

# Obama Unveils Homeowner Affordability and Stability Plan

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President Obama unveiled his plan to help stabilize the housing market and keep millions of borrowers in their homes.

The Homeowner Affordability and Stability Plan includes two initiatives to help struggling homeowners. One is a refinancing program for homeowners with less than 20% equity in their homes, or who owe more than their home is worth. The second program attempts to lower monthly payments for homeowners at risk of losing their home. In addition, the plan includes a third initiative to support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac.

Many of the plan's details are still being worked out and will not be announced until March 4, here is an overview of the plan's main components.

## Refinancing Initiative

Under current rules, those families who own less than 20% equity in their homes have a difficult time refinancing and taking advantage of the historically low interest rates. Therefore, the refinancing initiative in the new plan provides refinancing help for homeowners with less than 20% equity in their homes or who owe more than their home is worth. This initiative is open to homeowners who have conforming loans which are guaranteed by Fannie Mae and Freddie Mac, and who owe up to 5% more than their home is worth.

According to the plan, "credit-worthy" or "responsible" homeowners can refinance their mortgage into a 30- or 15-year, fixed-rate loan based on current market rates. The refinanced loan, however, cannot include prepayment penalties or balloon payments. For many families, this low-cost refinancing may help reduce their mortgage payments by up to thousands of dollars per year.

As with the rest of the plan, details about this initiative will be released at a future date—including what, if any, credit score requirements will be included.

## Stability Initiative

This initiative aims at providing help to individual families as well as entire neighborhoods by helping reduce foreclosures and stabilize home prices. It is intended to help homeowners

who are struggling to afford their mortgage payments, but cannot sell their homes because prices have fallen significantly.

The goal of this initiative is simple: “reduce the amount homeowners owe per month to sustainable levels.” To accomplish this, lenders are encouraged to lower homeowners' payments to 31 percent of their income by lowering their interest rate to as low as 2% or by extending the terms of the loan. In addition, lenders can also lower the principal owed by the borrower, with Treasury sharing in the costs.

Homeowners who are current on their mortgages but are struggling can still apply for this program. As such, this is one of the few programs designed to help homeowners who may face delinquency soon, but are current at the moment.

Since the focus of this initiative is on helping families and neighborhoods, investment properties do not qualify. This initiative also includes a number of additional elements and incentives that benefit homeowners and lenders alike, including:

- **Incentives to Help Borrowers Stay Current:** To provide an extra incentive for borrowers to keep paying on time, the initiative will provide a monthly balance reduction payment that goes straight towards reducing the principal balance of the mortgage loan. As long as a borrower stays current on his or her loan, he or she can get up to \$1,000 each year for five years.
- **Reaching Borrowers Early:** To keep lenders focused on reaching borrowers who are trying their best to stay current on their mortgages, an incentive payment of \$500 will be paid to servicers, and an incentive payment of \$1,500 will be paid to mortgage holders, if they modify at-risk loans before the borrower falls behind.

## **Supporting Low Mortgage Rates**

As part of the Homeowner Affordability and Stability Plan, the Treasury Department is increasing its funding commitment to Fannie Mae and Freddie Mac to ensure the strength and security of the mortgage market and to help maintain mortgage affordability. This portion of the plan will use funds already authorized in 2008 by Congress for this purpose.

The increased funding will enable Fannie Mae and Freddie Mac to carry out ambitious efforts to ensure mortgage affordability for responsible homeowners, and provide forward-looking confidence in the mortgage market.

Again, the government plans to unveil the final details of the plan on March 4, 2009. For now, you can download a sheet of common Questions and Answers produced by the government at:

[www.treas.gov/initiatives/eesa/homeowner-affordability-plan/ConsumerQA.pdf](http://www.treas.gov/initiatives/eesa/homeowner-affordability-plan/ConsumerQA.pdf)

I will continue monitoring the plan as new information becomes available. If you have any questions or would like to discuss how this may specifically impact you, I'd be happy to sit down with you. Just call or email me to set up an appointment.

*Courtesy of:*

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