

Obama's Housing Rescue Plan

Obama's Housing Rescue Plan is aimed at borrowers whose mortgage payments have become unaffordable either because of a hardship such as job loss or illness or because the interest rate has been reset higher on an adjustable-rate mortgage.

For those borrowers, the government would provide cash payments and financial subsidies to help the lender lower the monthly payment to no more than 31% on the borrower's gross monthly income.

In most cases the lender would reduce the interest rate on the loan to as low as 2% for five years. If that was inadequate to bring down the payment, the lender also could extend the term of the loan to 40 years or temporarily reduce the loan principle. In those cases, the set-aside portion of the loan principle would be repaid to the lender in a balloon payment when the house was sold or refinanced.

The 31% target income level would apply only to the borrower's primary mortgage payment; second mortgages, home equity loans and other consumer debt would not be included in that calculation.