



## The *other* housing rescue starts today

**The FHA's \$300 billion Hope for Homeownership program is now open for business. But will banks be willing to sign up?**

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Last Updated: October 1, 2008: 6:35 PM ET

NEW YORK (CNNMoney.com) -- Amidst all the chaos surrounding the \$700 billion Wall Street bailout plan, the federal government's other housing rescue program quietly opened for business Wednesday.

But will any mortgage servicers come knocking?

The Federal Housing Administration unveiled its \$300 billion Hope for Homeowners program, which allows struggling borrowers to refinance into more affordable mortgages backed by the federal government. The legislation, which was signed into law in late July, was hotly debated for months on Capitol Hill with Democrats supporting it and Republicans opposed.

Before the so-called Wall Street bailout emerged, this FHA program was the federal government's answer to the mortgage crisis. It was seen as a primary means to stemming the foreclosure tide and stabilizing the housing market.

Even now, foreclosure prevention measures in the current bailout legislation call for the Treasury Secretary to modify more loans through the FHA program.

"For homeowners in trouble, this may be the help they need," said Steve Preston, secretary of the federal Department of Housing and Urban Development, which oversees FHA. "It is yet one more way that families may be helped to weather the current turbulence in the housing market."

Banks, however, didn't receive the program's details from the FHA until Wednesday, and say it will likely be weeks before they can offer it to their customers.

Even then, lenders probably won't rush to participate in the program, which is voluntary, since it requires them to take a pretty significant losses on the loan principal in most cases. Instead, banks have said that they'd prefer to use their own mortgage modification programs where they can better control the terms.

"We will continue to plow ahead with our own efforts to keep homeowners in their homes," said David Bradley, spokesman with Bank of America, which completed 15,750 loan modifications in August. "We've already been pretty aggressive in that regard."

### **Program details**

Eligible borrowers must:

have taken out their mortgages on or before Jan. 1, 2008 and have made at least six payments.

be unable to afford their current loan, but did not intentionally miss payments.

have a debt-to-income ratio of at least 31%.

live in the house and not own other homes.

have provided accurate information on their loan documents and not been convicted of fraud in the past decade.

Under the program, borrowers will get:

a 30-year, fixed rate mortgage of up to \$550,440.

a new appraisal and loan for no more than 90% of the home's value.

released from second mortgages and prepayment penalties.

But homeowners must pay a premium of 3% of the loan's value upfront, and 1.5% of the outstanding mortgage amount annually. Also, they must share any appreciation in the home's value with the FHA when they sell.

The law allows the FHA to insure up to \$300 billion in new loans.

"This program can contribute meaningfully to stability in the housing market, while at the same time providing the appropriate safeguards and limitations to protect the interest of taxpayers," said Elizabeth Duke, Federal Reserve governor.

But HUD officials Wednesday backed away from the Congressional Budget Office's original estimate that the bill will help 400,000 troubled borrowers.

"It's very very difficult to really put a finger on it," Preston said.

### **Last resort**

It's tough to forecast the program's success in part because banks have had a very lukewarm reaction to it. Four large servicers told lawmakers two weeks ago that they would use the program only as a last resort.

The problem is that the Hope for Homeowners program requires banks to reduce the loan's principal to 90% of a home's current appraised value, which is likely to be much less than the owner paid for it. Lenders prefer to freeze or cut interest rates so they can at least recover the original amount of the loan, said Tom Kelly, spokesman for JPMorgan Chase, which has worked with 110,000 customers to modify or rework their loans between January 2007 and July 2008.

"You lock in your loss," Kelly said, by reducing loan principal.

Banks might turn to Hope for Homeownership if they feel the loan is hopeless and just want to get rid of it, he continued.

Lenders also won't be pleased with the new home appraisals, which will show them just how underwater their borrowers are, said James Gaines, research economist at the Real Estate center at Texas A&M University.

He doesn't see a lot of lenders flocking to the program.

"It will help some people, but it won't be the universal panacea that people would like it to be," he said. ■

First Published: October 1, 2008: 4:51 PM ET