

Housing Aid Plan and Your Home Mortgage

President Obama announced the details of the long awaited plan to help the housing sector yesterday. He introduced the Homeowner Affordability and Stability Plan in Mesa, Arizona, one of the areas in the country with the highest home mortgage foreclosure rates. The \$75 billion plan aims to curtail the increasing number of foreclosures and keep responsible homeowners on top of their home mortgage payments. Helping homeowners with home mortgage refinancing opportunities and encouraging lending institutions to adjust existing mortgages are two objectives already set forth.

President Obama has repeatedly stated that the purpose of any plan would be to help responsible homeowners stay in their homes. In that spirit, the Homeowner Affordability and Stability Plan will allow a consumer who has a loan backed by Freddie Mac and Fannie Mae to refinance to a lower interest rate. Lenders now require at least 20 percent equity to be eligible to refinance a home mortgage. But many homeowners have been affected by drops in home values, which have left them holding less equity in their homes. The housing aid plan will allow Freddie and Fannie customers to [refinance](#), in spite of having less than the required 20 percent equity in the home. For those customers who do not have a loan backed by Freddie and Fannie, mortgage loan modification may be an option. Payments on mortgages will be reduced to about 30 percent of income for those who are qualified for such a modification. Those payments will stay at that level for 5 years, at which point they will begin to increase. To qualify for a home mortgage adjustment, banks will consider the amount of debt a consumer has relative to his income. In some cases, debt counseling will be required. Consumers who receive mortgage adjustments may also receive incentives for making their payments on time.

To encourage lenders to offer mortgage modifications, the government will provide them with \$1000 for every loan modification and additional funds when customers stay current on their loans. Homeowners will have to prove that they have the income to support their modified loan payments. Modifications will not be offered to those who clearly will not be able to afford a mortgage, regardless of adjustments. Those homeowners who have jumbo loans do not qualify for home mortgage adjustments under the current housing aid plan. Additionally, a home must be a primary residence to be eligible for loan modification, which means investment only properties will not qualify.

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