Housing and Economic Recovery Act of 2008 FAQ

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. The program offers government insurance to lenders who voluntarily reduce mortgages for at-risk homeowners to at least 90% of the property's *current* value.

Q: When will the program begin?
A: The program will begin on October 1, 2008 and sunset on September 30, 2011. Homeowners in danger of losing their homes before October 1, however, should not wait to contact their loan servicers and should begin applying for federally insured mortgages now.

Q: Who is eligible?
A: To be eligible to participate in this program, a borrower must:

- Have a loan on an owner-occupied principal residence. Investors, speculators, or borrowers who own second homes cannot participate in this program.
- Have a monthly mortgage payment greater than at least 31 percent of the borrower's total monthly income, as of March 1, 2008.
- Certify that he or she has not intentionally defaulted on an existing mortgage, and did not obtain the existing loan fraudulently.
- Not have been convicted of fraud.

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. The program is completely voluntary for lenders, investors, loan servicers, and borrowers.

Q: How does this law help neighborhoods that have been hit by the foreclosure crisis?
A: The impact of the current crisis has not been isolated to individual borrowers or investors, but has been felt broadly by neighbors, communities, and governments across the nation. The law strengthens neighborhoods hit hardest by the foreclosure crisis by providing $3.9 billion in Community Development Block Grants to states and localities to buy foreclosed homes standing empty, rehabilitate foreclosed properties, and stabilize the housing market.

Q: Will this law be a bailout for speculators, homeowners, investors, and lenders?
A: No. It 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 90% of the *current* value of the home (which presumably will be considerably less than the value of the original loan). In many cases the loss will be significantly greater, but 10% is the minimum.
- In addition, lenders must waive any penalties or fees, and help pay for the origination and closing costs of the new loans.
- 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.

Q: Will this law reward 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.
To prevent future abuses by lenders, 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 subprime 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 California, a majority of the state's residents 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, which has been a major problem in California pre-dating the current foreclosure crisis. For example:

- The bill creates a new permanent affordable housing trust fund – financed by Fannie Mae and Freddie Mac and not by taxpayers – 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.

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