

Support Under the Homeowner Affordability and Stability Plan: Three Cases

Family A: Access to Refinancing

- **In 2006:** Family A took a 30-year fixed rate mortgage of \$207,000 on a house worth \$260,000 at the time. (The family put just over 20% down.) They received a Fannie Mae conforming loan with an interest rate of 6.50%.
- **Today:** Family A has about \$200,000 remaining on their mortgage but their home value has fallen 15 percent to \$221,000.
 - Their “loan-to-value” ratio is now 90%, **making them ineligible for a Fannie Mae refinancing.**
- **Under the Refinancing Plan:** Family A can refinance to a rate of 5.16%. **This would reduce their annual payments by nearly \$2,350.**

	Existing Mortgage	Refinancing
Balance	\$199,584	\$203,575
Remaining Years	27	30
Interest Rate	6.50%	5.16%
Monthly Payment	\$1,308	\$1,113
Savings	<i>\$196 per month, \$2,347 per year</i>	

Family B: Access to Refinancing

- **In 2006:** Family B took a 30-year fixed rate mortgage of \$350,000 on a house worth \$475,000 at the time. (The family put just over 26% down.) They received a Fannie Mae conforming loan with an interest rate of 6.50%.
- **Today:** Family B has about \$337,460 remaining on their mortgage but their home value has fallen to \$400,000.
 - Their “loan-to-value” ratio is now 84%, **making them ineligible for a Fannie Mae refinancing.**
- **Under the Refinancing Plan:** Family B can refinance to a rate of 5.16%. **This would reduce their annual payments by nearly \$4,000.**

	Existing Mortgage	Refinancing
Balance	\$337,460	\$344,210
Remaining Years	27	30
Interest Rate	6.50%	5.16%
Monthly Payment	\$2,212	\$1,882
Savings	<i>\$331 per month, \$3,968 per year</i>	

Family C: Eligible for Homeowner Stability Initiative

- **In 2006:** Family C took out a 30-year subprime mortgage of \$220,000, on a house worth \$230,000 at the time (they put less than 5% down). Their mortgage broker – Mom & Pop Mortgage – sold their loan to Investment Bank. The interest rate on their mortgage is 7.5%.
- **Today:** Family C has \$214,016 remaining on their mortgage but their home value has fallen -18% to \$189,000. Also, in November, one parent in Family C was moved from full-time to part-time work, causing a significant negative shock to their income.
 - *Their loan is now 113% the value of their home, making them “underwater” and unable to sell their house.*
 - *Meanwhile, their monthly mortgage payment is \$1,538 and their monthly income has fallen to \$3,650, meaning the ratio of their monthly mortgage debt to income is 42%.*
- **Under the Homeowner Stability Initiative:** Family C can get a government sponsored modification that – for five years – will reduce their mortgage payment by \$406 a month. After those five years, Family C’s mortgage payment will adjust upward at a moderate, phased-in level.

	Existing Mortgage	Loan Modification
Balance	\$213,431	\$213,431
Remaining Years	27	27
Interest Rate	7.50%	4.42%
Monthly Payment	\$1,538	\$1,132
Savings:	<i>\$406 per month, \$4,870 per year</i>	

Homeowner Stability Initiative: How the Program Works for the Lender, Government and Borrower

- First, Investment Bank (working through a mortgage servicer) **reduces the interest rate so that the Family C’s monthly debt-to-income ratio drops** from 42% to 38%. This means that Investment Bank must reduce the interest rate from 7.50% to 6.38%, bringing down Family C’s monthly payment from \$1,538 to \$1,387.
- Second, the government and Investment Bank **share the cost of further reducing the interest rate** so that the Family C’s monthly debt-to-income level is lowered to 31%. Any dollar the bank spends is matched by the government. At this stage, Family C’s interest rate is reduced from 6.41% to 4.43%. In total, Family C’s monthly payment has fallen from \$1,538 to \$1,132.
- If Family C remains current on their payments, they will receive **incentive payments** up to \$1,000 a year, or \$5,000 over five years, that would go towards reducing the principal they owe. Additionally, the mortgage servicer can earn an up-front incentive fee of \$1,000, plus up to \$1,000 per year in “Pay for Success” fees for three years, so long as Family C remains current.