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Homeowner Affordability and Stability Plan Fact Sheet

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U.S. DEPARTMENT OF THE TREASURY

Press Center



Homeowner Affordability and Stability Plan Fact Sheet

2/18/2009



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The deep contraction in the economy and in the housing market has created devastating consequences for homeowners and communities throughout the country. Millions of responsible families who make their monthly payments and fulfill their obligations have seen their property values fall, and are now unable to refinance to lower mortgage rates. Meanwhile, millions of workers have lost their jobs or had their hours cut, and are now struggling to stay current on their mortgage payments. As a result, as many as 6 million families are expected to face foreclosure in the next several years, with millions more struggling to stay current on their payments.

The present crisis is real, but temporary. As home prices fall, demand for housing will increase, and conditions will ultimately find a new balance. Yet in the absence of decisive action, we risk an intensifying spiral in which lenders foreclose, pushing home prices still lower, reducing the value of household savings, and making it harder for all families to refinance. In some studies, foreclosure on a home has been found to reduce the prices of nearby homes by as much as 9 percent – creating the potential that even borrowers who make every payment suffer from an increase in foreclosures in their community.

The Obama Administration's Homeowner Affordability and Stability Plan **will offer assistance to as many as 7 to 9 million homeowners** making a good-faith effort to stay current on their mortgage payments, while attempting to prevent the destructive impact of foreclosures on families and communities. It will not provide money to speculators, and it will target support to the working homeowners who have made every possible effort to stay current on their mortgage payments. Just as the American Recovery and Reinvestment Act works to save or create several million new jobs and the Financial Stability Plan works to get credit flowing, the Homeowner Affordability and Stability Plan will support a recovery in the housing market and ensure that these workers can continue paying off their mortgages.

By supporting low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac, providing up to 4 to 5 million homeowners with new access to refinancing and enacting a comprehensive stability initiative to offer reduced monthly payments for up to 3 to 4 million at-risk homeowners, this plan – which draws off the best ideas developed within the Administration, as well as from Congressional housing leaders and Federal Deposit Insurance Corporation Chair Sheila Bair – brings together the government, lenders and borrowers to share responsibility towards ensuring working Americans can afford to stay in their homes.

Homeowner Affordability and Stability Plan

1. **Refinancing for Responsible Homeowners Suffering From Falling Home Prices**
2. **A Comprehensive \$75 Billion Homeowner Stability Initiative**
 - o A Loan Modification Plan To Reach 3 to 4 Million Homeowners
 - Shared Effort with Lenders to Reduce Interest Payments
 - Incentives to Servicers and Borrowers
 - o Clear and Consistent Guidelines for Loan Modifications
 - o Required Participation By Financial Stability Plan Participant
 - o Modifications of Home Mortgages During Bankruptcy
 - o Strengthen Hope for Homeowners and Other FHA Loan Programs
 - o Support Local Communities and Help Displaced Renters

3. Support Low Mortgage Rates by Strengthening Confidence in Fannie Mae and Freddie Mac

1. Provide Access to Low-Cost Refinancing for Responsible Homeowners Suffering From Falling Home Prices:

- o **Provide the Opportunity for Up to 4 to 5 Million Responsible Homeowners Expected to Refinance:** Mortgage rates are currently at historically low levels, providing homeowners with the opportunity to reduce their monthly payments by refinancing. But under current rules, most families who owe more than 80 percent of the value of their homes have a difficult time securing refinancing. (For example, if a borrower's home was worth \$200,000, he or she would have limited refinancing options if he or she owed more than \$160,000.) Yet millions of responsible homeowners who put money down and made their mortgage payments on time have – through no fault of their own – seen the value of their homes drop low enough to make them unable to access these lower rates. As a result, the Obama Administration is announcing a new program that will provide the opportunity for 4 to 5 million responsible homeowners who took out conforming loans owned or guaranteed by Freddie Mac and Fannie Mae to refinance through the two institutions over time.
- o **Reducing Monthly Payments:** For many families, a low-cost refinancing could reduce mortgage payments by thousands of dollars per year. For example, consider a family that took a 30-year fixed rate mortgage of \$207,000 with an interest rate of 6.50% on a house worth \$260,000 at the time. Today, that family has \$200,000 remaining on their mortgage, but the value of that home has fallen 15 percent to \$221,000 – making them ineligible for today's low interest rates that generally require the borrower to have 20 percent home equity. Under this refinancing plan, that family could refinance to a rate near 5.16% – reducing their annual payments by over \$2,300.

2. A \$75 Billion Homeowner Stability Initiative to Prevent Foreclosures and Help Responsible Families Stay in Their Homes: The Treasury Department, working with the GSEs, FHA, the FDIC and other federal agencies, will undertake a comprehensive multi-part strategy to prevent millions of foreclosures and help families stay in their homes. This strategy includes the following five features:

- o **A Homeowner Stability Initiative to Reach Up to 3 to 4 Million At-Risk Homeowners**
- o **Clear and Consistent Guidelines for Loan Modifications**
- o **Requiring That Financial Stability Plan Recipients Use Guidance for Loan Modifications**
- o **Allowing Judicial Modifications of Home Mortgages During Bankruptcy When A Borrower Has No Other Options**
- o **Require Strong Oversight, Reporting and Quarterly Meetings with Treasury, the FDIC, the Federal Reserve and HUD to Monitor Performance**
- o **Strengthening FHA Programs and Providing Support for Local Communities**

A. A Homeowner Stability Initiative to Reach Up to 3 to 4 Million At-Risk Homeowners: This initiative is intended to reach millions of responsible homeowners who are struggling to afford their mortgage payments because of the current recession, yet cannot sell their homes because prices have fallen so significantly. In the current economy, in which 3.6 million jobs have been lost over the past 14 months, millions of hard-working families have seen their mortgage payments rise to 40 or even 50 percent of their monthly income – particularly if they received subprime and exotic loans with exploding terms and hidden fees. The Homeowner Stability Initiative operates through a shared partnership to temporarily help those who commit to make reasonable monthly mortgage payments to stay in their homes, providing families with security and neighborhoods with stability. This plan will also help to stabilize home prices for homeowners in neighborhoods hardest hit by foreclosures. Based on estimates concerning the relationship between foreclosures and home prices, with the average house in the U.S. valued around \$200,000, **the average homeowner could see his or her home value stabilized against declines in price by as much as \$6,000** relative to what it would otherwise be absent the Homeowner Stability Initiative.

Who the Program Reaches:

- **Focusing on Homeowners At Risk:** Anyone with high combined mortgage debt compared to income or who is "underwater" (with a combined mortgage balance higher than the current market value of his house) may be eligible for a loan modification. This initiative will also include borrowers who show other indications of being at risk of default. Eligibility for the program will sunset at the end of three years.
- **Reaching Homeowners Who Have Not Missed Payments:** Delinquency will not be a requirement for eligibility. Rather, because loan modifications are more likely to succeed if they are made before a borrower misses a payment, the plan will include households at risk of imminent default despite being current on their mortgage payments.
- **Common Sense Restrictions:** Only owner-occupied homes qualify; no home mortgages larger than the Freddie/Fannie conforming limits will be eligible. This initiative will go solely to supporting responsible homeowners willing to make payments to stay in their home – it will not aid speculators or house flippers.
- **Special Provisions for Families with High Total Debt Levels:** Borrowers with high total debt qualify, but only if they agree to enter HUD-certified consumer debt counseling. Specifically, homeowners with total "back end" debt (which includes not only housing debt, but other debt including car loans and credit card debt) equal to 55% or more of their income will be required to agree to enter a counseling program as a condition for a modification.

How the Program Works

- o The Homeowner Stability Initiative has a simple goal: reduce the amount homeowners owe per month to sustainable levels. This program will bring together lenders, servicers, borrowers, and the government, so that **all stakeholders share in the cost** of ensuring that responsible homeowners can afford their monthly mortgage payments – helping to reach up to 3 to 4 million at-risk borrowers in all segments of the mortgage market, reducing foreclosures, and helping to avoid further downward pressures on overall home prices. The program has several key components:

i. **Shared Effort to Reduce Monthly Payments:** Treasury will partner with financial institutions to reduce homeowners' monthly mortgage payments.

- The lender will have to first reduce interest rates on mortgages to a specified affordability level (specifically, bring down rates so that the borrower's monthly mortgage payment is no greater than 38% of his or her income).

- Next, the initiative will match further reductions in interest payments dollar-for-dollar with the lender, down to a 31% debt-to-income ratio for the borrower.

- To ensure long-term affordability, lenders will keep the modified payments in place for five years. After that point, the interest rate can be gradually stepped-up to the conforming loan rate in place at the time of the modification. *Note: Lenders can also bring down monthly payments to these affordability targets through reducing the amount of mortgage principal. The initiative will provide a partial share of the costs of this principal reduction, up to the amount the lender would have received for an interest rate reduction.*

- ii. **"Pay for Success" Incentives to Servicers:** Servicers will receive an up-front fee of \$1,000 for each eligible modification meeting guidelines established under this initiative. Servicers will also receive "pay for success" fees – awarded monthly as long as the borrower stays current on the loan – of up to \$1,000 each year for three years.
- iii. **Responsible Modification Incentives:** Because loan modifications are more likely to succeed if they are made before a borrower misses a payment, the plan will include an incentive payment of \$1,500 to mortgage holders and \$500 for servicers for modifications made while a borrower at risk of imminent default is still current.
- iv. **Incentives to Help Borrowers Stay Current:** To provide an extra incentive for borrowers to keep paying on time under the modified loan, the initiative will provide a monthly balance reduction payment that goes straight towards reducing the principal balance on the mortgage loan. As long as the borrower stays current on his or her payments, he or she can get up to \$1,000 each year for five years.
- v. **Home Price Decline Reserve Payments:** To encourage lenders to modify more mortgages and enable more families to keep their homes, the Administration -- together with the FDIC -- has developed an innovative partial guarantee initiative. The insurance fund – to be created by the Treasury Department at a size of up to \$10 billion – will be designed to discourage lenders from opting to foreclose on mortgages that could be viable now out of fear that home prices will fall even further later on. This initiative provides lenders with the security to undertake more mortgage modifications by assuring that if home price declines are worse than expected, they have reserves to fall back on. Holders of mortgages modified under the program would be provided with an additional insurance payment on each modified loan, linked to declines in the home price index. These payments could be set aside as reserves, providing a partial guarantee in the event that home price declines – and therefore losses in cases of default – are higher than expected.

How It Will Be Effective

- o **Protecting Taxpayers:** To protect taxpayers, the Homeowner Stability Initiative will focus on sound modifications. If the total expected cost of a modification for a lender taking into account the government payments is expected to be higher than the direct costs of putting the homeowner through foreclosure, that borrower will not be eligible. For those borrowers unable to maintain homeownership, even under the affordable terms offered, the plan will provide incentives to encourage families and lenders to avoid the costly foreclosure process and minimize the damage that foreclosure imposes on lenders, borrowers and communities alike. Moreover, Treasury will not provide subsidies to reduce interest rates on modified loans to levels below 2%.
- o **Counseling and Outreach to Maximize Participation:** Under the plan, the Department of Housing and Urban Development will also make available funding for non-profit counseling agencies to improve outreach and communications, especially to disadvantaged communities and those hardest-hit by foreclosures and vacancies.
- o **Creating Proper Oversight and Tracking Data to Ensure Program Success:** Fannie Mae and Freddie Mac will be responsible – subject to Treasury's oversight and the Federal Housing Finance Agency's conservatorship – for monitoring compliance by servicers with the program. Every servicer participating in the program will be required to report standardized loan-level data on modifications, borrower and property characteristics, and outcomes. The data will be pooled so the government and private sector can measure success and make changes where needed. Treasury will meet quarterly with the FDIC, the Federal Reserve, the Department of Housing and Urban Development and the Federal Housing Finance Agency to ensure that the program is on track to meeting its goals.
- o **Limiting the Impact of Foreclosure When Modification Doesn't Work:** Lenders will receive incentives to take alternatives to foreclosures, like short sales or taking of deeds in lieu of foreclosure. Treasury will also work with the GSEs to provide data on foreclosed properties to streamline the process of selling or redeveloping them, thereby ensuring that they do not remain vacant and unsold.

B. **Clear and Consistent Guidelines for Loan Modifications:** A lack of common standards has limited loan modifications, even when they are likely to both reduce the chance of foreclosure and raise the value of the securities owned by investors. Mortgage servicers – who should have an interest in instituting common-sense loan modifications – often refrain from doing so because they fear lawsuits. Clear and consistent guidelines for modifications are a key component of foreclosure prevention.

- o **Developing Clear and Consistent Guidelines for Loan Modifications:** Working with the FDIC, other federal banking and credit union regulators, the FHA and the Federal Housing Finance Agency, the Administration is in process of developing guidelines for sustainable mortgage modifications for all federal agencies and the private sector – bringing order and consistency to foreclosure mitigation. The guidelines will include detailed protocols for loss mitigation as well for identifying borrowers at risk of default; the Administration expects to announce these guidelines by Wednesday, March 4th
- o **Applying Guidelines Across Government and the Private Sector:** Treasury will develop uniform guidance for loan modifications across the mortgage industry by working closely with the FDIC and other bank agencies and building on the FDIC's pioneering role in developing a systematic loan modification process last year. The Guidelines – to be posted online – will be used for the Administration's new foreclosure prevention plan. Moreover, all financial institutions receiving Financial Stability Plan financial assistance going forward will be required to implement loan modification plans consistent with Treasury guidance. Fannie Mae and Freddie Mac will use these guidelines for loans that they own or guarantee, and the Administration will work with regulators and other federal and state agencies to implement these guidelines across the entire mortgage market. The agencies will seek to apply these guidelines when permissible and appropriate to all loans owned or guaranteed by the federal government, including those owned or guaranteed by Ginnie Mae, the Federal Housing Administration, Treasury, the Federal Reserve, the FDIC, Veterans' Affairs and the Department of Agriculture. In addition, these guidelines will apply to loans owned or serviced by insured financial institutions supervised by the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Reserve, the Federal Deposit Insurance Corporation and the National Credit Union Administration.

C. **Requiring All Financial Stability Plan Recipients to Use Guidance for Loan Modifications:** As announced last week, the Treasury Department will require all Financial Stability Plan recipients going forward to participate in foreclosure mitigation plans consistent with Treasury's loan modification guidelines.

D. **Allowing Judicial Modifications of Home Mortgages During Bankruptcy for Borrowers Who Have Run Out of Options:** The Obama administration will seek careful changes to personal bankruptcy provisions so that bankruptcy judges can modify mortgages written in the past few years when families run out of other options.

- **How Judicial Modification Works:** When an individual enters personal bankruptcy proceedings, his mortgage loans in excess of the current value of his property will now be treated as unsecured. This will allow a bankruptcy judge to develop an affordable plan for the homeowner to continue making payments. To receive judicial modifications in bankruptcy, homeowners must first ask their servicers/lenders for a modification and certify that they have complied with reasonable requests from the servicer to provide essential information. *This provision will apply only to existing mortgages under Fannie Mae and Freddie Mac conforming loan limits, so that millionaire homes don't clog the bankruptcy courts.*
- **Bolster FHA and VA Authority to Protect Investors and Ensure Loan Modifications Occur:** Legislation will provide the FHA and VA with the authority they need to provide partial claims in the event of bankruptcy or voluntary modification so that holders of loans guaranteed by the FHA and VA are not disadvantaged.

E. **Strengthening FHA Programs and Providing Support for Local Communities**

- **Ease Restrictions in Federal Housing Administration Programs, Including Hope for Homeowners:** The Hope for Homeowners program offers one avenue for struggling borrowers to refinance their mortgages. In order to ensure that more homeowners participate, the FHA will reduce fees paid by borrowers, increase flexibility for lenders to modify troubled loans, permit borrowers with higher debt loads to qualify, and allow payments to servicers of the existing loans.
- **Strengthening Communities Hardest Hit by the Financial and Housing Crises:** As part of the recovery plan signed by the President, the Department of Housing and Urban Development will award \$2 billion in competitive Neighborhood Stabilization Program grants for innovative programs that reduce foreclosure. Additionally, the recovery plan includes an additional \$1.5 billion to provide renter assistance, reducing homelessness and avoiding entry into shelters

3. **Support Low Mortgage Rates By Strengthening Confidence in Fannie Mae and Freddie Mac:**

- **Ensuring Strength and Security of the Mortgage Market:** Today, using funds already authorized in 2008 by Congress for this purpose, the Treasury Department is increasing its funding commitment to Fannie Mae and Freddie Mac to ensure the strength and security of the mortgage market and to help maintain mortgage affordability.
 - **Provide Forward-Looking Confidence:** The increased funding will enable Fannie Mae and Freddie Mac to carry out ambitious efforts to ensure mortgage affordability for responsible homeowners, and provide forward-looking confidence in the mortgage market.
 - Treasury is increasing its Preferred Stock Purchase Agreements to \$200 billion each from their original level of \$100 billion each.
- **Promoting Stability and Liquidity:** In addition, the Treasury Department will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities to promote stability and liquidity in the marketplace.
- **Increasing The Size of Mortgage Portfolios:** To ensure that Fannie Mae and Freddie Mac can continue to provide assistance in addressing problems in the housing market, Treasury will also be increasing the size of the GSEs' retained mortgage portfolios allowed under the agreements – by \$50 billion to \$900 billion – along with corresponding increases in the allowable debt outstanding.
- **Support State Housing Finance Agencies:** The Administration will work with Fannie Mae and Freddie Mac to support state housing finance agencies in serving homebuyers.
- **No EESA or Financial Stability Plan Money:** The \$200 billion in funding commitments are being made under the Housing and Economic Recovery Act and **do not use any money from the Financial Stability Plan or Emergency Economic Stabilization Act/TARP.**