

## **How the Principal Paydown Plan Could Help You!**

### **What problem would the Principal Paydown Plan address?**

Right now millions of homes are at risk of foreclosure because homeowners are behind on their mortgage payments. The homeowners cannot refinance their mortgages because their home values have decreased in recent years. Studies show that the biggest contributing factor to people abandoning their homes is if the home value is less than the current mortgage balance. When homes are abandoned or foreclosed, that decreases the values of other nearby properties. Many communities in our country are currently caught in this vicious cycle of dropping home values causing foreclosures & foreclosures causing home values to drop.

NACBA\* has a proposal (the "Principal Paydown Plan") to reduce mortgage balances and help increase home values, but we need your help in order to put it into effect. Below is a brief summary of the plan and what you can do to help us get the word out.

### **What is the Principal Paydown Plan?**

The Principal Paydown Plan would give bankruptcy judges the ability to force a loan modification of certain Chapter 13 bankruptcy debtors' first mortgages. For example, if your home value is less than the current balance of the first mortgage, the loan would be modified as follows:

- All of your missed payments would be added to your current balance, and you would be current on your mortgage.
- Your mortgage interest rate would be reduced to 0% for five years. This means that every dollar you pay would go straight to paying off your mortgage. For five years, your mortgage company would not be collecting any interest from you. This would pay off the balance of your mortgage much faster than it is currently.
- There would be a federal judge overseeing and enforcing the modification. No more endless applications or being denied for no good reason. There would be rules that the mortgage companies would be forced to follow. The modification would be part of your bankruptcy plan, so your attorney would do the work of preparing it with you.
- At the end of the five year 0% interest period, your mortgage would be recalculated at a fixed interest rate (the current market rate) over the next 25 years. You would not have to worry about having a variable rate mortgage explode when interest rates eventually increase in the coming years.

### **How would this affect me if the Principal Paydown Plan is adopted by the federal government?**

If you're in a Chapter 13 bankruptcy and you own your residence, the Principal Paydown Plan could help you

- become current on your mortgage
- reduce your mortgage payments
- gain substantial equity in your home over five years
- go from a variable interest rate to a fixed interest rate
- eliminate balloon payments (larger payments due at the end of the mortgage's term)
- stabilize your neighborhood's home values

**If you do not own a home**, the Principal Paydown Plan would still help you as a taxpayer by reducing the federal government's foreclosure losses that are being passed on to the taxpayers. It would help your community by slowing or stopping the decreasing home values.

### **Is the Principal Paydown Plan in effect now?**

No, it is not. The federal Bankruptcy Code does not allow a home loan modification like this, unless the mortgage lender agrees to it. Since the federal government is the lender in more than half of the mortgages in the country, if the federal government agrees to the Principal Paydown Plan, a large number of homes would be included in this plan. Your home lender may be the federal government and you might not even know it! But, we need the federal government to agree to this plan in order to put it into effect.

### **What can I do to help?**

Currently we are petitioning the Obama Administration to review and respond to our plan. We have been in discussion with several government agencies, but we need the federal government to agree to it.

Please sign our petition at the website below. It only takes a few minutes to sign (you will need to set up a whitehouse.gov account, but it only asks for your name, zip code, and an e-mail address to send a confirmation e-mail to).

**Sign the petition at: <http://wh.gov/g8d>**

Anyone can sign the petition, so please ask your family and friends for their support and their signatures. Thank you.

\*NACBA is the National Association of Consumer Bankruptcy Attorneys.