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Surviving Foreclosure: Kevin Jursinski: Home refinance program another failed opportunity

This $75 billion could be better spent

Kevin Jursinski - Guest Opinion

The real estate economic crisis in many parts of this country has been fueled by the vast number of mortgage foreclosures taking place. Southwest Florida has been hit harder than almost every other real estate market. To address the problem, the Obama Administration and Treasury Department created the Making Home Affordable Refinance Program, advocated as being a solution to the mortgage foreclosure problem (makinghomeaffordable.gov).

The designers of HARP set an optimistic projection of 7 million to 9 million mortgage modifications for troubled homeowners.

It can be argued that it was governmental intervention and regulation which contributed to the mortgage crisis. Unfortunately, governmental intervention rarely works to correct problems in the private sector, especially if the program is poorly conceived and designed. The results coming in on HARP are reflective of these design errors.

The Mortgage Bankers Association is a national association representing the real estate finance industry, which employs more than 280,000 people in almost every community in the country (mbaa.org). In their June 22 press release, the MBA stated that it was lowering its forecasts for mortgage originations due in part to the lack of positive response to HARP:

"While generally accepted estimates were that around 1.5 to 2 million borrowers might avail themselves of this program, with many more potentially eligible, to date only 13,000 loans have been completed according to press reports. While the number of loans completed under this program is likely to increase, it is difficult to craft a scenario under which origination volumes would come anywhere close to reaching the numbers originally envisioned for the program particularly under our higher rate environment."

At the current pace (13,000 modifications completed in four months /52,000 annually) HARP will take well over 100 years to achieve the minimal goal of 7 million mortgage modifications. While the number of modifications should increase, no one is projecting that this program is going to have any tangible impact on the national economy and certainly not the real estate economy in Southwest Florida.

Here is why:

1. Primary residence. HARP requires that an applicant be a primary resident, eliminating a significant number of potential individuals who have second homes or investment properties and who could be helped.

2. Cap on mortgage Expenses. HARP requires that the borrower's mortgage payments not exceed 31 percent of their gross income. This requirement further eliminates many troubled homeowners who have suffered economic downturns based upon a reduction of their income and who need help the most.

3. Originally, no more than 5 percent negative equity; Now, no more than 25 percent. HARP also required that a borrower demonstrate that the amount of the mortgage currently in place was no greater than 105 percent of the value of the home, which clearly was not acceptable. As of July 1 this has now been increased to 125 percent of the value of the home, but that still eliminates a substantial number of homeowners who have seen the value of their home reduced so that their mortgage still exceeds 125 percent of the home's value.

4. Residential mortgage modifications have a less than 50 percent chance of success. Based upon current national data, 40 percent to 50 percent of all recent mortgage modifications went into default within one year of such modification.

The design of the HARP program is another example of governmental intervention into the private sector, which often reflects political rhetoric under the banner of "regulation." Unless properly thought out, such intervention is less effective than allowing the private sector to resolve the market problem itself. The $75 billion allocated to the HARP program could have been better spent on more positive and proactive programs that have a chance of success.

The Obama administration missed an opportunity to assist troubled real estate marketplaces like Southwest Florida.