

Homeowner Affordability and Stability Plan of 2009

In February, President Obama unveiled the Homeowner Affordability and Stability Plan, which will offer assistance to as many as 9 million homeowners, while attempting to prevent the destructive impact of foreclosures on families and communities.

The plan contains three main components, and only applies to primary residences. The loans referenced in the plan cannot exceed Freddie Mac/Fannie Mae conforming loan limits. The plan is outlined in greater detail below.

The first component is directed toward homeowners suffering from falling housing prices who still have equity in their homes, but no longer have the 20 percent equity needed to refinance. Under the plan, homeowners who have conforming loans owned or guaranteed by Freddie Mac and Fannie Mae will be allowed to refinance their homes—even if they do not have 20 percent equity left in the house. The U.S. Treasury Dept. estimates that about 5 million homeowners will be helped by this portion of the program.

The second component, known as the Homeowner Stability Initiative, is designed to assist homeowners who are "underwater" on their mortgages. The \$75 billion initiative will bring together lenders, servicers, and the government so that all stakeholders share in the cost of the modification. Primary mortgages would be reduced to monthly payments that do not exceed a 38 percent debt-to-income ratio, with the costs of doing so borne by the lender. The government and lender then would split the costs of further reducing the monthly payments until they were at a 31 percent debt-to income ratio. An important aspect of the initiative is that homeowners do not have to be delinquent to participate.

The Homeowner Stability Initiative also will create incentives for servicers, mortgage holders, and homeowners. Servicers would receive an up-front fee of \$1,000 for every eligible modification meeting the initiative's guidelines. Mortgage holders will receive an incentive payment of \$1,500, and servicers \$500 for modifications made on loans that are current but at risk of imminent default.

The final aspect of the Homeowner Stability Initiative is creating clear and consistent guidelines for loan modifications. The Obama Administration plans to work with federal agencies, banking and credit union regulators, and the private sector in order to develop loan modification guidelines that can be implemented across the entire mortgage market. While adoption of the guidelines will be voluntary for the private sector, all financial institutions receiving Financial Stability Plan assistance going forward will be required to implement the loan modification guidelines.

The government estimates that between 3 and 4 million homeowners will benefit from the Homeowner Stability Initiative component of the plan.

The third component of The Homeowner Affordability and Stability Plan is supporting low mortgage rates by strengthening Fannie Mae and Freddie Mac. The Treasury Department plans to increase their Preferred Stock Purchase Agreements with both Fannie Mae and Freddie Mac from its current \$100 billion in both entities to \$200 billion in each. The Treasury Department will also continue to purchase Fannie Mae and Freddie Mac mortgage-back securities in order to help promote stability and liquidity in the marketplace. Additionally, the Treasury Department will increase Fannie Mae and Freddie Mac's portfolios by \$50 billion, for a total of \$900 billion.

The Obama Administration will work with Fannie Mae and Freddie Mac to support state housing finance agencies in serving home buyers, such as CalHFA (California Housing Finance Agency). Funding for this will not come from TARP (Troubled Asset Relief Program) money but from the Housing and Economic Recovery Act.

While some of the details are still being developed, the Obama Administration plans on using programs and funding already allocated for The Homeowner Affordability and Stability Plan and will need little legislative approval for programs under the plan.

Summary and supporting information from the California Association of REALTORS®.

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