OLR RESEARCH REPORT

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HOME AFFORDABLE REFINANCE PROGRAM (HARP)

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You asked for information on the federal Home Affordable Refinance Program (HARP).

SUMMARY

The Federal Housing Finance Agency (FHFA) and the U.S. Department of Treasury created HARP in early 2009 to help homeowners who are not behind on mortgage payments but who cannot get traditional refinancing because the value of their homes have decreased. According to FHFA, almost 894,000 borrowers refinanced through HARP as of August 31, 2011.

On October 24, 2011, FHFA, Fannie Mae, and Freddie Mac announced changes to the program to expand eligibility and encourage more lenders to participate in HARP. After these changes, a homeowner can be eligible for HARP if:

1. the mortgage is owned or guaranteed by Freddie Mac or Fannie Mae,

2. the mortgage was sold to Freddie Mac or Fannie Mae no later than May 31, 2009,

3. the loan-to-value (LTV) ratio is greater than 80%, and

4. the borrower is current on the mortgage at the time of refinancing with no late payments in the past six months and no more than one late payment in the past 12 months.

According to a *Washington Post* article, housing regulators say that one million borrowers might be eligible under the expanded version of HARP. The article also states that the Obama administration cited estimates that the average homeowner might save $2,500 per year under the program but that other housing regulators found that fees and closing costs could reduce this to about $312 per year ("Government Announces New Program to Help "Underwater" Homeowners," *Washington Post*, October 24, 2011).

The HARP program is scheduled to end on December 31, 2013.

RECENT CHANGES

FHFA, Fannie Mae, and Freddie Mac announced a number of changes to HARP on October 24, 2011. These changes include:

1. removing the LTV limit of 105% on 15 year loans so that there is no maximum LTV ratio for fixed-rate mortgages of up to 30 years (the LTV remains 105% for (a) fixed-rate loans of 30 to 40 years and (b) adjustable-rate mortgages with initial fixed periods of at least five years and up to 40 year terms);

2. changing payment history requirements to those described in the summary above in place of a policy that varied based on whether the borrower's payment was increasing or decreasing (but the new policy requires requalification when there is a payment increase of principal and interest by more than 20%);

3. removing requirements that the (a) borrower meet the standard waiting period and re-establishment of credit criteria following a bankruptcy or foreclosure and (b) original loan have met the bankruptcy and foreclosure policies in effect at the time it was originated;

4. expanding the use of automated property valuations, with no new appraisal necessary when a reliable automated valuation model can estimate the property's value;

5. eliminating certain representations and warranties that lenders commit to when making loans owned or guaranteed by Freddie Mac or Fannie Mae; and

6. eliminating certain risk-based fees for borrowers who refinance into shorter-term mortgages and lowering fees for other borrowers.

Regarding representations and warranties, FHFA states that the prior policy may have discouraged some in the industry from participating in HARP. FHFA states that (1) representations and warranties protect from losses on defective loans and defects typically show up in the first years of a mortgage, (2) most borrowers with HARP-eligible loans have been paying their mortgages for more than three years and these borrowers have shown their commitment to making payments, and (3) borrowers who refinance are recommitting to their mortgage and strengthening their household balance sheet. FHFA states that the changes will reduce the credit risks to Freddie Mac and Fannie Mae, bring greater stability to mortgage markets, and reduce foreclosure risks.

FHFA also hopes that HARP will encourage homeowners to refinance into shorter-term loans. Borrowers who owe more on their house than it is worth may be locked into their homes and have few options until they pay down their loan balance. FHFA states that shorter-term loans will provide borrowers with lower interest rates and allow them to pay down their mortgages and strengthen their financial condition faster, which can lower Freddie Mac's and Fannie Mae's credit risk.

For further information see:

- FHFA press release on HARP changes: http://www.fhfa.gov/webfiles/22721/HARP_release_102411_Final.pdf
- FHFA fact sheet: http://www.fhfa.gov/webfiles/22724/HARP%20release%20102411Fact%20Sheet%20Final.pdf
- FHFA questions and answers on HARP: http://www.fhfa.gov/webfiles/22723/HARP%20release%20102411QandA%20Final.pdf

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