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“Refi-Program Previewers Raise Issues”

By Kate Berry

Lenders and servicers are grappling with how they might participate in the new housing law's \$300 billion refinancing assistance program.

The program calls for troubled borrowers who owe more than their homes are now worth to receive 30-year, fixed-rate loans guaranteed by the Federal Housing Administration. Since the new loans must be for no more than 87% of the home's current market value, the holder of the current mortgage must agree to a discounted payoff.

That by itself may sound like a hard enough pill to swallow, but mortgage executives have identified a number of other potential operational snags. For example, many companies that hold or service loans do not have origination arms, and those that do may not have FHA licenses. Hence, an investor or servicer that wanted to be paid off through the program might well have to rely on FHA-approved lenders to solicit the borrowers, mortgage industry executives said.

Other executives said servicers, whose income stream is reduced when mortgages are prepaid, may prefer to modify these loans to keep them in their portfolios. In addition, though the new FHA loans would be federally insured, that does not necessarily mean the originator is free of liability should the loans perform poorly. Skeptics also like to point out that another program, FHASecure, which was a centerpiece of the Bush administration's plan last year to stem the tide of foreclosures, ended up helping only a few thousand borrowers because of stringent eligibility requirements.

The new program is scheduled to begin Oct. 1 (though there are also questions about whether regulators will have it operational by that time). It is to be overseen by a board composed of the Treasury and Housing and Urban Development departments, the Federal Reserve Board, and the Federal Deposit Insurance Corp.

Bank of America Corp. and Wells Fargo & Co. have said they will take part in the program, which the Congressional Budget Office has estimated would help roughly 400,000 qualified homeowners.

Rick Seehausen, the president and chief executive of LenderLive Network Inc., a private-label mortgage originator in Denver, said that though lenders, investors, and servicers "will be able to move some risk, it comes with a price. Investors still have to get comfortable with the writedowns."

And even if they do get comfortable, "if you don't have an origination capability, you can't do these programs," Mr. Seehausen said. "It's one of the reasons FHASecure was never very successful, because in order for it to work, it's a program offered by a servicer to customers, and they can't offer it because they're not a lender."

Dan Cutaia, the president of **Fairway Independent Mortgage Corp.**, said his Madison, Wis., lender, which is approved to write loans for the FHA, "is trying to think about how we would take part" in the program.

The program is "a no-brainer" for such large lenders as B of A and Wells that have both origination and servicing capabilities, he said. "If a bank owns the loan outright, it's fine because they're basically swapping a semi-nonperforming asset for one that is now insured by the government."

Mr. Cutaia said he is looking for a servicer that wants to team up with an FHA-approved lender but he is unsure whether investors would want to buy the new loans. Despite the FHA guarantee, he said, there is still some concern about first-payment defaults.

"I wouldn't necessarily want to refinance a problem loan, and sell it to the big guys because if the borrower doesn't make another payment, I'm stuck with it," he said. "Investors may not want to participate because why would they want somebody else's headache? We have calls in to major investors and they're scratching their heads on this."

Similarly, Fred Arnold, the president of the California Association of Mortgage Brokers, said that in many cases loans that meet FHA underwriting guidelines are "being turned down because of the concern of companies being liable for the FHA loan."

Mr. Cutaia said some borrowers with option adjustable-rate mortgages are making lower monthly payments than they would even with a principal reduction, a factor that could reduce the number of borrowers who want to refinance through the FHA program.

Ronald Faris, the president of Ocwen Financial Corp., a West Palm Beach, Fla., servicer of subprime mortgages, said the refinance assistance program will have some impact, "but it may not be the impact the government anticipated."

Some servicers may prefer to modify a loan and even forgive some principal rather than lose the account and its associated fees, he said. "Servicers don't want to lose their servicing portfolio, so they may reduce the principal and give the borrower an adjusted loan."

Hence, even if they do not participate in the program, its very existence will "pressure" servicers to do more principal reductions, Mr. Faris said.

"It may prompt more servicers to do modifications that include principal reductions," he said. "I do think their program is going to help borrowers get better loans, but it may not be through the way they designed it or FHA loans."

For the mortgage holders, "you may find that ... there's just as good an outcome in modifying than in just allowing the payoff to occur," Mr. Faris said.

Investment banks and other firms that want to get rid of their mortgage exposure are more likely to want to take part in the program, he said. "A Wall Street firm may say that a loan is worth only 80 cents on the dollar if they try to sell it, but if FHA can refinance it at 90 cents, this is a viable way to do it."

A.W. Pickel 3rd, the president of Leader One Financial Corp., an Overland Park, Kan., lender, said some servicers may not participate in the program because of the complexities created by securitization.

Tracing which investors in a pool of mortgages that has been sliced into different classes would have to take a hit on the principal writedown would be too difficult, he said. "This could become a real nightmare to accomplish."