

Making Home Affordable

General Overview

The Making Home Affordable (MHA), also known as the Homeowner Affordability and Stability Plan (HASP), is part of President Obama's strategy to get the economy and the housing market back on track. The plan potentially could help up to 9 million families restructure or refinance their mortgages to avoid foreclosure. The key components of the Making Home Affordable plan are:

- Refinancing for up to 5 million families unable to take advantage of lower interest rates because of falling home values
- \$75 billion in incentives to provide loan modifications for up to an additional 4 million families, bringing monthly payments to sustainable levels
- Clear and consistent guidelines for loan modifications
- Support for judicial modification of certain home mortgages through bankruptcy
- Strengthening Hope for Homeowners and other FHA programs
- Strengthening communities hardest hit by the foreclosure crisis through an additional investment of \$2 Billion dollars in Neighborhood Stabilization Grants

Making Home Affordable

1. Home Affordable Refinance Program for Responsible Homeowners Suffering From Falling Home Prices
2. A Comprehensive \$75 Billion Home Affordable Modification Program
 - A Loan Modification Plan To Reach up to 3 to 4 Million Homeowners
 - Shared Effort with Lenders to Reduce Mortgage Payments
 - Incentives to Service Providers and Borrowers
 - Clear and Consistent Guidelines for Loan Modifications
 - Required Participation By Financial Stability Plan Participants
 - Modifications of Home Mortgages During Bankruptcy
 - Strengthen Hope for Homeowners and Other FHA Loan Programs
 - Support Local Communities and Help Displaced Renters
3. Support Low Mortgage Rates by Strengthening Confidence in Fannie Mae and Freddie Mac

Home Affordable Refinance Program for Responsible Homeowners Suffering From Falling Home Prices

As many as 5 million homeowners are current on their loans, but have properties where values have fallen so much they are currently ineligible to refinance. Modifying the rules applicable to Fannie Mae and Freddie Mac will allow many of these homeowners to refinance into conforming loans, thereby helping avoid future mortgage issues. On a \$200,000 loan originated 2 years ago at 6.5%, a new loan could be taken out in today's environment and save the homeowner about \$2,300 annually.

A Comprehensive \$75 Billion Home Affordable Modification Program

As many as another 4 million struggling homeowners are at risk of going into foreclosure – the result of exotic loans or ARM loans which have repriced to levels homeowners can no longer afford. A byproduct of foreclosure is that many neighborhood values are eroded simply because they are inundated with foreclosures. If homeowners could stay in their homes, the belief is a floor in home values could be established. The goal of this effort is to help homeowners (not speculators) by modifying their loan for up to 5 years and/or reducing their debt to the value of the real estate (“cram down”). The modification would be to a level (debt to income ratio) that should allow their current income to cover the modified monthly debt obligation. If the reduction is to 38% of income, the lender will pay the difference; if to 31%, the government and the lender will share in the added subsidy.

Support Low Mortgage Rates by Strengthening Confidence in Fannie Mae and Freddie Mac

By purchasing mortgage securities issued by Fannie Mae and Freddie Mac, the Treasury aims to manage the mortgage interest rate environment so rates remain attractive. This would provide support for the above items, as well as an attractive financing solution for home buyers.

Controversy over the plan

- MHA/HASP has created a great deal of controversy because taxpayers don't want to pay to reward the targeted homeowners' fiscal irresponsibility, a result of accepting loans they knew they couldn't afford or in some cases, not being truthful on applications.
- Financial institutions don't like it because they believe it will promote unintended behavior (more bankruptcies) and they don't want to accept the losses.

No Disputing the Facts of the Benefits to both Taxpayers and Financial Providers

Despite the controversial issues raised by taxpayers and banks, these groups both have a vested interest in a solution. If foreclosures can be avoided, a gradual return to a normal housing market can begin, allowing taxpayers to start recovering the equity they lost in their homes. Banks benefit through the creation of a loan that is at least partially paying, but more importantly, by not having to continue writing down asset values if property declines can be stopped.

Note: This handout was compiled on March 11, 2009 from various sources including documents on recovery.gov, financialstability.gov and treasury.gov to help Univest employees, customers, shareholders and the communities we serve have a better understanding of the legislation. This was done only for purposes of an informational piece and should not be used as a substitute for the professional advice of a financial advisor, attorney, accountant or other qualified professional.

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