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Housing Experts Urge Array of Programs to Reduce Foreclosure Inventory

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WASHINGTON â(EURO)" Reducing the backlog of foreclosures and speeding up the foreclosure process is crucial to reviving the economy, housing experts testified before a Senate panel hearing on Wednesday.

They encouraged Congress to pursue programs that would turn foreclosures into rental properties, make it easier for borrowers to refinance at lower rates and extend the government sponsored enterprises' conforming loan limits for at least another year.

"This is going to be hard," said Mark Zandi, the chief economist for Moody's Analytics. "There's no magic bullet here. All these things are in the margin, and it's going to take a long time."

Industry observers said the flawed foreclosure process and the huge overhang of foreclosure inventory is not only depressing prices and home values, but keeping qualified borrowers on the sidelines as they wait for prices to keep falling.

"The continued delay in the foreclosure process is harmful to housing," said Richard Smith, the chief executive officer of Realogy Corp. "The sooner foreclosures are permitted to continue and accelerate, the sooner we'll see some balance in average sales price, and thus the equity that's in homes own by taxpayers."

Smith and others said they were strongly in favor of efforts to mitigate or prevent foreclosures, including an expansion of the Home Affordable Refinancing Program that would allow borrowers to reduce their payments by locking into the current rates between 4% and 4.5%

Most of the witnesses, which included industry representatives and housing advocates, said efforts to reform Fannie Mae and Freddie Mac could upset a very fragile housing market, and should be put off until the housing market stabilizes.

"Anything that you take away from housing today is going to be a negative, (and) is further eroding the level of sales and activity and putting further pressure on home prices," said Ivy Zelman, the chief executive of Zelman and Associates.

They also warned Congress that a "qualified residential mortgage" rule that would require a 20% downpayment could be especially punitive for low- to moderate-income borrowers.

Mark Calabria, the director of financial regulation studies at the **Cato Institute,** said he was also concerned about the effect that mortgage policies have on employment. An unemployed carpenter in Tampa, Fla., for example, is unlikely to find work there any time soon, but may be tied to a mortgage, he said.

"We need to encourage you, help you, assist you to move to some place like Austin, where they are creating jobs," he said.

He also encouraged policymakers to consider the differences in housing markets even within single states, and target policies with those differences in mind.

Zelman said the single-most powerful tool Washington can provide is a program that turns foreclosure properties into rentals by allowing the GSEs to ease financing terms and expand financing options for investors that would purchase properties â(EURO)" primarily single-family homes â(EURO)" at low loan-to-value ratios.

Sens. Barbara Boxer, D-Calif., and Johnny Isakson, R-Ga., who testified Wednesday, have introduced a bill that would remove refinancing limits on underwater properties for borrowers that have been paying on time, and would eliminate risk-based refinancing fees charged by Fannie Mae and Freddie Mac.

Boxer said the proposal, most of which could be implemented without legislation, could help homeowners save more than $1,600 a year, and pump up to $3.2 billion into the economy. It could also help save Fannie and Freddie $100 million, and would result in 54,000 fewer defaults.

"Every day that we wait means more struggling homeowners who fall behind on their payments and greater losses for Fannie Mae and Freddie Mac," Boxer said.

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