Academics, Analysts Back Expansion Of Mortgage-Refinancing Plan

WASHINGTON (MarketWatch)--A group of academics and analysts on Wednesday urged the Obama administration to expand an existing program that seeks to refinance mortgages to lower interest rates.

The White House's Home Affordable Refinance Program, or HARP, seeks to provide refinancing options to millions of underwater borrowers as long as their mortgage is backed by Fannie Mae (FNMA) and Freddie Mac (FMCC), the government-controlled housing giants. President Barack Obama last week said in a broader speech on the economy and jobs that the administration is working with regulators to help people with underwater mortgages to refinance at current rates.

HARP has failed to help most underwater borrowers refinance to current record-low rates. The 30-year fixed rate mortgage averaged 4.12% in the week ending Sept. 8, according to Freddie Mac.

The Federal Housing Finance Agency, the regulator for Fannie and Freddie, said last week it is analyzing whether to allow a greater segment of underwater borrowers participate. It provided few details.

Seeking to encourage greater participation, the experts, testifying before the Senate Banking Committee, said the FHFA could limit or eliminate fees assessed on banks that Fannie and Freddie charge on HARP refinancings and allow for even more heavily underwater borrowers to participate.

"Jump-starting HARP requires that Fannie and Freddie not charge add-on rates, even for refinancing borrowers who have lost a lot of equity in their homes or have relatively low credit scores," said Mark Zandi, the chief economist of Moody's Analytics.

Fannie and Freddie charge a refinancing risk fee to lenders, which is passed on to borrowers, often in the form of higher mortgage interest rates. (According to one analysis, the fee can add a 0.4% levy to the prevailing interest rate.) The fees seek to offset losses Fannie and Freddie accumulate in cases when loans go into default.

Columbia Business School Professor Christopher Mayer backed other panelists' assertions that the fees should be cut. He argued that the fees may discourage borrowers from participating because they face "much higher than market-determined" rates.
"Numerous frictions have contributed to the slow rate of refinancing, including the decision by Fannie and Freddie to charge significant up-front fees for mortgages made by moderate credit borrowers," Mayer said.

Also testifying at the hearing, George Mason University Professor Anthony Sanders recommended that limiting these fees, also known as Loan Level Price Adjustments, would be appropriate if regulators believe it won't harm taxpayers.

As it stands now, the HARP program only allows borrowers to refinance at current low interest rates into a mortgage that is at most 25% more than their home's current value.

David Stevens, president of the Mortgage Bankers Association, acknowledged that allowing borrowers who owe even more than that cap to participate would enable more qualified borrowers to refinance. However, he said that due to tax laws and other restrictions, these loans don't qualify for securitization and can't attract investors.

But Columbia's Mayer insisted that these super-underwater loans could be securitized for a special single-class security market--at a lower price than other securitizations.

"Fannie and Freddie have issued such securities in the past and could do so again under this program," Mayer said.

Zandi made additional suggestions, including proposing that Fannie and Freddie could forgo borrower income verification and detailed home appraisals to keep costs down.

"HARP candidates have already proven their ability to pay by making timely payments throughout the tough economy," he said.

He added that Fannie and Freddie could proactively identify the best prospects for refinancing and provide the information to mortgage lenders, who he said would then contact homeowners and conduct the refinancing.

As of June, roughly 840,000 borrowers have refinanced their mortgages through HARP. However, RealtyTrac reports that about 16 million of the 40 million U.S. mortgages are under water.

According to CoreLogic, the number of mortgages that are 25% or more under water is 4.6 million, while the number that is 50% or more under water is 2.3 million.