

## President Announces Housing Initiatives

President Obama has unveiled a series of initiatives to help move the nation's fragile housing markets to recovery. The president's proposals fall in four basic categories:

- Mass refinancing program
- Homeowner Bill of Rights
- Foreclosure mitigation
- REO to Rental Pilot Transaction

### Mass Refinance Program

The president will propose legislation to Congress allowing all borrowers whose mortgage exceeds the value of their home to refinance to a mortgage insured by the Federal Housing Administration (FHA). The administration believes that by refinancing to current mortgage rates, which are at historic lows, the average American homeowner can save up to \$460 per month. Homeowners would have the option to automatically use these savings to make extra principal payments to more quickly rebuild equity. Owners choosing this option may receive financial assistance to pay for closing costs. The administration estimates up to 3.5 million borrowers are eligible for the refinance program as proposed.

General program features and requirements include:

- Open to all mortgages, including mortgages insured by FHA or guaranteed by Fannie Mae and Freddie Mac
- Borrower must be current on mortgage for prior six months with no more than one delinquency in the prior 12 months
- Minimum credit score of 580
- FHA loan-limits apply (vary by local home prices)
- Owner-occupied, single-family residences only
- Loan to Value ratio of less than 140 percent
- Confirmed employment, but no income verification
- No appraisal

The plan's broad parameters are estimated to cost the government between \$5 billion to \$10 billion. The ultimate cost will depend on the number of homeowners who take advantage of the program. The administration proposes to offset these costs through a tax on very large banks.

The administration also announced further efforts to harmonize and streamline existing refinance programs at Fannie Mae, Freddie Mac and FHA. Some of these changes will require legislation while others will be implemented administratively.

### Homeowner Bill of Rights

The president's proposed homeowner bill of rights is based on reform of the mortgage servicing industry. There are several ongoing regulatory enforcement actions against mortgage servicers with additional sanctions being sought by the federal government and state attorneys general. This portion of the president's plan does not require congressional action.

### Improved Mortgage Disclosures

Through its Know Before You Owe initiative, the Consumer Financial Protection Bureau is in the process of consolidating two important disclosures given consumers shopping for a mortgage. When the disclosure consolidation process has been completed, consumers will receive one disclosure covering estimated closing costs and credit terms. The president highlighted this work, noting the new disclosure will make the mortgage process easier to understand and consumer friendly. To view the proposed disclosure forms, click [here](#).

#### Disclosure of Mortgage Servicing Fees and Prior Notice of Fee Changes

Mortgage servicers will be required to make timely disclosure of all fees and penalties to borrowers. Any change to fee or penalty structures must be provided to borrowers prior to becoming effective.

#### Facilitate Foreclosure Prevention

Most large lenders also have large mortgage servicing rights portfolios. This inevitably leads to conflicts of interest where a lender owns the servicing rights to a borrower's first mortgage but is also the lender for the borrower's second mortgage. In this case the lender stands to take a loss if the second mortgage is written down in a loan modification.

This conflict of interest has been identified as a significant factor in the slower than anticipated rate of mortgage modifications. Under the president's plan, lenders and servicers are directed to minimize these conflicts of interest so loss mitigation efforts are not hindered.

#### **Foreclosure Mitigation**

The president's announced changes to the mortgage servicing industry will ensure troubled borrowers are offered foreclosure mitigation services in a timely manner. Highlights of the foreclosure mitigation plan include:

- Intervention as soon as borrower becomes delinquent
- Offering troubled borrowers a comprehensive set of foreclosure avoidance options
- 12 month loan forbearance for unemployed borrowers
- Guaranteed reasonable amount of time to apply for a loan modification
- Restrictions on moving to foreclosure without contacting borrowers or without showing a borrower's clear inability or lack of interest to obtain a loan modification
- Servicers required to explain a decision to move to foreclosure and provide homeowners a formal review process to appeal a decision to foreclose rather than seek alternatives
- If a servicer forecloses, the borrower must be provided a certificate verifying appropriate loss mitigation alternatives have been considered and that foreclosure is consistent with applicable law

#### **REO to Rental Pilot Transaction**

The Federal Housing Finance Agency (FHFA) announced the initial phases of a pilot program to sell properties owned by Fannie Mae, Freddie Mac and FHA as a result of foreclosure (known as REO). The initial sale of REO announced by the president will be led by Fannie Mae and will target properties in cities with high rates of foreclosure. Experiences from this and other bulk sales of REO will be used to craft a nationwide policy for bulk sales of Fannie Mae, Freddie Mac and FHA REO.

CAI will continue to monitor development of the Administration's housing initiatives in Congress as well as ongoing implementation of those elements not requiring legislative authorization. To view the Administration's announcement of these housing initiatives, [click here](#).