

Caliber to provide up to \$17 million in loan forgiveness in settlement

Caliber Home Loans has agreed to settle allegations that it engaged in “unfair and deceptive” mortgage modification practices



By [Ryan Smith](#)
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Caliber Home Loans will provide up to \$17 million in mortgage loan forgiveness to current customers in New York who were placed in interest-only loan modifications, the New York Attorney General’s Office has announced.

The loan forgiveness is part of a settlement with the state, which will also provide added protections for Caliber's New York customers during the economic fallout of the COVID-19 outbreak.

“As COVID-19 continues to impair our state's economy, mortgage servicers and investors should know that we will always prioritize homeownership for New Yorkers over profits for predatory lenders,” New York Attorney General Letitia James said Tuesday. “This settlement shows that mortgage servicers can satisfy their financial responsibilities without ripping away the homes of innocent New Yorkers, and that there is no need for secrecy behind loan modification programs, which have kept homeowners in the dark about their best options for years. The industry can – and should – be adopting measures that provide sustainable and affordable modifications, as well as more transparent communications with homeowners.”

The settlement follows an investigation into the practices – called “unfair and deceptive” by the state AG's office – of Caliber's mortgage modification program. Caliber, which is owned by affiliates of Texas-based Lone Star Funds, serviced thousands of distressed mortgages that Lone Star purchased at a discount from government entities including Fannie Mae, Freddie Mac and the Department of Housing and Urban Development. However, instead of providing affordable and sustainable modifications as required by New York regulations, Caliber allegedly prioritized interest-only and short-term modifications. These modifications reverted to much higher payments after a period of up to five years.

“This unfair practice resulted in a payment shock that created an unacceptable risk of redefault for these homeowners,” the AG’s office said. “Even as homeowners pleaded for long-term, sustainable modifications, Caliber continued to deceptively peddle these unsustainable modifications.

The settlement mandates that all of Caliber’s current New York customers with interest-only or short-term modifications be automatically evaluated for the “NY Principal Reduction Modification.” That modification targets a monthly mortgage payment equal to the borrower’s current interest-only payment, but one that would then be inclusive of principal, interest, taxes and insurance. Caliber would provide the modification by reducing the interest rate to 3.75% for the life of the loan, extending the term up to 40 years, and, when necessary, deferring some of the principal to the end of the mortgage, the AG’s office said.

Underwater homeowners would receive additional relief as part of the NY Principal Reduction Modification, under which Caliber would be required to forgive principal balances so that the amount of the mortgage equals the market value of the home. Caliber estimated that the potential loan forgiveness for underwater borrowers would be approximately \$17 million.