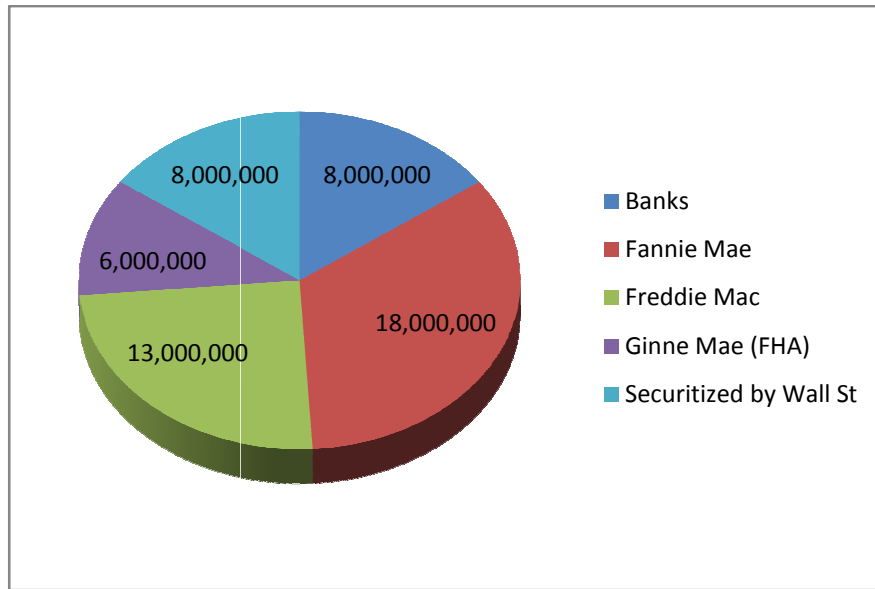


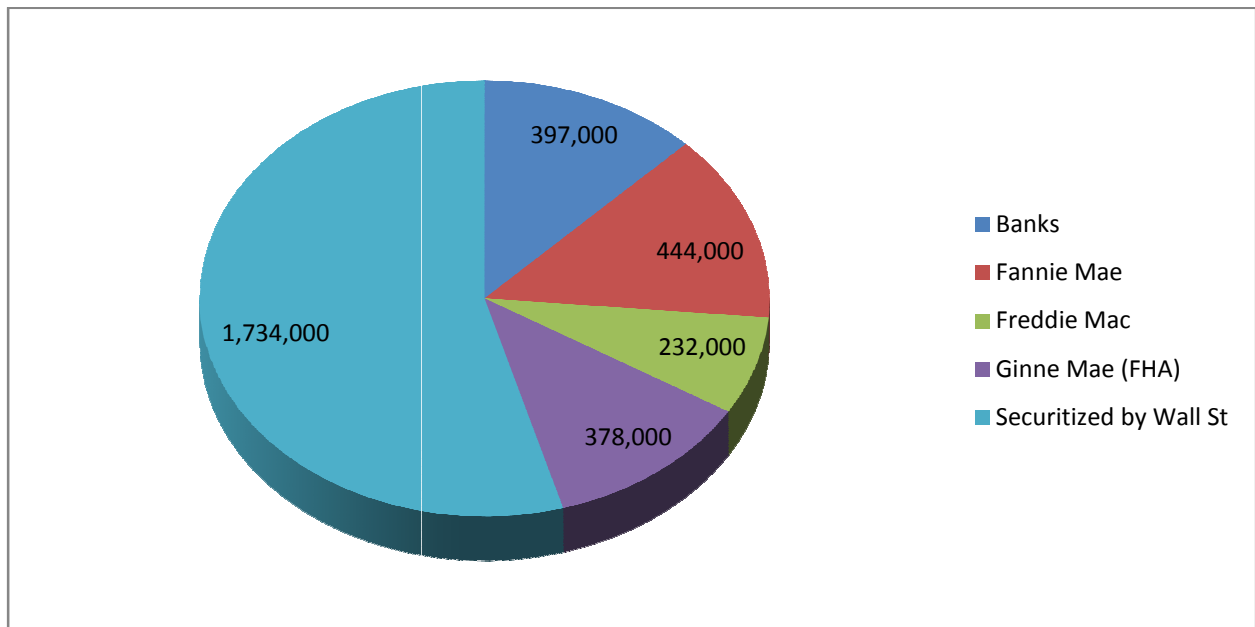
TARP or CARP

When TARP was created in 2008, \$700 billion was allocated to assist financial institutions in trouble. As of June 2009, \$441 billion was distributed; leaving \$259 billion available. As of June 2009, several major financial institutions repaid \$67 billion, and \$6.5 billion in interest and fees. This leaves a balance of unallocated funds of \$332 billion.

According to Freddie Mac there are approximately 53 million single family mortgages in the United States as of the 4th Quarter of 2009. The distribution of mortgages is displayed below.



For the same reporting period, approximately 3.185 million mortgages were in a delinquent status, with Wall Street Securitized Mortgages comprising 54.44% of delinquent loans. Further analysis shows that 1.734 million or 21.68% of all loans securitized by Wall Street are delinquent compared to 6% overall. If the securitized mortgages are removed from the equation, only 3.22% of mortgages are delinquent with GINNE Mae (6.3%) and Banks (4.96%) having the highest rates as a percentage of loans outstanding.



Mortgage Assistance Program (MAP)

Given that TARP has excess funds and the economy (more importantly the taxpayer) deserves some direct assistance, the following program is presented for discussion.

Under President Obama's new approach, property owners should not be removed from a home, but permitted to stay and pay rent. If someone can pay rent, than that same person can pay a mortgage payment if structured correctly. The government is providing [\\$8,000 for first time buyers](#), *so why can't the government pay part of the payment and have the borrower repay the government in the future??*

Instead of a rental payment, let the homeowner make the payment toward the mortgage and the government can cover the difference in a mortgage assistance program which will be repaid over time.

Here is an example of how it could work.

- **Mr. and Mrs. Z have a mortgage payment of \$1,170 (\$200,000 loan with 30 year payout at 5.75% interest).**
- **The Z's lose their job and can only pay \$470, so the government pays the difference of \$700**
- **The Z's remain homeowners and work through their problem. It takes the Z's 10 months to get back on their feet, the government paid out \$7,000 and now the Z's owe the government.**
- **But the government says okay, you can start paying us back in seven years and the payment will be over 10 years at an interest rate of 3%.**

What the government provides is assistance to the property owner (*just like the bailout plans for the Financial Industry and Automotive Industry*) and requires them to pay back the obligation starting in seven years. This is not a freebie, but short term assistance. Franklin Roosevelt called it [Lend Lease](#).

Benefits of the Program, to name a few are:

- A significant benefit of this program is that payments to financial institutions will resume and cash flow will get back to normal levels, thus credit availability should improve.
- Property values will stop declining and have a short recovery to adjust for the liquidation values of the past nine months, this will restore equity to many property owners and fewer homes will be under water.
- This program is not perfect, but it can assist a lot of people who want to own homes. Most importantly, it is channeled **directly to the property owner**, not a large corporation that has other motives besides keeping the property owner solvent.

Implementation

There needs to be conditions of eligibility, such as confirming gross income via income tax statements; confirming employment and confirming current payroll. The only group of individuals who would be excluded are those who own more than one property and cases where mortgage fraud exists in the form of straw buyers and invalid sales. Some conditions and limitations would be as follows:

- **This total assistance would be capped at \$50,000 and could run for 36 months**
- **In a given year up to \$25,000 could be provided in assistance**
- **The government would be releasing the funds over 12 months, thus the federal outlay would be limited**
- **The total cost of 10 million loans receiving assistance would be \$250 billion per year or \$500 billion in total (current TARP has over \$300 billion available)**
- **This is more cost effective than the TARP bailout because banks who needed TARP Funds will become more stable with improved cash flows and a reduction in non-performing loans. Thus TARP funds can be paid back and used to fund MAP (Mortgage Assistance Program)**
- **Funds will need to be paid back starting in seven years, sooner if possible with no impact on an individuals' credit score**

Obstacles

There are two major issues to overcome: Application Filings and Processing.

Application Filings: To get the assistance quickly and to have the greatest impact, applications can be submitted on-line or through an IRS related system whereby an Accountant submits Income Tax Statements, and current Payroll Documentation as a third party validator. The financial institution would be required to take a partial payment and submit a balance due to the Treasury for payment. This is a simplified version of the process, but it can work with refinement. The goal is to stop loans from defaulting and individuals from losing their homes.

Processing: One of the greatest difficulties in implementing this program is processing and accounting. Loan Servicing companies would need to add staff (*if one servicer can process 50 applications a week, 4,000 servicers would need to be hired, plus additional support staff*) Ramping up and training personnel will take time, but, as many as 10,000 new jobs could be created. Add to this job creation, the fact that several million homes do not go into foreclosure and more jobs are not lost due to desperate situations.

Can it Work?

Yes it is possible and yes it can work. The reason it can work is because real estate goes through cycles. If people are forced to sell at liquidation prices, everyone loses. **Give property owners a chance to get back on their feet, get back to work and the whole economy starts to turn around.**

This is not perfect and many will complain about the injustice. But think about the injustice of the corporate bailouts, the injustice that first time home buyers get a break, the injustice that shareholders come before the individuals who created value in the companies by buying products. One can go on and on, or we can try.

We only fail if we do not try.