

Homeowner Affordability and Stability Plan

According to an Executive Summary made available by the White House on February 18, 2009, The Homeowner Affordability and Stability Plan (HASP) is part of a broad, comprehensive strategy to get the economy back on track. HASP has three primary objectives:

1. Provide access to low-cost refinancing for responsible homeowners suffering from falling home prices
2. Create a Homeowner Stability Initiative to assist homeowners in danger of losing their homes to foreclosure
3. Support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac

Refinancing:

While mortgage rates are now at historic lows, many homeowners with mortgages owned by Fannie Mae or Freddie Mac are unable to refinance their higher-rate mortgages because they have lost equity in their properties due to falling home prices. Under current rules, Fannie Mae and Freddie Mac cannot guarantee a mortgage that exceeds 80 percent of the home's value. HASP will remove this restriction, allowing certain homeowners to refinance their mortgages.

A homeowner will qualify for this refinancing if:

- The existing mortgage is owned by Fannie Mae or Freddie Mac
- The new mortgage balance will not exceed 105 percent of the home's current value
- The mortgage balance falls within conforming loan limits--\$417,000 for single-family homes in most areas

The Homeowner Stability Initiative

This \$75 billion Homeowner Stability Initiative is designed to assist responsible homeowners who are now struggling to afford their mortgage payments and who cannot sell their homes because prices have fallen significantly, in many cases making the value of the property less than what is owed on it. The intent of the program is to offer loan modifications that will bring a homeowner's monthly payments to sustainable levels.

To qualify, a homeowner must:

- Have a current mortgage payment that exceeds 31 percent of monthly gross income
- Live in the home
- Have a loan amount that is within conforming loan limits (however, the loan need not be owned by Fannie Mae or Freddie Mac)
- Apply within three years of the beginning of the program

Lenders are being encouraged through incentives (outlined below) to reduce mortgage interest rates so that the borrower's monthly mortgage payment is not more than 38 percent of his or her monthly gross income. The Initiative would then match further reductions in interest payments dollar-for-dollar with the lender to bring the ratio down to 31 percent. The lower interest rate must be kept in place for five years, and then it can be gradually stepped up to the conforming loan rate in place at the time of the modification.

Lenders may also bring down monthly payments by reducing the principal owed on the mortgage, with the U.S. Treasury sharing in the costs of doing so.

The following incentives are offered to accomplish the Initiative:

Mortgage servicers are offered an up-front fee of \$1,000 for each eligible modification meeting the guidelines. As long as the borrower stays current on the loan, the servicer will also receive a monthly fee of up to \$1,000 annually for 3 years.

Borrowers who make timely mortgage payments will receive a monthly principal balance reduction equivalent to \$1,000 a year for 5 years.

Mortgage servicers will be paid \$500, and mortgage holders will be paid \$1,500, for each at-risk loan modified before the borrower falls behind on payments.

To discourage lenders from foreclosing on loans that could be made viable now out of fear that home prices will fall further in the future, the Administration, together with the FDIC, has developed a \$10 billion insurance fund to be created by the U.S. Treasury. Holders of mortgages modified under this program would be provided an additional insurance payment on each modified loan. These payments will be linked to declines in the home price index.

Strengthening Confidence in Fannie Mae and Freddie Mac

Using funds already allocated by the Housing and Economic Recovery Act of 2008, the U. S. Treasury is increasing its funding commitment to Fannie Mae and Freddie Mac. The Treasury is increasing its Preferred Stock Purchase Agreements from \$100 billion to \$200 billion for each Government-Sponsored Enterprise (GSE). In addition, the retained mortgage portfolios allowed (and the allowable debt outstanding) will be increased by \$50 billion to \$900 billion. To promote stability and liquidity in the marketplace, the Treasury will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities.