

OBAMA'S FEDERAL MORTGAGE MODIFICATION PLAN: THE SMOOTH AND ROUGH OF IT

The most recent development in the American government's efforts to fix the mess has been Obama's \$75 billion plan to stop foreclosures that are threatening the mortgage market. This plan seems to finally bring some relief to many unfortunate homeowners that are trying to keep their homes. However, the plan is only meant to serve the needs of nine million American families. Apart from this, there are many other benefits that the plan has to offer.

ADVANTAGES

- Presently, homeowners who are applying for a mortgage modification process need a loan-to-property-value ratio of no more than eight percent. Although the value is reasonable, many debtors are falling short of the requirement. The foreclosure plan has increased this limit to 10.5% in order to broaden the circle of inclusion.
- By offering incentives to the providers of loan modification services, Obama's plan has considerably encouraged the lenders and banks to opt for loan modification rather than foreclosures.
- The federal loan modification program has established uniform guidelines for the banks and lenders to follow. This has prevented any discrepancies in formulating a mortgage modification plan and has made the process universal.

DRAWBACKS

- The plan gives court judges the authority to write the modified principles in cases of bankruptcy. This complex process is likely to increase mortgage rates in the future.
- There are certain guidelines that also grant a few compensations to the investors in terms of loan modifications. This, however, is not required; the "pay for success" provision is already bringing in benefits for investors.
- The pooling and services agreement or the securitization contract does not include a provision for a loan modification. The plan provides no clause that would shield servicers in case of a lawsuit filed by the investor.
- All in all, despite some loopholes, the plan seems to be a good response to the challenges posed by the economic crisis, which explains why it is well-received by many needy debtors.