Obama's HARP Reprise Greeted With Praise And Skepticism

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The mortgage banking industry greeted President Obama's announcement of changes to the Home Affordable Refinance Program (HARP) with a diversity of opinions that ranged from hearty praise to harsh criticism.

Leading the commendations was the National Association of Realtors (NAR), which praised the announced changes as being a step toward housing market stability.

"As the leading advocate for homeownership and housing issues, Realtors are supportive of HARP and any effort by the federal government to help more homeowners avoid foreclosure by making mortgage payments more affordable," says Sara Wiskerchen, senior public issues specialist at NAR. "Realtors have urged the government and lenders to take more aggressive steps to modify loans, and are optimistic that improvements to the HARP program will have positive implications for thousands of homeowners."

Also voicing support was Bob Dorsa, president of the American Credit Union Mortgage Association.

"I agree this is good news and should be more effective than the Home Affordability Modification Program, which did not evidently do too much," Dorsa says. "I also believe the timing is better, as the economic news seems to be slowly improving. Corporate profits are coming in above estimates and as long as global economics do not create any big surprises, I am crossing my fingers that 2012 will be the beginning of a return to prosperity."

"These enhancements will not only help responsible homeowners who have been unable to refinance because the equity in their home has disappeared, but it will also help spur the economy by allowing homeowners to reduce their monthly payment, thus allowing homeowners to spend the extra savings on much-need household expenses to spur the economy," says Michael D'Alonzo, president of the National Association of Mortgage Brokers.

Andrew Peters, CEO of First Guaranty Mortgage Corp., based in McLean, Va., was also supportive. "We're excited - this is a step in the right direction," he says. "What we're seeing will open up a lot more opportunity for borrowers to refinance."

Less than 100% certain

However, a number of industry leaders tempered their enthusiasm with a degree of caution in regard to some significant changes to HARP. Ruth Lee, executive vice president at Denver-based Titan Lenders Corp., expressed surprise at the removal of the loan-to-value cap and the waiving of certain representations and warranties for lenders, noting this will dramatically alter how the program operates.

"As always, the devil will be in the details - or the implementation, as it were," she says.

"I think what Obama is doing is a good attempt," observes Brian C. Coester, CEO of Rockville, Md.-based Coester Appraisal Group. "However, these things never really seem to work out the way they are supposed to. Ideally, we would be able to see borrowers who are underwater refinance into a better rate, which would lower the overall risk of the loan. But we will have to wait and see."

For some, however, it seems that the proposed changes do not go far enough.

"Making more borrowers eligible for refinancing their mortgages by enhancing HARP will give a badly needed boost to consumer confidence," says Bob Nielsen, chairman of the National Association of Home Builders and a home builder from Reno, Nev. "However, for the many families who have fallen behind in their payments because of the weak job market, the changes to HARP will have no benefit. HARP is only open to mortgage borrowers who have remained current with their payments. Clearly, additional policy initiatives are urgently needed to prevent foreclosures and deal with the inventory of foreclosed homes.

"In addition," he continues, "it is essential to address overly restrictive mortgage lending standards, inappropriate credit limitations on home builders and a broken appraisal system that is contributing to housing price instability. All of these factors are detrimental to the full-scale housing recovery. We need to rally consumers and get a disappointing economic recovery moving forward."

"We think it's an improvement, but it's not a magic bullet," says Kathleen Day, spokesperson for the Center for Responsible Lending. "We also need loan mods for people who are near or in the foreclosure process, with principal write downs, strong servicing standards and changes to bankruptcy laws so that bankruptcy judges could modify mortgages on primary residences - as they can now do on every other contract, including vacation homes, commercial property and yachts. The government-sponsored enterprises should also lease real estate owned property and give loan mods with principal reductions - doing so would be cheaper for taxpayers."

"With some tweaking, it could be a very effective program," says Marc Saivatt, president of the National Association of Independent Housing Professionals, adding that he is concerned that the plan's consideration of automated valuation models (AVMs) was risky. "I have yet to see a reliable AVM. Even Fannie Mae, on their website, admitted problems with AVMs."

Saivatt also wonders whether the updated plan could be extended to include newer homeowners. "The proposal is only good for property up to 2009," he says. "It needs to be extended to the present day. There are people out there with interest rates in the fives who could get interest rates in the threes."

Richard Rydstrom, chairman of the Los Angeles-based Coalition for Mortgage Industry Solutions, experienced a sense of deja vu in yesterday’s news.

“Here we go again!" says Rydstrom, with a sigh. "The original restructuring and HARP goals were 7 million to 9 million. As part of this plan, the Treasury Department announced a national modification program aimed at helping 3 million to 4 million at-risk homeowners - both those who are in default and those who are at imminent risk of default - by reducing monthly payments to sustainable levels. We will never reach those levels unless we actually relax the requirements to meet the new reality: many more people are either in default, underwater, suffering from lower FICO scores and have experienced lower incomes than originally estimated. The HARP-eligibility pie, in terms of the actual market consumer, has become smaller and smaller over the course of this recession."

While Rydstrom expressed support for several aspects of the program's changes, he was particularly concerned about the new manner for determining homeowner eligibility.

"The program should base its criteria on verifiable 'ability to pay' rather than FICO scores, equity, or strict definitions of 'current,'" he adds. "Borrowers with a verified 'ability to pay' who are granted principal reduction/forgiveness with claw-backs and public/private insurance guarantees can satisfy risk- and loss-based standards."

Playing politics?

The president's announcement, which included statements on his not being able to wait for Congress to take the lead on the issue, prompted some industry leaders to question the political dimensions of the HARP changes.

"The re-tooled program can't hurt and will lead to a short-term spike in refinancing," says Marx Sterbcow, managing partner with New Orleans-based Sterbcow Law Group LLC. "But its overall long-term effectiveness in stabilizing the housing market is going to be extremely tough. My preliminary thoughts call into question whether the big banks will participate. And if they do participate, will they allow their correspondents to participate as well? The politics involved in this may also come into play because the big banks want Dodd-Frank eliminated - so some big banks might not want to participate and help the Obama administration, because that means a failed HARP will help kill Obama's re-election hopes."

Dr. Peter Morici, former chief economist at the U.S. International Trade Commission and a professor at the University of Maryland's Smith School of Business, believes the only genuine beneficiary of the changes is the president.

"This is all about getting past 2012 - not jump-starting the economy - and it could create yet another credit crisis for Obama or a future president to address," says Morici. "The president proposes to open the floodgate, like a political candidate promising the moon, but this time [he's] delivering the cream cheese before the election and in a wholly irresponsible fashion. He proposes to let homeowners [who are] still up to date on their mortgages refinance - no matter how much the value of their home has fallen below what they owe, and without home appraisals and rigorous credit and income checks. That is a prescription for more failed loans and another crisis in mortgage finance down the road or huge losses for U.S. taxpayers that can only be accommodated by even bigger deficits and printing money."

Chris Sorensen, founder of the Los Angeles-based Homeownership Education Learning Program, agrees with Morici.

"It almost seems criminal to me that this administration, after almost two years of silence on the housing crisis, is now coming back to it so late," he says. "The cynic in me asks if it is because of the election. And if, as the president claims, he was forced to take action since Congress would not, what took him so long? If it was that easy, why the hell did he allow so many Americans to be punished for so long?"

Edward Mermelstein, principal at the New York law firm Rheem Bell & Mermelstein LLP, concurred by questioning whether more federal input was the right answer.

"Further regulatory intervention is unlikely to work," he says. "The market has shown itself to be resilient to any stimulus packages, and the likelihood of a self-correction is much greater than that of a continuing government intervention."
