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## Principal cuts left out of mortgage modifications

Phoenix Business Journal - by [Mike Sunnucks](#)

Elvis Saloum said his mortgage brokerage has done 100 modifications over the past 18 months and not one of them has resulted in lowering the principal loan amount for distressed borrowers.

“Not a single one,” said Saloum, a loan officer and modification consultant for **Arizona Wholesale Mortgage Inc.** in Phoenix. “It’s not like we haven’t asked for it.”

Saloum, who’s company provides modification services, said he’s read about principal reductions by **Bank of America** and other lenders, but he’s just not seeing it in the struggling housing market.

Arizona Wholesale Mortgage charges \$3,000 for loan modification work. If it is unsuccessful, all but \$600 is refunded. Saloum said consumers should be leery of modification firms promising principal reductions. He said the more likely scenario is for banks to temporarily lower interest rates to as low as 2 percent and then gradually bring them back up each year until they reach 5 percent. That practice is occurring under federal mortgage assistance programs.

Other real estate pros also aren’t seeing banks trim principal off underwater loans.

“I’ve never seen a principal reduction,” said David Dzedzic, founder of Housing Angels, an Avondale-based short sale company.

Housing Angels’ investors buy homes from underwater owners and then lease the homes back to them with the hope the original owner will buy back their residence within three years. Dzedzic said he talks to about 100 distressed mortgage borrowers in the Phoenix area each month and while all hope to lower their payments, many of them are frustrated by banks’ unwillingness to make major modifications.

Others say lower interest rates still can benefit borrowers in the long-term.

“Interest rate adjustments are really all I’ve seen, but these are tantamount to principal reductions if the homeowner ends up staying in the home long enough,” said Robert Nagle, a real estate attorney and senior partner of the Nagle Law Group in Phoenix. “By this I mean when we borrow \$100,000 to buy a house, we end up paying back, say \$300,000, when you add in the \$200,000 of interest. If you reduce the interest rate early enough in the term, as we are presently seeing, then perhaps the total paid drops to \$250,000. So, in essence, the homeowner ‘repays’ \$50,000 less.”

But that’s a long-term realization and not a short-term lifeboat, said Diane Brennan, a Realtor with **Keller Williams Integrity First Realty** in Scottsdale. She said short-term interest rate cuts aren’t enough to make up underwater values or help borrowers in financial distress.

“They are still underwater and end up walking away.” she said.

**JPMorgan Chase & Co.** spokeswoman Mary Jane Rogers said Chase Bank has modified 214,500 home loans nationally since January 2009. Under federal assistance programs Chase has reduced the interest rate 100 percent of the time, extended loan terms 56 percent of the time and offered principal forbearance 29 percent of the time, she said. She would not provide a state-by-state breakdown of those numbers.

Rogers said Chase is looking at principal reductions under federal assistance programs but has not done any.

Bank of America spokesman Rick Simon said BofA has done 28,700 “permanent” modifications in Arizona since January 2008, including 9,000 so far this year. Simon said BofA has worked to forgive principal for some “severely underwater” adjustable rate mortgages. BofA also could offer as many as 45,000 home loan principal cuts nationally for former Countrywide Loans customers, he said.

BofA earlier this month said it was freezing foreclosure proceedings nationwide as it and other banks came under scrutiny for not reviewing foreclosure documents. Chase and Ally-owned **GMAC Mortgage Corp.** have frozen mortgages in 23 states for the same reasons, but in not Arizona.

**Wells Fargo Bank** has agreed to some principal forgiveness for some former **Wachovia** borrowers, said spokesman Tom Goyda. Goyda estimates Wells has cut \$3.4 billion in principal off its loans nationally since 2009.

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The Arizona Department of Housing last month started a program with a \$125 million grant from the Obama administration to curtail foreclosures in the state. The program could lower principal by as much as \$100,000 for underwater borrowers at least two months behind in payments. But the principal reductions hinge on banks going along with the plan and matching a \$50,000 principal payment by the state.

Real estate pros aren't optimistic.

"I have never seen a principal reduction, just 'trial periods' that drag on and on... Seems like most of these banks know they are going to get the house back sooner or later, so they have made up these trial periods as a method to get some additional money to come in on the property before it is ultimately short sold or foreclosed on," said Joseph Maggiore, a Realtor with **Realty Executives** in Scottsdale.

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