

U.S. loosens mortgage aid requirements

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Investors with rental properties and homeowners struggling to pay their mortgages because of other debt can now qualify for federal aid under radical changes to the Obama administration's main foreclosure prevention plan.

The revamp of the Home Affordable Modification Program, which was announced Friday, also includes tripling the monetary incentives the government pays to lenders to reduce loan balances on underwater mortgages.

The program, announced in 2009 and referred to as HAMP, has been widely deemed a failure with fewer than 1 million homeowners nationwide approved for permanent lower monthly payments. About 90,000 Floridians are on permanent loan modifications.

Friday's changes should dramatically increase the eligibility pool, administration officials said.

"Florida really fits the profile for this," said Ken H. Johnson, a real estate professor at Florida International University in Miami. "We took the biggest hit, we have so many underwater people, and a high unemployment rate."

Gene Sperling, director of the National Economic Council, said the new program is part of President Obama's "We can't wait" campaign in which he is making changes to the programs that he controls and that don't require Congressional approval.

Unveiled three days after the State of the Union address and as Republican candidates lobby for Florida votes, the new plan:

- Allows mortgages on rental properties to be modified. Previously, only loans on homes the owner lived in were eligible.
- Triples the incentives to services that write down principal amounts from between 6 and 21 cents on the dollar to between 18 and 63 cents on the dollar.
- Allows homeowners whose payments are below 31 percent of their income but who cannot afford the monthly mortgage cost because of other debt, such as from credit cards, medical bills or a second lien, to apply for a more flexible program.
- Extends the program through Dec. 31, 2013.
- Offers incentives to Fannie Mae and Freddie Mac to reduce principal amounts on underwater mortgages.

The program will be paid for through HAMP's already allocated \$29 billion budget, of which between \$9 billion and \$10 billion has been spent or is earmarked for current modifications.

Administration officials said May is the target date to have the plan up and running.

Many economists agree writing down principal balances on underwater mortgages is the best way to corral the housing crisis and reduce foreclosures.

"I can almost guarantee you that prices in Florida will never, ever, ever come back to where they were in 2007 because they were so out of whack," said William Wheaton, an economist with MIT's Center for Real Estate, who supports principal reduction.

But there are still questions to be answered about the new plan.

Fannie Mae and Freddie Mac, which own or back about half of the nation's home loans, have fought against reducing loan balances. In a Jan. 20 letter to a congressional committee, Federal Housing Finance Agency Acting Director Anthony DiMarco said it would cost Fannie and Freddie about \$100 billion to write down all of their underwater loans to the current value of the homes.

On Friday, DiMarco said the agency will consider the new incentives being offered for principal reduction, but did not commit to accepting them.

And, at least one economist argued the government should just let the market reset itself and stop coming up with new housing subsidies that he believes are delaying a recovery.

"I can't come up with a good argument for trying to rig the housing market," said Arnold Kling, senior scholar at the Mercatus Center at George Mason University. "I believe if they had let the market just adjust, that it would have adjusted by now."

Because there are some signs of market stabilization, Kling says, politics, not the economy, may be driving the HAMP revamp.

The Republican contenders for president have been campaigning hard all week in Florida with a solution to the housing crisis that is largely free-market based. They argue the less government intervention, the better.

On Friday, U.S. Housing and Urban Development Secretary Shaun Donovan said homeowners need foreclosure relief now.

"These changes won't solve all the problems in the market, but homeowners shouldn't have to wait until housing hits bottom to get some relief," he said during a press conference announcing the changes.

Johnson, the FIU professor, agreed. If it can unstick the \$20 billion left in the HAMP budget, it's worth trying, he said.

"So what, even if it is political? We shouldn't turn our back on this," Johnson said. "There is no one magic bullet. It has to be a series of things that will bring down this catastrophe."

For more information go to www.makinghomeaffordable.gov.

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