

IndyMac borrowers to get relief

FDIC offers plan to systematically modify loans for homeowners most at risk of foreclosure. Agency chief hopes program will spur other banks to take similar measures.

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NEW YORK (CNNMoney.com) -- The FDIC, six weeks after taking over mortgage lender IndyMac Bank, said Wednesday that it will start systematically modifying some of the bank's most troubled loans to keep borrowers in their homes.

The Federal Deposit Insurance Corp. said it has started to send out the first of what will be an estimated 25,000 letters to borrowers most seriously delinquent on their loans.

The goal of the modifications: to provide borrowers with affordable payments so they can stay current on their mortgages and remain in their homes, while at the same time minimizing losses to investors in securities backed by the loans.

"Foreclosure is often a lengthy, costly and destructive process. Avoiding foreclosure not only strengthens local neighborhoods where foreclosures are already driving down property values, it makes good business sense," FDIC Chairman Sheila Bair said in a statement. "This is a 'win-win' program all around."

Equally important, by making delinquent loans current, the FDIC hopes to maximize the value of IndyMac to potential buyers of the bank and its assets. That would be good news for IndyMac customers who had uninsured deposits at the bank when it was taken over. A higher purchase price would also mean fewer costs for the FDIC and its insurance fund.

"By turning troubled loans into performing ones, we enhance their overall value," Bair said in a press call Wednesday afternoon.

Bair, who has pressed lenders for the past year to streamline the way they modify troubled mortgages, inherited \$200 billion in loans owned or serviced by IndyMac when the bank was taken over by regulators in July.

She said she hopes this new FDIC program will serve as a model for other loan servicers.

"It's my hope that it will provide further catalyst to provide more loan modifications for borrowers across the country," Bair said.

How the program will work

The FDIC is defining "affordable" loans as those in which the mortgage payment (including principal, interest, taxes and insurance) does not exceed 38% of a borrower's income.

That debt-to-income ratio may be achieved in a number of ways, according to the FDIC: by reducing the interest owed on the loan, by stretching out the number of years over which the loan may be paid back or by principal forbearance, which defers payment on a portion of the original principal until the home is sold or the loan is refinanced.

The new interest rate on the modified loans may not exceed the Freddie Mac survey rate for so-called conforming loans, which is currently around 6.5%.

For IndyMac borrowers to qualify for an FDIC modification, they would have to show verification of income - most IndyMac loans are so-called Alt-A loans, which were given to borrowers with good credit but no proof of income. Borrowers would also have to verify that the home at issue is their principal residence. And they would need to sign the letter sent to them by the FDIC and send it back with the first payment due on the modified loan.

The FDIC said borrowers who haven't received a letter also may call (800) 781-7399 to talk with an IndyMac Federal representative to see if they qualify for the new program.

Bair stressed that the FDIC would work on a case-by-case basis with struggling IndyMac borrowers who don't qualify for the program to see if an alternative option could help keep them in their home.

One possible alternative is a new Federal Housing Administration (FHA) program passed by Congress in July. That program, slated to start on Oct. 1, would let the FHA insure new 30-year fixed-rate mortgages for at-risk borrowers if their lenders agree to write down loan balances to 90% of the homes' current appraised value.

Courtesy of JB Goodwin