Highlights of the New Housing Plan

Hope for Stopping the Foreclosure Epidemic

CRL Issue Brief

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On February 18, 2009, the President announced a new, comprehensive plan for addressing the housing crisis. The plan, which called for more funding than anticipated, includes a range of incentives that will encourage lenders to modify loans. Highlights:

- The plan commits $75 billion to help 7 to 9 million families restructure or refinance their mortgages to avoid foreclosure.
- Encourages lenders to modify at-risk loans <u>before</u> the at-risk homeowners are delinquent.
- Requires lenders who receive TARP funds to follow Treasury Guidance on loan modification plans. Fannie, Freddie, and government agencies will also apply these guidelines where appropriate/permissible.
- Reaffirms the Administration's support for a change in existing bankruptcy law to allow homeowners facing foreclosure to seek loan modifications through the courts. This part of the plan recognizes bankruptcy is the best option for some borrowers who need "cramdown" to modify their principal, and that the change in law would provide a much stronger incentive for loan servicers to offer loan modifications *outside* of court.
- Reiterates commitment to other issues such as oversight and reporting, renters assistance and neighborhood stabilization funds (at stimulus package levels), and improving ability of FHA programs to modify or refinance at-risk borrowers.
- Recognizes Fannie Mae's and Freddie Mac's roles as a tool for encouraging refinances and modifications by providing additional support to them and permitting increased portfolio limits for illiquid modified loans.

The plan recognizes that stopping foreclosures is essential to stabilizing the economy.

Additional Notes

* <u>Stability</u>. The plan emphasizes that it will help to stabilize property values for everyone, delinquent/at-risk/or neighboring foreclosures. It rightly recognizes that stopping foreclosures is essential to stabilizing the economy.

* <u>Shared Effort to Reduce Monthly Payments</u>. The largest part of the plan encourages lenders to reduce distressed homeowners' interest rate to make the monthly payment no more than 38% of income. The government will match additional reductions in the rate to bring the ratio down to 31%. Treasury will help share in the costs of principal reductions if that option is chosen rather than interest rate reduction.

* <u>"Pay for Success" Incentives</u>. Other incentives include paying servicers for successful modifications; $1000 directly to a homeowner to reduce principal for every year they stay current on their loan (up to 5 years); incentives to modify loans before the homeowner is

delinquent; and a fund that will guarantee loan modifications in case housing prices continue to decline.

* Reserves in Case of Home Price Declines. Another aspect of the program would provide a partial government guarantee of loans if servicers substantially modify mortgages to be affordable in line with Treasury guidelines. To encourage lenders to modify more mortgages and enable more families to keep their homes, the Administration—together with the FDIC—has developed an innovative partial guarantee initiative. The insurance fund—to be created by the Treasury Department at a size of up to $10 billion—will be designed to discourage lenders from opting to foreclose on mortgages that could be viable now out of fear that home prices will fall even further later on. 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.

Actions Congress Should Take to Address the Foreclosure Crisis

Congress should:

* Allow qualified homeowners to have their mortgages restructured under court supervision.
* Reduce tax burdens stemming from loan modifications that undermine their sustainability.
* Address provisions in pooling and servicing agreements that restrict economically rational loan modifications.
* Update provisions governing FHA insurance to 1) allow FHA guarantees to cover losses stemming from judicial loan modifications and 2) address existing disincentives for servicers to modify FHA loans.
* Increase incentives for lenders and borrowers to participate in the Hope for Homeowners refinancing program.

For more details, see the Administration's fact sheet at: www.treas.gov/initiatives/eesa/homeowner-affordability-plan/FactSheet.pdf. At CRL, contact Kathleen Day at (202) 349-1871 or Ginna Green at (510) 379-5513.

About the Center for Responsible Lending

The Center for Responsible Lending is dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is a national nonprofit, nonpartisan research and policy organization that promotes responsible lending practices and access to fair terms of credit for low-wealth families.

For additional information, please visit our website at **www.responsiblelending.org**