Expanding, Streamlining Mortgage Refinances: Congress Can Help Millions of Homeowners Save Billions of Dollars

Issue Brief June 2012

A Bipartisan Opportunity to Help Homeowners

A bill in the U.S. Senate would more than double the number of homeowners who could refinance under a federal mortgage program and more than double their potential savings, a Columbia University Business School study estimates.[1] Senate bill 3085, introduced by Senators Robert Menendez and Barbara Boxer, would expand and streamline refinancing opportunities under the existing Home Affordable Refinance Program (HARP). The study estimates this new legislation would increase the total number of homeowners who refinance under HARP to up to **13 million** and produce total potential savings of **$35 billion** a year.[2]

Under the current HARP program that's already in place, which includes some improvements made in recent months, the Columbia Business School researchers estimate that almost five million people total will likely refinance under HARP for annual savings of $16 billion. HARP refinances are currently open to families who are current on their Fannie Mae or Freddie Mac mortgage and who have a loan-to-value ratio higher than 80%. Under the proposed Senate bill, eligibility would be extended to Fannie and Freddie borrowers regardless of how much they owe on their home.

In a separate analysis, the researchers also tallied the estimated number of mortgage holders in each state who could potentially be eligible for a refinancing under HARP and how much they could save in lower interest payments if the legislation were passed—those numbers are attached in the appendix.[3]

The Columbia Business School researchers emphasize that expanding eligibility for refinances would not only benefit homeowners but also the mortgage industry and the economy overall. The research concludes that the legislation would increase competition in the refinance business and thus lower prices for all HARP participants, including those individuals already eligible for

[1] Alan Boyce, R. Glenn Hubbard, Christopher Mayer and James Witkin at The Paul Milstein School of Real Estate at Columbia Business School, "Now is the Time to Consider Widespread Refinancing," at http://www4.gsb.columbia.edu/realestate/research/housingcrisis. Their analysis used assumptions that track most, but not all, of the key provisions in S. 3085. For example, there is some difference in cutoff dates. Under current rules, only mortgages sold to Fannie Mae or Freddie Mac on or before May 31, 2009 can be eligible for a HARP refinance. Columbia researchers assumed Fannie Mae and Freddie Mac-backed mortgages made after May 31, 2009 also would be eligible. The Menendez-Boxer bill would allow Fannie Mae and Freddie Mac-backed mortgages made on or before May 31, 2010 to be eligible.

[2] The numbers would be even higher if one considers additional legislation that has been proposed in the Senate. Economist Mark Zandi, analyzing three proposed Senate bills, estimates that eligibility for refinances could be pushed up to 21.5 million, including 3.5 million homeowners whose mortgages are not backed by Fannie Mae or Freddie Mac. See Zandi's testimony before the Senate Banking Committee at http://www.economy.com/mark-zandi/documents/2012-05-25-Final-Senate-Banking-Committee.pdf.

[3] The state totals differ from the 13 million people and $35 billion savings the researchers calculated nationally because the state numbers reflect less refined assumptions.

HARP. In addition, expanding refinances will reduce the number of future defaults on Fannie- and Freddie-backed loans, which will benefit taxpayers who would ultimately pay for bad loans.

Background

Today's mortgage interest rates are at historic lows, but millions of families face barriers to refinancing into lower rates because of obstacles in the lending market. This means that millions of homeowners are locked into higher interest rates at a time when nearly one third of all homeowners are underwater on their mortgage, i.e., their mortgage exceeds the value of their home.[4]

The refinancing barrier is of particular concern for African-American and Hispanic families. Among homeowners current as of February 2011 on a mortgage originated between 2004 and 2008, a larger percentage of African Americans and Hispanics were making payments on a high-interest mortgage than were non-Hispanic white borrowers.[5]

Lifting refinancing barriers would reduce foreclosures, a problem that remains serious for families, communities and the economy as a whole. CRL's research report, *Lost Ground*, shows that we are halfway through foreclosures for mortgages originated between 2004 and 2008.[6] The report found that, as of February 2011, 2.7 million homeowners had already lost their home to foreclosure, and an estimated 3.6 million additional homeowners were in the process of foreclosure or 60 days or more delinquent on their mortgage.

These foreclosure estimates are likely on the conservative side, in part because they only look at mortgages originated between 2004 and 2008. CRL has completed additional analysis showing that since housing prices began their precipitous decline in early 2007, approximately 10.9 million homes have started the foreclosure process.[7]

Streamlining Refinances: Increasing Access to Low-Interest Mortgages

S. 3085 offers a low-cost way to help homeowners still struggling with the ongoing housing crisis. While saving families money, it will also reduce future foreclosures on Fannie Mae and Freddie Mac mortgages, therefore saving taxpayers money as well. Introduced by Senators Menendez and Boxer, this bill would expand the HARP program to reach more borrowers and increase competition by:

- Allowing more homeowners current on their Fannie Mae/Freddie Mac mortgage to qualify for a HARP refinance.
- Making it easier for homeowners to obtain a refinance from any lender, not just their current lender, thus encouraging more competitive interest rates.

---

[4] "Zillow: 31.4% of U.S. Homeowners are Underwater on Mortgages," *Los Angeles Times* (May 24, 2012) http://www.latimes.com/business/money/la-fi-mo-zillow-underwater-20120524,0,165710.story.

[5] See testimony of Michael Calhoun before a Senate Banking subcommittee, "Helping Responsible Homeowners Save Money Through Refinancing," (April 25, 2012) at http://www.responsiblelending.org/mortgage-lending/policy legislation/congress/testimony-refinancing-helping-responsible-homeowners.html.

[6] Debbie Gruenstein Bocian, Wei Li and Carolina Reid, "Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures," Center for Responsible Lending (November 2011).

[7] CRL calculation based on MBA National Delinquency Survey from 2007q1 through 2011q4, scaled to reflect market coverage. As per MBA's claims, we assume 85% market coverage for 2007q1-2010q2 and 88% coverage for 2010q3 and after.

- Encouraging the holders of second liens to allow streamlined refinances.
- Eliminating up-front fees completely on refinances.
- Eliminating appraisal costs for all borrowers.

In summary, this bill offers an opportunity for millions of ordinary Americans to achieve significant savings while also saving money for taxpayers and building a stronger economy.

.

APPENDIX

Estimated Savings from Streamlined Refinancing*

Estimates by Alan Boyce, R. Glenn Hubbard, Christopher Mayer, and James Witkin at The Paul Milstein School of Real Estate at Columbia Business School. See http://www4.gsb.columbia.edu/realestate/research/housingcrisis.

State	Annual Interest Savings (Millions of Dollars)	Number of Eligible Mortgages	Average Savings per Refinance
Alabama	$438.4	162,436	$2,699
Alaska	$73.6	18,142	$4,054
Arizona	$937.2	318,378	$2,944
Arkansas	$187.5	78,949	$2,375
California	$5,669.8	1,371,678	$4,133
Colorado	$851.6	253,639	$3,358
Connecticut	$532.6	142,018	$3,750
Delaware	$175.5	49,779	$3,525
District of Columbia	$120.9	27,143	$4,267
Florida	$2,975.1	980,316	$3,035
Georgia	$1,281.5	431,411	$2,971
Hawaii	$220.5	43,846	$5,029
Idaho	$218.8	77,667	$2,818
Illinois	$1,776.6	532,371	$3,337
Indiana	$582.2	253,294	$2,299
Iowa	$236.0	100,805	$2,341
Kansas	$243.4	95,822	$2,540
Kentucky	$324.3	131,798	$2,461
Louisiana	$368.8	134,317	$2,746
Maine	$160.5	52,027	$3,085
Maryland	$1,119.9	284,495	$3,937
Massachusetts	$1,000.4	238,133	$4,201
Michigan	$1,166.0	458,550	$2,543
Minnesota	$884.2	277,725	$3,184

Mississippi	$142.2	54,096	$2,628
Missouri	$630.2	247,220	$2,549
Montana	$114.6	38,242	$2,997
Nebraska	$145.0	61,411	$2,361
Nevada	$378.1	119,284	$3,170
New Hampshire	$231.2	67,227	$3,439
New Jersey	$1,667.3	402,431	$4,143
New Mexico	$240.8	83,128	$2,897
New York	$2,595.5	638,756	$4,063
North Carolina	$1,070.1	368,962	$2,900
North Dakota	$36.5	15,079	$2,420
Ohio	$1,027.5	427,650	$2,403
Oklahoma	$286.8	121,616	$2,358
Oregon	$668.7	201,625	$3,317
Pennsylvania	$1,365.1	469,712	$2,906
Rhode Island	$141.7	41,108	$3,447
South Carolina	$525.6	188,329	$2,791
South Dakota	$59.2	23,511	$2,520
Tennessee	$570.0	204,354	$2,789
Texas	$2,517.8	874,868	$2,878
Utah	$367.7	108,814	$3,379
Vermont	$80.8	26,920	$3,003
Virginia	$1,265.9	346,507	$3,653
Washington	$1,170.8	321,151	$3,646
West Virginia	$95.0	39,284	$2,419
Wisconsin	$504.5	171,875	$2,935
Wyoming	$58.4	18,923	$3,084

* The state totals differ from the 13 million people and $35 billion savings the researchers calculated nationally because the national estimates were based on more refined assumptions.