

# Fannie, Freddie to Refinance Larger Underwater Loans

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Fannie Mae and Freddie Mac will begin refinancing mortgages with loan-to-value ratios of as much as 125 percent as the Obama administration seeks to boost participation in its anti-foreclosure programs.

Housing and Urban Development Secretary Shaun Donovan made the announcement in a statement today. Currently Fannie Mae or Freddie Mac, through President Barack Obama's Home Affordable program, can refinance mortgages they own or guarantee when the loan is worth as much as 105 percent of the home's market value.

The continuing slide in home prices has pushed millions of Americans beyond that 105 percent loan-to-value ratio, limiting participation in Obama's initiative. Fannie Mae and Freddie Mac have refinanced 80,000 loans under that program, which set out to help as many as 5 million people who may owe more than their homes are worth, Federal Housing Finance Agency Director James Lockhart said at a real estate conference on June 18.

The decision to change the allowable ratio is part of an effort to "adapt to an ever-changing housing market," Treasury Secretary Timothy Geithner said in the HUD statement. "By expanding refinance eligibility, we can bring relief to more struggling homeowners more quickly."

Paul Miller, an analyst with FBR Capital Markets in Arlington, Virginia, said mortgage brokers have told him that many aren't sending borrowers through the program because it's cumbersome and the loan applications "still have a lot of bells and whistles, which makes them difficult to do."

"I don't think it's going to have much of an impact because you still don't have enough qualified borrowers," Miller said, referring to today's announcement. "It will help on the margin, but the issues with Obama's plans is that they all focus on affordability and not principal writedowns and at some point they're going to have to address" that, he said.

Just 20,000 of the 80,000 refinanced Fannie Mae and Freddie Mac mortgages exceed loan-to-value ratios of 80 percent, which are the loans administration officials specifically targeted in designing the program, Lockhart said.

Peter Cirillo, an independent mortgage broker in Long Island, New York, said Fannie Mae and Freddie Mac's risk-based pricing makes it "much too difficult" for borrowers to qualify to refinance, even if the companies already back their loans.

"All of these government programs are having little or no effect on the ability to refinance," Cirillo said in an interview. "Even potential borrowers with great credit and low LTV's, but reduced income, have no chance of refinancing to a lower rate or payment because of strict" rules on debt-to-income ratios, he said.

A drop in values has left about 20.4 million of the U.S.'s 93 million houses, condos and co-ops with mortgages higher than the properties are worth as of March 31, Seattle-based real estate data service Zillow.com said in a report May 6.

Home Affordable has also been “seeing a slowdown” as mortgage rates increase, Lockhart said. The average rate on a typical 30-year fixed loan was 5.42 percent in the week ended June 25, according to Freddie Mac. The rate is up from a record low of 4.78 percent at the end of April.

U.S. mortgage applications fell last week by the most since February, the Mortgage Bankers Association said today. The MBA’s index of applications to buy a home or refinance a loan dropped 19 percent to 444.8 in the week ended June 26 from 548.2 the prior week. The group’s refinancing gauge fell 30 percent to the lowest in seven months, while the index of purchases declined 4.5 percent.

The Obama program applies to mortgages that meet Washington-based Fannie Mae and McLean, Virginia-based Freddie Mac’s conforming loan limits. That cap is \$417,000 for some areas and as high as \$729,750 for the 250 most expensive real estate markets.

Fannie Mae and Freddie Mac own or guarantee more than half of the single-family mortgages in the U.S. The government-chartered companies were seized by regulators in September amid concern that their capital wasn’t sufficient to weather the worst housing slump since the Great Depression.

The companies each said in separate statements today that borrowers with loan-to-value ratios of between 105 percent and 125 percent must refinance through their existing mortgage company to qualify. Fannie Mae is additionally paying lenders an incentive equal to half a percentage point, to encourage refinancings to shorter terms of 20 or 25 years. Freddie Mac said it is also offering a “special price incentive” as well to borrowers that accept a shorter repayment schedule.