Government needs to consider housing changes to miss recession

by Jim_Woodard

Strategic legislative changes relating to housing are key elements in efforts to avoid recession and turn the housing market to an upward, positive direction.

That's the view of most real estate experts who are analyzing the current real estate market. But precisely what those changes should be is the focus of intense discussions today. Changes that clearly benefit consumers, particularly home buyers and sellers, are often resisted by legislators facing political pressures.

The Federal Reserve Board's aggressive action in cutting the Fed rate substantially in recent weeks will help in stimulating the economy and keeping mortgage rates low.

The president's announced "stimulus package" plan to help homeowners and the economy sounds like a constructive step to avoid deepening problems. But it lacks specific details, and certain important steps affecting housing are needed in the plan, according to organized real estate groups.

One point often raised by real estate experts is the importance of loosening constraints of Fannie Mae and Freddie Mac, government-sponsored enterprises that buy existing mortgages. They need to raise their maximum loan limits.

"We believe that any stimulus package must address housing issues and increase the conforming loan limits of those two enterprises," said Dick Gaylord, president of the National Association of Realtors. "The increase in loan limits would not only improve liquidity in the mortgage marketplace, but also boost home buyers' confidence levels, resulting in increased sales and economic activity."

The ceiling on loans being purchased today by the two enterprises is $417,000. Many real estate leaders want this increased to at least $625,000.

"This change would permit more families to enter the housing market by making more mortgages available with lower interest rates," Gaylord said. "Increased home sales will lower inventories and immediately start stabilizing the housing market and the economy."

Mortgage loans of more than $417,000 are known as jumbo loans. They are usually harder to obtain and carry higher rates than conforming mortgages.

By lifting the loan limit to $625,000, it would lower interest payments for consumers who must now obtain a jumbo loan, reduce the supply of homes on the market, strengthen home prices by 2 to 3 percentage points, and increase economic activity by $42 billion, according to NAR estimates. Also, by increasing conforming loan limits, it would help reduce foreclosures by 140,000 to 210,000, resulting in an additional 348,000 home sales.

Another action needed quickly is passage of the Federal Housing Administration Reform bill. A reformed, modernized FHA program would offer a safe and affordable alternative to subprime mortgages, which are widely blamed for the credit crunch and the current high rate of foreclosures.

"FHA reform would not only ensure we won't find ourselves in this very unfortunate situation again, but also it can help many families currently facing foreclosure," Gaylord noted.

"Taking these actions is the quickest way to help the hurting housing market," he stressed. "They are needed to stabilize the housing market and protect homeowners."

Q: Are applications for refinance mortgages increasing?

A: With mortgage interest rates dipping to the lowest point in more than a year, the number of refinance loans are indeed on the increase. However, applications for adjustable-rate mortgages (ARMs) are decreasing.

"Disruptions in the capital markets and an increase in delinquencies on ARM loans have led to a sharp decline in applications and a tightening of credit underwriting on ARMs," said Frank Nothaft, chief economist for Freddie Mac.

"A year ago, the initial-rate discount on the popular 3/1 and 5/1 hybrid products was about 1.8 percentage points. In our latest survey, the rate discount had virtually disappeared on these products."

About 60 percent of current applications are for refinance mortgages. Most are for fixed-rate 30-year or 15-year loans, according to the Mortgage Bankers Association.

Q: What are mortgage professionals doing about troubles faced by borrowers?

A: The mortgage industry is trying hard to help borrowers who find themselves in serious trouble in making their payments, particularly those with rising payments with their adjustable-rate mortgage.

For example, about 54,000 mortgage loans were modified and another 183,000 borrowers had their loans structured with formal repayment plans during the third quarter of last year, according to a report from the Mortgage Bankers Association. By comparison, foreclosure actions were started on about 384,000 loans. But, of those loans, 63 percent were cases where the borrower did not live in the home or where the borrower did not respond to repeated attempts by the lender to contact them.

"The mortgage industry is taking major steps to help those borrowers who can be helped," said Jay Brinkmann, MBA's vice president. "It is likely that the number of loan modifications for subprime ARMs will continue to grow through the outreach efforts of the industry. The U.S. Treasury Department is playing a crucial role in bringing the lending community together to develop approaches to deal with the current problems." While investor-owned properties account for about 18 percent of foreclosure starts for subprime ARM loans, they also account for about 28 percent of subprime fixed-rate foreclosure starts, 18 percent of prime ARM foreclosure starts, and 14 percent of prime fixed-rate foreclosure starts.

California is showing the fastest increase in foreclosures.

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