

## New mortgage rules could help more borrowers

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The Obama administration on Wednesday broadened its refinance program for underwater borrowers, those who owe more than their homes are worth.

Now, borrowers whose loans are owned or guaranteed by Fannie Mae or Freddie Mac and are current on their payments could be eligible for refinancing even if they owe as much as 125 percent of the home's current value.

Previously, the Home Affordable Refinance Program's loan-to-value limit was 105 percent.

Suppose a borrower owed \$400,000 on a home whose value had fallen to \$330,000. Under the original program, he could not refinance into a new Fannie or Freddie mortgage because his loan was 121 percent of the home's value. Under the new guidelines, he could.

The goal is to let more homeowners refinance their mortgage at a lower rate, which will reduce their monthly payments and make them less likely to walk away from a home that is worth less than they owe.

Normally, Fannie and Freddie require borrowers to pay for mortgage insurance when their loan exceeds 80 percent of the home's value.

Freddie Mac said that under the new guidelines, mortgage insurance is not required if the existing mortgage does not require it. Otherwise, it said, mortgage insurance on the new loan must be the same as on the original mortgage.

Fannie's guidelines appear to say the same thing. A Fannie spokesman was not available for comment.

The program is less helpful in the Bay Area than other places because until Congress raised the Fannie/Freddie loan limit in high-priced areas last year, a large portion of homes here were too expensive to be purchased with loans that Fannie and Freddie could purchase.

The new 125 percent limit applies to the first mortgage only. A homeowner could have a second mortgage on the property and the combined loan limit could exceed 125 percent. However, "the second mortgage has to be re-subordinated" to the first mortgage, says Freddie Mac spokesman Brad German.

The program does not allow borrowers to do a cash-out refinance, where they borrow more than their original loan balance and pocket the difference. However, they may be able to add some closing costs to their loan amount as long as it does not top 125 percent of the home's value.

Freddie Mac says it will let borrowers finance closing costs up to \$5,000 or 4 percent of the current unpaid principal balance of the existing mortgage, whichever is less.

Chris Mayer, senior vice dean and a real estate professor at Columbia Business School, says the new guidelines are a win for everyone except holders of the mortgages being refinanced. They will get repaid sooner than they probably expected. Fannie and Freddie own some of the mortgages that will be paid off, but "the bulk are held by other investors," he says.

Homeowners will benefit if they can lower their payments by refinancing at a lower rate.

Neighborhoods will benefit if there are fewer foreclosures.

Mayer says taxpayers also could benefit if the program reduces mortgage defaults.

Fannie and Freddie are already standing behind the mortgages that are being refinanced. "If you lower somebody's mortgage payment, they are less likely to walk away from the house," he says.

"It's a shame they didn't do it earlier," when mortgage rates were lower, Mayer adds. "The savings won't be as big as they were when rates were below 4.75 percent. Today we are looking at rates of 5.25 percent and heading north."

Ken Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at UC Berkeley, agrees that the program "is a good thing for California and a good thing for the country."

Freddie says the higher loan-to-value ratios are available now when qualified borrowers apply for a refinance through their existing mortgage servicer and will become available October 1 when they apply through any lender affiliated with Freddie Mac.

Fannie says that for loans with ratios above 105 percent, borrowers must refinance through their existing servicer and the new loans must be fully amortizing fixed-rate mortgages with terms greater than 15 years up to 30 years.

To see if your loan is owned or guaranteed by Fannie Mae, go to [www.fanniemae.com/loanlookup](http://www.fanniemae.com/loanlookup) or call (800) 732-6643. To see if it's a Freddie loan, go to [www.freddiemac.com/mymortgage](http://www.freddiemac.com/mymortgage) or call (800) 373-3343.

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