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U.S. Treasury: Mortgage Rates 'as Low as 2 percent'

by Broderick Perkins

Some of the 3 to 4 million homeowners eligible for loan modifications could see interest rates as low as 2 percent under the Obama administration's new "Making Home Affordable" (MHA) initiative.

Originally dubbed the "Homeowner Affordability and Stability Plan," MHA contains a provision to modify mortgages for qualified homeowners struggling to make the monthly payment.

A loan modification, unlike a refinance, changes the terms of the existing loan without writing a new one. Modifications are designed to make mortgages more affordable.

Also called a "workout," this provision is open to anyone including those who haven't missed payments, but may be at risk of missing payments.

The modification plan is open to anyone with any loan that has a balance under Fannie Mae and Freddie Mac limits, which now as high as \$729,750 in some high-cost areas.

The modification program, also designed to standardize a hodge-podge of modification efforts by lenders, comes with financial incentives for both homeowners and lenders.

Loan servicers get thousands of dollars for modifying mortgages and borrowers get a principal reduction also for thousands of dollars over five years for paying on time.

MHA modifications are designed to make the monthly cost of housing more affordable by reducing the mortgage payment to as little as 31 of household income. Lenders can accomplish that by reducing interest rates, extending the life of the loan and even reducing the principal -- though to date most lenders have balked on forgiving debt.

"To reach the target affordability level of 31 percent, interest payments will first be reduced down to as low as 2 percent. If at that rate the debt to income level is still over 31 percent, lenders then extend the term or amortization period up to 40 years, and finally forbear principal at no interest, until the payment is reduced to the 31% target," according to the Treasury's "Making Home Affordable Updated Detailed Program Description."

The program runs through 2012, allows borrowers to modify a loan only once and applies only to loans made on or before Jan. 1 2009. Mortgages for single-family homes worth more than \$729,750 are excluded.

- Do you qualify? Visit FinancialStability.gov's modification area to find out.
- There's more mortgage modification news that really hits home by helping you make the right choices to get the lender on your side.

Refinancing help

MHA also includes a refinancing provision for those with loans held by Fannie Mae or Freddie Mac.

Homeowners with less than 20 percent equity in their homes, who now find it difficult if not impossible to refinance, may be eligible to get new loans at lower interest rates provided the new note doesn't exceed 105 percent of the home's value.

The refinanced loans can be as large as \$729,750 in high cost areas and go to those who are current and on time with their mortgage payments.

- Do you qualify? Visit FinancialStability.gov's refinance area to find out.
- For more information on all the provisions of the Obama administration's MHA, visit [Making Home Affordable](#) on line.

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