

Will The President's New Housing Plan Reduce Your Monthly Mortgage Payment or Help You Refinance Your Mortgage?

Maybe!



This past Wednesday, President Obama announced what his Administration has called the "Homeowner Affordability and Stability Plan" whose main goals are to help certain homeowners refinance their loans and those who don't qualify to reduce their monthly mortgage payments.

The Plan consists of two parts:

- Part 1) Assistance with mortgage refinancing.
- Part 2) Assistance with the reduction of the monthly mortgage payments to those who cannot refinance.

Let's see if you qualify for one of these parts of the Plan.

Part 1 Assistance With Mortgage Refinancing

What are the requirements to be able to refinance?

- 1) Only "conforming" mortgage loans owned or guaranteed by Fannie Mae and Freddie Mac. These so-called "conforming" loans are typically first mortgage loans on residential real estate occupied by the owner(s), where the amount of the loan at closing was no more than 80 percent of the property's market value at that time.
- 2) The property must be your principal residence but may be up to a four family property, as long as you live in one of the units as your principal residence.
- 3) The first mortgage that you already have cannot exceed the current market value of the property by more than 105% (including any refinancing costs). For instance, if the property is now worth \$300,000, but the balance owed on the existing first mortgage is \$315,000 or less, you qualify. However, if the property is now worth \$300,000, but the balance owed on the existing first mortgage is more than \$315,000, you do not qualify to refinance under the Plan.
- 4) The amount of the new mortgage is generally limited to \$417,000. Therefore,

if you owe more than that amount, you do not qualify to refinance under the Plan. There are a few exceptions.

- 5) You have to demonstrate that your income is sufficient to cover the new monthly payment and you must have an acceptable mortgage payment history.
- 6) If you also have a second mortgage, only the first mortgage will qualify for refinancing. In other words, you will not be able to refinance both mortgages into a new first mortgage to take advantage of the lower interest rate. Instead, you will have to get your second lender to agree to remain in second position. However, we do not anticipate that this will be a problem, based on our experience in recent cases in which we have assisted homeowners in refinancing their first mortgages - even without this new Plan in effect. The reason is actually rather simple, the second lender remains in no worse financial position than before the refinancing.

The exact eligibility details (including what is an "acceptable mortgage payment history") will not be known until they are announced - according to the President - on *March 4, 2009*.

Several reports that we have studied makes us think that the property owner can anticipate also having an "escrow" for real estate taxes and insurance listed as an additional requirement. This is not insignificant, considering the high cost of homeowners insurance and real estate taxes here in Florida, which have required many struggling homeowners to put these items on credit cards or delay paying the taxes altogether because of their inability to save or to set aside the monthly amount necessary to make these payments.

It's also important to understand that there will not be any principal reduction in your existing first mortgage. All that is happening under the Plan is that Fannie Mae and Freddie Mac are being required to ignore their normal rules so as to allow you to refinance your first mortgage into a lower interest rate, even though the balance due is more than the 80 percent maximum that they allow.

We also anticipate that only citizens and resident aliens will qualify under the Plan. However, as previously stated, the exact eligibility details will not be known until *March 4, 2009*.

If you qualify for refinancing under the Plan, this is actually a very good deal because conforming mortgage loan rates are hovering around 5 percent these days - that's for a 30-year fixed. What's more, we handled the closing for a client in the last few weeks, who was able to refinance her variable interest rate mortgage into a 15-year fixed at less than 5 percent!

Part 2

Assistance With The Reduction Of Monthly Mortgage Payments

Well, let's suppose that, unfortunately, you do not qualify to refinance, since the balance that you owe on the first mortgage on your principal residence is superior to the limit previously described, or for other reasons. In that case, let's see if you could qualify for a reduction in your monthly mortgage payments.

This second part of the President's Plan consists of a 75 billion dollar contribution by the government to prevent foreclosures by temporarily lowering the monthly mortgage payments for those families that do not qualify for the refinancing listed above. Typically,

they are those folks who purchased with 100 percent financing (or close to it) in the last several years, or whose home values have declined so severely that they owe more than 105 percent of the present value of their homes.

This part of the Plan focuses on helping those families who are at risk of imminent default despite being current on their mortgage payments.

What Are the Requirements to Modify Your Loan in Order to Reduce Your Monthly Mortgage Payments?

- 1) You do not have to be delinquent in your mortgage payments but it is not important if you are.
- 2) The property must be your principal residence (it cannot be investment property).
- 3) Your present monthly mortgage payment constitutes more than 31% of your gross income.
- 4) You do not owe more than \$417,000 on your first mortgage.
- 5) If you have more than one mortgage on your principal residence (for example, a second mortgage or an equity line of credit (HELOC), only the first mortgage qualifies for the modification.

How Does This Part Of The Plan Reduce Monthly Payments?

First, the lender reduces the interest rate on your mortgage to a level that results in your monthly mortgage payment being no greater than 38% of your gross income. Next, the government will contribute an additional monthly sum to the bank in order to further reduce your monthly mortgage payment to a sum equivalent to no more than 31% of your gross income. Lastly, you can receive an additional monthly payment reduction of up to \$1,000 each year for five years, for as long as you stay current on the new mortgage payments. In other words: $\$1,000 / 12 \text{ months} = \83.33 , per month of additional mortgage payment reductions!

Since **this is a voluntary program**, the Plan calls for certain incentives for all parties involved. For instance, loan servicing companies will receive a fee of \$1,000 up-front for each eligible modification made under this Plan. They will also receive additional monthly payments of up to an additional \$1,000 per year for up to three years, for as long as the borrower stays current on the loan.

The lender will also receive an incentive payment of \$1,500 and the servicer another \$500 for any modifications made for those borrowers who are still current at the time of the modification.

These lower payments are kept in place for five years, after which the lender can gradually increase the interest rate up to the conforming loan rate that was in effect at the time of the modification. For example, at present, the interest rate on these types of loans is around 5%. Therefore, if the bank lowered your interest rate to - let's say - 3.75% in the modification, the bank can increase the loan's interest rate to 5% after 5 years.

Not everyone will qualify for this Plan. For instance, if the lender determines that the expected cost of a loan modification - even after considering the expected government

payments - is going to be higher than the cost of foreclosing on the loan and selling the property, that borrower will not be eligible.

In addition, the Plan will not allow lenders to modify the interest rate on the mortgage loans below a 2 percent level.

The two parts of the Plan: Refinancing of certain loans and reduction of monthly payments for those that do not qualify for refinancing, will undoubtedly help some homeowners. However, we believe that its effect here in South Florida will not be as significant as in other parts of the country because of the severe decline in real estate values here.

Indeed, according to Zillow.com - an online provider of real estate data - last year almost one in six owners nationwide owed more than their homes were worth and 28 percent of homeowners in Miami-Dade and Broward counties were upside down in their mortgages by the end of 2008 because of the significant drop in real estate values - as much as 43 percent in those counties.

We also believe that the loan modification part of the Plan would be more effective in helping Florida homeowners if it were mandatory and included principal reductions. Otherwise, the reality is that many homeowners in this state will simply allow their properties to go into foreclosure, as it makes little sense to them to continue making payments on a mortgage balance that is so much higher than the home's market value that it will take many years to catch up to the original purchase price. The result will be a continued erosion of real estate values in Florida.

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