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Chicago banker sues bank to win taxpayer payout

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By Neil Munro - The Daily Caller

A wealthy banking executive has been given the go-ahead by a federal appeals court in Chicago to sue a bank under Illinois law for not including her $700,000 mortgage in a costly federal giveaway.

The three-judge appeals court panel in President Barack Obama's hometown announced the decision March 9, clearing the way for Lori Wigod to sue Wells Fargo for not reducing the monthly mortgage payments on her house in Arlington Heights, Chicago.
Wigod has been a vice president of retail branch banking at PNC bank since last May. She was previously a vice president at Chase bank's retail branch division for six years.

The court's decision reverses a trend in lower courts that has rejected roughly 50 lawsuits by aggrieved homeowners seeking access to the mortgage-reduction program.

If not reversed, it could help Wigod's lawyers launch a huge class action suit against banks for not reducing Illinois borrowers' payments.

The Feb. 2009 federal program, dubbed the Home Affordable Modification Program, established regulations that require banks to lower the interest rate charged on home mortgages. The program is intended to cover homeowners whose annual payments are more than 31 percent of their income and whose mortgage is worth less than $729,750. That's a high level.

The average loan size in the United States in January 2012 was $226,000, according to the Mortgage Bankers Association.

Participation in the HAMP program typically reduces mortgage payments to the banks by 35 percent.
The banks' lost earnings, however, are really lost by the banks' investors, which include taxpayers, mutual funds and workers' pension funds.

"Investors are a big loser in this… It's grandma and retired teachers and government employees," said Mark Calabria, a financial analyst at the Cato Institute.

This federal regulation of the mortgage sector is already driving away massive investors such as CALPERS, the pension fund for California's many government employees. "They're wisely getting out because there's so much political uncertainty," said Calabria.

With private funds exiting the market, taxpayers are now on the hook for 90 percent of all new mortgages, he said. "It is you and I and the taxpayers who are going to pick up this mess," he said.

Taxpayers are already being forced to kick billions of dollars into the HAMP program directly.
The program also provides a $5,000 federal reduction in total mortgage debt, over five years, to people who pay the lower payments on time.

Taxpayers also pay banks up to $4,000 for every modified loan that is paid on time for three years.

Taxpayers also pay mortgage companies up to $2,000 if they award the reduction to people who have not yet fallen behind on their mortgage payments.
A separate $10 billion taxpayer-funded program was created to encourage banks to delay foreclosures on loans that are not being paid.

All told, the Treasury Department has allocated $29.9 billion in taxpayers' funds to the HAMP program, according to a January 2012 report by the Office of the Special Inspector General of the Troubled Asset Relief Program.

The federal HAMP program was set up to offset the damage caused by the earlier federal program to boost home ownership rates.

Pioneered by President Bill Clinton, and accelerated by President George W. Bush, the federal government used its regulatory power to promote the sale of mortgages to poor people. The resulting flow of money into real estate spurred housing prices, boosted banks' profits and inflated the real estate bubble, whose collapse in 2008 wrecked the nation's economy.
Administration officials say the HAMP program is not spending enough to repair the damage.

"HAMP continues to struggle to reach homeowners, with only 762,839 homeowners in permanent modifications under HAMP," including 363,031 funded by the relief program, said the January report.

The banks' opposition is likely related to the scale of their losses when homeowners use the HAMP program. "Recent statistics reported by Treasury's Office of the Comptroller of the Currency… confirm that HAMP modifications reduce [homeowners'] monthly payments an average of 35.1%, more than twice the 17.5% reduction in private modifications" arranged by banks outside the HAMP program, said the January report.
Wigod lost the first round of her lawsuit in 2010, but the three-judge panel ruled that could indeed sue Wells Fargo for not including her in the HAMP program.