



## PRINCIPAL PAYDOWN PLAN

*A Proposal*

### ***EXECUTIVE SUMMARY***

- This plan restructures certain undersecured (underwater) mortgages in Chapter 13 bankruptcy cases so the homeowner can pay down the loan principal and reduce negative equity and acquire equity faster than with the existing loan
- This is accomplished by reducing the interest rate to 0% for five years, letting the borrower's entire monthly loan payment go directly to the principal
- During the five-year period, the borrower's minimum monthly housing payment is calculated similar to a HAMP modification payment, at 31% of gross income
- At the end of the initial five-year period, the remaining principal balance is amortized over 25 years at the Freddie Mac survey rate
- The bankruptcy judge, with the assistance of the Chapter 13 Trustee, reviews the borrower's budget to confirm the eligibility of the borrower and feasibility of the payments; and they oversee the implementation of the plan
- **There is no cramdown** – the benefit to the borrower is achieved by actually paying down the loan
- In exchange for this benefit, the borrower agrees to a general settlement of all claims against the lender and servicer and avoiding future title and loan litigation
- The federal government and US taxpayers' substantial liability on Fannie Mae and Freddie Mac owned and insured loans would be reduced by this plan
- Everyone wins with this plan – even the borrower's community and local government benefit from improved neighborhood stability