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2009 Homeowner Affordability & Stability Plan

The February 2009 "Homeowner Affordability & Stability Plan" (HASP) attempts to do two things: One, boost home demand by lowering mortgage rates and making conventional loans more accessible. And two, stem the tide of foreclosures that continues to dump vacant homes on the market. Here is a summary of how the plan affects various homeowners:

1) Homebuyers – Owner Occupied Only:

A) Tax Credit:

According to the plan, most (not all) first-time homebuyers who purchase homes from the start of 2009 until the end of November 2009 will receive a tax credit based on the lesser of $8,000 or 10% of the value of the home. A first-time homebuyer has traditionally been defined as someone who has not owned a home in the last 3 years – and we expect this definition to remain unchanged.

The $8,000 tax credit starts "phasing out" for couples with incomes above $150,000 (down to $0 tax credit with an income above $170,000) and for singles with incomes above $75,000 (down to $0 tax credit with an income above $95,000). Buyers will have to repay the credit if they sell home within three years.

It's important to remember that the $8,000 tax credit is just that... a "tax credit" and not a "tax deduction". The benefit of a tax credit is that it is applied after your taxes are calculated – then, the tax credit is a dollar-for-dollar reduction of taxes owed. So, if you were to owe $8,000 in income taxes, the $8,000 tax credit would bring your taxes down to $0. A deduction, by contrast, only reduces your taxable income.

Better still, the tax credit is refundable, which means you can receive a check for the credit even if you have little income tax liability. For example, if you're liable for $4,000 in income tax, you can offset that $4,000 with half of the tax credit... and still receive a check for the remaining $4,000!

The tax credit is applicable to any home that will be used as a principal residence. Based on that guideline, qualifying "homes" include single-family detached homes, attached homes such as townhouses and condominiums, and manufactured homes.

B) Reduced Interest Rates:

Current interest rates for conforming loans are low only because the Federal Reserve agreed to buy $500 billion of Fannie Mae/Freddie Mac mortgage backed securities. This is an artificial situation and cannot continue. The current $500 billion will run out in May 2009. The Fed will probably agree to purchase more mortgage backed securities at that time. This situation should continue thru 2009. But note, this situation could end abruptly causing interest rates to increase.

C) Increase In Conforming and FHA Loan Amounts:

The conforming loan limit is $417,000; however, we now have a new tier called "High Balance Conforming" which applies to certain "High Cost Areas" based on average median home prices. These loans have rates that are slightly higher than conforming loan rates, but less expensive than the standard "Jumbo" loan rates. The High Balance Conforming limit for Deschutes County is $447,500. The new limit for FHA in Deschutes County is also $447,500.

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2) Struggling Homeowners

A) Loan Modification To Payment via "Home Affordable Modification Program":

A program to help lower monthly payments for homeowners at risk of losing their homes. To accomplish this, both lenders and homeowners will receive the following incentives to keep the homeowners in their homes and making payments. Applies to mortgages originated on or before January 1, 2009 thru December 31, 2012:

Incentive #1 For Lenders: First, the lender would be responsible for bringing down the interest rate (to as low as 2.0%) so the monthly mortgage payment is no more than 38 percent of homeowner's income. Next, the government would match further reductions in interest payments dollar-for-dollar with the lender to bring that ratio down to 31 percent. That lower interest rate must be kept in place for five years, after which it could gradually be stepped up to the conforming loan rate in place at the time of the modification. Lenders will also be able to bring down monthly payments by reducing the principal owed on the mortgage, with Treasury sharing in the costs, but will they? This is a HUGE question.

Incentive #2 For Lenders: Servicers will receive an up-front fee of $1,000 for each eligible modification meeting guidelines established under this program. They will also receive "pay for success" fees – awarded monthly as long as the borrower stays current on the loan – of up to $1,000 each year for three years.

Incentive #3 For Lenders: To keep lenders focused on reaching homeowners who are trying their best to stay current on their mortgages, an incentive payment of $500 will be paid to servicers, and an additional incentive payment of $1,500 will be paid to mortgage holders, if they modify at-risk loans before the homeowner falls behind.

Incentive # 4 For Lenders: A partial government guarantee designed to discourage lenders from opting to foreclose due to fear that the home value will fall even further in the future. Holders of mortgages modified under the program would be provided with an additional insurance payment on each modified loan, linked to declines in the home price index.

This could be a very important change. Mortgage holders have often chosen to foreclose rather than modify a loan if the homeowner appeared as if they could not even afford the modified loan.

Incentives For Homeowners: As long as the homeowner stays current on the modified loan, the homeowner receives up to $1,000 each year for five years – applied to the principal balance of the loan.

Consistent Guidelines For Loan Modifications: The Treasury will develop uniform guidance for loan modifications across the mortgage industry. All financial institutions receiving Financial Stability Plan financial assistance going forward will be required to implement loan modification plans consistent with Treasury Guidance. In addition, all agencies will follow the same loan modification guidelines, including: FNMA, FHLMC, FHA, VA, Ginnie Mae, Treasury, the Federal Reserve, the FDIC, and Department of Agriculture.

B) Loan Modification To Principal Balance

This is the type of loan modification (called a "write down") has been avoided so far, and will probably continue to avoided by lenders unless the Government participates in the cost of the write down. That is being discussed. This is the single most powerful tool to keep struggling homeowners in their homes – but it is very costly.

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NOTE: Loans modified under the "Home Affordable Modification Program" can only be modified once. All homeowners applying under this program will have to document "hardship".

C) Modification to Bankruptcy Laws

The Obama administration is attempting to restructure the U.S. Bankruptcy laws to allow the courts to decrease the principal balance of home loans on primary residences (called a "cram down") to "fair market value" as long as the borrowers pay their debts under a court ordered plan. However, there is a strong lobby opposing this change to the bankruptcy laws.

D) Short Sales

Compensation will be provided to servicers and borrowers in order to facilitate short sales or deeds-in-lieu in those cases in which borrowers either fail to qualify for a loan modification.

3) Non-Struggling Homeowners:

A) Interest Rates

Same as above.

B) Increase In Conforming Loan Amounts:

Same as above.

C) Reduced Equity Refinances:

New refinancing guidelines for homeowners with less than 20% equity in their homes, or who owe more than their home is worth – limited to 105% LTV. This will be available only to homeowners who have conforming loans which are currently guaranteed by Fannie Mae and Freddie Mac.

About 25% of conventional mortgages, or about 5 million, have ratios between 80% and 105%. This feature should set off a refi boom, acting like a tax cut for those who can take advantage.

NOTE: The charters of FNMA & FHLMC require that loans purchased with an LTV over 80% must carry mortgage insurance. The MI companies are not going to insure these refi's. So, the charters will have to be amended. Investors owning FNMA & FHLMC may fight this. Additionally, we are uncertain how second mortgages are treated in these situations.

4) Investment Properties:

Since the focus of the housing stimulus is on helping families and neighborhoods, investment properties do not qualify.

5) Jumbo Mortgages:

Now that the Government has control of Fannie Mae and Freddie Mac they are using these agencies to assist in stimulating the housing market. The Government has no involvement in the Jumbo mortgage market. Therefore, we do not see any assistance for the Jumbo mortgage market and the holders of Jumbo mortgages – other than the increases in the conforming loan limit mentioned above. Sorry, it is gong to stay difficult for homeowners with Jumbo mortgages.

6) Additional Housing-Related Provisions

A) Tax Incentives to Spur Energy Savings and Green Jobs

This provision is designed to help promote energy-efficient investments in homes by extending and

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expanding tax credits through 2010 for purchases such as new furnaces, energy-efficient windows and doors, or insulation.

B) Landmark Energy Savings
This provision provides $5 Billion for energy efficient improvements for more than one million modest-income homes through weatherization. According to some estimates, this can help modest-income families save an average of $350 a year on heating and air conditioning bills.

C) Repairing Public Housing and Making Key Energy Efficiency Retrofits To HUD-Assisted Housing
This provision provides a total of $6.3 billion for increasing energy efficiency in federally supported housing programs. Specifically, it establishes a new program to upgrade HUD-sponsored low-income housing (for elderly, disabled, and Section 8) to increase energy efficiency, including new insulation, windows, and frames.

D) Expanding Housing Assistance
This provision increases support for several critical housing programs. It includes $2 Billion for the Neighborhood Stabilization Program to help communities purchase and rehabilitate foreclosed, vacant properties.

COMPILED BY

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