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## Refinancings are still difficult for subprime borrowers

BY BRIAN BANDELL

It would seem common sense that lowering a subprime borrower's interest rate from a sky-high number to something closer to today's 4.18 percent average fixed rate would be a better alternative to foreclosure. But most subprime borrowers have found refinancing difficult.

Howard Dvorkin, president and founder of Fort Lauderdale-based Consolidated Credit Counseling Services, leads a firm that has handled many court-ordered foreclosure lawsuit mediations and worked with thousands of homeowners attempting to resolve problem mortgages.

In his experience, banks accept a good loan modification for about one in five borrowers, he said.

"The banks did not give tremendous breaks to these homeowners, even though the government would like to say that they did," Dvorkin said. "If someone can refinance a 9

percent loan to a 4 percent loan, the extra money can go into the economy. That is what Obama's HARP [Home Affordable Refinance Program] is about, but somebody has to take the lead on that and get it going."

Banks often defy logic when it comes to refinancing decisions, Miami-based bank analyst and economist Kenneth H. Thomas said. He approached a bank on behalf of a borrower and requested that it refinance the interest rate to 4.5 percent from 5.5 percent, but the bank said the borrower must first go into default.

The economy could greatly benefit if banks lowered interest rates, especially so borrowers who are under water could stay in their homes, Thomas said.

One of the biggest upcoming problems is mortgages with rates that start low but reset with higher payments after five years, said Boca Raton attorney Marilyn Wiener, who specializes in real estate and loan modifications. People know their interest rates are about to



Wiener

increase, but the lender, in many cases, refuses to refinance their mortgage with a lower rate because the loan-to-value ratio on the house exceeds 80 percent, she said. "It is a challenging process," Wiener said. "It is inefficient and unpredictable, and many borrowers just get rejected or they get put in a spinning wheel of resubmitting an application many times over. Sometimes, loan modifications are granted that do provide meaningful relief, but I've seen some granted that don't make significant difference."

During his Jan. 24 State of the Union address, President Barack Obama briefly mentioned a concept to cut red tape for refinancing mortgages with the Home Affordable Modification Program.

"I'm sending this Congress a plan that gives every responsible homeowner the chance to

save about \$3,000 a year on their mortgage, by refinancing at historically low rates," he said. "No more red tape. No more runaround from the banks. A small fee on the largest financial institutions will ensure that it won't add to the deficit and will give those banks that were rescued by taxpayers a chance to repay a deficit of trust."

The plan would reportedly include loans that aren't backed by Fannie Mae and Freddie Mac, including subprimes and homes where the value is less than the mortgage. The HAMP program was also extended to rental properties.

Another change would have the government pay Fannie Mae and Freddie Mac 63 cents for each dollar forgiven in mortgage principle, a post-speech announcement said.

Right now, most of the money the government allocated to incentivize banks to refinance mortgages has gone unspent. Accord-

**THE DETAILS****Hardest Hit Fund**

The U.S. Department of the Treasury's Hardest Hit Fund, which is designed to help borrowers in states with the most foreclosures, has spent 3.5 percent of its \$1.06 billion allocation for Florida. Nationwide, 9.5 percent of the \$7.6 billion program has been spent.

Source: Office of the Special Inspector General of the Troubled Asset Relief Program fourth quarter 2011 report

said Steve Pickett, the bank's senior VP of residential lending. In the revised version of HARP, banks can cut interest rates on Fannie Mae- or Freddie Mac-owned mortgages, even if the amount of the debt exceeds the value

of the house. The borrower must be current on payments, though.

Starting March 15, borrowers will be able to get a HARP modification through a bank, even if it is not their primary mortgage servicer. That will help borrowers who are frustrated by institutions that are not open to the program.

Regions Bank has \$130 million in HARP modifications in its pipeline, Pickett said.

"We expect Florida to play a big role in the success of the program," Pickett said. "It is a reduced documentation loan on the asset side. We document that they are working and that their credit is good."

Unfortunately, the newly revamped HARP will not be able to help many of the victims of the subprime lending crisis, said Maurice Jourdain-Earl, a managing director of Compliance



Pickett

Technologies. That federal program, which includes incentives for banks to write down loan principal, is only for Fannie Mae and Freddie Mac mortgages. Few subprime loans were backed by those agencies, which were also less likely to back loans to minorities, he added.

The HAMP can work for loans owed by most types of investors, but it has not been a cure-all for the subprime crisis. According to data from the Office of the Comptroller of the Currency, only 20 percent of mortgage modifications through HAMP during the third quarter of 2011 were subprime loans.

Wiener would like to see more loans that are packaged in mortgage backed-securities get access to federal modification programs.

Dvorkin said the federal programs are not very helpful for most subprime borrowers, but he holds out hope that HARP will eventually be expanded outside of Fannie Mae and Freddie Mac mortgages.

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