

## Loan Disservice: Part Two



The “Making Home Affordable” program would be better named the “Making Banking Profitable” program. Very little of the money set aside to pay owners of the mortgages (mortgagees) for granting loan modifications to troubled borrowers has been spent, which means banks are NOT making home affordable.

Even though the federal government is willing to reward behavior that minimizes bank losses, the actions and failures to act of today’s megatron banks are not rational. They do not understand their own products (see example below), nor are they willing to become familiar with the contents of their portfolios.

As a former mortgage broker, and a borrower myself, here is my advice. You, the consumer, should always get the name of any and every representative, write it down in a letter summarizing the conversation with the date, time and the number that you dialed, and send that letter certified mail.

The loan product I chose for a second home purchase in March of 2007 was called a “Many Option ARM”. I made my first payment in April, Using Option One - the minimum contractual amount. The next month, I chose Option Three – Fully Amortized - and things went downhill from there. Upon receiving the May payment, Bank of America applied it to the wrong month, booked the wrong principal amount and then proceeded to slap on a late fee. Alarmed that the principal balance was going up, I called and was referred to the “Special Products Department” where at least two different “Special Agents” lectured me on the fact that my loan negatively amortizes. “No”, I patiently explained, “it has the potential to negatively amortize”. The bank is only allowed to increase the principal amount (negatively amortize) when the borrower pays the contractual minimum. Being a conscientious borrower, I madly persisted in sending in fully amortized loan payments (the full amount actually due). Month after month, the money would be misapplied, and another hour was wasted explaining to another Loan Servicing Department employee how to read a Promissory Note. Unlike the National Mortgage Company, Bank of America, in an attempt to placate their strangely debt-averse caller, immediately supplied a year’s worth of loan coupons – wasting more time and paper because the payments on a monthly adjustable loan do indeed change – every month as a matter of fact. Five months, thirteen different loan service representatives, seven payment reversals and three late fee waivers later, my situation was bumped up to the Executive Response Department.

By now, the documentation weighed about a pound, but I had it copied and mailed it to her anyway. After a week, during which we spent several hours on the phone, it seemed to have been resolved, as the letter from Executive Response in Getzville, New York stated: “I have confirmed that a coupon book was inadvertently ordered for

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you on June 21, 2007. Please accept my apology...In reference to your payments being misapplied...there was a process exception for your June through August 2007 payments which resulted in your fully amortized payment being applied as two minimum payments". A PROCESS EXCEPTION was made – really? Is that Bank-speak for mistake? There was one more misbooking, and one more fee waiver, but since that time, the interest rate has declined from 7.875% to 3.00%, and the minimum contractual payment always pays down the principal. Things seem to be working out now, but I keep a very careful eye on the shrinking remaining balance.

Useful Internet Links:

<http://www.gpo.gov:80/fdsys/pkg/USCODE-2009-title12/pdf/USCODE-2009-title12-chap27-sec2605.pdf>

<http://www.gpo.gov:80/fdsys/pkg/USCODE-2009-title15/pdf/USCODE-2009-title15-chap41-subchapVsec1692I.pdf>