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Foreclosure-relief funds earmarked for California mostly unspent

Only about a sixth of the $2 billion available to help troubled homeowners in the state has been tapped. But officials say the money will begin to flow soon.

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*** "We believe, the squeaker the wheel, the more trouble you cause them, the better your chances of receiving meaningful relief"***

A federal foreclosure-prevention effort that earmarked nearly $2 billion in taxpayer money to help troubled California homeowners has delivered only about one-sixth of that money in three years.

But officials from the Keep Your Home California program say the pace of payouts is finally set to increase. That's because more banks, including the largest mortgage servicers, have agreed to use the funds to slash the loan principal amounts for certain borrowers.

Until now, many borrowers seeking aid from the program have been frustrated.

"A lot of people may have called, at one point or another, only to be told they couldn't qualify because their servicer was not on board," said Diane Richardson, legislative director for the California Housing Finance Agency, which developed the state's program.

The money has flowed so slowly because a goal of the state program is to use much of the money to write down borrowers' debt — an idea resisted by many banks and government-sponsored mortgage giants Fannie Mae and Freddie Mac.

When Fannie Mae and Freddie Mac dropped their opposition to the principal-reduction program last year, the gates opened for participation by lenders that sell loans to the government-backed firms, Richardson said.

"That was the driving force behind getting bigger lenders to participate," she said.

Borrowers have faced major hurdles in trying to access the aid. Joshua and Catherine Brewster sought help after Josh lost his job as a legal assistant at Hilton Hotels when a reorganization moved his division out of state.

They battled for a year for a modification from their servicer, Bank of America, to help with their $2,300-a-month mortgage payment. Then they got transferred to the state Housing Finance Agency.

Many additional battles over the loan terms followed, they said, before the Keep Your Home California program approved $47,000 in principal reduction. Their interest rate also was cut to 3.75%, and in January payments fell to $1,676 a month, which they say they can handle.

"We had to fight," Josh said. "People are not conditioned to challenge the banks. It was brutal."

**** above sentence was inserted by Nonprofit Legal Clinic, not part of L.A times news release!**