THE WHITE HOUSE
Washington

February 18, 2009

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***	

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<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.