PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

To view or print the PDF content on this page, download the free
.

February 18, 2009
tg-33

Homeowner Affordability and Stability Plan

Executive Summary

Read the Homeowner Affordability and Stability Plan Fact Sheet HERE
Read Support Under the Homeowner Affordability and Stability Plan: Three Cases HERE

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 at lower mortgage rates.**

- Millions of workers have lost their jobs or had their hours cut back, are **now struggling to stay current on their mortgage payments** – with nearly 6 million households facing possible foreclosure.

- Neighborhoods are struggling, **as each foreclosed home reduces nearby property values** by as much as 9 percent.

1. ***Refinancing for Up to 4 to 5 Million Responsible Homeowners to Make Their Mortgages More Affordable***
2. ***A $75 Billion Homeowner Stability Initiative to Reach Up to 3 to 4 Million At-Risk Homeowners***
3. ***Supporting Low Mortgage Rates By Strengthening Confidence in Fannie Mae and Freddie Mac***

The Homeowner Affordability and Stability Plan is part of the President's broad, comprehensive strategy to get the economy back on track. The plan will ***help up to 7 to 9 million families restructure or refinance their mortgages to avoid foreclosure.*** In doing so, the plan not only helps responsible homeowners on the verge of defaulting, but prevents neighborhoods and communities from being pulled over the edge too, as defaults and foreclosures contribute to falling home values, failing local businesses, and lost jobs. The key components of the Homeowner Affordability and Stability Plan are:

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

· ***Enabling Up to 4 to 5 Million Responsible Homeowners 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 refinancing. 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 help as many as 4 to 5 million responsible homeowners who took out conforming loans owned or guaranteed by Fannie Mae or Freddie Mac to refinance through those two institutions.

· ***Reducing Monthly Payments:*** For many families, a low-cost refinancing could reduce mortgage payments by thousands of dollars per year:

o Consider a family that took out 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 about $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 now 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. Stability: Create A $75 Billion Homeowner Stability Initiative to Reach Up to 3 to 4 Million At-Risk Homeowners

- ***Helping Hard-Pressed Homeowners Stay in their Homes:*** 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. Millions of hard-working families have seen their mortgage payments rise to 40 or even 50 percent of their monthly income – particularly those who received subprime and exotic loans with exploding terms and hidden fees. The Homeowner Stability Initiative helps those who commit to make reasonable monthly mortgage payments to stay in their homes – providing families with security and neighborhoods with stability.

- ***No Aid for Speculators:*** This initiative will go solely to helping homeowners who commit to make payments to stay in their home – it will not aid speculators or house flippers.

- ***Protecting Neighborhoods:*** This plan will also help to stabilize home prices for all homeowners in a neighborhood. When a home goes into foreclosure, the entire neighborhood is hurt. **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.

- ***Providing Support for Responsible Homeowners:*** 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.

- ***Providing Loan Modifications to Bring Monthly Payments to Sustainable Levels:*** The Homeowner Stability Initiative has a simple goal: reduce the amount homeowners owe per month to sustainable levels. Using money allocated under the Financial Stability Plan and the full strength of Fannie Mae and Freddie Mac, this program has several key components:

    - *A Shared Effort to Reduce Monthly Payments:* For a sample household with payments adding up to 43 percent of his monthly income, the lender would first be responsible for bringing down interest rates so that the borrower's monthly mortgage payment is no more than 38 percent of his or her income. Next, the initiative would match further reductions in interest payments dollar-for-dollar with the lender to bring that ratio down to 31 percent. If that borrower had a $220,000 mortgage, that could mean a reduction in monthly payments by over $400. That lower interest rate must be kept in place for five years, after which it could gradually be stepped up to the conforming loan rate in place at the time of the modification. Lenders will also be able to bring down monthly payments by reducing the principal owed on the mortgage, with Treasury sharing in the costs.

- *"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. They 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.

- *Incentives to Help Borrowers Stay Current*: To provide an extra incentive for borrowers to keep paying on time, the initiative will provide a monthly balance reduction payment that goes straight towards reducing the principal balance of the mortgage loan. As long as a borrower stays current on his or her loan, he or she can get up to $1,000 each year for five years.

- *Reaching Borrowers Early:* To keep lenders focused on reaching borrowers who are trying their best to stay current on their mortgages, an incentive payment of $500 will be paid to servicers, and an incentive payment of $1,500 will be paid to mortgage holders, if they modify at-risk loans before the borrower falls behind.

- *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. 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.

- ***Institute Clear and Consistent Guidelines for Loan Modifications:*** Treasury will develop uniform guidance for loan modifications across the mortgage industry, working closely with the bank agencies and building on the FDIC's pioneering work. The Guidelines 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.

- ***Other Comprehensive Measures to Reduce Foreclosure and***

Strengthen Communities

- *Require Strong Oversight, Reporting and Quarterly Meetings with Treasury, the FDIC, the Federal Reserve and HUD to Monitor Performance*
- *Allow Judicial Modifications of Home Mortgages During Bankruptcy for Borrowers Who Have Run Out of Options*
- *Provide $1.5 Billion in Relocation and Other Forms of Assistance to Renters Displaced by Foreclosure and $2 Billion in Neighborhood Stabilization Funds*
- *Improve the Flexibility of Hope for Homeowners and Other FHA Programs to Modify and Refinance At-Risk Borrowers*

3. Supporting 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.**

###