

Mass mortgage refinance program

Written by Dr. Garth A. Rose

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One important proposal contained in President Barack Obama's American Jobs Act that he recently submitted to the U.S. Congress for approval is for American homeowners to refinance their mortgages at today's near four percent interest rates. If approved, according to White House estimates, this would put an estimated \$2,000 annually in homeowner's pockets from savings on their annual mortgage payment.

However, besides saving homeowners money, the measure could also significantly improve the economy. When the U.S. economy crumbled in 2008, the main cause was the saturated housing market, financed by overindulging investors and banks. The housing market, banks and investors that backed it are still severe casualties of the weak economy, and unless this market is remedied the economy is unlikely to improve.

Last month, the Mortgage Bankers' Association reported 8.44 percent of homeowners nationally missed at least one payment in the second quarter of 2011, placing 0.12 more homeowners at risk for foreclosure than were believed to be at risk in the first quarter. According to the MBA, in a "normal market," only about 1.1 percent of homeowners are delinquent at any given time, but last year delinquent mortgages accounted for more than 10 percent of all residential mortgages.

In addition to that alarming data, millions of homeowners in Florida and nationally owe much more on their mortgages than their homes currently value. Millions also have bad credit or are unemployed and do not qualify for assistance under the government-backed Home Affordable Refinance Program (HARP).

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The new proposal would allow homeowners with government-backed mortgages (backed by Fannie Mae and Freddie Mac) to refinance at the approximately 4.20 percent prevailing interest rate.

This would be a strong stimulus to the economy, without affecting the national deficit, and should not be a proposal that incites opposition within Congress.

Consumers who have their mortgage payments reduced would have more money to spend elsewhere – something the economy needs.

However, the new plan will have to correct the criteria under HARP which precludes homeowners who are unemployed or have bad credit. For the plan to really benefit the economy, it has to be accessible to more homeowners. There are no details how the plan would work, but if it doesn't address more delinquent homeowners or those facing delinquency it will have little effect.

It's estimated that a national refinancing program at current interest rates could save American homeowners \$85 billion annually. The proposed plan would also protect Fannie Mae and Freddie Mac (and private investors) assets. Last month it was also reported that prices of homes with government-backed mortgages fell 5.9 percent in the second quarter from a year earlier, the biggest decline since 2009. As of July, there was an estimated \$2.4 trillion in mortgages backed by Fannie Mae and Freddie Mac.

More than one in five homeowners with mortgages owe more than their homes are worth, which if not remedied will create increased foreclosures and further decline in home prices. Defaults in the housing market, privately and government-backed, must be reduced.

Another factor that should encourage Congress to approve a broad-scale home refinancing plan is that the proposal is in keeping with the Federal Reserve's policy of providing low interest rates, to more people.

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Most economists believe bankers would support the president's new mortgage refinancing plan. Although it offers lower interest rates, the plan would minimize the risk of default and significantly reduce foreclosures. Moreover, these loans are guaranteed by Fannie and Freddie, so the plan holds little risk.

Although the details are pending, one sees no reason why Congress shouldn't approve a mass mortgage refinancing plan without delay. Sensibly planned, it could help to stabilize the ailing housing market and economy without budget deficit implications