

Mortgage lifeline is thrown to homeowners

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Federal program set up to prevent foreclosures

By Alan Zibel
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WASHINGTON — The US government kicked off a program Wednesday that aims to prevent foreclosures by letting an estimated 400,000 troubled US homeowners swap their mortgages for more affordable loans.

Lenders, rather than borrowers, will decide whether to participate in the program, which requires them to take a loss on the initial loan. The \$US300 billion (\$380 billion), three-year program is designed to help borrowers who owe more on their loans than their homes are worth.

To qualify, borrowers must be spending more than 31% of their income on mortgage payments. Loans made this year are excluded, except for those completed on January 1. Borrowers must have made six months of payments on their loans.

"For homeowners in trouble, this may be the help that they need," Housing and Urban Development Secretary Steve Preston said Wednesday.

Officials did not have an updated estimate of how many homeowners were likely to qualify, beyond the Congressional Budget Office's projection from earlier this year that 400,000 borrowers would participate.

The program, dubbed 'Hope for Homeowners,' was passed by Congress this summer as part of a massive housing bill. It is one of several government efforts to stem the mortgage crisis.

Critics, however, call the government's actions sluggish and inadequate. Earlier action to modify loans, they say, might have prevented a \$US700 billion financial industry bailout now being debated in Washington.

Executives from Citigroup, JPMorgan Chase, Bank of America and Wells Fargo told lawmakers last month they have been hiring additional workers to put the new program in place.

Still, it is unclear whether the industry will embrace the plan fully. One concern is that investors in mortgage securities must take an immediate loss and can't recoup their lost money if home prices turn upward again.

Investors would rather modify loans in ways that maintain the ability to "share in future appreciation," JPMorgan Chase executive Marguerite Sheehan said in written testimony submitted to House lawmakers last month.

On Monday, a group of state banking and law enforcement officials released a report that said nearly 80 per cent of borrowers with subprime loans were not on track for assistance to avoid foreclosure as of May.

The report by the State Foreclosure Prevention Working Group criticised the lending industry for making only small changes to loan terms and noted that about one in five loans that were modified over the past year became delinquent again.

"While banks and Wall Street firms continue to report record write-downs of mortgage loan portfolios and securities, the losses do not appear to be flowing down to homeowners in the form of sustainable loan modifications," Iowa Attorney General Tom Miller, a founder of the state effort, said in a statement.

Loan help requirements

- ◆ The maximum loan is \$550,440.
- ◆ The new mortgage will be no more than 90 percent of the new appraised value.
- ◆ The borrower must agree to share with the Federal Housing Administration both the equity created at the beginning of the new mortgage and any appreciation in the value of the home.
- ◆ The borrower cannot take out a second mortgage for the first five years of the loan, except under certain circumstances for emergency repairs.
- ◆ The existing first mortgage holder must accept the proceeds of the new loan as full settlement of all outstanding indebtedness.

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