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Obama's Loan Modification Plan Will Help Some, Not All

Is this your life preserver? It's sink or swim time.

By Geoff Williams, FrontDoor.com | Published: 3/04/2009

In the 1975 classic movie "Jaws," Sheriff Martin Brody (Roy Scheider) clings to his fast-sinking boat as an incredibly durable and hungry shark speeds toward him. It's a gripping climactic scene because Brody, armed with a rifle, knows that within seconds he will either be a hero or lunch, and he literally has one last shot to make things right.

That, in layman's terms, could describe the Homeowner Affordability and Stability Plan.

This is a bleak, frightening time for many homeowners hoping that this plan is their weapon that can keep them from being devoured. But now that the details have been officially unveiled, it's evident that the plan won't help everyone. Plenty of homeowners will still be in danger of foreclosure.

The gist of the plan

The Homeowner Affordability and Stability Plan makes two things easier -- homeowner refinancing and loan modification, the first of which, if done right, brings down monthly payments, and the second which, historically if it hasn't brought down the payment has at least allowed the struggling homeowner to catch up on their payments and get back in the good graces of their mortgage company.

The Treasury Department made official the details of their plan on March 4, 2009, although they had put information out there weeks earlier. In essence, the plan's three components are:

- Refinancing for up to 5 million responsible homeowners to make their mortgages more affordable
- A \$75 billion homeowner stability initiative to reach up to 4 million at-risk homeowners
- Supporting low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac

Sounds good, but...

"There are some real gaps that are missing," observes Dale Vermillion, author of *Navigating the Mortgage Maze: The Simple Truth About Financing Your Home*. "They haven't addressed 'jumbo' loans, subprime loans aren't addressed, second mortgages aren't addressed -- all of those people won't have relief."

Vermillion is also troubled that if you have a loan that's not under the Fannie Mae and Freddie Mac umbrella, you're out of luck. (How do you know? Chances are, you don't, in which case call your lender and ask.) And he is frustrated that the plan only addresses a small fraction of homebuyers whose homes are "underwater" -- that is, they owe more than their house is worth -- a serious problem plaguing many homeowners these days.

"They can only refinance if their first mortgage doesn't exceed 105 percent of their home's value," laments Vermillion. "Why did we stop at 105 percent?"

The 105 percent point is kind of sticky. Kelly Zuccarelli, the associate vice-president of the New Jersey Builders Association, puts it this way: "If your home is valued at \$200,000, the maximum the loan can be is \$210,000. If you owe \$250,000 on the home, they can't help you." And she notes that in many states, like Florida, Arizona and California, overvalued homes is what's been roiling the housing industry.

Zuccarelli is also the senior vice-president of a small mortgage banking firm headquartered in New Jersey, American Advantage Mortgage Company, and she says that in December, January and early February, when interest rates were particularly low, the calls were clogging the phone lines in the offices of her mortgage company.

Despite the influx of potential clients, however, Zuccarelli says that her offices were only able to help 17 percent of the people who asked about refinancing. "That's horrific," says Zuccarelli. "Of all the people we spoke to, 83 percent of the people, we couldn't help." And why? Those 83 percent were the type of borrowers who owed \$250,000 on a \$200,000 home. "We couldn't help them then," says Zuccarelli, "and this plan won't help them now."

This isn't to say that this is a terrible plan -- if you can get a loan modification, you'll love that your interest rate may be as low as 2 percent -- it's just that it's not the lifeline everyone needs. "There are some very good provisions in here," concedes Vermillion. Zuccarelli finds much to like, too.

Particularly likable are incentives for lenders to put borrowers through the plan. Every time a lender finds a qualified homeowner to go through the loan modification plan, for instance, they receive an upfront fee of \$1,000, up to \$1,000 a year, for three years, as long as the borrower stays in the program. There are also incentives going to the borrower who stays in the program; they can get \$1,000 a year, going towards the principal, for five years.

"That's going to help a lot," says Vermillion. He is also encouraged that under the new program, restructured mortgages will account for no more than 31 percent of the borrower's monthly income.

But what if you're not among the 9 million the Obama administration estimates who will be helped by their plan? "I think in six months, they'll do a modification of this plan, because this isn't going to help the masses," theorizes a hopeful Zuccarelli. "They say it'll help 7 to 9 million homeowners, but every day, 10,000 homes are going into foreclosure."

Do you qualify?

If you want to attempt a self-diagnosis, here are some questions to ask yourself:

- Are you living in your house? If you said, yes, good, because you have to be, to take advantage of the plan. And don't fret by the word "house." You're eligible for the plan if you're living in a condominium, cooperative or mobile homes, if the latter is attached to a foundation and your state laws consider it real estate property.
- Are you still making a regular income? If yes, and you can prove it, you're a good candidate for the plan.
- Are you in foreclosure? You can't get refinanced through the plan, but you may be a good bet for the loan modification. In any case, get the proceedings started, says Zuccarelli, and while

everything gets sorted out, you can halt the foreclosure proceedings.

- Are you in the midst of bankruptcy? If you're sighing a "yes," relax: you aren't automatically disqualified for consideration for a loan modification. You still have a shot.

That's the thing, you may have a shot at saving your house no matter what you hear or read -- even in this article. You should investigate this further. Call your lender and see if you're eligible, and you can get more information at this U.S. Department of Housing and Urban Development web site.

"Don't disqualify yourself," urges Zuccarelli. "Call your lender, and see if you can get the loan modification or refinancing. But realize, it's not a one-two-three process. You have to be patient and very persistent. You have to be an advocate for yourself."

But the one thing you absolutely must do -- and this, believe what you read -- stay far away from any company that promises to help you navigate the Homeowner Affordability and Stability Plan for a "modest" upfront fee. Or perhaps they will arrange it so that you make the first mortgage payment to them instead of your lender, promising that, oh, sure you've been enrolled in the Homeowner Affordability and Stability Plan. Don't transfer your deed to a company insisting that they can help, no matter how courteous or professional they seem. Politely or impolitely walk or run away. Hang up the phone. Ignore their texting. Rip apart their letters. They are crooks of the worst kind because they're posing as someone who wants to help. At least you knew where you stood with Jaws.

Geoff Williams is a regular contributor to FrontDoor.com.