

U.S. Senator Barbara Boxer
Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on Housing, Transportation, and
Community Development

New Ideas for Refinancing and Restructuring Mortgage Loans

September 14, 2011

Thank you, Chairman Menendez and Ranking Member DeMint, for scheduling this important hearing and for the opportunity to address the committee.

Interest rates for 30-year home mortgages are at 4.12 percent – the lowest rate in 60 years. Yet of the 27.5 million mortgages guaranteed by Fannie Mae and Freddie Mac, over 8 million still carry an interest rate at or above 6 percent.

That is why Senator Isakson and I have introduced S. 170, the Helping Responsible Homeowners Act of 2011 – and I would also like to thank you, Chairman Menendez, for cosponsoring this bill.

When interest rates were higher, CBO projected this bill would allow up to 2 million additional responsible homeowners to refinance by removing the barriers that have kept them trapped in higher interest rate loans, and it would put thousands of dollars back in the pockets of struggling families. With interest rates now at record lows, we – and many economists – believe that number would be even higher.

Our bipartisan bill has been endorsed by Mark Zandi, chief economist at Moody's Analytics – who will testify later in this hearing – William Gross, managing director and co-CIO of PIMCO, housing economist Thomas Lawler, the National Association of Realtors, the National Consumer Law Center, the National Association of Mortgage Brokers, and others.

One reason existing refinancing efforts have fallen far short of their goals is that Fannie and Freddie continue to charge homeowners high, risk-based fees up front to refinance their loans. Fannie and Freddie already bear the risks on these loans; yet this policy actually makes it less likely that borrowers will be able to take advantage of low rates and increases the chance they will eventually default.

The Helping Responsible Homeowners Act would eliminate these risk-based fees on loans for which Fannie and Freddie already bear the risk, and would also remove refinancing limits on underwater properties for borrowers who have been paying their mortgages on time.

Fannie and Freddie hold or guarantee the mortgages for approximately 5 million homeowners whose homes, through no fault of their own, are now worth less than what they

owe. For those borrowers who have been doing the right thing, struggling to make their payments on time, this bill gives them hope – and a reason not to simply walk away.

Although we have introduced this legislation, most of what we propose could be implemented administratively by Fannie and Freddie on their own. We have urged them to take immediate action to remove these barriers and were greatly encouraged to hear President Obama recognize the benefit that doing so could provide in his jobs speech last week.

I was also heartened by the statement issued by the Federal Housing Finance Agency following the President's speech that it is now serious about reducing the barriers that have kept millions of homeowners from refinancing, including those identified in our bill. But it will be important to make sure that FHFA follows through on this commitment.

Implementing the provisions of this bipartisan bill, whether through passage or administratively, would result in up to 54,000 fewer defaults and produce a net savings up to \$100 million for Fannie Mae and Freddie Mac.

Homeowners would see immediate relief. A one and a half percent reduction in their interest rate would save the average homeowner with a \$150,000 loan over \$1,600 annually. And with up to two million additional borrowers refinancing, this would pump up to \$3.2 billion annually into the economy.

Interest rates remain at historic lows, and they likely will remain low for the immediate future. But they will not remain low forever. Every day that we wait means more struggling homeowners who fall behind on their payments and greater losses for Fannie Mae and Freddie Mac.

We cannot wait any longer. The Helping Responsible Homeowners Act will be good for borrowers, good for Fannie Mae and Freddie Mac, and good for the economy.