

Tom Moon

714.465.9969

Tom@REOBroker.com

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www.REOBroker.com



An Overview

On February 17, President Obama signed a housing stimulus package, promising to devote at least \$50 billion to stem the tide of foreclosures.

To make sense of this complex project, this report outlines the following five elements of the package:

1. Funding and sources.
2. Foreclosure prevention for "at risk" borrowers.
3. Refinancing homes hit by a decline in value.
4. Incentives and protection for mortgage lenders.
5. Giving Fannie Mae and Freddie Mac a shot of confidence.

Track how the stimulus money is spent by visiting:
www.recovery.gov

Funding and Sources

- \$50 billion to modify mortgages will come from the \$700 billion financial bailout fund approved by Congress in 2008.
- Up to \$25 billion in direct costs to Fannie Mae and Freddie Mac to modify mortgages.
- Up to \$200 billion from the U.S. Treasury to increase capital for Fannie and Freddie if necessary, authorized under a housing bill passed in 2008. Fannie and Freddie would increase their mortgage portfolios by \$50 billion each.

*In the middle
of every difficulty
lies opportunity.*

~ Albert Einstein

Foreclosure Prevention

- The goal is to modify 3 to 4 million "at risk" loans, at no cost to the homeowner who is struggling to afford their mortgage payments.
- The program targets owner-occupants with high mortgage debt compared to income or those with "underwater" mortgages that exceed the value of their homes. Borrowers don't have to miss payments to qualify.
- To receive mortgage modification, borrowers whose debt exceeds 55 percent of their income must enter consumer debt counseling.
- The U.S. Treasury will share the cost of reducing payments. First, lenders must agree to cut interest rates so monthly payments are no more than 38 percent of a borrower's income. Then the Treasury will match the reductions, lowering the homeowner's payment to 31 percent of income.

Lenders must keep the modified payments in place for five years.

With a 61 percent increase in national foreclosure filings (as shown below), the foreclosure prevention program comes at a needed time.

Source: www.Foreclosures.com

YEAR TO DATE FORECLOSURE FILINGS BY REGION

Region	YTD 2007		YTD 2008		Change
	Filings	Per Household	Filings	Per Household	
Midwest	185,073	1.69%	228,849	1.98%	23.6%
Southeast	383,697	2.31%	735,417	4.29%	91.7%
Northeast	190,832	1.14%	235,745	1.34%	23.5%
Southwest	528,399	2.09%	883,006	3.60%	67.1%
Other States	3,476	0.60%	6,034	1.03%	73.6%
Nationwide	1,291,477	1.85%	2,089,051	2.95%	61.8%

* Percentage of every 1,000 households in state



Refinancing Homes that Declined in Value

The program enable refinancing for 4 to 5 million “responsible” homeowners who took out conforming 30-year fixed mortgages with a down payment of 20 percent or more and are current on payments.



Refinancing applications will be accepted after March 4, when Obama’s administration announce the program details.

- Mortgages owned or guaranteed by Fannie and Freddie can be refinanced through private lenders, reducing monthly payments, as long as the amount owned on a first mortgage does not exceed 105 percent of the property’s current market value.
- Refinancing rates will be based on market rates in effect at the time of the refinance plus any associated points and fees quoted by the lender. All of the refinanced loans under the plan will be a 30-year or a 15-year fixed-rate note.

Did you Know...

Home prices declined 18.5 percent in 2008 and 27 percent since their peak in 2006.

Sources:

- www.wsj.com
- www.Reuters.com
- www.HuffingtonPost.com
- www.foreclosures.com
- www.csmonitor.com
- Case-Shiller National Home Price Index

A Shot of Confidence for Fannie and Freddie

- This program’s goal is to reduce mortgage rates, to strengthen investor confidence, and to help lower Fannie and Freddie’s funding cost.
- The Treasury’s capital funding commitment to Fannie and Freddie will double to \$200 billion each under a preferred stock purchase mechanism launched in 2008.
- Fannie and Freddie can increase their retained mortgage portfolios to \$900 billion each.
- The Obama administration will work with Fannie and Freddie by supporting state housing finance agencies to help homebuyers.

Incentives and Protection for Lenders

- Lenders will receive incentives to voluntarily participate in “at risk” loan modifications, and it is believed most major lenders will participate.
- Each successful modification pays the mortgage services \$1,000 and, if the borrower stays current on payments, up to \$3,000 over three years.
- If a modification is made prior to a borrower defaulting, the mortgage holder receives \$1,500 and the servicer receives \$500.

Borrowers will receive a \$5,000 reduction on loan principal if their payments stay current.

- The Treasury will provide a \$10 billion insurance fund to protect lenders against home values declines. If a home price index falls more than expected, modified mortgage holders could use the fund to offset foreclosure losses.

