

# U.S. Structured Finance Newsletter

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## HOMEOWNER AFFORDABILITY AND STABILITY PLAN

On February 18, 2009, the administration of U.S. President Barack Obama released details of the Homeowner Affordability and Stability Plan,<sup>1</sup> which has three main components:

- (1) Improve access to refinancing for homeowners who are still current on their payments but are unable to refinance because they do not have enough equity in their homes.
- (2) Restructure mortgages that are at risk of default by providing incentives to lenders who alter the terms of the loans to make them affordable for troubled borrowers.
- (3) Support low mortgage rates and increase the credit available for mortgages by giving \$200 billion of additional financial backing to Fannie Mae and Freddie Mac.

Although the final details of the plan are not expected to be released before March 4, 2009, listed below are some of the highlights.

### Refinancing

This portion of the plan allows for the refinancing of Fannie Mae and Freddie Mac borrowers into a lower rate mortgage. Under the proposal, conforming owner-occupied homes that have a current loan-to-value (LTV) greater than 80% are eligible to refinance without obtaining mortgage insurance as long as the current LTV does not exceed 105%.

### Modifications

This part of the plan is restricted to conforming loans for owner-occupied households at risk of imminent default despite being current on their mortgage payments. It aims to stem foreclosures and increase loan modifications by providing incentives to servicers, lenders and borrowers. The plan gives an upfront fee of \$1,000 to any servicer doing a loan modification and payments of \$1,000 per year for three years if the borrower stays current on the loan. Furthermore, the plan provides a backstop against losses on modified loans in the event of further home price declines. Additionally, there is an incentive payment of \$1,500 to the mortgage holder and \$500 to the servicer for the modification of at-risk borrowers who are current. Borrowers can get a principal reduction of \$1,000 per year for five years for remaining current on the modified loan. In order to qualify for the incentives, lenders are required to modify the rate on a mortgage loan so that it is no more than 38% of a borrower's income. The government has indicated that it will split the cost of lowering the interest payments from a 38% debt-to-income (DTI) to 31% DTI to make the loans even more affordable.

### Increased Financial Backing of Fannie Mae and Freddie Mac

To ensure that Fannie Mae and Freddie Mac can continue to provide assistance in addressing problems in the housing market, the U.S. Treasury will increase its Senior Preferred Stock Purchase Agreement to \$200 billion for both Fannie Mae and Freddie Mac from the original level of \$100 billion each. Furthermore, the maximum value of their retained portfolios has been increased \$50 billion to \$900 billion.

As President Obama announced the Homeowner Affordability and Stability Plan, which is designed to "help up to seven million to nine million families restructure or refinance their mortgages to avoid foreclosure," many in the non-conforming loan space said, "What about us?" While the plan's measures are positive, the limits on loan amounts will likely help very few mortgages that have been securitized in the secondary market. As a result, DBRS will continue to monitor the industry for the implementation of government initiatives that serve all borrowers, not only those who have conforming loan balances.

For questions or comments, please contact Kathleen Tillwitz at [ktillwitz@dbrs.com](mailto:ktillwitz@dbrs.com).

1. [www.treas.gov/initiatives/eesa/homeowner-affordability-plan/ExecutiveSummary.pdf](http://www.treas.gov/initiatives/eesa/homeowner-affordability-plan/ExecutiveSummary.pdf).