## 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 $\$ 221,000$.
o 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 | $\mathbf{\$ 1 9 6}$ per month, $\$ \mathbf{2 , 3 4 7}$ per year |  |

## 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 $\$ 400,000$.
o 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 | $\$ 331$ per month, $\$ 3,968$ per year |  |

## 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.
o Their loan is now $113 \%$ the value of their home, making them "underwater" and unable to sell their house.

0 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: | $\$ 406$ per month, $\mathbf{\$ 4 , 8 7 0}$ per year |  |

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.

