May 6, 2008

Comprehensive Housing Crisis Legislation: Questions and Answers

Q: How much does the bill cost?

A: The non-partisan Congressional Budget Office estimates the total cost of the bill – including the cost of putting homeowners into safe, affordable FHA loans under the bill -- would be $2.7 billion over 5 years – not $300 billion. The $300 billion is the amount of mortgages (e.g., 2 million $150,000 mortgages) to be insured under this new fund, NOT the government spending. It is similar to when you insure your home for $250,000; you don't pay the insurance company $250,000 for it – you pay a small monthly premium.

Q: How does the program work?

A: H.R. 5830 is a voluntary program for homeowners and lenders or holders of existing mortgages. The process begins when a homeowner or servicer of an existing eligible loan contacts an FHA-approved lender. That FHA-approved lender then determines the size of a loan that meets the requirements of the program and that the borrower could reasonably repay. If the current lender or mortgage holder agrees to write-down the amount of the existing mortgage to meet the requirements of the program and make the new loan affordable, the FHA lender will pay off the discounted existing mortgage. The government would only have liability if a borrower defaults and the amount recovered in foreclosure is below the outstanding debt still owed.

Q: Is this package a bail out for speculators, homeowners, investors, and lenders?

A: No. The bill is narrowly tailored to keep families in their homes. For example:

- Only primary residences are eligible: NO speculators, investment properties, second or third homes will be refinanced.
- Investors and lenders must take big losses FIRST in order even to participate. The owner of the old mortgage can get a maximum of 85% of the CURRENT value of the home, NOT the original price. In many cases the loss will be significantly greater, but 15% is the minimum.
- Most homeowners will have seen the equity in their homes disappear before being able to refinance under this program. In addition, the FHA will get a portion of any future profits on the house, to make sure the government recoups its investment over the long run.
- To protect taxpayers' dollars, FHA fees for the insurance are higher than "regular" FHA loans, acknowledging the higher risk posed by these borrowers.

Q: How does the bill protect taxpayers from fraud? Can someone learn about the program today and default on purpose?

A: The bill contains strong protections against abuse –

- It contains safeguards to remove any incentive for borrowers to "purposely default." Loans to be refinanced must have been originated by December 31, 2007 and borrowers must certify, under penalty of law, that he/she has not intentionally defaulted on existing mortgage(s);

- It prohibits borrowers who are convicted of mortgage fraud from participating;
- It requires full documentation and underwriting for the new insured loans and requires an independent re-appraisal of the property; and
- It limits eligibility to truly troubled borrowers – families with low mortgage debt levels are not eligible.

Q: What is in this program for the American taxpayer?

A: The housing crisis is having a widening impact on the economy. This program will help stop the sharp rise in foreclosures and accelerating decline in home values, which is critical to bringing about American economic recovery.

Under the bill, the FHA recoups money in both the initial refinancing and from any eventual sale of the home. Existing mortgage holders must agree to substantially write-down of the loans and will receive no more than 85 percent of the property's current appraised value as full payment. But the borrower's new mortgage will be for 90 percent of the home's current appraised value. The 5 percent difference will be used for closing costs (2%) and to establish an FHA reserve (3%) to cover possible losses from defaults on these government-backed mortgages.

Q: Aren't you rewarding some families who bought homes they could not afford?

A: Many homeowners facing foreclosure were misled, were deceived, or were in other ways the victims of unfair lending practices. Everybody -- homeowners, lenders, neighbors, indeed our entire economy -- is worse off when a foreclosure occurs instead of a prudent refinancing.

Q: Does the program allow people to just refinance and "flip" their homes?

A: No. To reduce costs to the government – and avoid inappropriate enrichment to borrowers who try to "flip" their houses – the government will retain a share of the borrower's future profits. When the borrower sells or refinances the home, the government will recoup part of its investment: a declining percentage of any profits from the sale (100 percent in year one declining to 50 percent over time) or an exit fee of 3 percent of the original FHA loan balance, whichever is greater

Q: **Are you interfering with market forces? Shouldn't the market work this out?**

A: No. Irrational market forces and a lack of oversight caused the crisis in the first place. We are trying to limit the decline in the economy while the housing market recovers. Federal Reserve Chairman Ben Bernanke is calling for Congressional action, saying "doing what we can to avoid preventable foreclosures is not just in the interest of lenders and borrowers. It's in everybody's interest."

Every taxpayer in America pays when large numbers of foreclosures and declining home values result in higher crime and decreased local revenues for schools, fire, police, and other essential services.