



## **PROTECTING HOMEOWNERSHIP & CRACKING DOWN ON MORTGAGE FRAUD**

The implosion of the subprime lending industry threatens to bring foreclosure to up to 6.5 million households nationwide, and continues to fuel our economic downturn. Over the past several years, ten of the country's largest mortgage lenders were spending more than \$185 million lobbying Washington to let them get away with aggressively selling loosely-regulated, high-risk mortgages.

Barack Obama recognizes that the real victims in the subprime mortgage crisis are the millions of borrowers who followed the rules and whose only crime was taking out mortgages that lenders told them they could afford. Normally, these borrowers, their neighbors who have been inadvertently pulled into our national foreclosure crisis, and the tens of thousands of Americans who have lost their jobs in the current recession could avoid foreclosure by refinancing their mortgages or selling their homes. Today's borrowers lack the refinancing and selling protections that used to help out families during a tough period. Too many families are unable to refinance because no one will lend to them, and they are unable to sell their homes because the housing market has fallen. As president, Obama will fight to ensure more Americans can achieve and protect the dream of home ownership.

### **I. CREATE A NEW FHA HOUSING SECURITY PROGRAM**

One of the biggest problems associated with the crisis in the housing market is the decline in house values, which is putting people's mortgages underwater, meaning that their mortgage is worth more than their houses. Many people who find themselves in this situation simply walk away, worsening the foreclosure problem. At a time when costs are rising for energy, food, health care and education, Barack Obama believes we must ensure that the American dream of homeownership can continue. Obama strongly supports the efforts of Senate Banking Committee Chair Chris Dodd (D-CT) to create a new Federal Housing Administration (FHA) program that will provide meaningful incentives for lenders to buy or refinance existing mortgages and convert them into stable 30-year fixed mortgages. This plan will provide a federal guarantee for loans that reduce the outstanding principal amount of loans that are currently unaffordable in order to enable new, affordable mortgages for homeowners. The new FHA program will address the growing problem that too many mortgage loans are underwater, giving homeowners little incentive to stay in the existing loan and encouraging foreclosure. This often leads to foreclosure proceedings that not only hurt families, but also ruins neighborhoods, gives lenders significant losses and further worsens our national housing crisis.

What the country needs is not a bailout, but a backstop. The Dodd plan would be targeted to those individuals who cannot reasonably refinance in today's strained market. Neither the lenders nor the borrowers will receive a windfall.

### **II. CALL ON LENDERS TO WRITE DOWN LOAN AMOUNTS ON MORE CONVENTIONAL BORROWERS AT RISK**

The Bush Administration and major lenders have reacted to crises rather than planning ahead to try to prevent them. As house values continue to fall, now is the time to take steps to head off a substantial spreading of the

crisis beyond just subprime loans. Millions of more conventional borrowers are now facing the prospect of having their mortgages underwater, too.

Federal Reserve Chairman Ben Bernanke started down the right path, declaring that lenders need to start writing down the principal of mortgages. Barack Obama has called on lenders to take action as early as possible when borrowers are at risk of financial trouble or when property values drop precipitously so that principal can be reduced or other solutions can be found before a homeowner faces foreclosure. Obama's plan also calls for legislation that will clarify and ease the ability of servicers to act on behalf of the often diffuse investors who own pieces of the mortgage. Uncertainty over these tax and legal issues and the fears of lender lawsuits has prevented many beneficial workout offers.

### **III. CREATE A FORECLOSURE PREVENTION FUND TO HELP AMERICANS KEEP THEIR HOMES**

Evidence reveals that the rise in mortgage delinquency and foreclosures is largely attributable to aggressive and all too often abusive lending practices by many in the mortgage industry. And in communities where there are many foreclosures, property values of innocent homeowners are often also negatively impacted, driving them toward foreclosure, too. Barack Obama has called for the immediate creation of a Foreclosure Prevention Fund to help people facing foreclosure stay in their homes and renegotiate with their lenders or sell their homes. The Fund will not help speculators, people who bought vacation homes or people who falsely represented their incomes. Given the downturn in the economy, Obama has called for immediate creation of this \$10 billion fund as part of a second economic stimulus package desperately needed by our faltering economy. The Fund will:

- Dramatically increase emergency pre-foreclosure counseling resources.
- Assist individuals who purchased homes that are simply too expensive for their income levels to sell their homes. The fund will help offset the costs of selling a home, including by helping low-income borrowers get additional time and support to pay back any losses from the sale of their home, and waiving certain state and local income taxes that result from an individual selling their home to avoid foreclosure.
- Partner with state governments, community organizations and loan providers to ensure fair loan modifications can be made in a timely manner that avoids the need for foreclosure or bankruptcy.

### **IV. CLOSE THE BANKRUPTCY LOOPHOLE FOR MORTGAGE COMPANIES**

The 2005 bankruptcy bill, which Barack Obama opposed, is expected to have serious effects on low and middle-income borrowers of subprime mortgages. While investors who own multiple homes and people with vacation homes can renegotiate those mortgages in bankruptcy, current Chapter 13 law requires ordinary families to stick with the original terms of their home loans—regardless of whether the loan was predatory or unfair. Obama will repeal this provision so that ordinary families do not suffer this unfair treatment.

### **V. PROVIDE A NEW MORTGAGE INTEREST TAX CREDIT**

Barack Obama will provide a greater number of Americans with the financial assistance they need to purchase or keep their own home. Many middle class Americans do not receive the existing mortgage interest tax deduction because they do not itemize their taxes. As a result, primarily wealthy Americans benefit from this homeownership tax incentive. Obama will ensure that middle-class Americans get the financial assistance they need to purchase or keep their own home by creating a 10 percent universal mortgage credit that give tax relief to Americans who have a home mortgage. The Obama proposal will provide 10 million homeowners, most of whom earn under \$50,000 per year, with an average of \$500 in

savings. This tax cut will provide direct relief to many homeowners who are struggling to maintain their mortgage payments.

## **VI. PROVIDE ADDITIONAL \$10 BILLION OF MORTGAGE REVENUE BONDS**

Mortgage Revenue Bonds are used to refinance subprime loans and provide mortgages for first-time homebuyers. But these bonds are over-subscribed in virtually all states and are being rationed to respond to affordable housing needs. Barack Obama will provide \$10 billion in additional mortgage revenue bonds to help families facing foreclosure refinance and to enable low- and moderate-income first-time homebuyers purchase a home. Approximately, 1.7 million subprime adjustable rate mortgages worth \$367 billion are expected to reset during 2008 and 2009. According to the National Association of Home Builders, every new mortgage revenue bond home loan produces almost two full-time jobs, \$75,000 in additional wages and salaries and \$41,000 in new federal, state and local revenues.

## **VII. COMBAT MORTGAGE FRAUD AND PREDATORY SUBPRIME LOANS**

Barack Obama has been closely monitoring the subprime mortgage situation for years, and introduced comprehensive legislation nearly two years ago to fight mortgage fraud and protect consumers against abusive lending practices. Obama's STOP FRAUD Act provides the first federal definition of mortgage fraud, increases funding for federal and state law enforcement programs, creates new criminal penalties for mortgage professionals found guilty of fraud, and requires industry insiders to report suspicious activity. This bill also provides counseling to homeowners and tenants to avoid foreclosures and increases the ability of borrowers with risky mortgages to protect themselves in foreclosure proceedings. Finally, Obama's bill requires the Government Accountability Office to evaluate and report to Congress on various state lending practices so that state regulations that undermine consumer's rights can be identified and hopefully eliminated.

## **VIII. MANDATE ACCURATE LOAN DISCLOSURE**

Today's subprime mortgage problem stems in large part from the lack of easy-to-understand information that borrowers receive from mortgage brokers. As president, Barack Obama will enact laws to ensure that all prospective homebuyers have access to accurate and complete information about their mortgage options. Obama will create a Homeowner Obligation Made Explicit (HOME) score, which will provide potential borrowers with a simplified, standardized borrower metric (similar to APR) for home mortgages. The HOME score will allow Americans to easily compare various mortgage products and understand the full cost of the loan. The HOME score would also help borrowers understand their long-term obligations and would be required to include mandatory taxes and insurance. Obama will also support efforts to improve financial literacy within communities most likely to be targeted by predatory lending practices.