

Advisory Bulletin

Homeowner Affordability and Stability Plan

Salient Features

On February 18, 2009, President Barack Obama unveiled a plan to stem foreclosures. New loss mitigation procedures and consumer protections are provided to arrest the current mortgage foreclosure crisis. Called the **Homeowner Affordability and Stability Plan** (“Plan”), the Plan includes these salient features:

- New funding for Fannie and Freddie:
 - Portfolios will be increased by \$50 billion to purchase additional mortgage loans.
 - Treasury will continue to purchase of Fannie or Freddie MBS packages.
 - An additional \$200 billion will be injected into the GSEs.
- Fannie or Freddie loans can be refinanced to a lower interest rate if their current LTV is 80% or greater.
- Loan modifications are encouraged:
 - The government will match a lender’s interest payment reduction, dollar for dollar, where the reduction results in a DTI of 31% from a DTI of 38%.
 - The modified lower interest payments are kept in effect for five years, after which the interest rate can be stepped up to the prevailing conforming loan rate at the time of the modification.
 - Alternatively, principal can be reduced to bring the DTI to 31%, and the government will share the cost of the principal reduction, up to the amount that would be received for the interest rate reduction.
- Servicers can receive \$1,000 for each eligible modification*, plus an additional \$1,000 each year for up to three years so long as the mortgage loan is current. This “pay for success” fee will be paid monthly.
- Borrowers at risk of default, but still current, can receive an incentive payment of \$1,500 and the servicer can receive \$500, if the modification is done before borrowers miss their mortgage payments.
- Borrowers can receive \$1,000 per year for five years, so long as they remain current, applied monthly to the reduction of the principal balance of the mortgage loan.
- There is a “partial guarantee initiative” to lenders, funded by a new \$10 billion insurance fund, to avert foreclosure when a lender believes a property’s value may continue to fall. Holders of mortgages modified pursuant to the Plan would receive an additional insurance payment on each modified loan, linked to declines in the home price index.

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* The Administration will announce “clear and consistent” loan modification guidelines by March 4, 2009. These guidelines will include detailed protocols for loss mitigation as well for identifying borrowers at risk of default.