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THE WALL STREET JOURNAL

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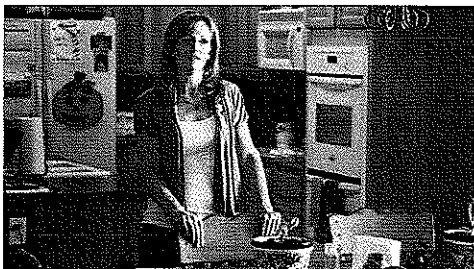
ECONOMY | OCTOBER 24, 2011

Home Lending Revamp Planned

New Rules Aim to Speed Refinancing

By NICK TIMIRAOS

Federal regulators on Monday unveiled a major overhaul of an underused mortgage-refinance program designed to help millions of Americans whose home values have tumbled.



WSJ's Nick Timiraos has details of a plan to overhaul a mortgage-refinance program that would remove hurdles for homeowners. Photo: Brandon Sullivan for The Wall Street Journal

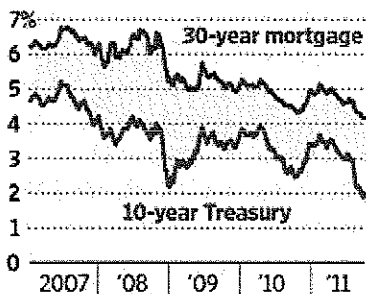
The plan is the latest White House effort to deal with one of the most critical impediments to economic recovery—a stagnant housing market caused in part by a surfeit of homeowners who are unable to refinance.

The overhaul will, among other things, let borrowers refinance regardless of how far their homes have fallen in value, eliminating previous limits. That could open up refinancing to legions of borrowers in Nevada, Arizona, Florida, California and elsewhere who are paying high interest rates and are deeply "underwater," owing more than their houses are worth.

President Barack Obama is expected to tout the program in Las Vegas on Monday.

A Growing Gap

The spread between the average weekly 30-year fixed-rate mortgage and the 10-year Treasury is historically wide



Source: HSH Associates

The plan will streamline the refinance process by eliminating appraisals and extensive underwriting requirements for most borrowers, as long as homeowners are current on their mortgage payments, according to administration officials and an official at the Federal Housing Finance Agency. Fannie and Freddie have also agreed to waive some fees that made refinancing less attractive for some.

The revamp is aimed at homeowners like Christine and Hector Penunuri of Gilbert, Ariz., who have never missed a mortgage payment and who both have jobs and good credit. Yet their application to refinance their five-bedroom home, which has fallen in value, was denied earlier this year because their tax returns showed a \$1,000 loss in start-up costs from Mr. Penunuri's business, which isn't even his day job.

It's "absurd," says their mortgage broker, Steve Walsh of Scottsdale, because the loan is already guaranteed by government-backed mortgage company Freddie Mac.

The Penunuris could save \$350 a month by refinancing to a 4% rate from their current 5.75%. They would use that money to put

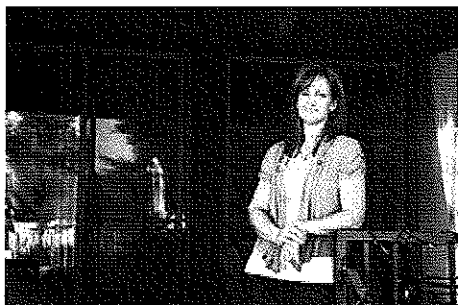
The Long Haul

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their two sons into junior sports, take a family vacation and pay off other debts, says Ms. Penunuri, 41 years old. "It's a win-win situation."

Freddie Mac declined to comment on the rejection of the Penunuris' earlier refinancing. Freddie Mac and sister company Fannie Mae together guarantee roughly half of the nation's \$10.4 trillion in home loans outstanding.



Brandon Sullivan for The Wall Street Journal

Christine Penunuri, at her home in Gilbert, Ariz., and her husband have never missed a mortgage payment and have jobs and good credit, but have been unsuccessful in refinancing their loan.

Regulators are revamping a program rolled out two years ago, the Home Affordable Refinance Program, or HARP, which lets borrowers with less than 20% in equity refinance if their loans are backed by Fannie Mae or Freddie Mac. President Obama announced HARP roughly one month into his presidency. So far, only 894,000 borrowers have used it, of which just 70,000 are significantly underwater.

"It hasn't worked," said James Parrott, a White House economic adviser, in a speech last month.

Officials at the Federal Housing Finance Agency, which regulates Fannie and Freddie, estimate that between 800,000 and one million more borrowers should be able to refinance. "It's in our interest to have these borrowers refinance into lower rates and

continue to pay," said an FHFA official.

Monday's refinance announcement is separate from a recent push by state attorneys general to extract concessions from banks to refinance underwater mortgages. That effort, part of the months-long negotiations to settle alleged foreclosure-processing abuses, would apply only to loans held on the books of five of the nation's largest banks, a much smaller subset of loans.

In past downturns, lower interest rates engineered by the Federal Reserve were a powerful antidote for a sluggish economy. Falling mortgage rates triggered a refinancing wave that lowered homeowners' mortgage payments, freeing up cash for other things. That, in turn, helped to stimulate spending that boosted economic growth.

This time around, falling mortgage rates—now averaging just 4.11% for a 30-year fixed-rate mortgage, according to a Freddie Mac survey—haven't packed the usual oomph. The reason: Many homeowners haven't been able to refinance.

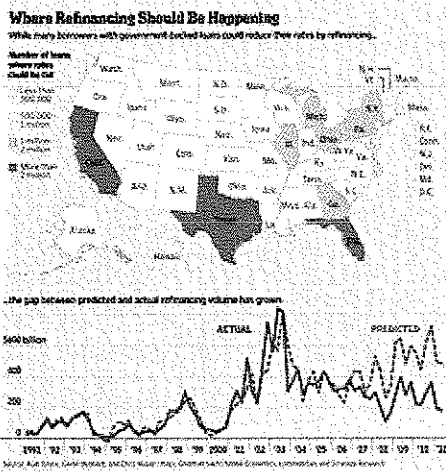
Where Refinancing Should Be Happening

While many borrowers with government-backed loans could reduce their rates by refinancing.

CoreLogic, a company that tracks 85% of all mortgages, estimates that 20 million borrowers with equity in their homes could cut the interest rates on their loans by more than one percentage point if they could refinance. That's about a quarter of all the homeowners in the country.

Because a refinanced mortgage is treated like a brand new loan, refinancing is nearly impossible for another eight million borrowers whose homes are worth less than their mortgages, unless they qualify for HARP.

But what about those who still have equity in their homes? Some have blemishes on their credit and employment histories or don't have enough income to qualify under today's tougher lending standards. Some find refinancing isn't worthwhile after factoring in new fees imposed by Fannie and Freddie or other closing costs. Still others can't get a refinancing application through a clogged mortgage-processing system.



Refinancing Rethink

Key points of the overhaul, designed to make refinancing easier for people with mortgages backed by Fannie Mae and Freddie—about half the nation's \$10.4 trillion in outstanding home loans:

- Open to those owing more than 125% of their home's value

- Appraisal and underwriting requirements to be reduced

- Loan fees will drop; waived for borrowers who reduce their loan term

- Borrowers must be current on previous six payments

steps that raise costs and lead to more denials.

Another obstacle is new fees that Fannie and Freddie charge borrowers with less-than-perfect credit, even if the borrower's existing mortgage is guaranteed by Fannie or Freddie.

The changes being prepared by federal officials should boost refinancing because they will let banks avoid the risk of any "buy-back" on a HARP mortgage as long as borrowers have made their last six mortgage payments and they prove that they have a job or another source of passive income. They are also set to reduce loan fees that Fannie and Freddie charge. The fees will be waived on borrowers that refinance into loans with shorter terms, such as a 15-year mortgage.

Developments

Twelve Questions on Obama's Refi Plan

won't be able to participate until early next year. The program's expiration date, originally next June, will be extended through 2013. HARP is only open to loans that Fannie and Freddie guaranteed as of June 2009.

Mr. Walsh, the Scottsdale broker, says such changes could lead him to hire "a ton" of new loan officers. "I have a line out the door of people who want to refinance under that program and can't," he says.

Refinancing can't fix the biggest problems eating at the housing market. Tight lending standards and high volumes of foreclosed-property sales are putting pressure on home prices at a time when demand is weak, potentially creating more underwater borrowers.

That's a big obstacle to a stronger economy. Goldman Sachs economists estimate that if current borrowers with a 30-year fixed-rate loan backed by Fannie or Freddie were to refinance, they would save \$24 billion annually. Researchers at Columbia Business School estimate that the benefits would accrue primarily to working- and middle-class borrowers with mortgages below \$200,000.

The changes should help borrowers like Carol Gesior, who has two underwater mortgages, backed by Freddie Mac, on suburban Chicago properties she bought for siblings. She says she tried to refinance but her bank, Citigroup Inc., told her she couldn't without equity. She was unaware of HARP. If she could refinance both properties, she says she would replace her 1995 Ford Crown Victoria.

"I made a commitment. I signed an agreement to pay. But I didn't do anything to cause the values of these homes to decrease," says Ms. Gesior, 52, an office manager at an investment management firm. "Any logical person would have walked away already."

A Citi spokesman says the company is "happy to work with this client to explore refinancing options that may be available to her."

One problem is that bankers or other mortgage originators shy away from refinancing all but the safest borrowers because Fannie and Freddie can force a lender to buy back a loan if underwriting flaws emerge. In response, lenders are asking for extra documentation of incomes and scrutinizing appraisals,

Pricing details won't be published until mid-November, and lenders could begin refinancing loans under the retooled program as soon as Dec. 1, according to federal officials. Loans that exceed the current limit of 125% of the property's value

But refinancing could help those borrowers repair their balance sheets and guard against future defaults. If lenders and regulators successfully execute the changes, they could be "amazingly powerful," said mortgage-market pioneer Lewis Ranieri. "It'll start to create the confidence which is largely what's keeping the system from going forward."

The changes could spur an additional 1.6 million refinanced loans by the end of 2013, assuming interest rates don't rise sharply, according to Mark Zandi, chief economist at Moody's Analytics.

For the very safest homeowners, falling mortgage rates have been a bonanza. Some have become serial refinancers. Jim Wozniak locked in a 3.88% rate for 30-year fixed-rate mortgages for his primary residence in Brookfield, Wis., and his lakefront home in nearby Hartland late last month. Replacing 4.25% loans, he will save \$2,700 annually.

"This is probably my third time in three years," says Mr. Wozniak, a 54-year-old investment adviser who says he has an excellent credit score and lots of equity in both properties.

For others, the hurdles are insurmountable. Appraisals are a big one. When an appraisal shows that a property has too little equity, lenders sometimes order a second appraisal. "You get into these appraisal wars, often at the borrowers' expense," says Marietta Rodriguez, the national director for home-ownership and lending at NeighborWorks America, a nonprofit housing group.

Steven Eisner, a 59-year-old attorney in Haddonfield, N.J., says he expected to sail through the process when he tried to refinance last month because he has good credit and strong income. Instead, he was startled to find that the appraisal on his vacation condo in Bonita Springs, Fla., came in so low he would have needed to ante up \$52,000.

He put 25% down when he bought it four years ago. But, because of sagging home prices, his equity has declined to just 10% of the property's value. Refinancing "is simply not worth the trouble," says Mr. Eisner, whose mortgage is guaranteed by Fannie.

Not everyone benefits from encouraging more refinancing, of course. Banks and investors in mortgage-backed securities—including Fannie and Freddie and the Federal Reserve—stand to lose billions if performing loans pay off, leaving investors with cash to reinvest at today's lower rates.

"Somebody's going to get hit. This isn't a free good," says Anthony Sanders, a real-estate finance professor at George Mason University in Fairfax, Va.

That doesn't faze Mr. Eisner. "We've certainly done enough to prop the banks up," he says. "These are loans that everyone knew could prepay."

The success of any refinance push rests not only on whether policy makers can untangle a Gordian knot of technical hurdles, but also on whether they can get buy-in from private-sector players. One major obstacle to refinancing is that the mortgage industry has shrunk. Four big banks now control more than 60% of the mortgage market. Many originators, including the biggest banks, have cut staff or shifted loan underwriters into units working through piles of delinquent mortgages.

New rules designed to prevent independent mortgage brokers—who originate loans on behalf of a bank or other lender—from fleecing consumers have made it harder for them to compete with bigger lenders that aren't subject to the same rules. For example, new compensation rules make it less attractive for brokers to originate smaller or more complicated loans.

The reduced competition has led to longer processing times and higher prices for consumers. When their borrowing costs fall, banks aren't necessarily reducing the rates they charge borrowers by the same amount. Banks with big market share "know they can get away with it," says Thomas Lawler, an independent housing economist in Leesburg, Va. "The market's just not as competitive as it once was."

Industry executives dispute the notion that the market isn't competitive but concede that the industry wasn't ready to handle a surge in applications after rates dropped two months ago.

"Capacity constraints" will be temporary because lenders are hiring more staff, but "in the short run, there's no question that's a challenge," says David Stevens, the chief executive of the Mortgage Bankers Association. Lenders are going "through a lot more checks and balances simply to get a loan approved safely and soundly."

Some spurned borrowers aren't giving up. Barb Skaer, 70, of Appleton, Wis., and her husband wanted to refinance a \$402,000 mortgage on a second home that appraised at \$547,000 two years ago. She says they have strong credit scores and own part of a manufacturing business that makes bobby pins and hair clips.

Ms. Skaer says their bank, J.P. Morgan Chase & Co., quoted a 4% rate. But she says her loan officer told her she and her husband wouldn't qualify for a new loan because their income from their factory business declined the past two years. A J.P. Morgan spokesman declined to comment.

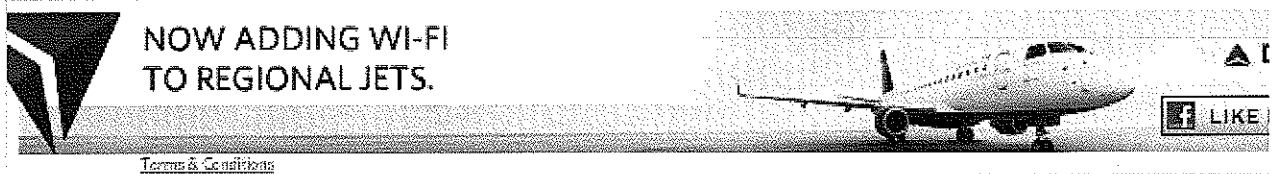

Ms. Skaer says they are appealing the decision at their bank and may go elsewhere if that doesn't work.

"Our theory is that if we can afford [the current payment of] \$2,189 per month, we should be able to afford \$200 less by refinancing," says Ms. Skaer. "This makes absolutely no sense to us, and we are not taking 'no' for an answer."

Write to Nick Timiraos at nick.timiraos@wsj.com

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Twelve Questions on Obama's Refi Plan

The Obama administration is revamping a program that's designed to let more homeowners refinance their mortgages even if they don't have any equity. This isn't a new program, but instead attempts to turbo-charge an existing federal initiative called the Home Affordable Refinance Program.

Here's a look at some frequently asked questions:



Associated Press

What is HARP? The Obama administration in 2009 rolled out HARP to refinance borrowers whose loans were backed by Fannie Mae and Freddie Mac and who were current on their payments. The idea was simple: If you were making your payments on time but didn't have enough equity to refinance, you would be able to lower your rate without having to pay down your mortgage balance or take out mortgage insurance.

The Obama administration is changing a refinancing program so that more underwater borrowers can qualify.

Initially, the program was limited to borrowers who owed between 80% and 105% the value of their homes. In mid 2009, the program was opened to borrowers who owed up to 125% the value of their homes.

But a series of unforeseen "frictions" have led fewer borrowers to take up on the offer of lower rates. Fewer than 900,000 homeowners have refinanced under HARP over the past 2½ years, and just 72,000 of those borrowers have loan-to-value ratios between 105% and 125%.

How is HARP being expanded? Borrowers will soon be able to refinance no matter how far underwater they are. This should have a big impact in certain parts of Nevada, Arizona, and Florida where many borrowers owe more than 125% of the value of their homes. In Nevada, for example, two thirds of all loans backed by Fannie Mae are underwater, and half of all loans are above the 125% loan-to-value cut-off.

Will I be able to refinance through HARP if I've already used the program once? No. The program will continue to be limited to loans that were delivered to Fannie and Freddie before June 2009, which means that anyone who has already refinanced under HARP won't be able to refinance again.

What other changes are being made to improve HARP? One of the most important changes addresses the risk that banks will have to "buy back" defaulted mortgages from Fannie and Freddie if the loans are discovered to run afoul of underwriting rules. This has prompted banks to scrutinize appraisals and require extensive documentation of borrowers' incomes on loans for which they don't already collect payments, even if Fannie and Freddie already guarantee those loans. As a result, some borrowers can only qualify for HARP by going to their current mortgage servicer, rather than shopping around for the best rate. Some lenders have been just "cherry picking the easiest loans," says Keane Ng, a mortgage broker in Kirkland, Wash.

Under changes to be announced on Monday, banks will be largely shielded from the "buy back" risk on HARP mortgages, and they'll only have to verify that borrowers meet a more tailored set of eligibility rules: that they've made their last six payments and have no more than one missed payment in the last year and that they have a job or another source of regular income. Those changes are a pre-requisite for "any game-changing refinance activity," says Mahesh Swaminathan, senior mortgage strategist at Credit Suisse.

How will this change help borrowers? This will streamline the refinance process, eliminating the need in many cases for borrowers to obtain appraisals or to provide extensive income documentation. Instead, borrowers will have to show that they're current on their mortgage, that they have a job or another source of regular income, and that they meet the other eligibility criteria for HARP.

What if I have mortgage insurance? Mortgage insurers have also agreed to make it much easier to transfer existing mortgage insurance coverage, which has blocked many borrowers from refinancing.

What if I have a second mortgage? Borrowers with a second mortgage, such as a home-equity loan, need the mortgage owner to agree to "re-subordinate" the loan before refinancing the first mortgage. Federal officials say the largest lenders have agreed to automatically re-subordinate all second mortgages under HARP.

What else is being done to lower costs? Another change involves fees that Fannie and Freddie charge banks for riskier borrowers. The firms, and their regulator, the Federal Housing Finance Agency, have agreed to waive those fees for borrowers who refinance into loans with a shorter term, such as a 15-year mortgage. They'll also reduce the fees, but not eliminate them entirely, for everyone else.

When will these changes take effect? Fannie and Freddie will issue final pricing information and other technical details around Nov. 15, and some banks have said that they could begin taking applications under the new program by as soon as Dec. 1. The HARP program will also be extended through 2013, beyond its current expiration date of June 2012, in order to encourage lenders to invest more resources into staffing up the program.

How do I find out if Fannie and Freddie own my mortgage? You can look that up online for [Fannie Mae](#) and [Freddie Mac](#).

What if Fannie or Freddie don't own my loan—can I refinance through this program? No. That's a major limitation, of course, because "jumbo" mortgages aren't held by Fannie and Freddie, and many of

Lending Lull

Refinancing has been muted in states that have seen the largest home-price declines. Percentage of borrowers who refinanced, by credit score:

Largest price declines
Arizona, California, Florida, Michigan, Nevada
All other states

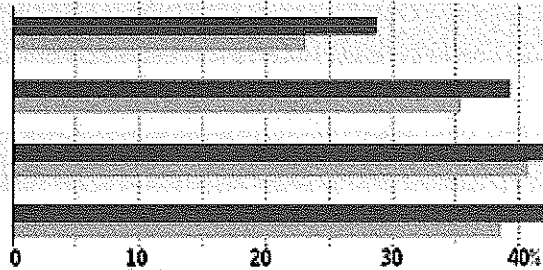
2003

Less than 680

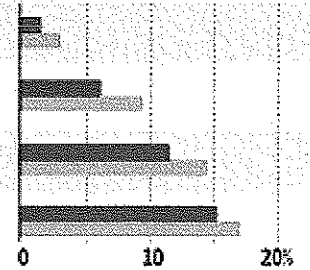
680-719

720-819

820 or more



2010



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax

the most underwater subprime mortgages are in privately held mortgage securities that weren't issued by Fannie and Freddie.

How many mortgages could be refinanced as a result of the changes? The Federal Housing Finance Agency estimates that another 800,000 to 1 million borrowers could refinance through HARP as a result.

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