

# FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

September 3, 2010

Ms. Veronica Williams  
P.O. Box 978  
South Orange, NJ 07079

Dear Ms. Williams:

This letter responds to your complaint against Litton Loan Servicing (Litton). Litton is a subsidiary of Goldman Sachs Bank, USA, which is a state member bank supervised by this Reserve Bank. As we understand your complaint, you requested a loan modification through your loan's servicer, Litton. Specifically, you are looking for a reversal of Litton's decision to deny your application for the Home Affordable Modification Program (HAMP) and, subsequently, an in-house modification. We contacted Litton on your behalf and would like to advise you of our findings.

In connection with our inquiry, Litton provided us with letters dated July 26<sup>th</sup> and August 11, 2010 that provided a detailed explanation of the history of your modification requests. The letters Litton provided indicated that your application for the HAMP could not be accepted because your verified income was greater than permitted when compared to the housing expenses for which you are responsible. When Litton processed your application for the HAMP, your verified monthly income to monthly housing expense payment ratio was 22%, below the 31% minimum needed to qualify a person for the HAMP. The income-housing expense ratio thresholds are from the HAMP guidelines published by the Department of the Treasury.

Since you were not approved for HAMP, Litton agreed to review your loan for an in-house modification. The process for this non-HAMP modification required you to resubmit a new application and enter into a new trial payment period, pursuant to the notice Litton sent to you on March 16, 2010. According to that notice, to accept the modification you needed to make three trial payments of \$3,333.55 on May 1<sup>st</sup>, June 1<sup>st</sup>, and July 1, 2010, respectively, in place of your normal monthly mortgage payments. As of August 9, 2010, Litton had not received any of the trial payments required for the non-HAMP modification; therefore, Litton denied your modification request in its letter to you dated August 9, 2010.

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It may be helpful to explain that the Reserve Bank's supervisory role does not include deciding or interpreting contract terms between a regulated entity and its customers that do not otherwise violate Reserve Board regulations or other federal consumer protections laws. The modification of a loan by a supervised entity pursuant to a third-party servicing contract would generally fall within this ambit.

As a point of information, the Federal Reserve has encouraged financial institutions to work with distressed borrowers. In September 2007 the Federal Reserve issued **SR 07-16 / CA 07-4 Statement on Loss Mitigation Strategies for Servicers of Residential Mortgages**. The statement outlines the steps a servicer may pursue when there is an increased risk of default and explains possible loss mitigation techniques that a servicer may pursue with a borrower including participation in programs like HAMP.

However, the procedures banks follow relating to loan modifications or other loss mitigation actions are matters of individual bank policy that are governed by principles of contract and, in certain instances, state law. Therefore, the resolution of disputes about the terms of relief is not within the supervisory jurisdiction of the Reserve Bank, so long as applicable consumer protection regulations administered by the Reserve System are followed.

If you have not already done so, you may also wish to contact an organization such as HOPE NOW. HOPE NOW is an alliance of HUD-approved counseling agencies, mortgage companies, investors and other mortgage market participants that provide free foreclosure prevention assistance. They can be reached at (888) 995-HOPE.

We trust that this information is helpful. As this office monitors the nature and quantity of consumer complaints against state-member banks, we thank you for bringing this matter to our attention.

Sincerely,



Alan Dombrow  
Examining Officer