Questions and Answers for Borrowers about the

Homeowner Affordability and Stability Plan

<u>Borrowers Who Are Current on Their Mortgage Are Asking:</u>

1. What help is available for borrowers who stay current on their mortgage payments but have seen their homes decrease in value?

Under the Homeowner Affordability and Stability Plan, eligible borrowers who stay current on their mortgages but have been unable to refinance to lower their interest rates because their homes have decreased in value, may now have the opportunity to refinance into a 30 or 15 year, fixed rate loan. Through the program, Fannie Mae and Freddie Mac will allow the refinancing of mortgage loans that they hold in their portfolios or that they placed in mortgage backed securities.

2. I owe more than my property is worth, do I still qualify to refinance under the Homeowner Affordability and Stability Plan?

Eligible loans will now include those where the new first mortgage (including any refinancing costs) will not exceed 105% of the current market value of the property. For example, if your property is worth $200,000 but you owe $210,000 or less you may qualify. The current value of your property will be determined after you apply to refinance.

3. How do I know if I am eligible?

Complete eligibility details will be announced on March 4th when the program starts. The criteria for eligibility will include having sufficient income to make the new payment and an acceptable mortgage payment history. The program is limited to loans held or securitized by Fannie Mae or Freddie Mac.

4. I have both a first and a second mortgage. Do I still qualify to refinance under the Homeowner Affordability and Stability Plan?

As long as the amount due on the first mortgage is less than 105% of the value of the property, borrowers with more than one mortgage may be eligible to refinance under the Homeowner Affordability and Stability Plan. Your eligibility will depend, in part, on agreement by the lender that has your second mortgage to remain in a second position, and on your ability to meet the new payment terms on the first mortgage.

5. Will refinancing lower my payments?

The objective of the Homeowner Affordability and Stability Plan is to provide creditworthy borrowers who have shown a commitment to paying their mortgage with affordable payments that are sustainable for the life of the loan. Borrowers whose mortgage interest rates are much higher than the current market rate should see an immediate reduction in their payments. Borrowers who are paying interest only, or who have a low introductory rate that will increase in the future, may not see their current payment go down if they refinance to a fixed rate. These borrowers, however, could save a great deal over the life of the loan. When you submit a loan application, your lender will give you a "Good Faith Estimate" that includes your new interest rate, mortgage payment and the amount that you will pay over the life of the loan. Compare this to your current loan terms. If it is not an improvement, a refinancing may not be right for you.

6. What are the interest rate and other terms of this refinance offer?

The objective of the Homeowner Affordability and Stability Plan is to provide borrowers with a safe loan program with a fixed, affordable payment. All loans refinanced under the plan will have a 30 or 15 year term with a fixed interest rate. The rate will be based on market rates in effect at the time of the refinance and any associated points and fees quoted by the lender. Interest rates may vary across lenders and over time as market rates adjust. The refinanced loans will have no prepayment penalties or balloon notes.

7. Will refinancing reduce the amount that I owe on my loan?

No. The objective of the Homeowner Affordability and Stability Plan is to help borrowers refinance into safer, more affordable fixed rate loans. Refinancing will not reduce the amount you owe to the first mortgage holder or any other debt you owe. However, by reducing the interest rate, refinancing should save you money by reducing the amount of interest that you repay over the life of the loan.

8. How do I know if my loan is owned or has been securitized by Fannie Mae or Freddie Mac?

To determine if your loan is owned or has been securitized by Fannie Mae or Freddie Mac and is eligible to be refinanced, you should contact your mortgage lender after March 4, 2009.

9. When can I apply?

Mortgage lenders will begin accepting applications after the details of the program are announced on March 4, 2009.

10. What should I do in the meantime?

You should gather the information that you will need to provide to your lender after March 4, when the refinance program becomes available. This includes:

- information about the gross monthly income of all borrowers, including your most recent pay stubs if you receive them or documentation of income you receive from other sources
- your most recent income tax return
- information about any second mortgage on the house
- payments on each of your credit cards if you are carrying balances from month to month, and
- payments on other loans such as student loans and car loans.

Borrowers Who Are at Risk of Foreclosure Are Asking:

1. **What help is available for borrowers who are at risk of foreclosure either because they are behind on their mortgage or are struggling to make the payments?**

   The Homeowner Affordability and Stability Plan offers help to borrowers who are already behind on their mortgage payments or who are struggling to keep their loans current. By providing mortgage lenders with financial incentives to modify existing first mortgages, the Treasury hopes to help as many as 3 to 4 million homeowners avoid foreclosure regardless of who owns or services the mortgage.

2. **Do I need to be behind on my mortgage payments to be eligible for a modification?**

   No. Borrowers who are struggling to stay current on their mortgage payments may be eligible if their income is not sufficient to continue to make their mortgage payments and they are at risk of imminent default. This may be due to several factors, such as a loss of income, a significant increase in expenses, or an interest rate that will reset to an unaffordable level.

3. **How do I know if I qualify for a payment reduction under the Homeowner Affordability and Stability Plan?**

   In general, you may qualify for a mortgage modification if (a) you occupy your house as your primary residence; (b) your monthly mortgage payment is greater than 31% of your monthly gross income; and (c) your loan is not large enough to exceed current Fannie Mae and Freddie Mac loan limits. Final eligibility will be determined by your mortgage lender based on your financial situation and detailed guidelines that will be available on March 4, 2009.

4. **I do not live in the house that secures the mortgage I'd like to modify. Is this mortgage eligible for the Homeowner Affordability and Stability Plan?**

No. For example, if you own a house that you use as a vacation home or that you rent out to tenants, the mortgage on that house is not eligible. If you used to live in the home but you moved out, the mortgage is not eligible. Only the mortgage on your primary residence is eligible. The mortgage lender will check to see if the dwelling is your primary residence.

5. I have a mortgage on a duplex. I live in one unit and rent the other. Will I still be eligible?

Yes. Mortgages on 2, 3 and 4 unit properties are eligible as long as you live in one unit as your primary residence.

6. **I have two mortgages. Will the Homeowner Affordability and Stability Plan reduce the payments on both?**

Only the first mortgage is eligible for a modification.

7. **I owe more than my house is worth. Will the Homeowner Affordability and Stability Plan reduce what I owe?**

The primary objective of the Homeowner Affordability and Stability Plan is to help borrowers avoid foreclosure by modifying troubled loans to achieve a payment the borrower can afford. Lenders are likely to lower payments mainly by reducing loan interest rates. However, the program offers incentives for principal reductions and at your lender's discretion modifications may include upfront reductions of loan principal.

8. **I heard the government was providing a financial incentive to borrowers. Is that true?**

Yes. To encourage borrowers who work hard to retain homeownership, the Homeowner Affordability and Stability Plan provides incentive payments as a borrower makes timely payments on the modified loan. The incentive will accrue on a monthly basis and will be applied directly to reduce your mortgage debt. Borrowers who pay on time for five years can have up to $5,000 applied to reduce their debt by the end of that period.

9. **How much will a modification cost me?**

There is no cost to borrowers for a modification under the Homeowner Affordability and Stability Plan. If you wish to get assistance from a HUD-approved housing counseling agency or are referred to a counselor as a condition of the modification, you will not be charged a fee. Borrowers should beware of any organization that attempts to charge a fee for housing counseling or modification of a delinquent loan, especially if they require a fee in advance.

10. **Is my lender required to modify my loan?**

No. Mortgage lenders participate in the program on a voluntary basis and loans are evaluated for modification on a case-by-case basis. But the government is offering substantial incentives and it is expected that most major lenders will participate.

11. **I'm already working with my lender / housing counselor on a loan workout. Can I still be considered for the Homeowner Affordability and Stability Plan?**

Ask your lender or counselor to be considered under the Homeowner Affordability and Stability Plan.

12. **How do I apply for a modification under the Homeowner Affordability and Stability Plan?**

You may not need to do anything at this time. Most mortgage lenders will evaluate loans in their portfolio to identify borrowers who may meet the eligibility criteria. After March 4 they will send letters to potentially eligible homeowners, a process that may take several weeks. If you think you qualify for a modification and do not receive a letter within several weeks, contact your mortgage servicer or a HUD-approved housing counselor. Please be aware that servicers and counseling agencies are expected to receive an extraordinary number of calls about this program.

13. What should I do in the meantime?

You should gather the information that you will need to provide to your lender on or after March 4, when the modification program becomes available. This includes

- information about the monthly gross income of your household including recent pay stubs if you receive them or documentation of income you receive from other sources
- your most recent income tax return
- information about any second mortgage on the house
- payments on each of your credit cards if you are carrying balances from month to month, and
- payments on other loans such as student loans and car loans.

14. My loan is scheduled for foreclosure soon. What should I do?

Contact your mortgage servicer or credit counselor. Many mortgage lenders have expressed their intention to postpone foreclosure sales on all mortgages that may qualify for the modification in order to allow sufficient time to evaluate the borrower's eligibility. We support this effort.

Support Under the Homeowner Affordability and Stability Plan: Three Cases

Family A: Access to Refinancing

- **In 2006:** Family A took a 30-year fixed rate mortgage of $207,000 on a house worth $260,000 at the time. (The family put just over 20% down.) They received a Fannie Mae conforming loan with an interest rate of 6.50%.
- **Today:** Family A has about $200,000 remaining on their mortgage but their home value has fallen 15 percent to $221,000.
  - Their "loan-to-value" ratio is now 90%, **making them ineligible for a Fannie Mae refinancing.**
- **Under the Refinancing Plan:** Family A can refinance to a rate of 5.16%. **This would reduce their annual payments by nearly $2,350.**

	Existing Mortgage	**Refinancing**
Balance	$199,584	$203,575
Remaining Years	27	30
Interest Rate	6.50%	5.16%
Monthly Payment	$1,308	$1,113
Savings	***$196 per month, $2,347 per year***	

Family B: Access to Refinancing

- **In 2006:** Family B took a 30-year fixed rate mortgage of $350,000 on a house worth $475,000 at the time. (The family put just over 26% down.) They received a Fannie Mae conforming loan with an interest rate of 6.50%.
- **Today:** Family B has about $337,460 remaining on their mortgage but their home value has fallen to $400,000.
  - Their "loan-to-value" ratio is now 84%, **making them ineligible for a Fannie Mae refinancing.**
- **Under the Refinancing Plan:** Family B can refinance to a rate of 5.16%. ***This would reduce their annual payments by nearly $4,000.***

	Existing Mortgage	**Refinancing**
Balance	$337,460	$344,210
Remaining Years	27	30
Interest Rate	6.50%	5.16%
Monthly Payment	$2,212	$1,882
Savings	***$331 per month, $3,968 per year***	

<u>Family C: Eligible for Homeowner Stability Initiative</u>

- **In 2006**: Family C took out a 30-year subprime mortgage of $220,000, on a house worth $230,000 at the time (they put less than 5% down). Their mortgage broker – Mom & Pop Mortgage – sold their loan to Investment Bank. The interest rate on their mortgage is 7.5%.

- **Today**: Family C has $214,016 remaining on their mortgage but their home value has fallen -18% to $189,000. Also, in November, one parent in Family C was moved from full-time to part-time work, causing a significant negative shock to their income.

    - *<u>Their loan is now 113% the value of their home,</u>* making them "underwater" and unable to sell their house.

    - *Meanwhile, their monthly mortgage payment is $1,538 and their monthly income has fallen to $3,650, meaning <u>the ratio of their monthly mortgage debt to income is 42%.</u>*

- **Under the Homeowner Stability Initiative:** Family C can get a government sponsored modification that – for five years – will reduce their mortgage payment by $406 a month. After those five years, Family C's mortgage payment will adjust upward at a moderate, phased-in level.

	Existing Mortgage	**Loan Modification**
Balance	$213,431	$213,431
Remaining Years	27	27
Interest Rate	7.50%	4.42%
Monthly Payment	$1,538	$1,132
Savings:	***$406 per month, $4,870 per year***	

<u>Homeowner Stability Initiative: How the Program Works for the Lender, Government and Borrower</u>

- First, Investment Bank (working through a mortgage servicer) **<u>reduces the interest rate so that the Family C's monthly debt-to-income ratio drops</u>** from 42% to 38%. This means that Investment Bank must reduce the interest rate from 7.50% to 6.38%, bringing down Family C's monthly payment from <u>$1,538</u> to <u>$1,387</u>.

- Second, the government and Investment Bank **<u>share the cost of further reducing the interest rate</u>** so that the Family C's monthly debt-to-income level is lowered to 31%. Any dollar the bank spends is matched by the government. At this stage, Family C's interest rate is reduced from 6.41% to 4.43%. In total, Family C's monthly payment has fallen from $<u>1,538</u> to <u>$1,132</u>.

- If Family C remains current on their payments, they will receive **<u>incentive payments</u>** up to $1,000 a year, or $5,000 over five years, that would go towards reducing the principal they owe. Additionally, the mortgage servicer can earn an up-front incentive fee of $1,000, plus up to $1,000 per year in "Pay for Success" fees for three years, so long as Family C remains current.