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Two Ways New Mortgage Rules Impact Consumers and Tax Payers

Ann Arbor, MI March 5, 2009 – “There is much confusion surrounding the potential impact of the new *Making Home Affordable* programs announced by the government,” said Gibran Nicholas, Chairman of the CMPS Institute, an organization that certifies mortgage bankers and brokers. “When you boil it down though, there are two ways that the programs will impact consumers and tax payers.”

Impact 1 – Modification Program

“Despite all the hoopla and fanfare surrounding this program, it remains 100% voluntary, and mortgage servicers (the companies that actually collect borrowers’ mortgage payments) are not obligated by law to follow these rules and guidelines,” Nicholas said. “Oddly enough, if a financial institution has already received government funding, they are NOT obligated to participate. However, if a financial institution receives new or more government funding in the FUTURE, they WILL be obligated to participate. In other words, the rules are still a bit sketchy and nobody really knows who will participate and how it will all work from a practical perspective.”

The modification program has three elements:

- The government is offering financial incentives to mortgage servicers who modify loans for borrowers
- The government is offering financial reimbursement to investors if they allow servicers to modify loans and then take a hit on the borrower’s re-default if the property declines in value after the loan modification
- The government is offering financial incentives to borrowers who modify their loans and make their new payments on time

“This whole scenario could be very reckless because there is no maximum total debt ratio under these guidelines,” Nicholas said. “You could have a situation where a borrower’s mortgage payment is brought down to 31% of their income (subsidized by our government), but their total overall debt ratio (including car loans, credit cards, etc.) could be in excess of 55%, or 65%, or 75%, or even higher. Then, if the borrower defaults on the loan modification, tax payers are on the hook for more money.”

Also, vacation homes and investment properties don’t qualify for the program; only primary residences are eligible. “Keep in mind that 36% of all home sales in 2005, and 40% of all home sales in 2006 were vacation homes and investment properties,” Nicholas said. “Many of these properties are now experiencing negative equity, and a considerable number of these property owners are just walking away. This latest government intervention will do nothing to address this issue.”

Only primary residence borrowers who have experienced some type of financial hardship can qualify. “In other words, you will need to document that your financial situation is worse now than it was at the time that you originally got the loan,” Nicholas said. “Your income needs to have gone down, and/or your expenses need to have gone up.”

Click on this link if you want to see if you qualify for at least the minimum requirements:

http://www.financialstability.gov/makinghomeaffordable/modification_eligibility.html

Remember, even if you do qualify under these minimum requirements, your servicer (the company where you send your payments) might not be participating in the program just yet.

Impact 2 – Refinance Program

Here’s how it works:

- You need to be current on your mortgage payments (no late payments in the last 12 months)
- Your mortgage balance cannot exceed 105% of the current value of your home
- Your mortgage needs to be owned or guaranteed by Fannie Mae or Freddie Mac

“You should consider refinancing under this program if you have an adjustable rate, interest only, or balloon mortgage that you want to convert into a traditional fixed rate,” Nicholas said. “Also, if you have a fixed rate mortgage with an interest rate that is greater than 5.5%, you should talk to your Certified Mortgage Planning Specialist about whether you would benefit by refinancing. At the very least, you could enter a rate watch program and your CMPS professional will contact you when rates hit your target level.”

Other Recent Developments

There have been many other recent developments in the markets as well as new government legislation. Here are just a few recent items that may impact you or someone you know:

- Home improvement tax credit
- First-time home buyer tax credit
- Reverse mortgages for home purchase transactions (age 62 or older)

“All the changes taking place in mortgage markets may or may not be relevant to your situation,” Nicholas said. “It is more important than ever to work with a Certified Mortgage Planning Specialist that can help you make sense of all the chaos and confusion in the market.”

About CMPS Institute: CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors regardless of the diversity of specializations within the industry. Over 5,500 financial professionals have gone through the program since its launch in 2005. For more information or to find a certified professional near you, please visit www.CMPSInstitute.org or call 888.608.9800.

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