

2009 Homeowner Affordability and Stability Plan

1. Treasury secretary, Timothy F. Geithner, said. “It is imperative that we continue to move with speed to help make housing more affordable and help arrest the damaging spiral in our housing markets, just as we work to stabilize our financial system, create jobs and help businesses thrive.”
2. The program began on March 4, 2009.
3. Banks that receive additional bailout funds must participate.
4. Fannie Mae and Freddie Mac have been instructed to refinance homeowners at today’s low market rates even if the borrowers have less than the standard 20% equity if the existing loans were *owned* or *guaranteed* by Fannie or Freddie.
5. A participating mortgage lender or mortgage-servicing company will receive cash incentives to modify a borrower’s loan so that the monthly payment declines to no more than 38 percent of the household’s gross monthly income.
6. At that point, the government would match, dollar for dollar, the lender’s cost in reducing payments to as low as 31 percent of monthly income. That could be achieved by a) a lower interest rate; b) a longer mortgage term or c) a reduction in the outstanding principal. For some borrowers, interest rates could be reduced to as low as 2 percent.
7. The Treasury announcement states: “To reach the target affordability level of 31 percent, interest payments will first be reduced down to as low as 2 percent. If at that rate the debt to income level is still more than 31 percent, lenders then extend the term or amortization period up to 40 years, and finally forbear principal at no interest until the payment is reduced to the 31 percent target.”
8. Each participating lender will have to make a calculation of whether its cost from reducing the monthly payments, after accounting for the

government's cost-sharing, would be less than the costs it would incur from foreclosing.

9. Housing experts have estimated that lenders lose about half the outstanding loan amount if they pursue foreclosure, and those losses are climbing because the resale value of houses continues to fall.
10. If the result of that estimate of "net present value" indicates that the lender's cost in modifying the loan would be lower than the cost of foreclosing, the participating lender would be required to offer a borrower the new deal.
11. If the result of that estimate of "net present value" shows that the cost of loan modification concessions would be higher than the cost of foreclosure, lender participation would be voluntary.
12. If the lender decided not to offer the modification, it would be required to examine alternatives to foreclosure before seizing a house
13. Borrowers cannot be charged fees for modifying the loan and lenders will have to bear the administrative expense of reviewing such loans and making their "net present value" estimates.
14. The program includes important protections that limit how much a person's mortgage payments might go up. If a lender agrees to reduce a person's interest rate below the current market rates of just over 5 percent, the lender can start to gradually increase that rate after five years — but only up to the level of market rates at the time of the modification.
15. If a lender reduces the interest rate to a level that is still above today's market rate — to 6 percent from 8.5 percent, for example — the modified rate remains in place for the life of the loan.
16. There is no ceiling on how much a person can earn and still qualify for help, but the size of the mortgage to be modified cannot be higher than \$729,750 for a single-family home, or \$1.4 million for the mortgage on a four-unit condo or co-operative.

17. The program is open only to borrowers who live in the homes at issue, and not to investors or to people with mortgages on second or third homes. It is open to people who obtained a mortgage before Jan. 1, 2009. Borrowers can apply for loan modifications until the end of 2012.

18. In theory, there is no limit on the so-called loan-to-value ratio for a modified mortgage. In other words, people are eligible for help even if the value of their house is far less than the outstanding amount of the mortgage

Derived from the March 5, 2009 New York Times