NATIONAL ASSOCIATION OF REALTORS®
Government Affairs Update

Making Home Affordable—the Obama Housing Plan

On February 18, 2009, President Obama announced his plan designed to help up to 7 to 9 million families avoid foreclosure by restructuring or refinancing their mortgages. The plan also strengthens the federal commitment to Fannie Mae and Freddie Mac (the government sponsored enterprises, or GSEs).

On March 4, 2009, the Treasury Department released detailed guidance on the Making Home Affordable Program.

The Obama plan has three main elements.

1. The Home Affordable Refinance Program: GSE Refinancing for 4 to 5 Million Responsible Homeowners Suffering from Falling Home Prices.

Under this program, eligible borrowers may refinance loans that the GSEs own or guarantee (about half of all outstanding mortgages). The program can help homeowner-occupants who are current in making loan payments, have loan-to-value ratios (LTVs) above 80 percent but not more than 105 percent, have sufficient stable income, and meet other requirements.

- Borrowers should contact their loan servicers to see if they qualify.
- Borrowers will pay the current low mortgage interest rates, plus lender points and fees.
- Prepayment penalties, balloon payments, and cash-out refinancings are not permitted.
- Borrowers may refinance using a 30 or 15 year fixed rate loan. The new payments may be lower than today's or lock in affordable payments today to avoid future increases (such as payment jumps typical with interest-only and teaser rate loans).
- The program ends in June 2010.

Borrowers may check with the GSEs to learn whether they have a GSE loan:

- For Fannie Mae
    - 1-800-7FANNIE (8am to 8pm, EST)
    - www.fanniemae.com/homeaffordable

- For Freddie Mac
  - 1-800-FREDDIE (8am to 8pm EST)
  - www.freddiemac.com/avoidforeclosure

2. Home Affordable Modification Program: $75 Billion Initiative to Reach up to 3 to 4 Million At-Risk Homeowners

This $75 billion program provides for loan modifications for homeowner-occupants who are at risk of default or already in default, are experiencing a hardship, and have loans at or below the maximum GSE conforming loan limit of $729,750 (or higher for 2-, 3-, and 4-unit properties).

- Servicers may use a broker price opinion (BPO), a GSE automated valuation model, or other specified means to determine the value of a property.
- To facilitate short sales or deeds-in-lieu of foreclosure, where borrowers do not qualify or default under the program, the program will compensate servicers and borrowers. Details are not available.
- Servicers will decide whether a borrower is at imminent risk of default, such as due to upcoming jumps in mortgage payments or significant reductions in income.
- Servicers must consider refinancing a borrower into the Hope for Homeowners program when feasible.
- The program shares the cost of reducing mortgage payments from 38 percent of gross monthly income to 31 percent (lenders cover the full cost of reductions down to 38 percent). First, the rate is reduced as low as 2 percent for 5 years. If that is not sufficient to reduce the payment to 31 percent, the servicer will extend the term to up to 40 years. On top of that, if necessary, the servicer will then forebear principal. Principal forgiveness is permitted, but not required.
- Borrowers must show they can meet the new payments for 3 months before a permanent modification agreement goes into effect. The interest rate increases after 5 years, but no more than one percentage point a year, until the market rate on the date of the modification is reached.
- There is no cost to borrowers for the program.
- Borrowers are warned to avoid foreclosure rescue schemes and other housing organizations that charge fees for counseling or loan modifications.

- **Incentives:**
    - As an **incentive to loan servicers**, 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 **incentive to borrowers to stay current**, borrowers may receive a monthly reduction in their mortgage balance, up to $1,000 a year for 5 years.
    - As an **additional incentive to help borrowers** 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 **incentive for lenders** to modify more mortgages, 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.
- Loan modifications under the program may be made until December 31, 2012.
- The plan includes other elements, including:
    - Strong oversight.
    - "Allowing Judicial Modifications of Home Mortgages During Bankruptcy for Borrowers Who Have Run Out of Options." 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 worth</u>.** 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.