SOUTHERN TITLE®

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Homeowner Affordability and Stability Plan

President Obama has unveiled details of a foreclosure prevention plan designed to help 7 to 9 million responsible homeowners afford their mortgage payments. March 4 has been designated as the official roll out date for the program. The plan has three main components:

1. A refinancing program for borrowers who are current on their mortgage payments but who have been unable to refinance because the value of their home has declined.

2. A mortgage modification program for borrowers in default, or at imminent risk of default, that builds on the model established by the FDIC by expanding eligibility and establishing incentives for borrowers, mortgage holders and servicers.

3. Actions to bolster the financial stability and mortgage support capacity of Fannie Mae and Freddie Mac.

Refinancing Program

· Applies to loans owned or guaranteed by Fannie Mae and Freddie Mac.

· Allows borrowers, who because of a decline in their house value, have a mortgage loan-to-value ratio (LTV) of greater than 80 percent, to refinance to a lower interest rate mortgage, even if the new loan would have previously failed to meet Fannie/Freddie requirements.

· Maximum LTV on new mortgage is 105%. Will not help homeowners who are completely underwater on their mortgage (those households will be addressed in the mortgage modification portion of the program).

· Program is expected to create mortgage refinancing opportunities for up to 4-5 million homeowners.

Mortgage Modification Program

· Builds on the loan modification protocol developed by the FDIC, where a loan is modified by reducing the interest rate, increasing the term and/or deferring/reducing principal payments, if such adjustments result in a better net present value for the mortgage investor than disposition through foreclosure.

· Establishes clear and consistent standards and guidelines for identifying borrowers at risk of default and for loan modifications.

· Eligibility is based on high mortgage debt payments compared to income, or borrowers that are underwater. Delinquency is not a requirement for eligibility. Will also serve homeowners who have not missed payments, but who are in danger of doing so. Requires HUD-approved counseling for families with high (55 percent) total debt-to-income ratios.

· After the servicer/mortgage holder reduces interest payments to achieve a 38% mortgage debt-to-income (DTI) ratio, uses Financial Stability Plan (i.e. TARP) funds to match, dollar-for-dollar, further reductions in mortgage interest payments down to a 31% DTI ratio. (Also uses FSP/TARP funds to subsidize principal reductions.)

· Keeps modified payments in place for at least 5 years, after which payments may be gradually increased to the conforming loan rate at time of modification.

· Servicers receive FSP/TARP funds for undertaking modifications, for subsequent modification successes, and are offered, along with mortgage holders, additional financial incentives to modify loans prior to default.

· Provides financial incentives to borrowers who remain current on mortgage payments following loan modification.

· Provides a partial guarantee to mortgage holders (through a $10 billion insurance fund established by Treasury and FDIC) to offset future declines in the value of the home collateral.

· Program is expected to reach up to 3-4 million at-risk homeowners.

· To establish additional motivation for loan modifications, seeks legislation to make changes in personal bankruptcy statue that will allow judges to modify mortgage terms, including reductions (cramdowns) of principal obligations.

· Eases restrictions on FHA's Hope for Homeowners program.

<u>Initiatives to Bolster Fannie Mae and Freddie Mac</u>

· Increases Treasury's Preferred Stock Purchase Agreements to $200 billion for each company, up from the current $100 billion commitment.

· Continued Treasury purchases of Fannie and Freddie MBS and debt.

· Increases Fannie's and Freddie's portfolio limits by $50 billion to $900 billion for each company.

· Commits Fannie and Freddie to providing support to state housing finance agencies.

Source: National Association of Home Builders (nahb.org)