

RELIEF ON THE WAY?

Within three months of taking office, President Barak Obama announced his three-tiered housing plan. One aspect of the plan works to assist those individuals who are currently living in homes where the value of their mortgages is greater than that of their homes. This piece will help homeowners who are currently paying high interest rates on their loans because they are unable to refinance their current mortgages. These are all homeowners who are still paying off their mortgages, but could potentially be at risk of losing their homes as housing values continue to fall.

The second aspect of his program directly assists those homeowners who are currently facing the loss of their homes. It provides incentives to the banks to decrease monthly payments for borrowers to levels where they can continue to pay off their loans. The current plan lays out a scheme that would provide government assistance to the bank to decrease a borrower's monthly payments only after the bank has decreased payments to equal 38 percent of the owner's gross monthly income. Ideally, the mortgage holder would determine that the costs of foreclosure are greater than the costs of rewriting the mortgage and this would assist in keeping families in their homes.

Finally, President Obama's plan includes \$200 billion of funding for Fannie Mae and Freddie Mac as an attempt to help provide additional funds for loans to be originated in the months to come.

The program has some strong aspects as well as a few faults. The program is specifically written to assist those owners who live in their homes, not people who have purchased multiple properties with the hopes of reselling them for profit. These owner-occupied

PRESIDENT OBAMA'S
HOUSING PLAN

SIDEBAR TO
MORTGAGE ARTICLE

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properties are the ones that deserve assistance, since foreclosure on these homes will result in a greater number of families without residence.

In addition, the program takes into account the need to work with servicers and the fact that mortgages have been sold to the secondary market. This has been one of the largest challenges facing homeowners today, since they cannot determine the true holder of their mortgage to renegotiate the terms of the mortgage. President Obama's plan allows the servicer the right to rewrite the mortgage without the threat of being sued by their investors.

In terms of faults in this program, there are two main problems. The first is that the plan does not deal with second mortgages. Given that the majority of the properties in foreclosure had second mortgages, the exclusion of this aspect seems important to note. Even if the first mortgages are restructured to allow the borrower to continue his/her payments, it is possible that the second mortgage will have monthly payments that are still too high for the borrower.

In addition, this plan does not consider what will happen when the house values begin to rise. If a bank restructures

a borrower's mortgage to keep the family in their home and in doing so is willing to decrease the principal on the loan and then the house value increases, the borrower will currently receive the added value to the home. However, if a bank has decreased the principal, it can be argued that the bank deserves some piece of the increased value of the home. This will become an issue in the coming years when property values rise and homeowners who received restructured loans as a result of this plan begin to sell their properties.

The complexities involved in the current foreclosure crisis make it nearly impossible to structure a plan that effectively addresses every aspect of the problem. The Obama Administration has provided a basic structure to begin to assist distressed homeowners. It is not perfect, but it is a strong start.