

Arizona underwater homeowners to get refinance help

Revamped program eases eligibility rules

More Arizona homeowners may soon be able to refinance to current low mortgage-interest rates, no matter how far underwater they are in their homes.

The Obama administration on Monday announced long-awaited details of an expansion of a program that helps homeowners refinance to reduce their payments.

Mortgage rates have fallen to record lows, and many homeowners would save hundreds of dollars a month if they could reduce the amount of interest they pay. But the housing crash has created a huge barrier.

A refinanced loan typically requires the home have enough value to cover the entire amount of the new loan. But plunging home values means many owners owe far more on their loans than their homes are worth. An estimated 40 percent of metro Phoenix homeowners are currently underwater.

The federal Home Affordable Refinancing Program has allowed certain loans to be refinanced if the borrower owed up to 125 percent of the home's value. But many underwater borrowers in Arizona owe more.

The plan announced Monday would lift the value requirement completely, allowing some borrowers to refinance no matter how much their home's value has dropped, if their mortgage is backed by one of the two largest federal mortgage agencies and they meet other requirements.

Borrowers can start to apply as soon as December, according to the few details released Monday, and the program would run through the end of 2013.

Speaking on a temporary stage in a Las Vegas neighborhood, Obama touted the plan as a way to allow struggling homeowners to save money.

"Probably the single greatest cause of the financial crisis and this brutal recession has been the housing bubble that burst four years ago," he said. "And as long as this goes on, our recovery can't take off as quickly as it would after a normal recession."

The plan

The HARP program has helped about 900,000 homeowners nationally to refinance. Arizona figures aren't available.

The plan described by Obama and the Federal Housing Finance Agency on Monday would expand HARP by changing the rules and costs associated and extending the time period in which borrowers can apply.

Among the key elements:

- Refinancing will be available to homeowners with loans backed by Fannie Mae or Freddie Mac in 2009 or earlier.

As with the current refinancing program, the option would be open only to borrowers with mortgages backed by the two largest federal mortgage agencies. Borrowers whose banks hold their loans privately would not qualify. Still, federally backed loans make up a majority of the existing mortgages in the state and the country.

The federal government did not give an official count of how many people will be able to refinance, but U.S. Housing and Urban Development head Shaun Donovan estimated 4 million families could be eligible.

Current federal programs have encouraged lenders to refinance such loans or modify loan-payment amounts for borrowers in financial trouble, but the banks that handle the payments in many cases have been slow to respond. Obama said the new program will allow other lenders to compete to make the new loans.

"Some lenders, frankly, just refuse to refinance," he said Monday. "So, these changes are going to encourage other lenders to compete for that business by offering better terms and rates, and eligible homeowners are going to be able to shop around."

The program is designed to help borrowers who took loans before the housing crash, and only applies to loans backed by the federal agencies on or before May 31, 2009.

Market-watchers say the key will be to see whether banks and the mortgage giants actually follow through.

"The new refinancing program sounds like a good idea, but it has to have teeth," said John Smith, president of the Mesa-based non-profit Housing Our Communities, which counsels homeowners on avoiding foreclosure. "The government has to make Fannie and Freddie go through with these deals."

- Refinancing will be available to homeowners who are current on their mortgage payments.

To qualify, homeowners must not have missed more than one payment in the past year.

The plan differs from other programs that were meant to help borrowers who could no longer afford their mortgages. The federal loan-modification program was open only to borrowers who were already late on making their payments.

Instead, the refinancing is open to borrowers who have made their payments.

Although it could help some people who have struggled to make those payments avoid foreclosure, it also could simply help other homeowners free up more money each month.

- Refinancing will be available no matter how much the home is currently worth.

The loan simply must be backed by Fannie or Freddie and be within standard sizes - for example, oversized "jumbo" loans will not qualify.

Borrowers who meet the financial requirements could refinance no matter how much the amount of the loan exceeds the home's current value, known as the loan-to-value ratio.

The previous HARP plan called for a 105 percent loan-to-value ratio, meaning homeowners who owed 5 percent more than their houses were worth could refinance under the plan. That ratio was quickly criticized for helping few in the hardest-hit housing markets of Arizona, California, Nevada, Florida and Michigan. It was raised to 125 percent but still wasn't enough for many homeowners who bought during the past decade in metro Phoenix.

"If the limit is lifted completely, then that will make a big difference for Arizona," said housing analyst Michael Orr, who publishes an online daily analysis of metro Phoenix's housing market called the "Cromford Report." "Many people have a loan-to-value of over 200 percent."

- Refinancing will cost less.

The changes announced Monday would also limit fees associated with refinancing, in hopes of making the move more affordable. Homeowners who qualify don't have to pay additional excessive fees for an appraisal or processing.

Jay Luber, president of Phoenix-based Galaxy Lending, knows many homeowners who will qualify for this program.

He believes it could "accelerate the stabilization of values in metro Phoenix by decreasing foreclosures and short sales."

The doubts

Housing advocates point to past programs that have garnered bad reputations.

The Housing Affordable Modification Program, HAMP, was announced in conjunction with the original refinancing program two years ago.

Tens of thousands of homeowners in Arizona alone were promised loan modifications and put in trial programs. These borrowers made the trial payments for more than a year in some cases only later to be denied a permanent modification.

Overall, the federal housing plan called for helping 7 million to 9 million homeowners. Fewer than 2.5 million have been helped with all of the plan's programs.

Phoenix real-estate agent Kevin Kaufman is skeptical of the new plan.

"I'm honestly very, very pessimistic about any government program actually helping people," he said. "Having been in the trenches for four years now and seen so many empty promises. I don't believe the government will actually help."

Too late?

When Obama unveiled federal efforts to stem foreclosures two years ago, he traveled to Mesa to make the announcement. At the time, foreclosures were surging.

Today, foreclosures have been steadily slowing in metro Phoenix. So the latest move has been criticized as coming too late.

Also, many market observers note that for many homeowners, the real problem is not just their monthly payment but the fact that they will still owe so much more than their houses are worth, making them unable to sell or move.

The Obama administration is hinting about more aid for people who have lost homes to foreclosure and neighborhoods with many empty foreclosure homes.

But this expansion of HARP does help the homeowners who continued to pay as others walked away.

Tom Schroder was turned down for a refinance last year because he owes at least 40 percent more than his Scottsdale home is worth. He said he is angry because he feels like he's being penalized for other people's foreclosures and bad decisions.

"I keep paying my mortgage on time and watching others buy homes at 5 or now even 4 percent (interest rates)," he said. "The changes to the refinancing program sound good. I just want to see some action on it from lenders and fast."

Patricia Garcia Duarte, president of the Phoenix-based non-profit homeownership counseling service Neighborhood Housing Services, said the new refinancing plan rewards homeowners with good credit who have not missed many payments.

"Owing more on a property than it is worth is still problematic for many in Arizona," she said. "Revamping HARP is a good thing, not the entire solution."

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