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Secret Inside BofA Office of CEO Stymied Needy Homeowners

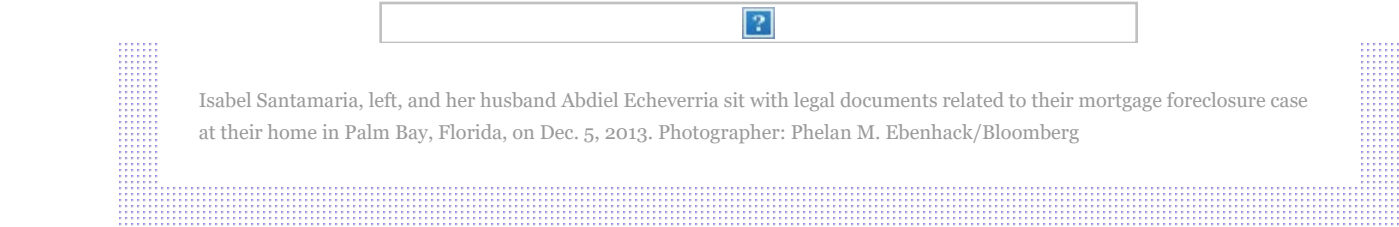
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Isabel Santamaria, left, and her husband Abdiel Echeverria sit with legal documents related to their mortgage foreclosure case at their home in Palm Bay, Florida, on Dec. 5, 2013. Photographer: Phelan M. Ebenhack/Bloomberg

Dec. 16 (Bloomberg) -- Isabel Santamaria thought she finally caught a break in her effort to save her Florida home from foreclosure after nine frustrating months: She reached Bank of America Corp.'s Office of the CEO and President.

What the mother of two autistic children didn't know is that her case would find its way to contractors, including Urban Lending Solutions in Broomfield, Colorado, far from the bank's headquarters in Charlotte, North Carolina. Bank of America hired the firm founded by Chuck Sanders, a former Pittsburgh Steelers running back, to

clear a backlog of complaints about a federal program designed to prevent foreclosures.

“It felt like a big deal, reaching the CEO’s office,” Santamaria, 43, said of having her June 2010 call escalated to what she was told was the bank’s top level. “It only happened because I complained to my congressman, the attorney general, television stations. They only put you there if you make a big stink, but once you’re there, they still don’t help you.”

Bank of America, led by Chief Executive Officer Brian T. Moynihan, faced more than 15,000 complaints in 2010 from its role in the government’s Home Affordable Modification Program. Urban Lending, one of the vendors brought in to handle grievances from lawmakers and regulators on behalf of borrowers, also operated a mail-processing center for HAMP documents.

Paperwork Requests

Instead of helping homeowners as promised under agreements with the U.S. Treasury Department, Bank of America stalled them with repeated requests for paperwork and incorrect income calculations, according to nine former Urban Lending employees. Some borrowers were sent into foreclosure or pricier loan modifications padded with fees resulting from the delays, according to the people, all but two of whom asked to remain anonymous because they signed confidentiality agreements.

HAMP was the centerpiece of President Barack Obama’s attempt to prevent foreclosures by lowering distressed borrowers’ mortgage payments. Under the program, homeowners are given trial modifications to prove they can make reduced payments before the changes become permanent.

The accounts of the former employees help explain why Obama’s plan fell far short of the 3 million averted foreclosures targeted in 2009. Relying on the same industry that sold shoddy mortgages during the housing bubble and improperly sped foreclosures afterward, HAMP resulted in still-active modifications for 905,663 homeowners as of the end of August, or 13 percent of the 6.9 million people who

applied.

Countrywide Managers

Bank of America stands out in a program that lawmakers and former Federal Deposit Insurance Corp. Chairman Sheila Bair have called a failure, leaving many homeowners worse off. The second-largest U.S. lender canceled more trial modifications than any mortgage firm and sent the highest percentage of rejected customers into foreclosure, Treasury data show.

To help run its modification program, Bank of America relied on managers who had worked at Countrywide Financial Corp., the subprime lender it took over in 2008. Those executives created and enforced quotas for resolving complaints, according to the former employees. Among them was Rebecca Mairone, found liable by a federal jury in October for defrauding government-backed housing companies Fannie Mae and Freddie Mac while working at Countrywide.

Urban Lending staff, struggling to meet those quotas, resorted to falsifying records and improperly purging complaints, the people said. They sent letters containing inaccurate statements on Office of the CEO and President stationery to lawmakers and U.S. agency officials who sought assistance on behalf of borrowers, the former employees said.

‘Absurd’ Ecosystem

Tens of thousands of HAMP modifications were improperly denied by Bank of America and Urban Lending since April 2009, according to a July complaint filed by homeowners against the two companies in federal court in Colorado.

“Everyone knew that we weren’t helping people,” said Erik Schnackenberg, a customer-service manager who left Urban Lending in 2011 and now runs a yoga studio in Longmont, Colorado. “They were giving us all the pressure and none of the power to change anything. It was this absurd, self-contained ecosystem of worthlessness.”

Schnackenberg and other former employees, who spent from four months to three years at Urban Lending as customer-service representatives and auditors, said they spoke when contacted by Bloomberg News because they're distressed by what they saw.

Seamless Experience

Bank of America didn't intend to mislead or stall customers or misrepresent facts to lawmakers, Ron Sturzenegger, head of the lender's Legacy Assets Servicing unit, said in an hour-long interview. Changing HAMP guidelines and an initial influx of overdue borrowers made the program difficult to implement, and the bank has made improvements since 2009, he said.

"The only intent that we've ever had is to help these customers," said Sturzenegger, 53. "If we could get more people into HAMP, we'd do more HAMPs."

Bank of America authorized Urban Lending to refer to itself as the Office of the CEO and President in letters and telephone conversations to provide a seamless experience for homeowners who complained directly to Moynihan, Sturzenegger said.

"The way we view Urban and other vendors like Urban is as an extension of Bank of America," he said.

Glenn Stevens, general counsel and executive vice president of human resources at Urban Lending, denied that the firm engaged in any wrongdoing and declined to respond to questions, saying he wouldn't address matters tied to pending litigation.

Contractor Army

To do the HAMP modifications, the U.S. turned to mortgage servicers, which handle billing and foreclosures. Bank of America became the biggest servicer when Moynihan's predecessor, Kenneth Lewis, arranged the purchase of Countrywide as it

teetered under the weight of losses from subprime lending.

The deal saddled Bank of America with at least \$43 billion in costs, 1.4 million delinquent borrowers and mounting complaints about its performance.

Moynihan called on outside vendors, who hired an army of employees peaking at almost 17,000 last year to deal with the failing loans. One was Pittsburgh-based Urban Lending, which had been doing title work for Bank of America since 2007. The vendor also serviced mortgages for MetLife Inc. and SunTrust Banks Inc.

Urban Lending was founded in 2002 by Sanders, a 6-foot-1 graduate of Slippery Rock University who scored one touchdown over two seasons in the National Football League. Anticipating the coming housing apocalypse, Sanders, 49, pivoted from title searches to servicing troubled mortgages, according to an interview with the Pittsburgh Tribune-Review.

Pittsburgh Restaurant

Revenue at Urban Lending surged to \$183.5 million last year from \$8 million in 2007, making it one of the country's fastest-growing minority-owned businesses, according to Black Enterprise magazine. Sanders, whose other holdings include the Pittsburgh restaurant Savoy and a stake in energy-drink maker Fever, declined to comment for this article.

Urban Lending expanded in Colorado after winning the Bank of America contract, moving into a five-story brick building in Broomfield with views of the Rocky Mountains. The firm also had a warehouse in Broomfield for processing documents from tens of thousands of HAMP applications.

There, unopened mail was stacked to the ceiling, said three people who spent time at the warehouse. Time-sensitive documents such as pay stubs grew stale, and paperwork was scanned into computer systems late or partially, triggering loan-modification rejections, the people said.

‘Black Hole’

The warehouse was a “black hole,” according to a lawsuit filed in U.S. District Court in New York by former Urban Lending employee Gregory Mackler, who accused Bank of America of intentionally denying qualified HAMP applicants. The complaint was unsealed and dismissed last year after five lenders reached a \$25 billion settlement with federal and state governments to end probes of abusive foreclosure practices.

At the office in Broomfield, Urban Lending employees examined every letter from lawmakers to determine which were computer-generated and which were signed by a human, according to four former employees. The handwritten ones got special attention and were called wet signatures, they said. The others were referred to as dry.

The signatures of some U.S. senators, including Democrats Harry Reid of Nevada, Carl Levin of Michigan and Charles Schumer of New York, were enlarged to two to three feet and tacked on the walls of a quality-control room to help employees identify wet signatures, the people said.

Handwritten Signatures

Complaints with handwritten signatures were sent to an outside law firm to reduce the risk that a regulator or lawmaker would fault the bank, according to the former employees. The rest were handled by regular staff.

Sturzenegger denied that employees attempted to verify signatures. He said Urban Lending scrutinized all letters from politicians and regulators to help identify broader policy issues. Those that raised such matters were considered wet, he said, while those from homeowners were called dry.

The most common tactic used to stall and reject homeowners was to claim they hadn’t submitted paperwork, according to all nine former employees. Urban Lending requested new applications and supporting documents including pay stubs every 30

to 60 days, even if the customer had sent them, the people said.

“People went through years of sending documents in,” said Daniel Ellersdorfer, 37, a customer advocate who left Urban Lending after 13 months in September 2012 and is now a scuba-diving instructor. “There were people who did everything right and they would still get screwed over and have to start the modification process all over.”

Palm Bay

Sturzenegger said Urban Lending employees accusing the bank of wrongdoing have an incomplete understanding of customer files. Stevens, the contractor’s general counsel, said the allegations “are baseless and constitute nothing more than the unsubstantiated accusations of a few disgruntled ex-employees.”

Santamaria and her husband Abdiel Echeverria, 35, bought their four-bedroom Palm Bay home in 2008 for \$167,000 and spent \$60,000 to renovate it, she said. They applied for HAMP in October 2009 after Echeverria’s hours as a Waste Management Inc. driver fell. The bank rejected the application because their mortgage costs were too low in relation to their income to qualify for the program.

The couple applied again in January 2010, sending their application to an Urban Lending office in Pittsburgh, after their children, Jonathan and Rebecca, were diagnosed with autism, Santamaria said. After five months of sending HAMP paperwork with little to show for it, she complained to U.S. Representative Bill Posey, a Florida Republican, who contacted the Office of the Comptroller of the Currency on her behalf.

OCC Letter

Bank of America sent conflicting responses to the OCC and Santamaria. A Nov. 24, 2010, letter to Santamaria on Office of the CEO and President stationery stated that her modification was canceled because the bank didn’t receive the required financial paperwork. On the same day, the same customer advocate, Scott McDaniel, wrote to the OCC, saying the case was still under review.

A third letter, sent by the OCC to Posey on Dec. 1 based on information obtained from Bank of America, said Santamaria had provided all documents and didn't qualify for HAMP because her mortgage expenses were too low.

"They tell the outsiders a completely different story from what's really going on," said Santamaria, who kept fax reports as evidence that she sent paperwork on time and has posted accounts of her dispute online.

Santamaria said she was never told what was missing while sending applications and supporting material to Bank of America more than half a dozen times.

Carlisle & Gallagher

Her case shows how Bank of America relied on multiple contractors to staff its Office of the CEO and President. McDaniel, who signed the Nov. 24, 2010, letters, worked for Carlisle & Gallagher Consulting Group at the time. The firm was one of several vendors hired by Bank of America to handle mortgage complaints, said Dan Frahm, a spokesman for the bank.

Melody Callaway, a spokeswoman for Charlotte-based Carlisle & Gallagher, declined to comment, as did McDaniel, who worked out of an office near Dallas and now owns an emergency-services company in West Plano, Texas.

Santamaria's case was returned for review to Urban Lending after she wrote to Posey and the OCC again, on Dec. 8, 2010, complaining that the bank's letters contained inaccuracies. She said she received a phone call in January 2011 from a woman named Gloria Perez, offering her temporary forbearance on her mortgage -- the same offer the Dec. 1 letter from the OCC said she had already received.

Perez was employed by Urban Lending, Frahm said.

Emotional Harm

Santamaria said she told Perez that she and her husband had filed a lawsuit the previous month in federal court in Orlando, Florida, accusing the bank of fraudulent misrepresentation and causing emotional harm. A judge dismissed the case, finding the couple, who represented themselves, failed to meet legal standards and provide sufficient evidence. An appeal was turned down in July.

Last month, Bank of America sent her a foreclosure warning, Santamaria said.

Posey declined through a spokesman to comment about the letters, as did Bryan Hubbard at the OCC. Frahm, the Bank of America spokesman, said the lender never received required documentation from Santamaria and ended efforts to reach her in mid-2011, after her lawsuit was filed.

Extra Fees

Borrowers whose modifications were delayed for a year or longer accumulated thousands of dollars in fees and interest and were disqualified for HAMP because their debt-to-income ratios worsened over time, four former Urban Lending employees said. Foreclosure or modifications under the bank's own program, typically with higher interest rates, often became the only options, the people said.

Bank of America said it had given 891,100 of its own modifications as of October, more than three times as many as provided under HAMP. That's because most of the bank's customers didn't qualify for the government plan, Sturzenegger said.

The bank gave legal assignments, title searches and appraisals to its own subsidiaries, including Recontrust and LandSafe. Fees charged to homeowners ranged from about \$45 a month to inspect the outsides of homes to about \$850 for legal filings, according to three former Urban Lending employees.

Bank of America isn't motivated by the extra fees and interest charged to customers as a result of delays, Sturzenegger said. The company doesn't get reimbursed on all the fees, so it loses money when delinquencies drag on, he said.

“Do you know how much money we lose in this division?” he said. “We lose a lot of money. To suggest we’re doing it because we make more money, it’s just completely inaccurate.”

‘Applying Pressure’

Bank of America, which inherited hundreds of thousands of overdue borrowers from Countrywide, sent 33 percent of canceled HAMP trials into foreclosure through the end of July, the highest percentage of any of the biggest servicers, Treasury data show. The figure was 27 percent for Wells Fargo & Co. and 20 percent for both JPMorgan Chase & Co. and Citigroup Inc. The industry average was 22 percent.

“While the country as a whole has made significant progress, there is still room for improvement for servicers, and the Treasury is committed to applying pressure on the mortgage-servicing industry to improve servicer behavior,” Treasury Deputy Assistant Secretary Tim Bowler said in an e-mail.

The reality of working at Urban Lending contrasted with the training they received, six of the people said. Recruits were told during six-week introductory sessions that they were being paid \$16 to \$18 an hour to help Americans keep their homes.

Taco Bell

Once they started, employees learned that Bank of America quotas applied to everyone from customer advocates to auditors and quality-control staff, the people said. They worked 15-hour days and on weekends with the knowledge they could be fired if they couldn’t meet targets. Properly resolving complaints was often impossible because Urban Lending employees couldn’t access needed files among a dozen software programs and relied on Bank of America personnel who often ignored requests, they said.

“Smart people would leave right away,” said Schnackenberg, the former Urban Lending manager. “You were left with people trying to take care of complex, aged files who were formerly assistant manager of a Taco Bell. It was a recipe for failure

for homeowners.”

Under pressure from bank managers to close cases, Urban Lending workers resorted to shortcuts, six people said. That included forging power-of-attorney letters or removing notations that a customer hired a lawyer, making it easier to close files.

Managers purged complaints after business hours, circumventing an internal review process set up by Accenture Plc, according to two of the people. Employees falsified records to show late-night conversations with borrowers that didn’t happen, the people said.

Sturzenegger said he didn’t believe Urban Lending employees falsified or tampered with records.

The Hustle

Bank of America used ex-Countrywide managers to push Urban Lending to meet its goals, according to the former employees. One of them was Mairone, the only individual named in the government’s first mortgage lawsuit from the financial crisis to reach trial.

Mairone was part of the Countrywide team that set up a program known as the Hustle, which removed quality-control steps for mortgages sold to Fannie Mae and Freddie Mac, costing the U.S.-backed firms \$863.6 million, according to a Nov. 8 filing by prosecutors in federal court in New York.

She helped create Bank of America’s HAMP policies as the firm’s lead default-servicing executive, according to the July lawsuit. Mairone joined JPMorgan in 2012 and now oversees vendors for that bank, according to a New York Times article.

‘Wealthy Man’

“If I had a nickel for every homeowner that e-mailed or called Rebecca to thank her

for keeping them in their homes, working to save their families and helping them through tough times, I'd be an extremely wealthy man," said Marc Mukasey, her lawyer, who declined to comment about Urban Lending.

Another Countrywide executive who took a role at Bank of America managing Urban Lending was Ken Scheller, senior vice president of default servicing.

Bank of America was "not of course interested" in good-faith reviews of HAMP applicants, Scheller told Mackler, according to the whistle-blower complaint filed by the former Urban Lending employee. Scheller, who's no longer at Bank of America, and Mackler declined to comment.

Urban Lending employees were told by trainers that they should never admit fault on the bank's behalf in writing or over the phone, four former workers said. They were warned that e-mails could be subpoenaed, the people said.

Gift Cards

To soothe homeowners frustrated by delays, employees had a monthly allotment of \$25 and \$50 gift cards they could give customers, said three of the former workers. The joke among staff: It was just enough money to buy moving boxes.

Urban Lending employees said they were told by their managers that the orders to reduce homeowners' complaints came directly from Moynihan and Bank of America board members, who checked caseload figures daily. One such push was called the "Drive to Five," a plan in late 2010 to lower complaints to 5,000 from more than 15,000.

Sturzenegger, an investment banker who took over as head of the legacy-asset unit in August 2011, said it was his responsibility, not the CEO's, to manage the division. Stevens, the Urban Lending lawyer, said the vendor "had no visibility as to the activities or agenda of Brian Moynihan or the BofA board of directors."

'Last Resort'

Moynihan, 54, who declined to comment for this article, has spoken of the responsibility the bank has to its most vulnerable customers. He told an Atlanta Rotary Club prayer breakfast in October 2011 that foreclosing is “always the option of last resort,” according to prepared remarks.

“Foreclosure is not only the worst outcome for a customer, it’s also the worst financial outcome for the servicer and the owner of the mortgage,” he said. “The best decisions are the ones that go beyond our own narrow self-interest.”

The CEO, dogged by investors’ questions about mortgage costs since taking over in 2010, is dismantling the division that handles delinquent borrowers. The unit had 6,200 contractors as of June, down from its peak of 16,900 last year.

While Bank of America survived the Countrywide acquisition, some of its customers didn’t fare as well. Foreclosure sales were scheduled as homeowners were waiting to hear about their applications, giving them little time to appeal mistakes, said six former Urban Lending employees.

Christmas Foreclosure

Jose De Santiago, a municipal inspector in Mission Viejo, California, was in the midst of a modification in December 2011 when he got the letter: He had five days to leave his two-bedroom condo.

De Santiago, 43, spent Christmas packing his belongings with his son Joseph, then 13, and was out the next day.

After a Bloomberg News reporter alerted the lender’s communications department, Bank of America bought the condo from Alton Holdings Inc., which had purchased it in a foreclosure auction. A bank lawyer apologized, and De Santiago was allowed to move back after two weeks.

Bank of America offered \$5,000 to compensate him for furniture lost in the eviction, according to a draft of a proposed settlement. De Santiago refused because he would have had to sign a liability release, he said. He's still fighting the lender to get it to repair his credit scores.

"They asked me to put in writing how well they treated me," De Santiago said. "I can't believe Bank of America was allowed to do the horrible things it did to me and others."

Bank of America's Sturzenegger said some customers who should have received government assistance may have fallen through the cracks of the system the lender created.

"If you went back and re-reviewed the documents, based on today, would they have qualified for HAMP?" Sturzenegger said. "Possibly. That's the best way to answer it."

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