



## **FROM THE OFFICE OF CONGRESSMAN JIM COSTA**

*Representing California's 20<sup>th</sup> District  
Fresno County · Kern County · Kings County*

### **The Responsible Homeowner Refinancing Act of 2012**

There are nearly 13.5 million responsible borrowers in loans guaranteed by Fannie Mae and Freddie Mac who could benefit from refinancing at today's low interest rates. Although recent changes to the Home Affordable Refinance Program (HARP) were a step in the right direction, they left in place barriers that will keep millions of borrowers trapped in higher interest loans. The Responsible Homeowner Refinancing Act (H.R. 6428) will build on these changes and further expand opportunities to access historically low interest rates for borrowers who make their mortgage payments on time.

To remove the barriers preventing borrowers who are making their payments on time from refinancing their loans at the lowest rates possible, the bill would:

- **Remove barriers to competition**

Under HARP, lenders who want to compete with the borrower's current lender for that borrower's business continue to face stricter underwriting criteria and greater risk that the GSEs will force them to buy that loan back should the borrower default. These different standards have posed a barrier to competition, resulting in higher prices and less favorable terms for borrowers. A recent study by Amherst Securities Group found that HARP borrowers are paying more than half a percentage point more than borrowers with other types of loans.

This bill would direct the GSEs to require the same streamlined underwriting and associated representations and warranties for new servicers as they do for current servicers, leveling the playing field and unlocking competition between banks for borrowers' business.

- **Guarantee equal access to streamlined refinancing for GSE borrowers**

When FHFA recently expanded HARP eligibility to underwater borrowers, they continued to require lenders to distinguish between borrowers with less than 20 percent equity and greater than 20 percent equity in ways that left higher equity borrowers with greater costs and administrative burden. This meant that borrowers who have been paying down their mortgages over many years, building equity in their homes, were locked out of the program.

This bill would ensure that GSE borrowers who are making their payments have the same access to simple, low-cost refinances, regardless of the level of equity they have in their home. This is not only a simple matter of fairness- it also makes good business sense. Providing a single set of rules for all lenders and GSE borrowers will simplify the process for all involved, allowing all lenders to offer a single, streamlined program to GSE borrowers who have been paying their loans on time.

- **Eliminate up-front fees completely on refinances**

Although the GSEs lowered up-front fees for HARP loans with less than 20 percent equity, they left them in place for those with more equity. This created the economically indefensible situation in which borrowers with significant equity in their homes could face steeper costs in refinancing than borrowers with no equity whatsoever. So borrowers who pose less risk to the GSEs are in fact paying a higher risk premium. These additional fees can be as high as two percent of the loan amount, or an extra \$4,000 on a \$200,000 loan. For borrowers struggling to keep up with their payments, this is an additional cost they simply cannot afford.

This bill prohibits the GSEs from charging up-front fees to refinance any loan they already guarantee, which is also in the best financial interests of the GSE's and taxpayers.

- **Eliminate appraisal costs for all borrowers**

GSEs use Automated Valuation Models to determine home values without the need for slow and costly manual appraisals. However, borrowers who happen to live in communities without a significant number of recent home sales often cannot use these models and are forced instead to pay hundreds of dollars for a manual appraisal for a HARP refinance.

This bill requires the GSEs to develop additional streamlined alternatives to manual appraisals, eliminating a significant barrier and reducing cost and time for borrowers and lenders alike, especially in rural areas. Again, this just makes good economic sense. Taxpayers are already on the hook for these loans and will benefit from providing the borrowers with an easier path to refinancing.

- **Further streamline refinancing application process**

HARP already restricts participation to borrowers who are current on their loans and have demonstrated a commitment to making their payments on time – even in the face of loss of income or employment. There is thus no reason to require proof of employment or income for these loans, particularly given that the GSEs already retain the risk, and that risk will only go down with lower interest rates.

So this bill eliminates employment and income verification requirements, further streamlining the refinancing process and removing unnecessary costs and hassle for lenders and borrowers alike.

- **Save taxpayers money**

According to the CBO, the bill pays for itself through reduced default rates on GSE loans, which saves taxpayers money.

(Prepared by the staff of Senator's Boxer and Menedez)