



Freddie Mac and Fannie Mae: Too little, too late for struggling borrowers?

By Nin-Hai Tseng, Writer March 29, 2013: 10:51 AM ET

Lending giants Freddie Mac and Fannie Mae are swooping to the rescue just as the housing market turns the corner.



PHOTO: ADAM VOORHES

FORTUNE -- Freddie Mac and Fannie Mae announced this week they were making it easier for struggling borrowers to lower their monthly payments. No longer will borrowers who are at least 90 days delinquent have to prove hardship, as the mortgage giants will waive previous requirements that called for documents detailing their financial situations.

The change is welcome. It's designed to eliminate a hurdle that had frustrated borrowers and lenders over the past four years. What's less certain, though, is how many borrowers today would consider loan modifications helpful relative to the dark days of the Great Recession. And more broadly, whether it would accelerate or hurt **recovery of the nation's housing market**.

Freddie and Fannie's announcement comes as the market improves in big ways: **Steadily rising home prices** have become an alternative to foreclosure. Meanwhile, the rate of delinquencies and **foreclosures** -- which reached new highs amid the financial crisis and subsequent recession -- has fallen to its lowest level in years.

MORE: **Game of Thrones: A biz leader's guide**

This is not to say that **struggling borrowers** don't need the help, but it's hard not to wonder if the government's latest plan will make much of a difference. During the recession, Washington introduced a plethora of loan modifications to stem foreclosures. There was Hope for Homeowners passed by Congress in 2008, followed by the Obama Administration's Home Affordable Modification Program or HAMP. And so on.

The programs never really took off, however. **HAMP, in particular**, took a lot of criticism from academics and policymakers: The program, launched in 2009, aimed to reach at least 3 million borrowers, but it has provided permanent loan modifications only to about 900,000, according to a November 2012 **study**.

Banks weren't able to respond quickly enough. While the study didn't name which banks or servicers, it did say the institutions were overburdened and might not have had the capacity to implement the program as robustly.

Critics cited other **reasons** for why the program fell short: The criteria was too strict; the guidelines were vague; applicants didn't submit necessary paperwork; documents got lost by the mortgage company; many troubled borrowers simply did not respond to servicers' efforts to reach them to discuss foreclosure alternatives. The list goes on.

MORE: State governments face one of Corporate America's dilemmas: Extra cash

Fannie and Freddie's latest plan aims to streamline the process, eliminating much of the paperwork. Starting in July, eligible borrowers will receive letters explaining the modification offer. If they make three monthly payments under the new terms of the home loan, those revised terms automatically become permanent.

It's unclear how many borrowers servicers and banks will reach out to. One thing is more certain, however: The share of borrowers behind on their mortgages, and therefore eligible, is shrinking. As the housing market improves, delinquencies have fallen to their lowest levels since 2008. As of the last three months of 2012, the share of home loans that were at least one payment behind fell to 7.09% from 7.58% during the same quarter last year, according to the Mortgage Bankers Association. And during the same period, the serious delinquency rate, or the percentage of loans 90 days or more past due or in the process of foreclosure, was 6.78% -- a 0.95% drop.

Freddie and Fannie's plan could accelerate the improvement. It's similar to HAMP in the sense that it could help raise home prices higher, says Itzhak Ben-David, a finance professor at Ohio State University and a co-author of the study showing HAMP's shortfalls. He notes that areas with many HAMP-eligible borrowers experience an increase in real estate prices of about 1.6% more than in areas with fewer HAMP-eligible borrowers.

However, Freddie and Fannie could also set the recovery back. Because delinquency is a criteria in Freddie and Fannie's plan, it risks encouraging other struggling borrowers to fall behind on their payments just to qualify for the program.

"We could see more delinquencies in the future," he says.



© 2013 Cable News Network. A Time Warner Company. All Rights Reserved. [Terms](#) under which this service is provided to you. [Privacy Policy](#). [Ad choices](#).