NATIONAL ASSOCIATION OF REALTORS®
Government Affairs Update

Homeowner Affordability and Stability Plan—February 18, 2009

On February 18, 2009, President Obama announced his Homeowner Affordability and Stability Plan, designed to help up to 7-9 million families avoid foreclosure by restructuring or refinancing their mortgages. There are three main elements.

1. GSE Refinancing for Responsible Homeowners Suffering from Falling Home Prices.

Fannie Mae and Freddie Mac (the government sponsored enterprises, or GSEs) will refinance the mortgages for 4-5 million homeowners with loans owned or guaranteed by the GSEs.

2. $75 Billion Homeowner Stability Initiative to Reach up to 3 to 4 Million At-Risk Homeowners

The goal of the 3-year Homeowner Stability Initiative is to reduce the monthly payment of homeowners to affordable levels using $75 billion from TARP and the GSEs. The program will be available for home owner-occupants “at risk of imminent default” even if they are current in making mortgage payments, as well as those already delinquent. It will only applies to mortgages at or below the GSE conforming loan limits.

Key elements of the plan:

- **<u>The lender world first be required to reduce rates</u>**, without assistance, so the monthly payment does not exceed 38 percent of borrower income (debt-to-income ratio of 38 percent). **<u>After that, federal assistance would be used to match</u>**, on a dollar-for-dollar basis, further reductions to bring the debt-to-income ratio down to 31 percent.

- **<u>After 5 years, the rate could increase</u>** gradually to the loan rate in effect at the time of the modification.

- **<u>Lenders may reduce monthly payments by reducing principal</u>**. Federal assistance would share the cost (up to the amount the lender would receive for reducing interest rates).

- As an **<u>incentive to loan servicers</u>**, they will receive $1,000 up front for each qualified loan modification. For borrowers who stay current on the modified loan, servicers will receive a monthly “pay for success” fees up to $1,000 a year for 3 years.

- As an **<u>incentive to borrowers</u>**, borrowers will receive a monthly reduction in their mortgage balance, up to $1,000 a year for 5 years.

- As an **<u>additional incentive to help borrowers</u>** avoid going into delinquency, servicers will receive $500 and mortgage holders will receive $1,500, if they modify at-risk mortgages before the borrower becomes delinquent.

- As an **<u>incentive for lenders to modify more mortgages</u>**, the Obama plan—together with the FDIC—has developed a partial guarantee initiative. The Treasury Department will establish an insurance fund of up to $10 billion to discourage lenders from foreclosing on mortgages, by limiting their lose if home prices decline more than expected. Mortgage holders of modified mortgages could receive a payment on each modified loan, linked to home price index declines.

- **<u>Treasury will establish uniform guidelines</u>** for loan modifications, working with bank regulators and the FDIC. All financial institutions receiving Financial Stability Plan assistance will have to agree to follow the guidance. The GSEs will use the guidance for their loans, and the government will work to apply them "when permissible and appropriate" to all federally owned or guaranteed loans, including Ginnie Mae, FHA, Treasury, Federal Reserve, FDIC, VA and Agriculture loans.

- The **<u>plan includes other elements</u>**, including:

    - Strong oversight .

    - "Allow Judicial Modification of Home Mortgages During Bankruptcy for Borrowers Who Have Run Out of Options." Only mortgages under GSE loan limits would qualify. Homeowners must first seek a loan modification. Legislation is needed. The plan also anticipates legislation to give FHA and VA authority to pay partial claims if there is a bankruptcy or voluntary loan modification so holders of FHA and VA guaranteed loans are not hurt.

    - Funding for displaced renters and neighborhood stabilization.

    - Improving Hope for Homeowners and other FHA programs.

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

The Obama Plan beefs up the current support for the GSEs.

- **<u>The Treasury Department is doubling, from $100 billion to $200 billion for each GSE, its pledge to invest money to make sure that the GSEs maintain a positive net</u>**

worth. This will further assure that the federal government is committed to maintaining the mission of the GSEs. In a statement issued today, Director Lockhart described this mission as "providing much-needed liquidity, stability and affordability to the housing market at this time." He went on to say that doubling the commitment "should remove any possible concerns debt and mortgage-backed securities investors have about the strong commitment of the U.S. Government to support Fannie Mae and Freddie Mac." He expects the increased commitment to help keep interest rates low, which will help both current and future homeowners. The additional $200 billion is from HERA in connection with the conservatorship, not from the Financial Stability Plan or TARP.

- Treasury will continue to buy GSE MBSs, as announced when the GSEs were placed into conservatorship.
- The GSEs will be able to increase their portfolios by $50 billion to $900 billion, and increase their outstanding debt.
- The Administration will work with the GSEs to support state housing finance agencies.