

## **Answers to questions about new federal mortgage relief**

### **Information from San Jose Mercury News Article – 3/27/10**

For troubled homeowners across the country, one question loomed large Friday as the Obama administration announced new provisions to the Making Home Affordable program.

Will it help me?

Many details of the effort are still to come. But federal officials said they are targeting three groups: unemployed homeowners who can't make their mortgage payments, "underwater" homeowners who owe more on their loans than their homes are worth, and homeowners behind on their payments and seeking loan modifications.

Here are answers to some questions about how it will work.

Q What help will be available to unemployed homeowners?

A They may qualify for three to six months of reduced payments while they search for work. Payments will be reduced to 31 percent of the gross monthly income they have during unemployment. To qualify, borrowers must be living in their homes, have loans of less than \$729,750, prove that they are receiving unemployment benefits, and ask for assistance during the first 90 days after they fall behind on their payments.

Q What happens to unemployed homeowners who don't find new jobs in that period, or find jobs that pay them less than before?

A They may be considered for short sales — in which the lender approves the sale of a property for less than what's owed on the mortgage — or a deed-in-lieu of foreclosure — in which the homeowner signs over the property to the lender. Those who find work but whose mortgage payments are more than 31 percent of their new income will be considered for permanent loan modifications under the Home Affordable Modification Program.

Q What about homeowners who are underwater?

A A new Federal Housing Administration refinance option will allow those who are current on their mortgage payments to refinance their mortgages into new FHA-insured loans equal to no more than 115 percent of the home's current value. So if your current mortgage is for \$600,000, but your home is now worth \$400,000, the maximum loan debt after the refinance would be \$460,000. The difference between the old loan balance and the new balance would gradually be forgiven if you stay current on payments for three years.

Q What about those who are underwater but behind on their mortgage payments?

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A They may be able to get the mortgage principal reduced. Lenders have always had the option to do this, but under the new guidelines, principal reduction will be "at the top of the waterfall" in more cases, said Paul Leonard of the Center for Responsible Lending in Oakland.

Q Can a homeowner get a loan modification while in bankruptcy?

A Yes.

Q When will these new programs go into effect?

A A measure to offer bigger incentives to lenders who facilitate short sales or deeds-in-lieu of foreclosure will be in place within weeks. Temporary assistance for jobless homeowners will be offered "within the next few months," the government said. The other programs won't be available until the fall.

Q The principal-reduction provisions are voluntary for lenders and servicers. Why should we expect them to reduce principal amounts when they have refused to do that in the past year?

A They will be paid more by the federal government than in the past to reduce principal amounts. Incentives range from 10 percent to 21 percent of the loan principal that lenders write down.

Q Who pays for that?

A The cost will be borne jointly by the private sector and the federal government, through a \$50 billion allocation from the Troubled Asset Relief Program.

Q Can lenders foreclose on homeowners while the homeowner is still being considered for a loan modification?

A The federal government has sent "guidance" to lenders requiring that they communicate better with borrowers and declare a borrower ineligible for a loan modification before proceeding with foreclosure.

Q Will the program changes end the wave of foreclosures?

A They won't eliminate all foreclosures because not all homeowners will qualify for assistance, and not all lenders will jump on board to offer principal reductions. But the administration said its goal was to prevent more than 3 million homeowners from falling into foreclosure between now and 2012.