



## White House's Expanded Plan Won't Help Many Homeowners

By Aleksandra Todorova  
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**THE BUSH ADMINISTRATION** announced yet another housing rescue plan Wednesday, saying it will extend the Federal Housing Authority's assistance to subprime borrowers who are behind on mortgage payments. But, as housing advocates contend, the plan is just window dressing on a crisis that will require much more aggressive involvement by the government.

The expansion of the government's FHA Secure program, which goes into effect later this month, is aimed at helping homeowners with subprime adjustable-rate mortgages to refinance into government-insured loans with lower, fixed rates. Since its launch last September, the FHA Secure program has been criticized for its stringent qualification standards, including one that requires homeowners to be current on their loans for at least six months before they reset to a different rate. In response, the government is now easing up on those requirements, opening the program up to borrowers who have had two or three late payments in the last 12 months.

The Federal Housing Administration, which insures these loans, estimates the expanded program can help an additional 100,000 homeowners. (Since the launch of FHA Secure, 150,000 homeowners have refinanced into FHA loans, but only 3,000 of them had been delinquent at the time of refinancing, according to the FHA.)

But much like the government's previous housing rescue efforts, including its plan<sup>1</sup> to freeze interest rates on certain mortgages for five years and its "Project Lifeline<sup>2</sup>" plan, which gives severely delinquent homeowners a 30-day reprieve on foreclosure proceedings housing advocates took the new effort with a grain of salt.

"We did not really work our way through the details [of this plan] because when you're dealing with such an insignificant response to such a major problem, it just doesn't command the attention to try to figure out if it'll work," says Jim Karr, chief operating officer of the National Community Reinvestment Coalition, a consumer advocacy group. "Helping 100,000 households in the context of two million foreclosures about to take place over the next 18 months — if not sooner — is inconsequential."

Even mortgage industry professionals who view the program's expansion as a step in the right direction are skeptical. Guy Cecala, publisher of Inside Mortgage Finance, a trade publication for the mortgage servicing industry, points to provisions that will limit the program's effectiveness, including the fact that it relies on the goodwill of lenders to swallow losses when refinancing homes that are now under water<sup>3</sup>, or worth less than the outstanding mortgage balance.

Here's an outline of the program, along with some of the finer points that homeowners should consider before signing on.

### The basics

FHA loans, which target first-time and low-income home buyers but are available to anyone regardless of income, were considered the ugly stepchildren of the mortgage industry during the housing boom. Much more restrictive than the then-readily-available subprime loans, they required buyers to present proper documentation with proof of income, for example, and involved more detailed property appraisals. In addition, limits on the amounts that could be borrowed precluded buyers in high-price markets like California and New York from even considering these loans. (The limits were recently increased to as much as \$729,750 from \$362,790 in high-cost areas, effective through the end of the year. [Click here<sup>4</sup>](#) for area specifics.)

But now that lenders are tightening their requirements<sup>5</sup> for privately-insured mortgages, the FHA program is coming back in vogue. (All mortgage loans borrowed with less than 20% down require private mortgage insurance.) In the first quarter of 2008, 10% of all loan originations were FHA loans, compared with 3% in 2007 and 2% in 2006, according to Cecala.

The appeal is clear: Unlike most lenders these days, FHA loans still allow homeowners to purchase a home with just 3% down, and they're generally open to those with lower credit scores. (The FHA program, in fact, does not have any score requirements, though lenders may implement their own.) Buyers who just a year ago would have had no problem getting a subprime ARM may now have no other option but the FHA program.

The FHA Secure program, meanwhile, allows borrowers to refinance their mortgage into FHA loans, an attractive solution for homeowners who can't qualify to refinance into a privately-insured mortgage. Available to borrowers with subprime ARMs whose interest rates have or will reset between June 1, 2005, and Dec. 31, 2008, it works just like a regular refinancing, only

the borrower must get a new loan through an FHA-approved lender<sup>6</sup>.

### Reliance on lenders' mercy could be program's undoing

Even with the expanded criteria, however, a key assumption in FHASecure threatens its success: Since borrowers are required to have at least 3% equity in their home in order to refinance (10% if they've been delinquent for three months), lenders will have to willingly take a loss on the balances of mortgages for homes that are now worth less than their outstanding loans. (Currently there are nine million homeowners with negative equity, according to Moody's Economy.com.)

The reliance on the mercy of lenders, could ultimately be this program's undoing, Cecala says. "You can't force lenders to do it, they've got to volunteer — and so far we haven't seen any willingness on the part of lenders to volunteer. They won't even do loan modifications, which are a much milder form [of help for troubled homeowners]." At best, lenders may consider writing down loan balances in markets like California, Florida and Nevada where prices have dropped most significantly and foreclosures are costlier. However, homeowners will have to build a strong case in their favor, Cecala notes. (If you're willing to try, contact a HUD-approved<sup>7</sup> housing counselor in your area to help you negotiate.)

The FHA also encourages lenders to consider a middle-ground solution, such as putting the homeowner on a repayment plan for the difference between the old and new loan balance, but that means homeowners must be able to afford the additional payments.

Another possible problem: While the FHA has no credit score requirements, most lenders do, requiring at least a score of 580 for FHA loans, says Bruce Brown, president of First Security Mortgage, a Liberty, Miss.-based mortgage lender. That may be too high for borrowers with two or three mortgage delinquencies, and possibly delinquencies on other loans or credit cards as well. "If your score's taken a significant hit from your [late payments], there's a possibility this could eliminate you from this program even though you meet the requirements on paper," he says.

### Legislative fixes may not be enough

The expansion plan comes at a time when all eyes on Capitol Hill are focused on finding a cure for the housing crisis. House Financial Services Committee Chairman Barney Frank (D., Mass.) held hearings this week on the FHA's role in preventing foreclosures. Frank's legislation, which in addition to expanding FHA's refinancing authority stipulates that \$10 billion in loans and grants be provided to municipalities for the purchase and rehabilitation of foreclosed properties, has a much wider scope and could possibly help up to two million people.

The Senate, meanwhile, passed legislation Thursday that would provide, among other incentives, \$25 billion over three years in tax breaks for home builders and businesses affected by the mortgage crisis, and a \$7,000 tax credit for people who buy foreclosed properties.

The White House has not explicitly threatened to veto either bill, but has indicated that such legislation would further depress home values, making the country's housing problem worse.

Ultimately, no legislative measure may be sufficient to help the millions of homeowners who failed to read the fine print of their mortgage papers, lied about their income or simply bought more house than they could ever afford, Cecala says. "There's a large amount of borrowers that can't be helped. That's the ugly secret that no one wants to talk about."

Links in this article:

<sup>1</sup><http://www.smartmoney.com/consumer/index.cfm?story=20071206>

<sup>2</sup><http://www.smartmoney.com/consumer/index.cfm?story=20080214-mortgage-bailout-plan>

<sup>3</sup><http://www.smartmoney.com/consumer/index.cfm?story=20080110>

<sup>4</sup><https://entp.hud.gov/idapp/html/hicostlook.cfm>


<sup>5</sup><http://www.smartmoney.com/consumer/index.cfm?story=20080327-mortgages>

<sup>6</sup>[http://locator.fha.gov/cgi-bin/answers\\_hud\\_loc.cfg/php/loc/enduser/loc.php](http://locator.fha.gov/cgi-bin/answers_hud_loc.cfg/php/loc/enduser/loc.php)

<sup>7</sup><http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>

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