

## Who's eligible, who isn't and how the process works

by [Russ Wiles](#) - Mar. 5, 2009 12:00 AM  
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The Treasury Department's program to "make homes affordable" could help up to 9 million debt-strapped owners refinance or obtain better terms through loan modification. Here are answers to common questions about the program, based on information released Wednesday.

### Question: Can any struggling homeowner qualify for a lower-interest rate through the refinancing part of the program?

**Answer:** No. This provision is targeted to owners with loans owned or guaranteed by Fannie Mae or [Freddie Mac](#). It's designed to help people whose loan now exceeds 80 percent of their home's worth, up to 105 percent. The idea is to help individuals who don't have at least 20 percent equity because their homes have lost value.

Borrowers who are seriously underwater won't benefit.

### Q: How do I know if my mortgage is owned by Fannie Mae or Freddie Mac?

**A:** Call your lender or mortgage servicer. You can also contact Fannie Mae at 800-

7FANNIE and Freddie Mac at 800-FREDDIE. Or, go to [fanniemae.com/homeaffordable](#) and [freddiemac.com/avoidforeclosure](#) and fill out online request forms.

### Q: How does the loan-modification plan work?

**A:** The idea is for lenders to reduce monthly payments for some borrowers so they don't exceed 38 percent of gross monthly income. Then, the government will split the costs to bring those payments down to 31 percent. The lower payments will stay in place for five years, after which interest rates will move gradually to market levels.

### Q: How will lenders get monthly payments down to 38 percent?

**A:** The government envisions the following sequence: Lenders first will reduce interest rates to as low as 2 percent. If the [monthly payment](#) still exceeds 31 percent, lenders will extend the term to up to 40 years, as lengthier periods result in lower monthly payments. Finally, they will work on the principal balance, possibly cutting some of it.

### Q: Are lenders required to modify loans?

**A:** No. The American Bankers Association points out that the program is voluntary for most banks. However, lenders and others will

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receive various financial incentives from the government to participate.

**Q: Are all borrowers eligible for this program?**

**A:** No. Since the program is designed to help "responsible" homeowners, as the Treasury puts it, modifications are available only to certain borrowers. They include owner-occupants, those with verifiable income and those with loan balances up to \$729,750.

**Q: Can borrowers apply for a loan modification before they've actually fallen behind on payments?**

**A:** Yes. Delinquency isn't a program requirement, although up to now, some lenders have been reluctant to work with customers still current on payments.

**Q: Will jobless individuals get loan modifications?**

**A:** The Treasury's outline is contradictory on this issue. On the one hand, it insists on income verification, but on the other, it states it would like to help "at-risk" homeowners "such as those suffering serious hardships (including) decreases in income."

**Q: Are there other notable eligibility**

**restrictions?**

**A:** An interesting one is the requirement that heavily indebted borrowers undergo debt counseling with firms certified by the Department of Housing and Urban Development. Counseling will be mandatory for borrowers whose total debt payments - housing, car loans, credit cards and more - equal 55 percent or more of their income.

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