

**Financial Markets Crisis  
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2-19-09

**Banking & Finance**

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The Homeowner Affordability and Stability Plan, announced yesterday by President Obama, encourages lenders to modify mortgages on primary residences by promising financial incentives to lenders that follow its guidelines. There is little question that help is needed to address the foreclosure and home mortgage crisis. The plan, which will take effect on March 4, 2009, consists of the following aspects:

**Business Reorganization**

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**A loan modification plan for homeowners who are at risk of default and foreclosure:****Business Law**

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The plan offers financial incentives to lenders to modify first mortgages for primary residences for borrowers whose mortgage payments exceed 31% of current household gross income, if the amount of the loans does not exceed the current limits for Fannie Mae and Freddie Mac. Lenders will be first required to reduce monthly payments to no more than 38% of borrowers' gross monthly income. This reduction is to be made primarily by an adjustment of the interest rate, although the plan offers incentives to lenders for principal reductions. Lenders and the government will share the cost of reducing monthly payments to 31% of gross income. If homeowners pay on time for five years, by the end of that time they can receive up to \$5,000 to reduce their principal balances. Bonuses will be given to mortgage servicers and lenders if they complete modifications when homeowners are still current with payments.

**Employee Benefits**

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**Labor & Employment**

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**Litigation**

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**A refinancing program for homeowners who are current with mortgage payments but owe more than their homes are currently worth:****Real Estate**

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Fannie Mae and Freddie Mac will be permitted to purchase new first mortgage loans of up to 105% of the current market value of properties, allowing homeowners to take advantage of historically low interest rates by refinancing existing debt, thus reducing monthly payments.

**Tax**

[Timothy A. Nettesheim](#)

**Additional capitalization of Fannie Mae and Freddie Mac to keep money available for new mortgages:****Trusts & Estates**

[Jennifer R. D'Amato](#)

Using money authorized in the Housing and Economic Recovery Act, the Treasury Department will increase its Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac to \$200 billion each and will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities. The administration believes this move will stabilize markets and keep mortgage rates low.

**Additional provisions**

- The administration is developing uniform guidelines for loan modifications (using guidelines developed by FDIC as a starting point), which will be used by all lenders receiving financial assistance under the financial stability plan and Fannie Mae and Freddie Mac. The guidelines are expected to be released on or before March 4.
- The administration will seek changes in bankruptcy laws to allow judges to reduce the mortgage principal of homeowners in bankruptcy.

- To encourage lenders to modify loans (rather than foreclosing now out of fear that the values of properties will continue to decline), the Treasury Department will establish a \$10 billion insurance fund. The fund will partially compensate lenders if housing values fall further, and there is a subsequent default.

Experts forecast that, when the Homeowner Affordability and Stability Plan goes into effect on March 4, financial institutions may become deluged with requests to restructure loans. The problem is made more daunting when the homeowner desiring a loan modification is in foreclosure because the lender's foreclosure department is typically different from the department charged with modifying loans.

You may shortly find that you would like to contract with a reliable and knowledgeable team to handle loan modifications. Reinhart Boerner Van Deuren s.c. has formed such a team, which is prepared to act as a cost-effective, flat-fee contract loan modification service on behalf of lenders and loan servicers. Please contact either Robert Habich (262-951-4519) or Karla Wyse (262-951-4543) to discuss our services.

For the official documentation supporting this plan, please visit the following links:

<http://www.treas.gov/initiatives/eesa/homeowner-affordability-plan/ExecutiveSummary.pdf>

<http://www.ustreas.gov/news/index2.html>

<http://www.ustreas.gov/news/index3.html>

This *Financial Markets Crisis Team E-Alert* provides general information about recent legislative and regulatory developments. It should not be construed as legal advice or a legal opinion. Readers should seek legal counsel concerning specific factual situations confronting them.



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