

FACT SHEET: FHA MORTGAGE ASSISTANCE TO STRUGGLING HOMEOWNERS

In 2008, a new law was passed by Congress further empowering the U.S. Housing and Urban Development (HUD) Department's Federal Housing Administration (FHA) to provide mortgage assistance to certain qualified homeowners. The Hope for Homeowners program continues the FHA's existing programs to provide aid to struggling families trapped in mortgages they currently cannot afford. Under the program, certain borrowers facing difficulty with their mortgage will be eligible to refinance into FHA-insured mortgages they can afford. The program will be implemented on October 1, 2008.

Homeowners May Already Be Eligible For Assistance

Families should not wait to seek mortgage relief. Right now, homeowners can determine if they are already eligible for mortgage assistance through *FHASecure*, FHA's existing refinancing program. They can obtain information through either of the following options:

1. Contact a local, HUD-approved housing counseling agency at HUD.gov;
2. Contact the HOPE NOW Alliance at 1-888-995-HOPE; or
3. Call FHA at 1-800-CALL-FHA

Sustainable, Affordability Homeownership

Hope for Homeowners requires that new loans be based on a family's long-term ability to repay the mortgage. FHA only allows owner-occupants to be eligible for FHA-insured mortgages. Borrowers must also meet the following eligibility criteria:

- Their mortgage must have originated on or before January 1, 2008;
- Their mortgage debt-to-income must be at least 31 percent;
- They cannot afford their current loan;
- They did not intentionally miss mortgage payments; and
- They do not own second homes.

Features of FHA-insured loans under the new program include:

- 30-year, fixed rate mortgage;
- Maximum 90 percent loan-to-value ratio;
- No prepayment penalties;
- \$550,440 maximum mortgage amount;
- Extinguishment of any subordinate liens; and
- New home appraisals from FHA-approved appraisers.

Voluntary Lender Participation

Under the HOPE program, FHA offers lenders an alternative to foreclosing on borrowers, whereby lenders will be encouraged to write-down the outstanding mortgage principal balances to 90 percent of the new value of the property. In many cases, reductions in principle will cost lenders less than the losses associated with foreclosure. The program, however, is voluntary – lenders are not required to write down the existing loan even where the homeowner meets the criteria of the program.

Funding

FHA will insure up to \$300 billion in new loans. Borrowers will pay an upfront premium of 3 percent of the original mortgage amount and an annual premium of 1.5 percent of the outstanding mortgage amount. Any additional costs incurred by FHA will be reimbursed by Fannie Mae and Freddie Mac.

Program Timeline

The program will last from October 1, 2008 through September 30, 2011. Families in distress should not wait and should begin applying for the federally insured mortgage NOW.

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SOME FREQUENTLY ASKED QUESTIONS AND ANSWERS:

Q: How will the law help struggling homeowners keep their homes?

A: Through the Federal Housing Administration (FHA), an estimated 400,000 borrowers in danger of losing their homes will be able to refinance into more affordable government-insured mortgages. Since September, 2007, the FHA under existing programs reports that it has helped more than 290,000 families re-finance into safer, more affordable mortgages, and is on pace to assist 500,000 families by the end of 2008.

Q: How can a homeowner access this new program?

A: Homeowners or a servicer of an existing eligible loan need to contact an FHA-approved lender. The FHA-approved lender will determine the size of a loan that a borrower can reasonably repay and that meets the requirements of the program. If the current lender or mortgage holder agrees to write-down the amount of the existing mortgage and make the new loan affordable, the FHA lender will pay off the discounted existing mortgage. Loans provided under this program must be 30-year fixed rate loans.

Q: Are lenders required to participate in this program?

A: No.

Q: Will this law do anything to help prevent abuses in the mortgage loan industry?

A: Hopefully, yes. This law will establish a nationwide loan originator licensing and registration system to set minimum standards for all residential mortgage brokers and lenders. It also strengthens mortgage disclosure requirements to help ensure that borrowers understand their mortgage loan terms.

Q: How will this law make it more affordable to own a home?

A: There are a number of provisions that will make homeownership more affordable:

- Creates a refundable tax credit for first-time homebuyers that works like an interest-free loan of up to \$7,500 (to be paid back over 15 years).
- Grants states \$11 billion of additional tax-exempt bond authority in 2008 that they can use to refinance sub-prime loans, make loans to first-time homebuyers and to finance the building of affordable rental housing.
- Raises conforming loan limits for the FHA, Fannie Mae and Freddie Mac to \$625,500. Because of the high cost of housing in some areas of the country, many potential homeowners were previously shut out from these programs. Raising these loan limits will lead to lower interest rates on some loans, greater refinancing opportunities, and enable more borrowers in high cost areas to avoid the type of nontraditional and frequently abusive loans that led to the current crisis.
- Provides couples using the standard deduction with up to an additional \$1,000 deduction for property taxes (\$500 for individuals).

Q: Does the law provide help to those who still cannot afford to own a home?

A: Yes. The bill includes a number of provisions to increase the supply of affordable housing. For example, the bill creates a new permanent affordable housing trust fund – financed by Fannie Mae and Freddie Mac – to fund the construction, maintenance and preservation of affordable rental housing for low and very low-income individuals and families nationwide in both rural and urban areas. In addition, the legislation provides a temporary increase in the Low-Income Housing Tax Credit and simplification of the credit to help put builders to work to create new options for families seeking affordable housing alternatives.

Note: the information provided in this fact sheet is derived from information provided by HUD.