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An Opportunity to Refinance to a Lower Rate in The Face of Declining Home Values



Homeowner Affordability and Stability Plan
Revised February 20, 2009 details as of March 4, 2009

Details of the Homeowner Affordability and Stability Plan unveiled on Mar. 4, 2009 clarify its design to prevent further foreclosures and stabilize home prices. It is projected to make mortgages more affordable to over 7 million homeowners between 2009 and 2012.

WHY?

Studies show foreclosing on a home can reduce the prices on nearby homes by as much as 9%. With government projections of 6 million families facing foreclosure in the next several years due to job loss and home loans obtained under more lenient guidelines that are now "unaffordable", we would further erode of our housing market. This stands to penalize the 92% of Americans who ARE making their mortgage commitments as their property values could continue to decline. (National Mortgage Banking Association)

Overview

A set of guidelines to be followed by government, lenders, loan servicers, investors and borrowers to keep working Americans in their homes.

Available to homeowners current on their mortgage payments but unable to refinance due to LTV (Loan to Value) ratios.

Implementation

Details are still being ironed out from a documentation perspective as well as how these will be funded in the secondary markets, investors.

What is the Plan?

It is a government sponsored loan offering focused on higher LTV's and low cost MI (mortgage insurance). Supporting funds come from the Stimulus package approved in February of this year. It contains two initiatives to help struggling homeowners.

For the purposes of this document we have focused our attention on the refinance segment (#2 below) with a brief highlight of the modification offering.

1) Home Affordable Modification Program

Designed to prevent foreclosure for homeowners at risk of losing their home by reducing monthly mortgage payments. The intended benefit is to support low mortgage rates and provide up to 5 million homeowners access to refinancing at government sponsored low rates. These offerings are through an existing servicer.

Eligibility

- Loans originated on or before Jan. 1, 2009
- First-lien loans on owner-occupied properties with unpaid principal balances up to \$729,750 (Higher limits allowed for owner-occupied properties with 2-4 units.)
- All borrowers must fully document income and sign an affidavit of financial hardship.
- Property owner occupancy status will be verified. No investor-owned, vacant, or condemned properties.
- Modifications are available immediately and run through December 31, 2012. Loans may be modified only once under the program.

2) Home Affordable Refinance Program

A refinancing program for homeowners with a solid payment history but who have been ineligible to refinance into a lower interest rate due to declining home values that push their current loan-to-value ratios above 80%. (The required LTV for standard conforming home mortgages.)

Loans programs are offered both from existing loan servicers AND lenders who meet the criteria to offer these higher LTV programs but who ARE NOT the current loan servicer.

Eligibility

The program is to be implemented as a refinance of an existing Fannie/Freddie owned or securitized loan and will allow borrowers access to today's historically low interest rates. Within the program there are multiple sets of guidelines attempting to encompass the largest homeowner audience.

Highlights of the Guidelines for the Home Affordable Refinance Option

- Reduced monthly mortgage payment OR a more stable mortgage product. (ARM to low fixed rate.)
- Increased LTV from 80% to 105% (no subordinate financing permitted)
- MI may or may not be required depending on coverage on existing loan and LTV. Expanded MI flexibility is available through June, 10 2010.
- Some loan price adjustments apply based on credit score, LTV ratio and other features.
- Three separate offerings within the package some available through general channels, some available only through the loan servicer.
- Existing borrower must remain on the loan, new borrower can be added.
- Eligible mortgages - existing Fannie Mae loans obtained prior to Mar. 1, 2009.
- Ineligible existing mortgages - Reverse, second and government loans. Any loans subject to credit enhancement or repurchase request from Fannie Mae.
- Maximum LTV of 105% for all occupancy and property types. All subordinate financing must be resubordinated - new loan remains in first lien position.
- Limited cash out options, subordinate financing must be resubordinated.
- Applies to primary, second and investment property. All Fannie Mae eligible property types are permitted.
- Eligible new loans include fixed rate and ARM fully amortized up to 40 years.
- **Ineligible new loan types include:** Jumbo conforming, ARMs with a less than 5 year fixed term. Interest only option loans, negative amortization loans, balloon payment loans, and several other select Program or State specific offerings.

These highlights are provided as a courtesy to my clients. They are not inclusive of all terms and conditions of the announced programs.