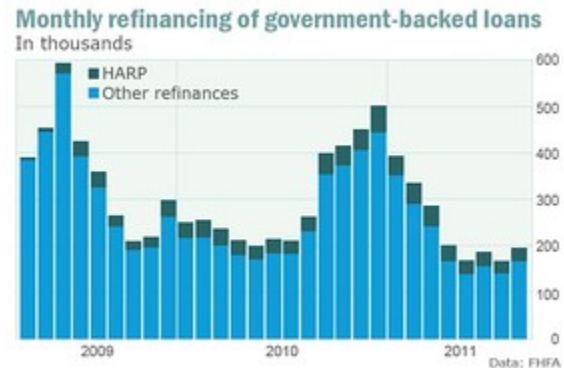


# Mortgage refi plan targets hard-hit borrowers

By [Steve Goldstein](#), MarketWatch

WASHINGTON (MarketWatch) — President Barack Obama on Monday unveiled a changed mortgage refinance plan that would allow homeowners who have suffered steep price declines on their properties to get cheaper loans.



The Home Affordable Refinance Program, the only program specifically designed for owners whose mortgages are worth more than the value of their homes, is being changed so that more Fannie Mae- or Freddie Mac-guaranteed mortgages could be refinanced. [Use external link to see if Fannie Mae has guaranteed your mortgage.](#)

[Use external link to see if Freddie Mac has guaranteed your mortgage.](#)

With house prices nationally roughly a third below their peak, there are millions of borrowers who will potentially be eligible to refinance into mortgages near record lows — the 30-year carried an interest rate of 4.11% last week — rather than the mere 894,000 borrowers who have used the program so far.

“These are important steps that will help more homeowners refinance at lower rates, save consumers money and help get folks spending again,” Obama is due to tell an audience in Las Vegas, the city with the highest foreclosure rate in the country. Nevada is the only state which cumulatively is underwater on mortgages.

The new plan does have its limitations: it will require homeowners to be current on their payments and it’s only for loans sold to Fannie or Freddie by May 31, 2009. And of course, not all loans are backed by the housing giants, though state attorneys-general are separately negotiating a settlement with the nation’s top lenders that may include an element of mortgage modification.

“Given the magnitude of the housing bubble, and the huge inventory of unsold homes in places like Nevada, it will take time to solve these challenges,” Obama admitted, according to prepared remarks.

The Federal Housing Finance Agency, the regulator for Fannie Mae and Freddie Mac, estimates that refinancing could double under the program. Even so, the program would go only a small way in addressing the roughly 11 million homeowners who are underwater.

To spark interest in HARP, the program will lower fees, eliminate the current 125% loan-to-value ceiling, waive lender warranties and eliminate the need for property appraisals.

White House officials say the refinancing could save owners about \$2,500 each year.

Gene Sperling, the director of the National Economic Council, said the key element of the plan is the removal of reps and warranties. “Removing reps and warranties has the potential to unleash competition for housing refinance,” Sperling told reporters on a call.

The industry embraced the initiative.

“Lenders are particularly gratified that the refinements will provide relief from some representations and warranties that lenders face when originating new loans,” said David Stevens, president and chief executive of the Mortgage Bankers Association. “These changes alone should encourage lenders to more actively participate in HARP.”

He cautioned that “it will take a bit of additional time” even after FHFA guidelines are introduced in November to implement them.



Politically, the plan is the start of a once-a-week effort to show the Obama administration can get things done even when legislative efforts are blocked in Congress, according to the New York Times.

For the economy as a whole, the program is seen having only a limited impact.

Yelena Shulyatyeva, an economist at BNP Paribas, calculates that the program could leave to savings on the order of \$2.75 billion — or 0.02% of annual disposable income.

“While the households that benefit will see an increase in disposable income of as much as 5% as a result of lower mortgage payments, in the aggregate, the direct impact is not material from a macroeconomic point of view,” she said in a note to clients.

“This would hold even if the program is more successful than the FHFA anticipates. Nevertheless, indirect benefits of the plan include further lowering delinquency rates and alleviating bank losses to a modest degree.”