

THE MASTERS

WEALTH MANAGEMENT GROUP

OBAMA'S NEW DEBT RELIEF INITIATIVES

Will they make a difference for homeowners and those with student loans?

Presented by Gary Mastrodonato, CEA

President Obama has just announced two initiatives to try and ease debt burdens for Americans - moves that some view as election-minded appeals to the younger and middle-class voters that backed him wholeheartedly in 2008. With the American Jobs Act having stalled in the Senate, it isn't surprising that these changes are coming through executive branch measures rather than proposed legislation.

When put into play, will these two ideas have a meaningful economic impact? Let's take a closer look at them.

Could an executive order prompt a mortgage refi boom? If your home is underwater, the Obama administration is trying to offer you a better life raft. It is modifying HARP (the Home Affordable Refinance Program) to make more homeowners eligible for refinancing of mortgages backed by Fannie Mae and Freddie Mac.

So far, less than 900,000 homeowners have been able to refi via HARP; the Obama administration envisioned that the program would assist more than 4 million. HARP only worked for homeowners whose residences were less than 25% underwater, so the hardest-hit borrowers were ineligible. Factor in subpar credit scores and the fear that home values would only fall further, and you see why Housing Secretary Shaun Donovan concedes that HARP has "not reached the scale we had hoped."¹

The retuned HARP relies on simple criteria. The revision to HARP could be a boon to underwater homeowners in California, Florida, Arizona and Nevada - not coincidentally, some key states for President Obama in the 2012 election. In the new version, it won't matter how much value your home has lost. Lenders will be primarily concerned with two criteria:

- You will have to have a source of regular income.
- You will have to be current on your home loan. If you have missed one mortgage payment in the last 6 months or more than one in the past year, you will be ineligible. (If you have refinanced in the past 2½ years, you are also ineligible.)²

Secretary Donovan projects that a borrower able to refinance a home loan at 4% from a previous 5% or 6% interest rate could save as much as \$2,500 a year. About 1 million

homeowners could potentially benefit from the program - still, that's less than a tenth of the 11 million who are underwater right now according to CoreLogic.^{1,3}

There is one major hitch. No mortgage lender will be required to participate in the program; participation is completely voluntary. Again, the opportunity is only available if your home loan is guaranteed by Fannie Mae or Freddie Mac. Fannie and Freddie will come out with the full details on November 15 and the revised version of HARP is scheduled to be ready to roll on December 1.¹

A “Pay as You Earn” plan for student loans. By the time Barack and Michelle Obama had both graduated from law school, they collectively had around \$120,000 in college debts; their student loan payments exceeded their mortgage payments. Having “been there”, the President is using an executive order to accelerate the implementation of changes to reduce student loan payments and consolidate such loans. These changes were originally planned for 2014; they will now take effect at the start of 2012.⁵

Under the “Pay as You Earn” initiative, monthly student loan payments would be capped at 10% of a borrower’s discretionary income for 1.6 million Americans, instead of the current 15%. This could potentially mean savings of hundreds of dollars per month. (If you wonder if you might qualify for this income-based repayment option, you may visit studentaid.gov/ibr to find out.)⁶

Additionally, up to 6 million borrowers will be allowed to merge debt stemming from government-issued and privately-issued student loans, resulting in one monthly payment. The interest rate on that payment could be up to 0.5% lower. The Obama administration says that for someone with two loans totaling \$37,500 in debt, this consolidation could bring about nearly \$1,000 in interest savings.⁶

The White House says that these changes could make life easier for up to 8 million taxpayers. However, there are currently more than 36 million taxpayers burdened by outstanding college loans.⁶

President Obama needs to retain the loyalty of younger voters in 2012 and win back the middle class. These initiatives may have major or minor impact, yet they will be appreciated.



Gary C. Mastrodonato, CEA
The Masters, LLC
Wealth Management Group
Keeping Families & Generations Together

“Where Everyday, You Get Our Best!”

Gary C. Mastrodonato is a Representative with Capital Investment Companies and may be reached at:
807 Broad Street Suite C PO Box 306, Oriental, North Carolina 28571
Phone: (252)249-0100 Fax: (252)249-0105

Securities offered through Capital Investment Group, Inc., Member FINRA/SIPC and advisory services offered through Capital Investment Advisory Services, LLC. Gary Mastrodonato, CEA, Investment Advisor Representative. The Masters, LLC WealthManagement Group is not owned by or an affiliate of Capital Investment Group Inc. Capital Investment Group, 17 Glenwood Avenue, Raleigh, NC 27603 (919)831-2370

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. All indices are unmanaged and are not illustrative of any particular investment.

Citations.

- 1 - nj.com/news/index.ssf/2011/10/obamas_new_mortgage_refinance.html [10/25/11]
- 2 - csmonitor.com/Commentary/the-monitors-view/2011/1024/Moral-blind-spots-in-Obama-mortgage-refinancing-scheme [10/24/11]
- 3 - investmentnews.com/article/20111026/FREE/111029954 [10/26/11]
- 4 - montoyaregistry.com/Financial-Market.aspx?financial-market=Six-steps-to-get-out-of-debt&category=29 [10/26/11]
- 5 - blogs.ajc.com/get-schooled-blog/2011/10/26/president-obama-announces-changes-to-federal-student-loan-repayments [10/26/11]
- 6 - dailyfinance.com/2011/10/26/obamas-new-student-loan-plan-will-it-let-you-pay-less/ [10/26/11]