How the Plan Would Work for Borrowers

By James R. Hagerty Wall Street Journal MARCH 5, 2009

Here are answers to some common questions about the Obama administration's new foreclosure-prevention plan.

QUESTION: ***What do these programs involve***?
ANSWER: One component calls for reducing payments for distressed borrowers through modifications of loan terms, known as loan mods. A second involves refinancing mortgages for some people who are current on their payments but have little or no equity in their homes.

QUESTION: ***When does this start?***
ANSWER: Immediately.

QUESTION: ***How do I know whether I qualify for a loan modification?***
ANSWER: For starters, this program applies only to your primary residence. That could be a home for one to four families, condo, cooperative apartment or manufactured home affixed to a foundation. It doesn't apply to second homes or investment properties, and the home can't be vacant or condemned. It also doesn't apply to mortgages on one-unit homes whose balances exceed $729,750.

And it isn't for people who can easily afford to pay their loans. You qualify only if your mortgage payment is more than 31% of your pretax monthly income. The monthly payment includes principal, interest, taxes, insurance and homeowner association or condominium fees. Income includes wages, salary, overtime, fees, commissions, tips, Social Security, pensions and other items.

You may qualify whether or not you are up to date with your payments, but you will need to show that you don't have sufficient cash or other readily available assets to meet your current payments.

QUESTION: ***If I think I may qualify, what's the first step?***
ANSWER: Call your loan servicer, the company that sends you your monthly mortgage bill. If you want a counselor to help you, you can request free counseling from approved counseling organizations by dialing the Hope Hotline at 888-995-4673. Avoid firms that charge you a fee for helping you get a loan mod.

QUESTION: ***Aside from lower payments, what are the benefits of participating?***
ANSWER: As long as participants stay current on the modified loans, they can get reductions of as much as $1,000 each year in their principal balance for five years.

QUESTION: ***Can everyone with a hardship be helped?***
ANSWER: Servicers will apply a "net present value" test to determine whether a loan modification is in the financial interests of the lender or investor who owns the loan. If it isn't, you may not qualify.

QUESTION: ***Do I have to pay a fee for a loan mod?***
ANSWER: No.

QUESTION: ***How do I know whether I qualify for the refinancing part of this plan?***

ANSWER: You must be current on your payments and your loan must be owned or guaranteed by government-backed mortgage companies Fannie Mae or Freddie Mac.

These refinancings are designed for cases in which the loan balance is between 80% and 105% of the estimated value of your home. (Those below 80% should be able to get refinanced without the help of this program by contacting lenders or mortgage brokers.) Loan servicers will use computer programs or other means to estimate the value of your home.

These refinancings also are available for second homes and investment properties in some cases.

QUESTION: *How do I find out if my loan is owned or guaranteed by Fannie or Freddie?*
ANSWER: Your loan servicer or counselor should be able to determine that. On your own you can contact Fannie by calling 1-800-7FANNIE or visiting this Web site: www.fanniemae.com/homeaffordable. To reach Freddie, call 1-800-FREDDIE or go to www.freddiemac.com/avoidforeclosure.

QUESTION: *Do I have to pay a fee for a refinanced loan?*
ANSWER: Lenders or mortgage brokers may charge fees, which are likely to vary.

QUESTION: *How long will these programs last?*
ANSWER: The modification plan ends Dec. 31, 2012, and loans can be reworked only one time under this program. The refinance program ends in June 2010.

QUESTION: *Where can I get more information?*
ANSWER: The U.S. Treasury has provided information at www.financialstability.gov.