

AMERICA FIGHTS FORECLOSURES

Will Obama's strategy make a dent in the problem?

A day after signing his massive stimulus plan into law, President Barack Obama unveiled a strategy to stem the tide of American foreclosures. Some borrowers and lenders cheered; some housing industry analysts were unimpressed.

When does it take effect? The program officially begins on March 4, 2009 when specific terms of homeowner eligibility becomes available.¹ The strategy has three parts.

Part 1: Helping homeowners without equity. Is your mortgage underwater? Do you have a conventional mortgage arranged after a sizable down payment? Have you made payments consistently? You could be among the 4-5 million Americans eligible to refinance into lower-rate mortgages under this relief plan.²



Part 2: Helping homeowners who can't make their monthly payments. Could you make the payments if they were reduced? Do you have an adjustable rate mortgage (ARM) that has reset? Are your mortgage payments more than 38% of your monthly income? If so, you could be among the 3-4 million Americans eligible for a new loan modification program. It would lower the interest rate on your mortgage for five years or longer.^{2,3}

Part 3: Helping Fannie Mae and Freddie Mac. While \$75 billion of federal funds go toward parts 1 and 2, the greatest chunk of money in the plan - \$200 billion – will be used to buy preferred stock in FNMA and FHLMC.¹ This will encourage mortgage availability and make refinancing easier for homeowners.

How would home loans be modified? If you have a mortgage guaranteed or owned by Freddie Mac or Fannie Mae, the plan will allow you to apply to refinance them. You have to meet the terms of the program (again, full terms become public on March 4, 2009). You have to be able to document your income and show that you live in the home in question. If you meet the terms, your lender could potentially arrange a mortgage with lower interest rates backed by the GSEs.³

If your home loan payments are greater than 38% of your monthly income and you are having a hard time making them, the Obama program gives your lender an incentive to lower the interest rate or reduce the principal amount to bring the payment to 38% of your income. And if the lender does that, the government will pay 50% of the additional cost to that lender to cut your mortgage payment to 31% of your income.³

More help for more people. You needn't face foreclosure to get assistance from this program. You don't even have to be behind on your payments. In fact, if a loan servicer modifies a

mortgage before it defaults, it gets a higher incentive payment (\$1,500 instead of \$1,000). If you are already in foreclosure, your lender has the option of participating in this program ... or not.³

Who does this not help? Speculators and flippers. People who arranged jumbo mortgages or other seemingly insurmountable home loans. In fact, if a mortgage exceeds the limits on so-called conforming loans, that mortgage holder is ineligible for help through this program.³

Homeowners who have successfully and diligently made mortgage payments despite economic pressures may feel a bit of resentment. Audible grumbling has been heard from people who feel the plan is essentially rewarding borrowers who lacked fiscal responsibility in the first place.

Will this work? President Obama thinks so. FDIC chairman Sheila Bair thinks so. “I believe you'll start seeing a real impact in March, with meaningful, long-term sustainable progress,” she told ABC-TV’s “Good Morning America”. On the other hand, Bruce Marks, CEO of the Neighborhood Assistance Corporation of America, believes the plan will have “minimal impact”, noting that “they haven't even agreed to underwriting criteria.”²



Howard Glaser, a former HUD official during the Clinton administration, applauded the plan: “For the last two years, the government has been employing a squirt gun to put out the forest fire in the housing market,” he told National Public Radio’s *Morning Edition*. “The Obama plan is a howitzer aimed at the problem ... it flips the calculation, and in the vast majority of cases will make it a better deal for the investor to modify the loan than seek foreclosure.”⁴

Hopefully, the President’s bold strategy will help heal a root problem of the recession.

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Citations

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