

TAX LETTER

The Important Homeowner Rescue Plan

President Obama threw \$75 billion into the housing/sub prime issue one day after he signed the \$787 billion emergency stimulus plan, declaring an urgent need for drastic action — not only to save homes but to keep the housing crisis "from wreaking even greater havoc" on the broader national economy. However, Wall Street did not show any confidence in these new policies.

The housing plan, aims to prevent as many as 9 million homeowners from being evicted and to stabilize housing markets that are at the center of the ever-worsening U.S. recession. But people with dwellings whose market value has sunk below their principal and still owed on their mortgages were estimated to be more than 13 million nationally (according to Moody). Such mortgages have traditionally been almost impossible to refinance. The White House said its program will help 4 million to 5 million families to refinance — if and only if their mortgages are owned or guaranteed by Fannie Mae or Freddie Mac.

Obama also declared that the program will do nothing to help "the unscrupulous or irresponsible." Referring to the so-called speculators who took out risky loans on multiple properties to make money by selling them during the housing boom, lenders who took advantage of naive buyers by glossing over the fine print, and people who willingly bought homes that were way beyond their means.

The administration is loosening refinancing restrictions for many "qualified" borrowers and providing incentives for lenders in hopes that the two sides will work together to modify loans. But no one is required to participate. Success of the foreclosure rescue is far from certain. Further, investors in complex mortgage-linked securities, especially those who hold second mortgages or home equity loans. Their approval will be needed to prevent many foreclosures.

According to the Mortgage Bankers Association: "It seems to offer little help to borrowers whose loan exceeds their property value by more than 5 percent". Referring to the requirement which would limit the plan's success in some of the hardest-hit areas in California, Florida, Nevada and Arizona and parts of the East Coast. Yes, Obama did say that this plan will not save every home. The question is whose home ?

The other element of the plan is to lower many homeowners' payments to no more than 31 percent of their income. But, what happened to those being lay-off and/or going to be lay-off, they have no income ? Therefore the plan depends on (1) cooperation by lenders, first, second and even third position lenders, and (2) the revival of the economy, the creation of jobs, therefore income.

In theory, under the Obama plan, homeowners facing foreclosure or owing more on their mortgages than their homes are worth would have greater opportunities to refinance so that they would have lower mortgage payments, and lenders would be happy to voluntarily participate. Even the theory works and the lenders do co-operate, the \$75 billion "Homeowner Stability Initiative" can only provide assistance to about 4 or 5 million homeowners. The total number of homeowners may be as high as 14 million, however.

Sorry for this late publishing, we are experiencing the busiest days of our working year.

Should you have any questions or would like to discuss any points about this letter, please let us know.

Sincerely

Cho F Chan, CPA, Inc.