He Obama administration is nothing if not determined. The myriad programs launched by the government aimed at curing the sickly housing market have thus far netted almost zilch. Prices, which analysts use as the most telling barometer for the strength of any market (housing included), are still heading south.

One of the proverbial mud balls flung against the wall since 2009 was the Home Affordable Refinance Program (HARP). This provided potential relief for beleaguered homeowners whose loan-to-value (LTV) ratios had grown to such a size as to make refinancing untenable. In the three years since its launch, HARP has benefited only about one-fifth of those originally targeted.

The solution? Change the rules again to make it still more advantageous to refi, and do so for a larger audience. The newest version, launched in November 2011, has been dubbed “HARP 2.0.” It may yet have a noticeable impact on community bank investment portfolios.

Intended recipients
The homeowners who have been least able to take advantage of the drop in mortgage rates are those who bought in the latter stages of the run-up in housing prices in the prior decade. Nationally, prices peaked in July 2006, and currently the average house is worth about what it was in 2003. As measured by the Case-Shiller 20 Home Price Index, we’re down about 34 percent in the last six years.

To help millions of conventional borrowers, HARP was rolled out with much fanfare. One notable departure from the standard underwriting criteria was that an eligible borrower could have an LTV of up to 125 percent. There was also a waiver of private mortgage insurance and incentives for servicers.

The program wasn’t a total failure, but through the end of 2011, less than one million borrowers had used it. From a community banker’s perspective, faster prepayments were barely detectable on mortgage-backed securities (MBS) that were collateralized by these seasoned loans. There simply wasn’t enough refinancing spurred by HARP to make a difference.

Program upgrades
New for 2012, we’re seeing the total removal of all LTV criteria. A borrower simply has to be current on his or her loan, and have no recent delinquencies. The loans must also be dated June 1, 2009 or earlier, and reside in a Freddie Mac or Fannie Mae pool somewhere. Ginnie Mae pools, which are backed by FHA/VA loans, are not affected by this program.

If a loan is eligible based on the above, there’s more good news. The requirements for new appraisals have been liberalized. There is very little upcharge, in terms of risk-based fees, to borrowers with high LTVs, even over 125 percent. In fact, if the loan term is shortened by reason of the refinance, all such fees are waived.

Pools impacted
It should be no surprise that the particular MBS-pool issue dates will be very relevant in estimating the exposure to prepayments. All pools dated June 2009 and earlier can potentially have loans embedded that could qualify for HARP, although some years will clearly have more prepayment exposure than others. Specifically, the periods around the peak in housing prices could be in for some faster speeds.

There are other quantitative features that could serve as a barometer. The most tangible of these is pass-thru rate (“coupon”). Currently, a 30-year conventional loan can be had for a rate of about 4.0 percent. Any borrowers’ rate (“gross WAC” in bond parlance) over 4.5 percent could

Assessing Your Risk
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The recommendation, then, is to review your prepayment histories diligently and frequently. This can sandbag your community bank's portfolio against the rising tides of HARP 2.0.

Fifteen- and 20-year loans are also eligible, as are ARMs. It is expected that the shorter maturity credits will be less impacted by HARP, as the benefits of refinancing a seasoned loan tend to be muted. ARM borrowers, as they approach a reset date in the current low-yield environment, also have less incentive to refi.

Still, for many MBS pools that are owned by community banks, the enhancements to HARP could have some impact. Some analysts have suggested a 10 to 15 percent pickup in prepayments versus those pools dated after June 2009. The effects are expected to become visible now or in the near future.