

Countrywide To Offer To Rework 82,000 Loans

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[Countrywide Financial](#), the nation's largest mortgage lender, said yesterday that it will offer to refinance or modify about \$16 billion in home loans through the end of 2008, a move that could affect 82,000 borrowers.

Lenders have come under increasing pressure from policymakers and consumer advocates to help borrowers who are struggling to hold on to their homes. Critics say lenders have done little to stem an alarming rise in foreclosures since problems surfaced earlier this year, fueled by risky, or subprime, borrowers. They want lenders to restructure the debt in a way that makes the loans affordable.

"Lenders have been paying a lot of lip service to loan modification in particular, but we haven't seen them do a lot about it," said Guy Cecala, publisher of the trade publication Inside Mortgage Finance. "Now the largest player in the mortgage market is taking first steps, and that's something."

The lender, which is based in [California](#), is focusing on borrowers with so-called 2/28 and 3/27 adjustable-rate mortgages, which offer low rates for the first two or three years of the loan, respectively, and then adjust to a much higher rate for the remaining 28 or 27 years.

Countrywide said its main goal is to reach at-risk borrowers who are current on these types of loans, notify them that their rate is about to reset and develop more affordable options for them if necessary.

One target group is made up of 52,000 subprime borrowers. Countrywide said it will try to refinance their loans, worth about \$10 billion, into less expensive deals.

The company also plans to modify \$4 billion in loans for 20,000 subprime and prime borrowers who are on time with payments but may have trouble once the higher rates kick in.

Countrywide is also sending letters and offering to cut rates for an additional 10,000 borrowers who have missed payments on \$2.2 billion in loans because rates recently reset.

Steve Bailey, senior managing director of loan administration at Countrywide, said the initiative will not prevent all foreclosures. But it aims to ensure that "none of our customers will suffer foreclosure solely because they had payment increases because of the rate resets." The company said it has modified 20,000 loans this year but wanted to be more aggressive as the focus on credit concerns intensified.

For months, policymakers have focused on adjustable-rate loans because they were especially popular during the housing boom with subprime borrowers, who now account for most of the foreclosures.

About 2 million of those subprime loans will reset to higher rates in the next 18 months, according [First American CoreLogic](#), a mortgage data company. When they do, many fear, foreclosures will spike. Many subprime borrowers with adjustable-rate mortgages would not have qualified for loans under more-traditional rules.

Much attention has been focused on Countrywide because of its size. The company collects payments on about \$1.4 trillion in loans and made one out of every five loans in the country in the first half of the year. It was also known for granting the kinds of nontraditional loans that have led to the current troubles.

On [Capitol Hill](#), reaction ranged from skepticism to faint praise.

"Given Countrywide's track record, a lot of questions must be answered before they get a pat on the back," [Sen. Charles E. Schumer \(D-N.Y.\)](#) said in a statement. "What are the fees they will be charging borrowers to refinance or restructure their loans? Who will qualify for help? And are they putting these borrowers into safe, affordable products or another unsuitable loan?"

[Christopher J. Dodd \(D-Conn.\)](#), chairman of the Senate Banking Committee, which has jurisdiction over lenders, said he welcomes Countrywide's "late" decision to aid borrowers.

"However, this problem reaches far beyond the 82,000 borrowers they have agreed to assist," Dodd said in a statement. "Many more hardworking Americans are at risk of losing their homes unless subprime lenders quickly adopt and implement a set of standards and procedures for reaching out to them."

Reaching out to borrowers has been part of the problem. Many homeowners don't know where to turn when they run into trouble, and some are too embarrassed or intimidated to call the company that manages their loan.

"Half of distressed borrowers never bother to pick up the phone," said [Greg McBride of Bankrate.com](#), a personal finance Web site. "So it's very likely that Countrywide's efforts are preemptive in nature, that they're trying to reach out to borrowers before they start to fall behind."

But even if borrowers contact their lenders, there may still be problems finding sustainable payment plans. Most of the 16 largest firms that collect payments on subprime loans had modified only about 1 percent of their adjustable loans that reset in January, April and July, a poll by [Moody's Investors Service](#) found.

Modifying these loans is an art, not a science, said Cecala of Inside Mortgage. Many lenders have little experience crafting changes in rates or canceling resets.

"Lenders are reluctant to do that," Cecala said. "How many would have paid if they hadn't lowered the payments?"

At this point, Cecala said, most lenders are convinced that they can recoup more money by selling a foreclosed home than they can by restructuring a loan that could later fail.

In that sense, what Countrywide is doing is "aggressive and unique," he said, and politically savvy. The company is scheduled Friday to release third-quarter earnings that show huge losses because of delinquencies and defaults. This initiative may be designed to highlight that it is addressing its problems, he said. "There's no question that the timing of this announcement is not coincidental."