

## FHA Relaxes Program Rules for Homeowners

Change Aims to Help Troubled Borrowers

By Dina ElBoghdady  
Washington Post Staff Writer  
Thursday, November 20, 2008; D02

The Federal Housing Administration yesterday said that after less than two months it is relaxing terms of a program designed to help troubled mortgage borrowers because so far the effort has not been effective.

The announcement builds on the Bush administration's push to have FHA play an expanded role in stemming foreclosures. The administration also intends the changes to bolster an argument against the need for a different mortgage modification plan floated by the Federal Deposit Insurance Corp., according to an administration official who spoke on condition of anonymity.

"When you have a plan a day you create confusion in the marketplace. . . . We've got to determine if there are ways to enhance the efforts that we've already taken," the official said.

FHA officials said the changes, which will take effect in a few weeks, should make it easier for borrowers to refinance into more affordable fixed-rate, government-backed mortgages. To be eligible for the program, dubbed Hope for Homeowners, borrowers must prove that they cannot afford their current loan, that they have made at least six payments on it and that they have not intentionally missed a payment, among other requirements.

Housing and Urban Development Secretary Steve Preston said many lenders expressed interest in the program, launched Oct. 1. But they retreated because guidelines were too onerous. During the first month of the program, FHA received applications from lenders for only 111 borrowers.

"Few lenders have actually signed up, and few borrowers have submitted applications," Preston said in speech at the National Press Club yesterday.

The trouble is that the most distressed borrowers need to have their existing lenders forgive part of their debt to qualify for a new FHA loan, something lenders have resisted.

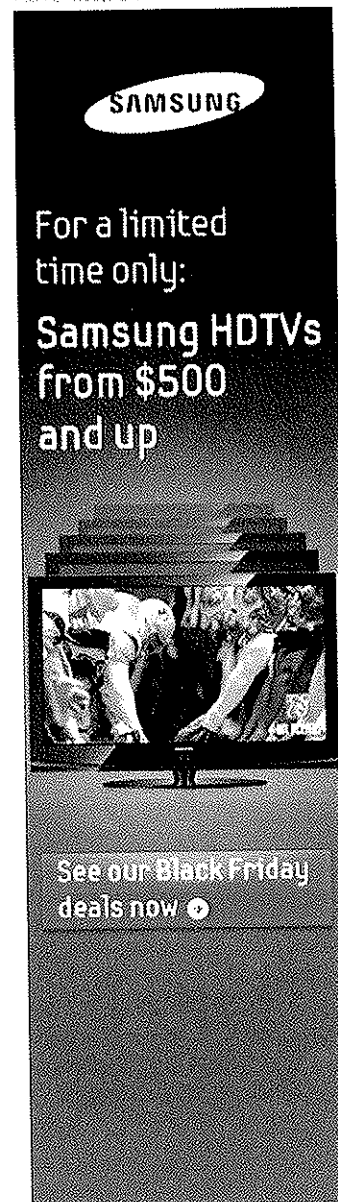
Currently, FHA will insure a loan for only 90 percent of the home's value. With housing values plunging, many borrowers have no equity left in their homes, meaning lenders would take a substantial hit under this arrangement. Yesterday's changes increase that to 96.5 percent, thus reducing the potential loss for lenders.

FHA also addressed an obstacle for the large chunk of borrowers who took out two loans to finance their home. Currently, lenders who hold the smaller second loan must release their liens before borrowers can qualify for a new loan. But they often refuse to do so, knowing there would be little -- if any -- money left for them if the mortgage were modified.

Now, FHA will offer the second loan holders an immediate payment in exchange for releasing their liens, Preston said.

The agency will also allow lenders to extend the life of a loan from 30 years to 40 years to help reduce a borrowers' monthly payments.

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Guy Cecala, publisher of Inside Mortgage Finance, said these were changes the FHA could make without Congressional legislation. But it's unclear if they will boost the program's popularity.

Some borrowers are put off by requirements that would force them to share future appreciation on their homes with the government. Some lenders are waiting to see if the government will come up with a more attractive plan such as the one suggested by the FDIC.

"The feeling among lenders is if they wait, maybe a better option will come down the pike," Cecala said. "It's not helping the [FHA] program to have the FDIC plan lingering out there."

Several lending industry groups voiced their approval for this plan, as did Rep. Barney Frank (D-Mass.), chairman of the House Financial Services Committee, although he said more steps can be taken to improve participation.

*Washington Post staff writer Binyamin Appelbaum contributed to this report.*

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## Housing Starts Sink Again To Lowest Level Since '59

By Renae Merle  
Washington Post Staff Writer  
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New-home construction tumbled to a record low last month, according to government data released yesterday, further proof that the housing sector's woes keep deepening.

Declining demand and a glut of homes for sale have pushed builders to cut production. Builders have also struggled to secure financing amid rising foreclosure rates and a tight credit market, analysts said.

Housing starts fell to a seasonally adjusted 791,000 in October, down 4.5 percent from September, according to the Commerce Department. This is the lowest level on government record dating to January 1959. It is down 38 percent compared with October 2007.

The figures reinforce expectations that the housing sector, the root of much of the financial crisis, will not stabilize until at least the middle of next year, analysts said. Even though builders have curbed production, there are far more homes on the market than buyers.

"Although housing starts have fallen to an all-time low, and inventories of new homes are falling, these declines have hardly made a dent in the excess number of homes for sale," said Patrick Newport, U.S. economist for IHS Global Insight.

The reductions are most pronounced in the Northeast, where home construction fell 31 percent last month. Building dropped 13.7 percent in the Midwest, increased 7.5 percent in the West and 1.5 percent in the South.

"It's not good, but not a surprise," said Guy Cecala, publisher of Inside Mortgage Finance Publications. "In terms of housing starts, there is still too much inventory out there. It is going to be at least six months before we see any improvements in either new-home or existing-home sales."

Most significant, analysts said, was a 12 percent drop in building permit applications during October compared with the previous month -- another record. Applications fell 40 percent compared with the same period a year ago. Permit applications reflect future activity in the sector. The drop means that home construction will likely fall by double digits in November and December, analysts said.

The data echoes a survey released Tuesday showing that homebuilders' confidence in the market has plunged to a record low, said David Seiders, economist at the National Association of Home Builders. He said it also reinforces what builders argue is the need for Congress to help jump-start the housing market.

The association is lobbying for a 10 percent tax credit of up to \$22,000 for homebuyers and a temporary interest-rate reduction on 30-year fixed-rate mortgages. "Stabilization of house prices is the key to getting rid of this disastrous downward spiral in the national and global economy and this mess in the credit markets," Seiders said.

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