

Obama foreclosure fix open for business

Federal officials release details of \$75 billion loan modification and refinancing programs. Borrowers can start contacting loan servicers.

By [Tami Luhby](#), CNNMoney.com senior writer
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NEW YORK (CNNMoney.com) -- The Obama administration's foreclosure prevention program is open for business.

The multipronged fix calls for companies to help as many 4 million struggling borrowers by modifying loans so housing payments are no more than 31% of monthly gross income. Separately, homeowners who haven't missed a payment can refinance into lower-cost loans even if they have little or no equity. This is expected to help up to 5 million homeowners.

The \$75 billion loan modification plan will provide incentives to borrowers and loan servicers and investors to spur mortgage modifications. The government will also subsidize interest rate reductions to get borrowers to affordable monthly payments.

"This plan will help make home ownership more affordable for nine million American families and in doing so, help to stop the damaging impact that declining home prices have on all Americans," said Housing Secretary Shaun Donovan.

Administration officials once again stressed that they are not using taxpayer money to bailout irresponsible homebuyers, listing those who will not qualify for assistance: people who bought investment properties, lied on their mortgage documents or purchased multimillion dollar homes.

iReport: Would you walk away from your home?

"The cost of not acting outstrips that of acting boldly," said a senior administration official.

Borrowers can now contact their servicers to see whether they are eligible for assistance. Federal officials have posted additional information for borrowers to determine their eligibility at www.hud.gov. They will also promote the program at homeownership events nationwide.

Who's eligible for modification?

The administration Wednesday released additional eligibility criteria and program guidelines.

The loan modification plan focuses on people who are behind in their payments or are at risk of default.

Federal officials clarified the definition of "at risk" as those: suffering serious hardships, declines in income or increase in expenses; facing an interest rate hike; having high mortgage debt compared to income; owing more than their house is worth, or demonstrating other reasons for being close to default.

To participate in the loan modification plan, borrowers must:

- have obtained their mortgage before Jan. 1, 2009;
- have a primary mortgage of less than \$729,500;
- live in the property;
- fully document their income by providing tax returns and pay stubs;
- sign a statement of financial hardship; and
- go for counseling if their total household debt - including auto loans, credit cards and alimony - totals more than 55% of their income.

The modification program will be in effect until the end of 2012, but loans can only be adjusted once.

Officials also unveiled more details on how servicers will modify the loans. First, they must reduce interest rates so that borrowers' total house payments are not more than 38% of their monthly income. The government will then subsidize servicers dollar-for-dollar to lower that ratio to 31% - but the interest rate can't go below 2%.

The new interest rate would then remain in place for five years, after which it will increase by 1 percentage point a year until it reaches either the original rate or the prevailing mortgage rate at the time of the modification, whichever is lower. This should prevent borrowers from suffering the "payment shock" that sent many borrowers with adjustable-rate mortgage into default in recent years.

If rate reductions aren't enough to get payments to 31% of income, a lender can extend the term up to 40 years, or shift part of the principal to the end of the loan at no interest. Servicers also have the option of reducing the loan's balance.

Servicers will receive \$1,000 for each loan modified, as well as additional annual bonuses if borrowers keep up with payments. Mortgage investors will receive one-time \$1,500 incentive payments for restructuring qualifying loans that are not yet delinquent. Finally, borrowers who keep up with their new payments will receive up to \$1,000 a year in principal reduction, for up to five years.

While the program is voluntary, once servicers commit to participating, they must evaluate all loans that may be eligible. Financial institutions that receive government money going forward must participate.

Only loans where the cost of the foreclosure would be higher than the cost of modification would qualify.

The government is also providing incentives to servicers and borrowers to enter into "short sales" or "deed-in-lieu of foreclosure" agreements with those who can't afford to stay in their homes. In these cases, the bank agrees to take back the home for less than what's owed without filing for foreclosure.

The program also includes a new provision to eliminate borrowers' second mortgages, which will reduce their overall debt levels. Investors in those mortgages, who at times have blocked modifications because they don't benefit from the adjustments, will be paid to eliminate those claims. Details on how much they'll receive will be announced in coming weeks, senior government officials said. Servicers that get second-mortgage holders to participate will receive an additional \$250.

The refinancing program

The refinancing program, which is open to homeowners who took out loans from Fannie Mae and Freddie Mac, allows borrowers with less than 20% equity in their homes to refinance to the current prevailing rate. However, borrowers cannot owe more than 105% of the value of their home and must be current on their payments.

The program ends in June 2010. Each servicer will provide details on the terms and costs associated with the refinancing program.

Be patient

While borrowers can now start contacting servicers, it may take several weeks for companies to implement the guidelines, said a senior mortgage industry official in a conference call with reporters.

Servicers are adding staff to handle the expected deluge of calls. Bank of America, for instance, just boosted its servicing staff by 1,000 people.

Still, officials warned borrowers - many of whom have complained of long waits and unresponsive staff at servicers - to be patient.

"There will definitely be a flood of activity, so it's important for consumers to be patient and be persistent and to take a hard look at their own personal financial situation so they can come prepared to really move the process forward as rapidly as possible," the officials said.

Mortgage help: Do you qualify?

President Obama's new real estate rescue plan offers two key benefits: More refinancing opportunities and greater chance for a loan modification.

By Les Christie, CNNMoney.com staff writer
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NEW YORK (CNNMoney.com) -- President Obama's eagerly anticipated [foreclosure prevention program](#) went into effect on Wednesday. It targets 9 million borrowers for help - are you one of them?

The \$75 billion effort, dubbed the Homeowner Affordability and Stability Plan, boils down to two basic solutions:

First, the government is aiming to help more homeowners refinance into new low interest rates.

Second, it provides incentives to lenders and servicers to restructure your mortgage to more affordable levels.

Here's how to know whether you'll likely be able to take advantage of either of these options.

Help for those seeking refinancing

This part of the program targets borrowers who have kept current on their mortgages. Many in this group have been unable to lower their housing costs through refinancings because of falling home prices.

Right now, if you're "underwater" on your mortgage, meaning you owe more than the home's market value, forget about qualifying for a refi. In fact, at least 20% equity in your home is now a must, unless you're [using an FHA loan](#).

iReport: Would you walk away?

The new guidelines should help. Even homeowners with a mortgage that exceeds home value by 5% could be eligible. And there will be no prepayment penalties. But your loan must be owned by Fannie Mae or Freddie Mac. The government is still working on getting other loan servicers to participate.

Since lenders working with Fannie and Freddie already have most of the borrower documentation they need, the refinance process should go quickly. And, in some cases, lenders may not need to reappraise properties because borrowers cannot take cash out on these transactions; they're only allowed to refinance the balance they owe.

The Administration estimates that this program, which will be in effect until June 2010, will help 5 million homeowners.

Who's not eligible? Homeowners whose property values have dipped severely, putting them underwater by more than 5% are out of luck.

Those with "jumbo" mortgages also don't qualify. Only those who took out "conforming" loans - currently defined as mortgages of less than \$417,000, except in certain high-cost areas such as New York City - from Fannie or Freddie would be able to refinance.

All borrowers will have to prove they have sufficient income to be able to keep up their loan payments.

Mortgage modification help for at-risk borrowers

Homeowners in default or at risk of default may qualify for loan modifications, which restructure the terms of loans.

Anyone at risk of default, such as those suffering serious hardships, income loss, increases in expenses, payment "shock" (such as when interest rates jump), high mortgage debt compared to income, who are underwater or who show other indications of being at risk of default, may be eligible for modification.

The mortgage must have originated before Jan. 1, 2009, and the unpaid principal can amount to no more than \$729,750 for a single family home (more for a home with two-to-four units). Borrowers with other debt, such as car loans and credit cards, exceeding 55% of their incomes, may still qualify for a modification, but they'll be required to accept debt counseling in a HUD-certified program.

If you qualify, your servicer - the company that administers the loan and to whom borrowers make their payments - or lender will reduce your monthly mortgage payments to 31% of your gross income. The reduction would come mostly through interest-rate reductions - though rates can be lowered no more than to 2% - or by extending the length of the loan to 40 years. In some cases, principal reduction also would be an option.

The reduced payment would stay the same for five years and then gradually revert back to the conforming loan rates in place at the time of the modification, increasing by no more than 1% a year.

Borrowers would also receive incentive bonuses, in the form of principal reduction, of up to \$1,000 a year for five years for making payments on time.

Servicers who participate are required to modify all eligible mortgages under the program unless they are specifically prohibited from doing so by the contracts they have signed with investors, who are the actual owners of the notes. In those cases, lenders and servicers have to make good-faith efforts to obtain permission from investors to make the modifications.

President Obama estimated 3 to 4 million homeowners could benefit from the new modification procedures. Eligibility for the program will sunset at on Dec. 31, 2012, and borrowers may tap the program only once.

Servicers who want to participate must sign up by the end of this year.

Who's not eligible. Speculators, those who bought homes for investment purposes, do not qualify for help because the property must be owner-occupied. No investor, vacant or condemned properties are eligible. Occupancy will be verified through a credit report and other documentation.

The program will also not reward homebuyers who were irresponsible in their borrowing. All applicants will be closely examined by lenders and those who acted unscrupulously by, for example, misrepresenting their incomes in no-doc loan applications, would not qualify.

To protect taxpayer money, modifications must make sound financial sense. Servicers are required to apply a "net present value test" on the loans at risk of immediate default or that are 60 days or more delinquent. If the test determines that the value of the loan is enhanced by doing a modification compared with allowing the loan to go into foreclosure, the lender will proceed with the workout.

That will disqualify many borrowers who simply can't afford any reasonable mortgage payment.

"[The plan] will not reward folks who bought homes they knew from the beginning they would never be able to afford," said Obama, when he announced the program two weeks ago. "In short, this plan will not save every home."

You can contact your lender starting March 4 to see if they are participating in the program. Federal officials have also posted additional information for at www.hud.gov, including a "self-assessment" option to see if you qualify.