



The Housing Rescue Bill - How Can It Help You?

H.R. 3221, the "Housing and Economic Recovery Act of 2008" Passed the House July 23, 2008.

Passed by the Senate Saturday, July 26, 2008. Signed by The President July 30, 2008.

President Bush signed historic legislation today that props up mortgage financiers Fannie Mae and Freddie Mac and authorizes a \$300 billion expansion of Federal Housing Administration loan guarantee programs aimed at helping troubled homeowners avoid foreclosure.

The bill, set to become law on October 1, will help distressed homeowners who are at risk of foreclosure to get more affordable, government-backed mortgages and get out from under exotic mortgages they cannot afford.

Who does the Housing Rescue Program help?

In order to qualify for assistance from the housing rescue program, borrowers must meet the following conditions:

- The borrower must live in the home on which the mortgage was taken out.
- The loan must have been issued between January 2005 and June 2007.
- The borrower must be spending 31% or more of their gross monthly incomes on their mortgage payment as of March 1, 2008.
- The borrower does not need to be in default, but he or she must be able to prove that he or she will not be able to keep paying the existing mortgage.
- The borrower must attest that he or she is not deliberately defaulting just to obtain lower payments.

In addition, homeowners who apply for an FHA-backed mortgage must meet a number of other requirements including:

- All other loans against the home must be retired, including home equity loans or lines of credit.
- Borrowers may not take out another home equity loan for at least five years unless the purpose is to pay for needed home maintenance or repairs.
- The total debt on the home can not be any more than 95% of the home's appraised value.
- The borrower will need to get approval from the FHA.

What Requirements are there for the Current Lender?

Because the program is voluntary, the current mortgage lender must agree to rework the current mortgage before the process can start. The lender will be required to write down the existing mortgage to 90% of the home's current value. That could represent substantial loss in areas where property values have deteriorated recently. However, most lenders will find it less expensive to make the concession

to the FHA than to go through foreclosure. If the existing lender agrees to the loan writedown, an FHA approved lender will buy the mortgage at the new terms. The old lender will write off any fees and penalties against the old mortgage and accept the new mortgage amount as payment in full. In addition, they will pay the FHA a premium of 3% of the mortgage principal.

What Does it Cost?

The FHA loans come with these additional requirements:

Borrowers will pay 1.5% of the principal annually to the FHA as an insurance premium for guaranteeing the loan.

Borrowers will share any profits from future appreciation with the FHA in the form of a "3% exit fee".

If they sell or refinance within a year, they will pay 100% of the profits to the FHA.

After a year, borrowers will share 90% of the profits with the FHA. The percentage keeps dropping in 10% increments to 50% after the fifth year, where it stays.

How Do Homeowners Benefit?

Even after factoring in the FHA fees, most homeowners facing foreclosure will save considerable amounts. In areas where home values have plummeted, loans could be reduced by as much as 40%. In addition, the FHA loans will carry fixed, low interest rates, amounting to further savings over the life of the loan.

Can First-Time Home Buyers Benefit?

The bill includes a tax refund for first-time home buyers, including a credit of up to \$7,500 that will expire July 1, 2009. The refund must be repaid over 15 years -- making it, in effect, an interest free loan.

How to Apply?

Contact your current mortgage lender or go directly to an FHA-approved lender for assistance. A list can be found by going to the Dept. of Housing and Urban Development web site: <http://www.hud.gov/ll/code/llslcrit.cfm>

"This is the most important piece of housing-related legislation in more than a generation."

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