HARP Phase II Q&A's

Why are you making these changes to HARP now?

For some time, FHFA, Fannie Mae and Freddie Mac (the Enterprises), lenders, servicers and private mortgage insurers (MI's) have been engaged in a coordinated, industry-wide effort to find ways to increase the number of homeowners who are able to refinance through HARP. With mortgage interest rates at historic lows, we believe it is an opportune time to put the industry's experience with the program to work so more eligible borrowers can refinance Fannie Mae or Freddie Mac-owned mortgages. Importantly, such refinances bring benefits to borrowers, to housing markets, and to the Enterprises and taxpayers.

Which borrowers may be eligible for an enhanced HARP?

In general, borrowers must meet the following criteria:

- The mortgage must be owned or guaranteed by Freddie Mac or Fannie Mae.
- The mortgage must have been sold to Fannie Mae or Freddie Mac on or before May 31, 2009.
- The mortgage cannot have been refinanced under HARP previously unless it is a Fannie Mae loan that was refinanced under HARP from March-May, 2009.
- The current loan-to-value (LTV) ratio must be greater than 80%.
- The borrower must be current on the mortgage at the time of the refinance, with no late payment in the past six months and no more than one late payment in the past 12 months.

Given the eligibility criteria, can you estimate how many borrowers may refinance through HARP as a result of these changes?

For many reasons it is very difficult to project the number of mortgages that may be refinanced under the enhancements to HARP, including the future path of interest rates, borrower willingness to undertake a refinance transaction and the number of lenders and servicers who choose to offer the program. Given current market interest rates, our best estimate is that by the end of 2013 HARP refinances may roughly double or more from their current amount but such forward-looking projections are inherently uncertain. The more important point is that material changes have been made to enhance access to the program but HARP, before and with these changes, is not intended to serve all borrowers, or even all underwater borrowers. It is targeted just at borrowers with loans owned or guaranteed by the Enterprises that meet the eligibility requirements set forth above.

What about borrowers whose loans are not owned or guaranteed by Freddie Mac or Fannie Mae?

Neither FHFA nor the Enterprises have the legal authority to extend HARP to borrowers whose mortgages are not owned or guaranteed by Fannie Mae or Freddie Mac.

What do borrowers need to do to take advantage of HARP?

The first step is for the borrower to learn if his or her mortgage is owned or guaranteed by [Freddie Mac] or [Fannie Mae] by visiting the Enterprises' websites. Each Enterprise has a web tool for that purpose. If the mortgage is owned or guaranteed by Fannie Mae or Freddie Mac, the borrower should contact his or her existing lender or any other mortgage lender offering HARP refinances.

Are offers from companies promising to help borrowers get HARP loans legitimate?

Borrowers do not need to use third party companies that advertise themselves as "mortgage experts" or "foreclosure specialists" to apply for a HARP loan. Before calling such companies borrowers should talk first with their mortgage lender.

Is there a maximum loan-to-value (LTV) ratio for HARP?

There is no longer a maximum LTV limit for borrower eligibility. If the borrower refinances under HARP and their new loan is a fixed rate mortgage, there is no maximum LTV. If the borrower refinances under HARP and their new loan is an adjustable rate mortgage, their LTV may not be above 105%.

Is HARP the only refinance program available to borrowers?

Our task the past few months has been to evaluate an existing program – HARP – to assess if it could be enhanced to better reach its target population of borrowers whose mortgage balances exceed the values of their homes. HARP is only one of several refinancing options available to homeowners and is unique in that it is the only refinance program that enables borrowers with little to no equity in their homes to take advantage of low interest rates and other refinancing benefits. Indeed, Fannie Mae and Freddie Mac have helped approximately nine million families refinance into a lower cost or more sustainable mortgage product since April 2009 and we will continue to work to provide those opportunities in a responsible way.

Are mortgages on condominiums eligible for refinance under HARP?

Condominiums are already eligible under HARP and, under the enhanced program, condominiums that originally met Enterprise requirements remain eligible.

What are the circumstances under which appraisals are not required?

We are further streamlining the Enterprises' existing use of AVM (automated valuation model) estimates of properties. Where there is a reliable AVM estimate of value provided by the Enterprises, a new appraisal will not be needed. Where there is not a reliable AVM value, a new appraisal will be required.

When will these enhancements become available?

Timing will vary by mortgage lender. The Enterprises will be sending operational instructions to lenders by November 15th. Some lenders may be able to accommodate mortgage applications under some of the enhancements by December 1 while it could take other lenders additional time to incorporate the expanded program into their systems. In addition, some of the enhancements such as delivery of loans with LTV greater than 125 should be operational during the first quarter of 2012.

Are you concerned that eliminating seller and servicer representations and warrants on HARP loans will force the Enterprises to take on additional risk?

We anticipate that the package of improvements being made to HARP will reduce the Enterprises credit risk, bring greater stability to mortgage markets and reduce foreclosure risks – each of which is an important statutory mandate for FHFA.

Nearly all HARP-eligible borrowers have been paying their mortgages for more than three years, and most of those for four or more years. These are seasoned loans made to borrowers who have demonstrated a capacity and commitment to make good on their mortgage obligation through a period of severe economic stress and house price declines.

Reps and warrants protect the Enterprises from losses on defective loans; typically, such defects show up in the first few years of a mortgage and so the value of the reps and warrants decline over time. By refinancing into a lower interest rate and/or shorter term mortgage, these borrowers are recommitting to their mortgage and strengthening their household balance sheet, thereby reducing the credit risk they already pose to the Enterprises. Therefore, FHFA has concluded that eliminating the reps and warrants that may have discouraged industry participants from taking greater advantage of HARP to-date will be good for borrowers, housing markets, and the Enterprises and taxpayers.

Why are you encouraging borrowers to shorten the terms of their mortgage?

Borrowers who owe more on their mortgages than their homes are worth may be locked into their homes for years and have fewer financial options until they pay down the loan balance. A shorter term mortgage enables such borrowers to pay down the amount they owe much faster than a traditional 30-year mortgage. Furthermore, interest rates on shorter term mortgages usually are less than on thirty-year mortgages. The lower interest rate may provide borrowers the opportunity to shorten the term of their mortgages without much change in their monthly payments, and perhaps even a reduction in that payment. Such an outcome may strengthen the borrower's financial condition and lower the credit risk for the Enterprise that owns or guarantees the loan. A few examples illustrate how this works:

- Assume a homeowner currently has a mortgage on which he or she owes $200,000 and has an interest rate of 6.5 percent – a monthly payment of $1264. If the house is worth $160,000, the homeowner has a current loan-to-value (LTV) ratio of 125 percent.

- If this borrower refinanced into a 30-year fixed-rate mortgage with an interest rate of 4.5 percent, the monthly payment would decline to $1013. But, by refinancing into a 30-year loan, the borrower's loan balance will not reach $160,000 for ten full years.

- If the borrower chose a 20-year loan term at a rate of 4.25 percent (mortgage rates tend to be less for shorter term mortgages), the monthly payment would be $1238 ($26 less than the borrower currently pays) and the borrower's loan balance would reach $160,000 in five-and-one-half years.

- If this same borrower refinanced into a 15 year mortgage, assuming an interest rate of 3.75 percent, the monthly payment would be $1454 ($190 more than the current payment), but the loan balance would be below $160,000 in a bit more than three-and-one-half years.

These examples are purely illustrative and are not meant to represent interest rates borrowers should expect to pay. They do show that some HARP-eligible borrowers, depending on their circumstances and priorities, may benefit from a shorter term mortgage. Since shorter term mortgages reduce credit risk to the Enterprises because of the faster repayment of principal, there will be no added fee for borrowers that choose shorter terms.

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