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Pennsylvania Mortgage Relief Wins Fans

Some See a Model for the Federal Effort to Rescue Troubled Home Loans in Long-Running State Program

By RUTH SIMON

With the Obama administration stumbling to modify large numbers of troubled [mortgages](#), a little-known Pennsylvania program designed to assist struggling homeowners has been attracting increasing attention.

Pennsylvania's program is geared toward providing short-term aid to borrowers suffering from temporary hardship such as a job loss. It helps homeowners meet the terms of their existing mortgage with separate, below-market rate loans. The federal program, by contrast, aims primarily to provide long-term assistance to borrowers by modifying mortgages to make the payments more affordable.

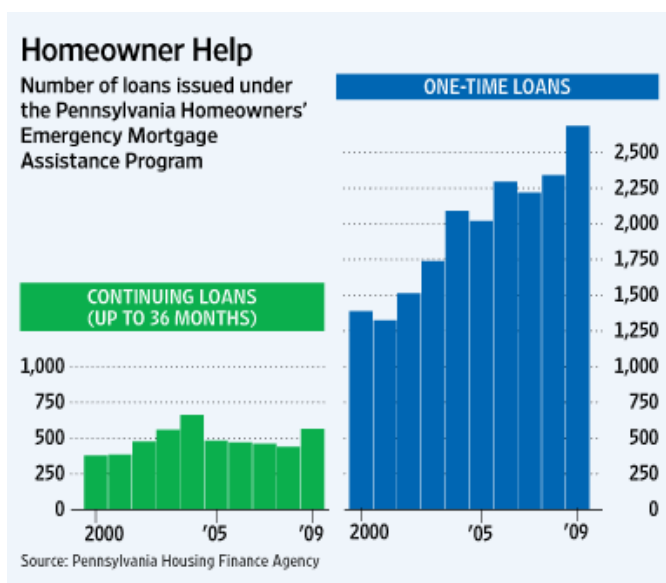
Launched 26 years ago, the Pennsylvania plan has disbursed more than \$453 million in loans and helped more than 43,000 borrowers keep their homes, according to the Pennsylvania Housing Finance Agency, the program's administrator. About 25% of loans are eventually written off because borrowers fail to repay them, the housing agency says, well short of the redefault rate for modified home loans. "I was pleasantly surprised it's that low given the nature of the program," says PHFA Executive Director Brian Hudson.

Interest in the Pennsylvania program comes amid growing concern that the federal program isn't doing enough to help financially troubled homeowners. When President Barack Obama announced the program in February, officials said it could help as many as four million borrowers through 2012. But through December, only 113,000 borrowers had received or were on the verge of receiving permanent fixes, according to data released earlier this month.

One criticism of the federal initiative is that it often doesn't help borrowers who have lost their jobs and incomes. A Treasury Department spokeswoman says that unemployed borrowers are allowed to participate in the government's foreclosure prevention program, but acknowledges "that some unemployed borrowers will have trouble qualifying for a modification because their income is insufficient."

The Pennsylvania program, which has received bipartisan support in the state, doesn't involve modifying existing mortgages. Instead, homeowners in financial distress receive either one-time loans that allow them to catch up on missed payments or continuing help with their mortgage payments for up to 36 months. The money is paid directly to mortgage companies and must be repaid when borrowers get back on their feet. Funding for the program comes from state appropriations and repayments of earlier loans.

The Pennsylvania effort has won praise from a congressional oversight panel and has been copied by a handful of states, including Delaware and North Carolina. Rep. Barney Frank wants to funnel money from the



Troubled Asset Relief Program into a federal program that is similar to the Pennsylvania effort.

Cost would be a factor in any effort to expand the program nationally. The Pennsylvania program spends on average \$10,500 per borrower. A record 10.04% of mortgages nationwide were delinquent in December, according to LPS Applied Analytics.

Assistant Treasury Secretary Michael Barr, who is overseeing the federal modification program, says the administration continues to look for ways to address unemployment. The Pennsylvania effort "is not a program that's been especially large or reached large numbers of people, but on the margin it has been helpful," he said.

Pennsylvania's Homeowners' Emergency Mortgage Assistance Program was created in the 1980s in response to job losses in the steel and coal industries. With funding tight, the approval rate for new loans in the Pennsylvania program has fallen to about 22% from a high of more than 40% in the 1980s. Roughly 80% of loans involve one-time payments, with just 20% going to borrowers who need continuing help with their mortgage payments for up to three years.

Karen and John Steele applied for a loan last year after Mr. Steele lost his job at a Pittsburgh bank. A 5.25% loan from the program will cover about \$400 of their mortgage payments for up to 36 months, with the Steeles responsible for the remaining \$284. "Knowing that there was help out there provided us with major relief, both emotionally and financially," Ms. Steele says.

Under the Pennsylvania program, borrowers are put on a formal repayment plan once an annual review of their finances shows they have sufficient income. Borrowers have repaid more than \$250 million, money that is funneled back into the program.

Last year, the program received \$11 million in state funds, less than half the \$25 million authorized when it was created. Loan repayments, an additional source of funding, slipped to about \$9 million last year from \$16.9 million in 2006 amid the weaker economy.

Timothy Stockline Jr. worries that a loan might not be enough to help him avoid foreclosure. A hospice aide, Mr. Stockline got a loan that will allow him to catch up on more than \$7,000 in payments he missed after he lost his second job at a furniture company. Without the loan, "I'd be done," says Mr. Stockline, who recently found a second job as a nursing assistant to supplement his income.

But staying on track will still be difficult, says Mr. Stockline, who was recently turned down by Citigroup Inc. for a loan modification under the federal program that would have made his payments more affordable. "I will probably be in the same situation six months from now," he says.

A Citigroup spokesman says the company's policy is not to discuss specific borrowers, but added that Citigroup is committed to finding solutions for customers "that preserve homeownership and help mitigate the challenges faced by borrowers."

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