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Refinancing help should be focus of Fan and Fred

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Millions of American homeowners appear to be good candidates for taking advantage of today's extremely low mortgage rates by refinancing. Yet, too many are being shut out of this opportunity to significantly reduce their monthly payments. The struggling economy is also missing out on a much-needed boost that would ensue if more homeowners suddenly had a little extra money to spend each month after making their house payments.

The reason is that lenders are withholding their best interest rates from potential refinancers whose credit ratings and home equity have eroded in the tough economy - even from borrowers who have kept current on their mortgages. At a time when every dollar counts for stressed homeowners, as well as for the recovery, this situation is disheartening.

The Obama administration could address this problem quickly. Fannie Mae and Freddie Mac - the huge mortgage institutions that failed during the financial panic two years ago and are now wards of the federal government - appear to be doing roughly the same thing as private lenders: charging higher refinancing rates for those whose credit scores and home values were undermined by the housing bust and Great Recession.

This practice may have made some sense when Fannie and Freddie were profit-making institutions beholden to private shareholders, but it makes no sense now that they are part of the federal government. Their sole focus now should be on helping heal the housing and mortgage markets and overall economy. Since Fred and Fan account for about half of all the mortgage loans outstanding, this is a big deal.

With mortgage rates about as low as they have ever been, anyone paying more than 5.5 percent should be considering a refinance - and many homeowners are doing just that. Applications for refinancings have risen strongly in recent weeks to levels last seen in the biggest refi boom on record nearly a decade ago, during the recession that followed the technology bust.

Yet, the current wave seems likely to fall well short of the previous boom, even though rates are much lower now. Conventional fixed mortgage rates are now well below 4.5 percent. A decade ago, they were closer to 7.5 percent; two decades ago nearly 10 percent; and three decades ago an almost-unimaginable 16 percent-plus.

Whether a refi makes financial sense for you depends on how long you plan to live in your home and the size of your mortgage, but a good rule of thumb is that if current rates are more than a percentage point below what you are now paying, you should be calling your lender.

Unfortunately, nearly everyone's home has fallen in value, and thus the equity in our homes - the difference between the home's value and the mortgage debt owed - has diminished or even gone negative. About 14 million of the nation's nearly 50 million homeowners with first mortgages are now under water - that is, they owe more than their homes are worth. Lenders are wary of those with little or no home equity. With no "skin in the game," they are considered more likely to stop making their payments if something else goes wrong in their financial life.

And of course, a lot has gone wrong, which has significantly lowered homeowners' credit scores. Lenders look closely at these scores, which are based on the borrower's payment history and current debt load, to determine the likelihood that the loan will be repaid. With nearly half of all Americans having endured a bout of unemployment or underemployment in recent years, lots of people have been struggling to make their credit card, auto, and mortgage payments. Their credit scores have naturally suffered.

If you're one of these people, lenders will charge you a higher interest rate to refinance. The logic from the lenders' perspective, especially if they don't already own your mortgage, is that they are taking on more risk, so you should pay more in interest. Even if a lender owns your loan and will suffer if you default on the higher payments, they may still hesitate to let you refinance at a lower rate that will pay them less in interest if they think the odds of your defaulting are low enough.

All of this is hard to get one's mind around, but what is more mind-boggling is that Fannie and Freddie - now wards of the taxpayers - aren't helping with this problem. The way to solve it is simple: Prohibit Fan and Fred from charging higher rates for borrowers who are current on their payments, even if they have little or even negative equity in their homes or low credit scores. That way, more mortgages would get refinanced, fewer borrowers would default, more homeowners would have more money in their checkbooks, and the economy would receive a quick cash infusion.

With fewer defaults, even Fannie and Freddie - and, by extension, taxpayers - would benefit. True, Fan and Fred would receive less in interest, as would the other private investors in mortgage securities backed by the Fan and Fred loans being refinanced, but most global investors have been surprised that they haven't been refinanced out of more loans already.

Since the Treasury Department now oversees Fan and Fred daily, this problem can be rectified quickly. We - the taxpayers - will ultimately pay hundreds of billions of dollars for the privilege of owning Fan and Fred. We should begin to act like owners.

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