it will never work.

In an interview, Hanson told The Post "That program is just bailing out the banks and anyone who owns the whole loan. I hate to say it, but the homeowner is better off walking away."

While the current mortgage-modification program doesn't benefit homeowners, it doesn't favor mortgage-securities investors either, according to Hanson.

This is because deferring interest, pushing loans out to 40-year terms and creating interest-only teaser periods greatly reduces the cash flows and lengthens the duration of the security, he said. For many securities owners, it's better to have the home sold in foreclosure so they can recoup at least part of their investment, Hanson maintains.

Hanson, a 20-year mortgage veteran who began his career as a mortgage broker, has an alternative plan. Re-underwrite every toxic loan originated between 2003 and 2007 using prudent underwriting guidelines. Then, there must be a reduction in the principal balance to what the borrower really earns using a 28 percent housing ratio and a 36 percent total debt-to-income ratio at a market-rate 30-year fixed loan.

Andrew Gray, FDIC Spokesperson, defends IndyMac's loan-modification program, saying "it's too early to judge, and the borrowers' income-earning ability to pay is being taken into consideration."

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