



New Programs Helping Today's Homeowners

On March 4, 2009 the Obama Administration released guidelines for a new program called Making Home Affordable which seeks to offer FREE assistance to as many as 7 to 9 million homeowners to prevent foreclosures and lessen the impact of foreclosures on local communities and the national economy.

HOMEOWNER ALERT! Homeowners are being actively solicited by individuals and companies offering to obtain benefits for homeowners under the new programs *for a fee*. You do not need to pay anyone to take advantage of the new Obama Administration Making Home Affordable program. Instructions on how to access the program are included below.

The program has two components. The first is called "Home Affordable Refinance" which the U.S. Treasury Department estimates will offer FREE affordable home loan refinance opportunities to 4 to 5 million eligible homeowners. The second program is called "Home Affordable Modification" which the Treasury Department estimates will help 3 to 4 million at-risk homeowners obtain affordable loan modifications for NO FEE and avoid foreclosure.

Both programs became effective immediately, on March 4, 2009, when the details of the programs were released.

Using information adapted from the U.S. Treasury Department announcements, Consumers Union has prepared the following FAQ to help consumers take advantage of these new programs. Consumers concerned about being able to make their mortgage payments should contact their loan servicer, or lender, (if the lender also services the mortgage), as soon as possible to determine their eligibility and to determine if their loan servicer or lender is participating in the program.

Home Affordable Refinance Program

What is it?

This is a FREE mortgage loan refinance program available to eligible borrowers.

Who is eligible?

Borrowers who have a solid payment history on an existing mortgage owned or guaranteed by Fannie Mae or Freddie Mac, who previous to this program, were unable to refinance their loan because their homes lost value. Eligible borrowers must have first lien loans that are greater than 80% of their home's value, but no greater than 105% of their home's value.

How can I tell if my loan is owned by Fannie Mae or Freddie Mac?

Call your loan servicer and ask, "Does Fannie Mae or Freddie Mac own my mortgage?" Alternatively, contact Fannie Mae directly at 1-800-7FANNIE or at www.fanniemae.com/homeaffordable, or Freddie Mac directly at 1-800-FREDDIE or www.freddiemac.com/avoidforeclosure.

How do I apply for a Home Affordable refinance?

Use the online self-assessment tools provided at either www.makinghomeaffordable.gov or http://www.financialstability.gov/makinghomeaffordable/modification_eligibility.html to determine your eligibility. These are the official government websites established to give consumers more information about

the programs. If you are eligible, you will be instructed to contact your lender or loan servicer. Or you may contact your lender or loan servicer immediately to determine your eligibility and get the process started if you are.

Is the process complicated?

The Department of Treasury says Fannie Mae and Freddie Mac lenders and servicers already have much of the borrower's information on file which should ease the documentation red tape. In some cases an appraisal will not be necessary.

How long does the Home Affordable Refinance Program last?

This program ends in June 2010.

Home Affordable Modification Program

What is it?

This is a new \$75 Billion home loan modification program that is estimated to help 3 to 4 million homeowners avoid foreclosure by lowering monthly mortgage payments to an affordable amount. **This program is FREE to borrowers.** There are no modification fees or charges borne by the borrower. **Beware of anyone who offers to charge you a fee to get you a loan modification under this new program!!**

Under this program the affordability target is 31% of the borrower's debt to income ratio. The program pays out financial incentives to servicers who successfully modify mortgages to achieve a 38% debt to income ratio then pays additional incentives to servicers to lower the debt to income ratio to 31%. There are also additional payments to servicers and lenders for modifications that are successful in the future. There are also payment incentives given to borrowers who pay their modified mortgages on time.

When does the program become effective?

Servicers can begin immediately to modify eligible mortgages and can continue to do so until December 31, 2012.

Servicers who choose to participate in the program must enter into program agreements with the Department of the Treasury's financial agent on or before December 31, 2009.

How do I apply for a Home Affordable modification?

Most of the large loan servicing companies are participating in the Home Affordable Modification program. Contact your lender or loan servicer immediately to determine if you are eligible and to get the process started if you are. Or use the self-assessment tools provided at either www.makinghomeaffordable.gov, or http://www.financialstability.gov/makinghomeaffordable/modification_eligibility.html. These are the official government websites established to give consumers more information about the programs. If you are eligible, you will be instructed to contact your lender or servicer.

Are all lenders/servicers required to participate in this program?

No. Only financial institutions receiving Financial Stability Plan Assistance from the date of the announcement of this program (March 4, 2009) are required to participate in the program. However, the Department of the Treasury is encouraging all lenders to participate in the program through generous monetary incentives for modifying mortgages according to the program guidelines. Most large loan servicing companies are participating.

How many times can a loan be modified under the program?

Only once.

What are the eligibility requirements for the Home Affordable Modification Program?

- Loans must be originated on or before January 1, 2009.
- Loans must be first-lien loans on an owner occupied properties with an unpaid principal balance of \$729,750 or less for a single family home. Higher unpaid principal balances are allowed for owner-occupied properties: 2 Units--\$934,200; 3 Units \$1,129,250; 4 Units \$1,403,400.
- Borrower DOES NOT have to be delinquent to take advantage of this program.
- Borrowers must fully document income, including a signed IRS 4506-T, two most recent pay stubs, most recent tax return, and a signed affidavit of financial hardship.
- Property owner's occupancy status will be verified through credit report and other documentation
- Property must not be investor owned, vacant, or condemned.
- The servicer handling the loan must first enter into a program agreement with the Treasury's financial agent on or before December 31, 2009.
- There is no minimum or maximum loan to value (LTV) ratio for eligibility purposes.

What is the Trial Period?

The program contains a 90 day **trial period** that is defined as "90 days or longer if necessary to comply with investor contractual obligations." During the trial period, borrowers will be making new payments according to the terms of their modified loan. Any foreclosure action will be temporarily suspended during the trial period, or while borrowers are considered for alternative foreclosure prevention options. However, if all options fail, a foreclosure action may be resumed.

How is an "affordable modification" determined?

Servicers will follow a specified sequence of steps in order to reduce the monthly payment to no more than 31% of the borrower's gross monthly income. The servicer proceeds down the list of steps until the 31% level is reached. The number of steps needed will vary based upon the borrower's individual circumstances and the loan characteristics. The steps are:

- Reduce the interest rate (to a floor of 2%)
- Extend the length of the amortization of the loan up to 40 years
- Forebearing principal (moving a portion of the principal amount due to the back of the loan)

Principal forgiveness or a Hope for Homeowners refinancing are acceptable alternatives but are not required.

What is included in the term, "monthly payment?"

The monthly payment includes principal and interest, taxes, insurance, flood insurance and homeowners association and/or condominium fees.

How is "monthly income" determined?

Monthly income includes wages, salary, overtime, fees, commissions, tips, social security, pensions and all other income.

Who can receive an incentive payment or compensation?

Borrowers:

- Eligible for a reduction of principal balance up to \$1000 per year for five years as long as the borrower is current on the modified loan payments. This payment will be sent by the program to the servicer who will reduce the balance by the payment amount.

Lenders/investors:

- The program shares in the cost of reduction of monthly mortgage payments from 38% Debt to income (DTI) to 31% DTI
- One time bonus incentive of \$1,500 when a successful modification is made for a borrower while a borrower is still current on mortgage payments.

Servicers:

- \$1,000 up front fee for each modification made according to the program guidelines.
- Pay for Success fees on still performing loans of \$1,000 per year for three years.
- \$500 one-time bonus for modifications made for a borrower who is still current on mortgage payments.
- Incentives for extinguishing second liens: Servicers will be reimbursed for the release according to a specified schedule and also receive an extra \$250 for obtaining a release of a valid second lien.

These borrower/lender/servicer incentives are also available for modifications of FHA, VA, or Agriculture Department loans, or refinance loans under the Hope for Homeowners or similar FHA programs.

When will payments be made under the program?

There are two pre-requisites before **any** payments made under the program:

- Successful completion of the trial modification period.
- Entry into program agreements between the servicer and Treasury's financial agent.

Is financial counseling mandatory under the program?

For borrowers whose total debt to income ratio is 55% or higher, the servicer must tell the borrower about the availability of HUD approved counseling agency services and give the borrower a letter stating that counseling is a requirement of the modification terms. The modification will not take effect until the borrower represents in writing that he or she will obtain counseling.

How will the public know if lenders and servicers are doing what they should under the program rules?

Servicers will be required to collect and transmit borrower and property data to ensure compliance with the program as well as to measure its effectiveness. Detailed guidance on data requirements will be released separately.

Learn More:

Official U.S. Government Making Home Affordable Program web pages with links to self-assessment tools to determine eligibility <http://www.makinghomeaffordable.gov> or <http://www.financialstability.gov/makinghomeaffordable/>

Para información en español vaya a: <http://www.makinghomeaffordable.gov/spanish/index.html>

Department of Treasury Summary of the program details:

http://www.treasury.gov/press/releases/reports/guidelines_summary.pdf

Complete Making Home Affordable program guidelines:

http://www.treasury.gov/press/releases/reports/modification_program_guidelines.pdf

Five tips for avoiding foreclosure scams—published by the Federal Reserve:

<http://www.federalreserve.gov/pubs/foreclosurescamtips/default.htm>

Consumers Union guide—What to do if you are having mortgage difficulties:

http://www.defendyourdollars.org/2009/02/what_to_do_if_you_are_having_m.html

Last updated: March 20, 2009 To confirm that you have the most current version of this document, go to: <http://www.consumersunion.org/pdf/new-homeowners-help.pdf>