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## Obama launches mortgage rescue plan

### First participants in the Treasury Department's program to help homeowners avoid foreclosure include some of the nation's largest banks.

By Tami Luhby, CNNMoney.com senior writer  
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NEW YORK (CNNMoney.com) -- The Obama administration's loan modification program is finally underway.



The Treasury Department announced Wednesday the first six participants to sign up for President Obama's plan. They include three of the nation's largest banks: JPMorgan Chase ([JPM](#), [Fortune 500](#)), which will get up to \$3.6 billion in subsidy and incentive payments; Wells Fargo ([WFC](#), [Fortune 500](#)), \$2.9 billion; and Citigroup ([C](#), [Fortune 500](#)), \$2 billion. The others are GMAC Mortgage, \$633 million; Saxon Mortgage Services, \$407 million; and Select Portfolio Servicing, \$376 million.

Additional loan servicers will be added to the list over time, a Treasury spokesman said.

Several major servicers, including JPMorgan Chase and Wells Fargo, said they began modifying loans under the government initiative earlier this month. CitiMortgage signed up for the program on Monday and will start processing applications soon.

"We view this modification program as yet another incremental opportunity for thousands of homeowners to preserve and maintain the dream of homeownership," Wells Fargo said in a statement.

Distressed homeowners and housing counselors have been eagerly awaiting the program's launch since Obama first announced it on Feb. 18. However, it took weeks for the government to clarify the terms and for the financial institutions to update their systems and start accepting applications, frustrating many of those in trouble.

Billed as helping up to 9 million borrowers stay in their homes, the two-part plan calls for servicers to reduce monthly payments to no more than 31% of eligible borrowers' pre-tax income or to refinance eligible mortgages even if the homeowner has little or no equity. The government is allocating \$75 billion to subsidize part of payment reduction, as well as provide thousands of dollars in incentives for servicers and borrowers to participate.

The Treasury Department said Wednesday it is capping the payments to servicers to allow more companies to participate. It is allocating \$50 billion to the program, with Fannie Mae ([FNM, Fortune 500](#)), Freddie Mac ([FRE, Fortune 500](#)) and the Department of Housing and Urban Development providing the rest.

The modification plan calls for the servicer to reduce interest rates so that the monthly obligation is no more than 38% of a borrower's pre-tax income, and then the government would kick in money to bring payments down to 31% of income. Servicers can also reduce the loan balance to achieve these affordability levels. The government will share in the cost, up to the amount the servicer would have received if it had reduced the interest rates.

Only loans where the cost of the foreclosure would be higher than the cost of modification would qualify. Also, Treasury will not provide subsidies to reduce rates to levels below 2%.

It was not immediately clear whether the servicers must pay the incentives to homeowners and investors out of their funding share.

In addition to subsidizing the interest rates, servicers will use the Treasury funding to pay for incentives for themselves, homeowners and investors. The program gives servicers \$1,000 for each modification and another \$1,000 a year for three years if the borrower stays current. It will also give \$500 to servicers and \$1,500 to mortgage holders if they modify at-risk loans before the borrower falls behind.

Homeowners, meanwhile, will get up to \$1,000 a year for five years if they keep up with payments. The funds will be used to reduce their loan principals.

The Treasury Department set the caps based on public data about the mortgages the servicers handle. Though the program mandates that servicers modify all loans that meet the requirements, the department feels the servicers will have sufficient funds to cover all troubled borrowers' applications.

"We're confident we'll have enough money," said Treasury spokesman Andrew Williams.

Separately, major servicers also recently started accepting applications under the refinance portion of the program. ■

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