

SUMMARY of The American Recovery and Reinvestment Act and the Homeowner Affordability and Stability Plan



Prepared by Citi Global Community Relations
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Introduction

Last week the Obama administration unveiled details of its economic recovery plan. The economic stimulus package has been in preparation since before President Obama's election, and was passed over the recent holiday weekend and signed into law by the President on Tuesday, February 17, 2009. The Administration's foreclosure prevention plan was unveiled soon afterward, on Thursday, February 19. Presented below are highlights from both plans, based on an analysis of the plans by Citi Global Community Relations.

The American Recovery and Reinvestment Act (aka Economic Stimulus)

Total Amount: \$787.2 billion

- Recovery website: www.recovery.gov
- Estimated to save or create 3.5 million jobs.
- The package is divided into three distinct segments:
 - \$308.3 billion - or 39% - for appropriations spending/ discretionary funding, which is under the control of the Appropriations Committees:
 - \$120 billion for infrastructure and science, which includes \$27.5 billion for highways, \$8.4 billion for public transportation, \$7.2 billion to improve broadband access, \$14.2 billion for health investments
 - \$105.9 billion for education and training, including \$53.6 billion for a state fiscal stabilization fund
 - \$267 billion - or 34% - for direct spending, including increased unemployment benefits and food stamps
 - \$212 billion - or 27% - for tax breaks for individuals and businesses, including:
 - **Making Work Pay Credit:** A credit equal to 6.2% of earnings, up to \$400 per person (up to \$800 per couple who file jointly). The full credit would be paid to people earning \$75,000 or less (\$150,000 per couple). A partial credit would be paid to those earning more than those amounts but not more than \$100,000 (\$200,000 for couples).
 - **Alternative Minimum Tax (AMT):** One-year exemption for the alternative minimum tax for 2009.
 - **\$8,000 New Homeowners Tax Credit:** An increase over the \$7,500 currently granted under HERA, but the credit will not have to be repaid if home is bought between Dec 31, 2008 and Dec 1, 2009.
 - **Net Operating Loss (NOL):** A provision that would allow businesses to apply losses in 2008 to tax liabilities paid in the previous two years to five years, for small businesses with gross annual revenues of less than \$15 million.



- **New Temporary College Credit:** A new American Opportunity Tax Credit, which would be in effect for 2009 and 2010. It expands the existing Hope Scholarship tax credit and would be worth as much as \$2,500 for higher education expenses, up from \$1,800 currently.
- President Obama's key stipulation was that the money be used quickly. In its most recent report¹, the Congressional Budget Office estimated that 74.2 % of the bill's spending and tax breaks would go out by the end of fiscal 2010, which essentially would meet the Obama administration's goal of 75 %.
- Additional Highlights: There were certain other provisions that were included in the bill that relate to Citi and to community-related efforts, including:
 - **Executive Compensation:** This provision includes language that would prohibit the payment of bonuses and retention incentives to the top executives at companies receiving federal bailout funding. The bill also allows the Treasury Secretary to review bonuses, retention awards, and other compensation paid to employees of each entity that received TARP funds before the enactment date of the bill, to determine whether such payments were "excessive, inconsistent with the purposes of this act, or the TARP, or otherwise contrary to the public interest."
 - **Neighborhood Stabilization Program:** The final version of the bill bolsters support for several housing programs by providing \$2 billion for a Neighborhood Stabilization Program to help communities purchase and rehabilitate foreclosed, vacant properties.
 - **New Markets Tax Credits (NMTC):** \$3 billion of New Markets Tax Credit allocation authority, divided equally between fiscal year 2008 and fiscal year 2009. This permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). All of the qualified equity investment must be used by the CDE to provide investments in low-income communities.
 - **Community Development Financial Institutions (CDFI) Fund:** In addition to the CDFI Fund's annual appropriation for fiscal year 2009, the legislation appropriates an additional \$100 million, of which \$90 million will apply to the CDFI Program, \$8 million to the Native Initiatives, and \$2 million to administrative expenses.
 - **Websites for additional information:**
 - Corporation For Economic Development: <http://www.cfed.org/go/advocacy>
 - Opportunity Finance: <http://www.opportunityfinance.net/>
 - Community Development Financial Institutions(CDFI) Fund: <http://cdfifund.gov/index.asp>

Homeowner Affordability and Stability Plan (aka Foreclosure Prevention Plan)

- The Obama administration released supplementary guidelines related to this Plan on Wednesday, March 4, 2009. The updated guidelines can be found on the Treasury Department's website: <http://ustreas.gov/>
- It is estimated that this Plan will help a total of 7 million to 9 million homeowners.
- The Plan relies significantly on Fannie Mae and Freddie Mac, the entities that own or guarantee approximately 40% of the \$12 trillion U.S. mortgage market.
- The Plan has three parts:
 - **Refinancing for Responsible Homeowners Suffering From Falling Home Prices:**

¹ <http://www.cbo.gov/ftpdocs/99xx/doc9989/hr1conference.pdf>

- This responds to the following phenomenon: Although present conditions — mortgage rates at an all-time low — make this a favorable time to refinance, many people can not take advantage because of falling housing prices and their impact on mandatory equity requirements.
- This part of the Plan offers refinancing for those conforming mortgages that are owned or guaranteed by Fannie Mae or Freddie Mac and whose outstanding balance is less than 105% of the current appraised value of the home.
- Note: A “conforming mortgage” is a mortgage that meets a set of criteria that Fannie Mae and Freddie Mac use to determine if they will either purchase or guarantee the loan. Among other requirements, the loan must be below a certain amount. In most parts of the country, the limit is \$417,000. In higher cost markets, the limit is \$ 729,750.
- **\$75 billion Homeowner Stability Initiative to lower payments**
 - These funds are provided from the TARP program. Qualifications include:
 - currently in default OR at imminent risk of default (currently on time but facing greater risks over time)
 - a total debt (housing, credit cards, car loans) of 55% of monthly income makes one eligible for a combined debt counseling/loan modification program.
 - owner-occupied loans ONLY, conforming to GSE limits.
 - Eligibility ends after 3 years
 - This is a volunteer program with lenders:
 - Lenders first reduce loan payments via interest rates to achieve an affordability ratio (PITIA payments, divided by a borrower’s total income) of 38%. Next, the lender has the option to reduce payments further to achieve a 31% affordability ratio; in this case, the Government agrees to match the loss in interest payment representing the 7% differential.
 - Modifications under the program would last for 5 years, and then the interest rate would be gradually increased by 1% per year to the conforming loan rate in place at the time the loan modification was first made. Lenders have the option of principal reductions as well, but they will only be reimbursed for the amount equal to the interest rate reduction.
 - “Pay for Success”: Servicers will receive \$1,000 for each eligible modification completed, and up to \$1,000 per year for 3 years, subject to a *de minimis* threshold.. This provides an incentive for servicers to make constructive modifications and to keep them current.
 - “Proactive identification of at risk defaults”: For each loan modification made to a borrower who has not yet defaulted but is at imminent risk of default, mortgage holders will receive \$1,500 and servicers will receive \$500. This provides an incentive for mortgage holders and servicers to be proactive in identifying at-risk borrowers. The servicer portion of this incentive will also be available for modifications of FHA, VA, or Agriculture Department loans, or refinance loans under the Hope for Homeowners or similar FHA programs.
 - “Borrower incentives – extra principal payment”: As long as the borrower stays current on the repayment plan, the Government will make monthly payments toward repayment of principal, totaling up to \$1,000 per year for 5 years, subject to a *de minimis* threshold. This provides an incentive for borrowers to complete their loan modification plans.



- Home Price Decline Payments: The Treasury Department will make payments totaling up to \$10 billion to discourage lenders, servicers and investors from opting to foreclose on mortgages that could be viable now out of fear that home prices will fall even further later on. This initiative provides servicers and mortgage holders some measure of insurance against declining home prices after a modification has been completed.
- Second Liens: While eligible loan modifications will not require any participation by second lien holders, the program will include additional incentives to extinguish second liens on loans modified under the program, in order to reduce the overall indebtedness of the borrower and improve loan performance. Servicers will be eligible to receive compensation when they contact second lien holders and extinguish valid junior liens (according to a schedule to be specified by the Treasury Department, depending in part on combined loan to value). Servicers will be reimbursed for the release according to the specified schedule, and will also receive an extra \$250 for obtaining a release of a valid second lien.
- Funds will be set aside, through HUD, for non-profit counseling agencies to assist borrowers.
- **Clear and Consistent Guidelines for Loan Modifications**
 - High redefault rates reported by Office of the Comptroller of the Currency (OCC) have resulted in an emphasis being placed on long-term, sustainable loan modifications.
 - The FDIC, Federal Reserve and Treasury Department will develop a set of best practices and standards.
 - Future recipients of Financial Stability Plan (TARP) funds will adopt those standards going forward. The administration will push for Government-sponsored Enterprises (GSEs), regulators, state and local agencies to adopt the standards as well.
- **Modifications of Home Mortgages During Bankruptcy**
 - Separate bankruptcy legislation is moving ahead. Citi has expressed its support for many aspects of this bill.
 - Under this plan, any portion of a mortgage over the current value of the home will be considered "unsecured." The borrower must ask their servicer/lender for a modification. Only existing Fannie Mae and Freddie Mac mortgages would be eligible.
- **Support for Local Communities and Help for Displaced Renters**
 - The Homeowner Stability Initiative provides an additional \$2 billion in competitive Neighborhood Stabilization Program grants for innovative programs, and \$1.5 billion to provide renter assistance.
- **Support for Low Mortgage Rates by Strengthening Confidence in Fannie Mae and Freddie Mac**
 - This effort speaks to the importance of the secondary market in resolving the current economic crisis. Fannie Mae and Freddie Mac purchase mortgages in the secondary market, which allows lenders to replenish their capital bases and make more loans and aids in keeping interest rates (and, consequently, borrowing costs) low for borrowers.
 - \$200 billion in additional support for Fannie Mae and Freddie Mac. This doubles the government's initial preferred stock investment in these two enterprises and increases the loan portfolio limits for each GSE from \$850 billion to \$900 billion.



- Funds were initially approved in summer 2008.
- **CITI STATEMENT ON THE OBAMA ADMINISTRATION'S 'MAKE HOME AFFORDABLE' LOAN MODIFICATION PROGRAM:**

Citi believes the approach to loan modifications under the Administration's Homeowner Affordability and Stability Plan will help keep borrowers in their homes, forestall foreclosures and stabilize communities around the country. We are also confident that this new approach will streamline servicers' ability to make loan modifications more effectively and efficiently.

Throughout the housing crisis Citi has worked diligently with key stakeholders to seek solutions to help keep borrowers in their homes. Our Citi Homeowner Assistance program and our newly launched Homeowner Unemployment Assist program are two examples. And our foreclosure prevention efforts are working -- Citi's most recent Mortgage Data report shows that our foreclosure prevention actions helped keep distressed borrowers in their homes at a rate of approximately 6-to-1 in the fourth quarter of 2008.

We look forward to continuing to work with the Administration, regulators, the industry, and other stakeholders to implement the Homeowner Affordability and Stability Plan and other innovative and effective solutions to keep Americans in their homes. In the meantime, we continue to encourage our customers in need of assistance to reach out to us by calling 1-800-283-7918 or visiting <http://www.citimortgage.com/>

Citi and our foreclosure prevention initiatives

Since early 2007, Citi has helped approximately 440,000 homeowners — representing approximately \$43 billion in total underlying value of loans — through loss mitigation actions and proactive modifications. Citi's comprehensive loss mitigation efforts have kept approximately four distressed borrowers in their homes for every one foreclosure completed in 2008. These efforts include:

Office of Homeownership Preservation (OHP)

OHP was established in 2007 to help distressed borrowers with a reasonable income and desires to stay in their homes, which is their primary residence, and who are in communication with Citi.

- Home retention work-out strategies include: deferment and extension; forbearance and repayment; modification or modification and extension.
- Loan modifications: Citi may lower interest rates or reduce payments or otherwise modify loans to help borrowers keep their homes. Citi attempts to create a new affordable and sustainable solution for the borrower. In keeping with Citi's commitment to help borrowers stay in their homes, Citi is implementing the FDIC's streamlined modification program for loans it owns, where the borrower is at least 60 days delinquent or where a long-term modification is appropriate, even if the borrower is not yet delinquent.
- Acting solely as a servicer: Citi believes that where a loan is in default or where default is reasonably foreseeable, it can provide loan modifications that benefit both borrowers and investors.
- When it is not possible for the borrower to maintain their home, Citi works with the borrower to minimize further harm. Foreclosure prevention strategies include: short payoff; deed-in-lieu of foreclosure.
- Since the office was established in the summer of 2007, OHP staff has reached out to more than 88,000 borrowers, participated in 106 borrower outreach counseling events in 72 cities and trained almost 600 counselors from more than 300 nonprofit organizations.
- Counseling Workshops in 25 Cities: In 2008, Citi co-hosted events in 25 U.S. cities that featured counseling workshops, market-specific partnerships, programs and grants. To effectively reach delinquent borrowers, Citi co-hosted each event with a community-based housing counseling organization in each city. Citi loss mitigation staff continues to train and work with the community-based housing counselors to help them help



our borrowers. The program also offered a funding opportunity of \$50,000, in each city, to one non-profit with the most aggressive and innovative foreclosure prevention outreach, counseling, and education program.

This effort cumulatively provided \$1.25 million dollars of investment into communities for homeownership preservation in 2008.

Financial Education - Citi supports and partners with community organizations across the country that are engaged in financial education, pre- and post-purchase homeownership education and counseling as well as foreclosure prevention/intervention outreach, counseling and education.

- In partnership with Citi's Office of Financial Education, OHP has developed two curricula — for consumers and for counselors — that provide training and information on financial strategies to assist homeowners. The consumer curriculum is posted on the OFE website: http://financialeducation.citigroup.com/citigroup/financialeducation/edu_resources.html.
- OHP and the Office of Financial Education will be providing training sessions and webinars on the counselor curriculum, for counselors.

Planning Grants - Citi and the Citi Foundation are providing funding for planning grants and technical assistance to 14 communities, to help restore vacant houses and revitalize low- and middle-income neighborhoods that have been among the hardest-hit by residential housing foreclosures.

- Planning grants are up to \$100,000 per community.
- Funding for technical assistance is being provided to the Housing Partnership Network (HPN).
- Technical assistance includes: creating peer exchange platforms that share successful approaches and best practices among HPN members; helping develop financing products for acquisition, development and mortgage loans; and assisting members and their community partners to efficiently gain access to REO properties from servicers and investors.