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HARP 2.0 Can Help Underwater Homeowners

For homeowners who are underwater on their conventional mortgage, the government has enacted a new Home Affordable Refinance Program to help eligible participants pay down the principal without having to pay mortgage insurance.

The new HARP 2.0 Refinance Program was made available to U.S. homeowners March 17, 2012 and those eligible can refinance by Dec. 31, 2013.

"You can use HARP even if you're far underwater on your mortgage. There is no loan-to-value restriction under the HARP mortgage program so long as your new mortgage is a fixed-rate loan with a term of 30 years or fewer," said Dan Green, a loan officer with Waterstone Mortgage in Columbia, Md. "If you use HARP to refinance into an adjustable-rate mortgage, your loan-to-value is capped at 105%."

The original HARP program (also known as Making Home Affordable) was started in April 2009 and changes were introduced last fall by the Federal Home Finance Agency and confirmed by Fannie Mae and Freddie Mac. This program had several roadblocks that made it difficult for homeowners to refinance. For instance, the program only assisted those with mortgages with a loan-to-value ratio between 80% and 125%, but in many hard-hit housing markets homes have lost more than half their value making owners ineligible.

To be eligible today, a loan must be backed by Fannie Mae or Freddie Mac, and the mortgage must have a securitization date prior to June 1, 2009. FHA, USDA and jumbo mortgages are not HARP-eligible. One of the changes in HARP 2.0 is that borrowers will now be able to refinance regardless of how much their homes have depreciated. Previous loan-to-value limits were set at 125%.

Appraisals and underwriting have also been eliminated, as most homeowners will no longer be required to get an appraisal or have their loan underwritten, making their refinance process smoother and faster. Certain risk-based fees for borrowers who refinance into shorter-term loans will either be eliminated or modified. HARP only applies to first mortgages.

"HARP 2.0 is meant for first liens only," Green said. "Second liens are meant to subordinate. You'll get to replace your first mortgage and your second mortgage will remain as-is. Just be sure to mention your second mortgage at the time of application so your lender knows to order the subordination for you."

Remember, the Home Affordable Refinance Program is not meant to save a home from foreclosure. It's meant to give underwater homeowners a chance to refinance without paying PMI.

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