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Principal Reduction Door still Ajar

It could be a little like the fabled barn door - closed but locking up little more than hay and manure - but the Federal Housing Finance Agency (FHFA) seems to be nearing a final decision as to whether Fannie Mae and Freddie Mac will be allowed to incorporate **principal reduction** into their loan modifications. Five years ago this would have been a big story. Actually five years ago it was a big story, but now we are on the flip side.

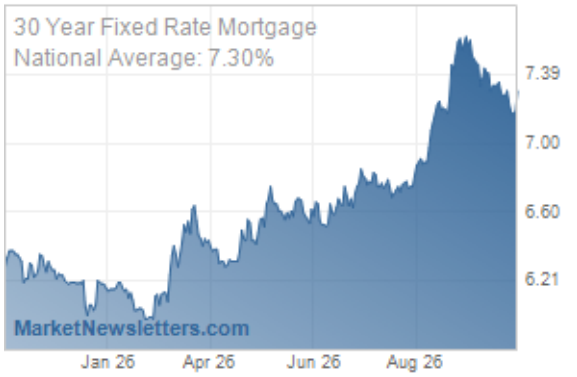
Some history:

As home prices fell, delinquencies rose, and home equity disappeared many lenders **began to reduce the principal** on delinquent and underwater mortgages as part of some loan workouts and restructures both to reduce monthly payments and as an incentive to homeowners to hang on to their homes rather than throwing in the towel. By early 2013 principal reductions played a role in 70 percent of non-GSE restructures done under the Home Affordable Modification Program (HAMP)

However, principal reduction played **no role whatsoever** in the borrower assistance programs for loans owned or guaranteed by the biggest lenders/guarantors of all, Fannie Mae and Freddie Mac. The two government-sponsored enterprises (GSEs) were by then under government conservatorship with FHFA as their conservator. Acting FHFA Director Edward J. DeMarco was adamant in his refusal to allow principal reduction to become a part of the GSE arsenal to stem the tide of foreclosures.

DeMarco based his stand on his **responsibility as conservator** to preserve the assets of the two GSEs but it was not a popular one. The Obama Administration was rumored to be pretty unhappy with DeMarco anyway, - the Senate had refused to confirm Obama's nominee as director; DeMarco was a Bush holdover - and the Treasury Department had made a big push to lenders to utilize principal reduction. But the biggest blowback came from congress including a letter from nine Democratic senators demanding DeMarco's removal. He never wavered and in early 2013 President Obama finally succeeded in having a Melvin Watt confirmed to replace the acting director. Still, two years later, principal reduction is still not available from the GSEs.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 28	192.6	-1.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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Watt's remarks on the subject came Tuesday in a speech given to the Women in Housing and Finance about progress made by the GSEs in loss mitigation. Watt recapped the history of the mortgage crises and how unprepared lenders and servicers were to stem the rising tide of delinquencies and defaults and to deal with millions of homeowners who were underwater on their mortgages. Today, he said, the picture is quite different. Delinquency rates are way down, and most of those who remain in negative equity are current on their mortgages. This rising tide however has not lifted all areas equally. Some states and many lower-income and minority areas still have significant problems with home values that have not recovered, weak sales markets, and vacant and abandoned properties.

He **acknowledged the "substantial criticism"** FHFA has received for not allowing the GSEs to offer principal reduction as part of their loss mitigation strategies and said that for the two years he has been director the agency has been methodically studying the issue in an attempt to determine if a "win-win" strategy was possible - one that would benefit both borrowers and the GSEs.

As to why an answer has been so long in coming, Watt said a decision includes an **extremely complicated set of factors** including balancing the shrinking number of borrowers who are both underwater and seriously delinquent with the cost and significant operational complexities for both the GSEs and services in implementing a principal reduction program. He called it, in fact, the most challenging evaluation the agency has undertaken during his time as Director.

However, if anyone was waiting for the barn door to slam shut as Watt spoke, th**ey will have to wait a little longer.** He concluded this discussion by saying, "We are, however, drawing close to the end of this difficult process, and I expect to announce a decision within the next 30 days about whether we have been able to find a "win-win" principal reduction strategy or whether, on the other hand, we will take principal reduction off the table entirely. So, while I don't have an answer today, I invite you to stay tuned for more on this in the near future. As always, our decision and the reasons for making it will be documented and transparent."

Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

Rich E. Blanchard 

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