



Consumer Federation of America

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Obama Mortgage Relief Plan Offers Large Scale Approach That Could Help Millions of Homeowners

President Barack Obama's February 18, 2009 announcement of a comprehensive set of new initiatives to assist beleaguered homeowners is an important, fresh approach that could make a significant difference in cooling off the housing crisis, according to the Consumer Federation of America (CFA).

"As outlined today, President Obama's plan offers a coordinated set of initiatives that, taken together, mark a fresh and welcome new chapter in the government's response to this ongoing crisis," said Barry Zigas, Director of Housing Policy for the Consumer Federation of America. "We are especially pleased that a major component of this announcement is the President's support for legislation that would permit bankruptcy judges to modify the terms of mortgages on primary residences through bankruptcy proceedings." Zigas noted that this change is a long-standing priority for CFA and other consumer organizations. "These changes to the bankruptcy law will help consumers who are forced into bankruptcy reach a more equitable resolution of their debts, and should encourage lenders to match President Obama's package of other initiatives to help homeowners avoid such a fate."

The President's plan has three major components:

1. **Reiterated and strengthened support for Fannie Mae and Freddie Mac to assure stability and liquidity in the mortgage markets.** "These two companies, along with the FHA, are the only real sources of mortgage funding today. The President's renewed commitments to support them will help insure the continued availability of fair and affordable mortgages," Zigas said.
2. **Approval for streamlined refinances of loans guaranteed or held by Fannie Mae and Freddie Mac for borrowers who are making their payments but are unable to refinance into cheaper mortgage rates because property values have left their loans at more than 80 percent of the value of the home.** Enabling these borrowers to refinance will lower their monthly costs, freeing up cash that can help with other expenses, and reduce the chance they will get into trouble with their mortgage later on. "This initiative from Fannie and Freddie is a welcome support for families that did all the right things but find themselves victims of collapsing property values," Zigas said.

3. **The final component of the plan would help borrowers continue to repay their mortgages where they have high amounts of mortgage debt or have a combined mortgage balance that exceeds the value of their home.** By offering to share the costs of reducing monthly mortgage expenses from 38 percent to 31 percent of after-tax income, after lenders have reduced the expense to 38 percent on their own, if necessary, the Obama plan is intended to encourage successful modifications on a much larger scale than has been reached to date. “The plan offers a series of cash incentives to investors and servicers that hopefully will result in a much more comprehensive and widespread use of modifications to help borrowers stay in their homes,” Zigas said. “We strongly support the proposed requirement that all recipients of TARP funds follow the standard modification plan that will be detailed by the Administration in the next two weeks.”

Zigas also supported other details of the plan rolled out today, including increased support for housing counselors.

“The real test of this plan will be servicers’ and investors’ willingness to move quickly to adopt its features and take advantage of its benefits,” Zigas said. “The Administration’s promise to provide full transparency and monitoring of this plan is very important, and we will be watching progress closely. We strongly encourage all lenders and servicers to get behind this new initiative as quickly and as enthusiastically as possible.”

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The Consumer Federation of America (CFA) is a non-profit association of some 300 consumer groups and was founded in 1968 to advance the consumer’s interest through advocacy, research, and education.