

WSJ Headline - "Government to Deploy Broader Mortgage Aid"

If this is all they got???...they are desperate. How many times and for how long can the same damn thing -- a sham -- be called "news". It actually makes my job easy as I can use the same research over and over and over again and call it new as well. "

This morning [news is out in the Journal](#) that Obama will make a big announcement on Tuesday regarding a "new" principal balance reduction program that will help millions of homeowners. They made sure to be clear that this is for the "good" borrowers making their payments on time, not the distressed borrowers, at which most other stimulus plans have been aimed.

But, it's just another sham. How this is being portrayed is as far from reality as TARP was, which stinks of panic.

Bottom line - this is another bank and investor bailout of bad first mortgages while protecting second mortgage lien holders.

They way the Admin handled it was pretty smart and calculating on a couple of levels, however. First, they know there is no political support for more bailouts of the bottom 15%, so they are making it sound like this program is for 'everyone else'. Second, this program was put together in haste and already announced as part of HAMP 2.0 in March -- to pacify Barney Frank who was all over the banks at the time with respect to forced principal write-downs on second mortgages -- and kept under wraps until just before mid-terms. Therefore, expect the Admin to do another "news announcement" shortly on the HAMP 2.0, 3-year earned 115% principal balance reduction program announced at the same time in March.

Back to Tuesday's announcement on the "new" FHA principal balance reduction program for "good" borrowers, sham...

This program allows the FHA to refi borrowers to 97.75% LTV and 115% CLTV (in case there is a second) provided the first and second mortgage holders write down the principal balance and the borrower is "current" on payments. Lenders have always frowned upon short-refis because as with 'short sales', by virtue of needing to do a "short" anything, it is an admission of distress. If you were solid, you would just refi your underwater mortgage bringing thousands of dollars into escrow to close the loan.

Essentially, this is the FHA Hope-for-Homeowners (H4H) younger sibling...remember the \$300bb program Dodd put together with the help of Countrywide and got through a couple of years ago that has resulted in virtually no loans??? This was because H4H had too many hoops for borrowers, lenders and mortgage holders to jump through, which the new short-refi addresses. It is actually a great loan program structure because unlike HAMP medications the DTI requirements are strict and the borrowers walk away from the transaction instantly down-leveraged (not fully de-levered). There is no doubt that it will prevent a small percentage of modification redefaults and Foreclosures. Why I say "small" percentage is because the DTI ratios needed to qualify for this new loan are more consistent with those who successfully complete a mod rather than bail on it.

But the biggest problem with H4H by far was getting banks, servicers, and securities owners to write down the principal balance just to give the borrower the privilege of refinancing...none did.

Why in the world does anyone think the same parties would allow massive principal write downs on borrowers who are current on their payments, which is a requirement of this new program? They won't. But for higher-risk borrowers at the LTV/CLTV margin in a trial modification who have made a few payments on time, they certainly may. Especially, when the redefault rates are so high and it is now obvious that real estate values are not going to soar anytime soon.

By far, this program is the most opportunistic for distress investors such as PennyMac who have been buying bad loans for a fraction of the present underlying property value for years, servicing them in-house, and using high-leverage mortgage mods in order to keep the borrowers paying something every month in hopes one day they could get out of their trade without Foreclosing and selling the house.

Now, the distress investors can close out trades by refinancing the loans with the gov't for 97.75% on the present value of the property. Not bad when a year ago you could buy defaulted loans 40-50 cents on present property value.

This program is also awesome for second lien holders - remember, the CLTV allowance is 115%, or 17.25% above the FHA first loan LTV of 97.75%, Thus, second mortgage holders **DON'T HAVE TO TAKE A WRITE DOWN AT ALL** in most cases; their lien stays whole even though the borrower may never make a payment. And they get paid for doing nothing!

For those of you interested in getting granular, below are my two reports on HAMP 2.0 and the FHA short refi program released at the end of March when this was first announced. All conclusions are still relevant. In fact, it may make sense to skim through it now because over the next couple of weeks, Obama will be back at the podium with more principal balance reduction "news" with HAMP 2.0.

Best Regards,

Mark Hanson
Mark@MHanson.com