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# Mortgage Relief Plan Aims at Refinancing

By SHAILA DEWAN

President Obama, in announcing new mortgage relief on Wednesday, acknowledged that previous efforts to help homeowners had fallen short of expectations. And he tried to explain how his new effort, much of which would require Congressional approval, would fare significantly better.

In making his case, Mr. Obama framed the changes as a round of improvements that would build on previous efforts to make it easier to refinance mortgages.

"I am sending Congress a plan that will give every responsible homeowner in America a chance to save about \$3,000 a year on their mortgage by refinancing at historically low rates," he told an audience in Falls Church, Va. "No more red tape. No more runaround from the banks."

In recent months, his administration has scrambled to make a breakthrough on the mortgage front, given limited cooperation from Congress and the Federal Housing Finance Agency.

The president's latest proposal was aimed at two groups of eligible homeowners: about 11 million whose loans are backed by Fannie Mae and Freddie Mac, and about 3.5 million whose loans are privately held. Those estimates include only homeowners who are current on their loan payments, have a credit score above 580 and are paying interest rates high enough to make refinancing attractive.

For those with privately held loans, the president will ask Congress to allow the Federal Housing Administration to refinance their mortgages in a program to be financed by a fee charged to large banks based on their size and the riskiness of their portfolios. The estimated cost of the program would be \$5 billion to \$10 billion, depending on the number of participants. Only houses whose values fall within F.H.A. guidelines, from about \$270,000 to \$730,000 depending on location, would qualify.

The F.H.A. would use the bank fee to insure itself against the credit risk of taking on the new mortgages, a White House official said.

Another part of the proposal is aimed at Fannie Mae and Freddie Mac, which eased some restrictions on refinancing last fall, but not as much as the White House wanted. The Federal Reserve has called some of Fannie's and Freddie's barriers to refinancing, like risk-based fees for mortgages whose risk the companies have already shouldered, unjustifiable.

Mr. Obama's proposal is intended to force the mortgage giants to inject more competition into the refinancing market, eliminate appraisal fees and extend to everyone refinancing rules that had been made to help those who owed more than their homes were worth.

More than 10 million homeowners owe more money on their homes than they are worth, and home prices have continued to fall. The result is a drag on household wealth and consumer spending, with many families stuck in homes they are unable to sell but cannot afford to keep.

Some proponents of refinancing hailed the plan as a step in the right direction, though there were concerns about its chances of passing Congress. In a research note, Morgan Stanley called the plan's chances of passage "improbable," but applauded aspects that did not require Congressional approval, such as reduced red tape in existing government refinancing programs.

Mass refinancing, long a goal of the administration, would essentially be an economic stimulus plan because it would lower homeowners' monthly payments, giving them more cash to spend. The president's plan includes incentives for homeowners who choose to apply the savings toward paying down their principal, helping them to rebuild some of the home equity that was wiped out in the financial crisis.

Proponents of mass refinancing have said that Fannie Mae and Freddie Mac can allow homeowners who owe more than their homes are worth to refinance without taking on more risk because the loans are already guaranteed. But media reports disclosed this week that Freddie Mac also had \$5 billion invested in a type of security whose returns hinge on keeping interest rates high — in effect, the company bet against homeowners' ability to refinance at the same time that it was increasing restrictions on refinancing.

Jay Carney, the chief White House spokesman, said Monday that the Treasury Department was "looking into" the report. But on Tuesday a spokesman for the department said that Treasury did not have oversight authority over Fannie and Freddie. In a statement, the Federal Housing Finance Agency on Monday said it was examining the investments and that Freddie Mac was no longer entering into new transactions of that type.

The F.H.F.A.'s inspector general is also looking into issues related to the transactions as part of a larger evaluation of the administration's oversight of Fannie's and Freddie's investments, a spokeswoman for the inspector general said. But she said evaluations were distinct from investigations, which are conducted in the case of potential criminal or civil violations.

On Wednesday, the F.H.F.A. announced that it would begin the pilot phase of a program to sell pools of foreclosed properties to investors, in hopes of increasing the number of rental units available, and reducing the stream of foreclosures weighing down home prices.

*This article has been revised to reflect the following correction:*

***Correction: February 1, 2012***

*An earlier version of this article gave an incorrect name for the Federal Housing Finance Agency, calling it the Federal Housing Finance Administration.*

