Sub-prime Mortgage Solution

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1) Eligibility Requirements

a. Residential homes that were purchased for up to $850,000.00; that are in foreclosure or about to go into foreclosure.

b. Residential homes that were purchased for up to $850,000.00; that have fallen below their purchase price.

c. Homeowners who must devote 30% or more of their annual income to pay the mortgage on their primary home that was purchased for up to $850,000.00.

d. To prevent abuse of this offer by unscrupulous home owners, complete and thorough financial audits of every home owner seeking relief under this program is hereby mandated. Any home owner found to have fraudulently taken advantage of this program shall be subject to criminal prosecution.

2) Revised Property Value

a. The eligible properties are re-appraised as follows:
The purchase price of the home less 40%.

3) Purchase of Mortgages and Issuance of New Mortgages

a. The federal government purchases the eligible properties from the current mortgage holder based on the revised property value determined from point 2.a. above (i.e. the purchase price less 40%. This effectively buys out the current mortgage holder at $0.60 on the dollar.)

b. The federal government issues a new mortgage to the homeowner based on the revised property value as determined by 3.a. above as follows: **30 year mortgage, fixed @ 5%.**

b. All of these new, government owned mortgages shall be placed into the Social Security Trust Fund.* It is specifically understood that the United States Treasury Department, and/or any other United States government agency, shall not have access to any of the assets in the Social Security Trust Fund.

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* Placing these new mortgages into the Social Security Trust Fund is the idea of Mr. John Ostfield, Minneapolis, MN. However, if *Fishman's Framework for Tax Reform* is enacted into law, these mortgages and the revenue they generate can be placed under the control of the Treasury Department.

4) **At the time the property is sold, the Social Security Trust Fund receives 50% of the profit.**
Profit defined as the difference between the selling price (minus the cost of the major repairs to the home as defined by current IRS rules and regulations) and the re-appraised price upon which the new 30 year mortgage, fixed @5%, was based.

For example:
A home purchased for $500,000.00 is in foreclosure.
A new, 30 year mortgage fixed @5% is now issued, based on the re-appraised price of $300,000.00.
(Re-appraised price: $500,000.00 less 40% = $300,000.00).
Sometime in the future, the home owner sells the property for $600,000.00.

Gross selling price:	$ 600,000.00
New roof:	(15,000.00)
Plumbing:	(10,000.00)
Adjusted selling price:	$ 575,000.00
Re-appraised price	(300,000.00)
Profit:	$ 275,000.00
50% to government	**$ 137,500.00**

In this example, upon the sale of the property, the Social Security Trust Fund receives not only the balance of the mortgage (which was earning interest at 5 %), but also $137,500.00 in profit. Contrast this with the $780 billion dollar bail-out. The bail-out helps financial institutions, does not help the home owner, and keeps taxpayers in a constant state of anxiety

5) The present mortgage holder shall have the right of first refusal. In other words, the present mortgage holder retains the right to duplicate the government offer (point #1 and #2 above), and if they do they may remain the mortgage holder.

6) This program shall remain in effect until December 31, 2012.

7) **Other Residential Mortgages**
Financial institutions are prohibited from reselling other residential mortgages to anyone, whether individuals, corporations or any and all other institutions, or to the federal government under any circumstances except for those residential mortgages that meet the following criteria:

a) The residential mortgage is a fixed rate 30 year mortgage.
b) The home owner made a down payment on the property of at least 20% of the purchase price of the property.
c) The monthly mortgage payment represents less than 30% of the home owners gross income.

Analysis

1) Discounting the purchase price of homes that are in or about to go into foreclosure by 40% achieves the correct base price for the current housing market. Now, homes return to the value they should have had were it not for the policies that fueled the housing crisis.

2) This new, lower home base price will immediately stabilize the housing market. It will stop the downward cycle pertaining to home values. It will stop most foreclosures and it will stop home owners from abandoning their property. It is in the national interest to prevent foreclosures on over two million American home owners.

3) The recipients of these 30 year mortgages, fixed at 5% will see a reduction in their mortgage payments. This will present as a smaller percentage of their income devoted to paying the mortgage.

4) Because homeowners will no longer have to allocate such a high percentage of their income to their mortgage, they will have more money to pay other bills. They will be able to pay off debt and purchase products. Under these circumstances, businesses will prosper and this will fuel an economic upturn and strengthen our economy.

5) The monthly mortgage checks that will now be paid directly to the Social Security Trust Fund not only represent a return on investment that is not guaranteed to the government under the ill conceived Wall Street bail-out Congress has just signed into law, but also ensures the viability of Social Security. An added bonus is that at the time the home is sold, the Social Security Trust Fund realizes a 50% profit on the equity of the property.

6) It is important to emphasize that the Social Security owned mortgages are now based on the true value of the property. This means that in a worst case scenario, if a home owner defaults on their new mortgage and the property goes into foreclosure, the property will still be worth at a minimum what the re-appraised mortgage was based on. It can then be re-sold to a new buyer without any financial loss to the Social Security Trust Fund.

7) Even though the government will have a lien on the property, the home owner will still have access to a home equity line of credit.
For example:

> A new, $300,000.00, 30 year mortgage, fixed at 5 % is issued. Sometime in the future, the property increases in value to $400,000.00. An equity line of credit is established based on the $100,000.00 of equity as follows:
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> 80% of the equity ($100,000.00) = $80,000.00.
> Divide this $80,000.00 by two = $40,000.
> The home owner will be allowed to access up to 75% of this $40,000.00.
> In this way, the home owner has access to $30,000.00 of the $100,000.00 equity in their home.

8) Purchasing the problematic mortgages at a 40% discount allows those institutions holding the notes to receive $0.60 cents on the dollar. Even though these mortgage holders will complain that they are not receiving the total amount due, this is still a much better deal for them compared to what they would receive if the homes were forced into foreclosure.

9) Other home owners who are in good standing with their mortgage holder (because they live in a home they can afford to own), who have played by the rules and paid their bills will welcome this solution. Now, instead of watching their homes decline in value and the economy sink into crisis, will witness the stabilization of the housing market and the righting of our economy. They will also note that the homeowners who receive these new mortgages are being required to take responsibility for their past behavior (they purchased homes they new they could not afford). This is in the form of the 50% penalty assessed at the time the home owner decides to sell their property. Upon the sale of the property, 50% of the profit goes to the Social Security Trust Fund. This 50% penalty also acts as a deterrent to those home owners who might try to make a quick profit by selling their property as soon as the property has appreciated.

10) The result of the government directly purchasing the problematic mortgages is really an investment in ourselves. Since we, the people, are now the mortgage holder of our own property we are in a win-win situation. In the worst case scenario, wherein the government has to purchase 5 million mortgages averaging $198,000.00 per mortgage, the Social Security Trust Fund will receive $5.314 billion dollars per month ($63.76 billion dollars per year) for 30 years ($1.93 trillion dollars). And remember, the Social Security Trust Fund will receive even more revenue because it receives 50% of the profit at the time the property is sold.

11) To the extent that the current financial crisis is due to the high rate of mortgages that have gone into default, or are going into default, this solution is the best solution because this solution requires both the home owner who received a mortgage they could not afford, and the corporations who created and sold the exotic loans to people they knew could not afford them, to bear equal responsibility for the solution to this crisis. When both parties are held accountable for their irresponsible behavior, a successful solution has been achieved.

12) The problem with the current bail-out is that it protects the Wall Street corporations that got us into this mess in the first place. It does so by giving money to the people and institutions that caused the problem, with the hope that they will then take this money and do the right thing by helping out the distressed home owner and by making credit available to other businesses. Of course, this will not happen.

13) Another problem with the Wall-Street bail-out is that it does not contain any meaningful "transparency" requirements. The proponents of the bail-out assured the public that the $780 billion dollars would be used in the public interest, to help the home owner and resolve the current credit freeze. Additionally, everyone would know who received the money and how it would be spent. Since this turned out to be a falsehood, no one is really able to follow the money trail to find out how much money each institution received or what they did with it. What we can predict with certainty, however, is that the same players that enriched themselves at the expense of the taxpayer will become even richer through the enhanced salaries, commissions, consultation fees, legal fees and other administrative costs that will be associated with the bail-out.

14) In contrast to the Wall Street bail-out, this plan is the model of transparency. Everyone can see exactly where the money is going because all of the money in this plan goes directly to purchase the problematic mortgages. This eliminates up front the enhanced salaries, commissions, consultation and legal fees and other administrative costs that will be tacked on and siphoned off by the Wall Street players. And, it denies the use of the discredited trickle-down theory of economics to solve the financial crisis while at the same time subjecting the Wall Street executives to the consequences of their actions.

15) Prohibiting financial institutions from reselling residential mortgages that are not 30 year fixed rate mortgages will force these institutions to keep onto themselves all of the risk inherent in promoting risky financial instruments. This will immediately put an end to the real estate meltdown created by allowing financial institutions to pawn off onto unsuspecting investors those financial instruments they know are too dangerous for themselves to keep.

16) In the end, unlike the Wall Street bail-out, this solution strengthens the Social
s Security Trust Fund, saves the home owner, protects the taxpayer and helps to right our economy.

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Mortgage Statistics

1) Assume the following: **2 million homes** in or about to enter foreclosure.
   The median home price in the United States: $330,000.00. (2007 peak).
   All of these properties are discounted 40% ($132,000.00).
   Re-appraised purchase price: $330,000.00 minus discount (-) $132,000.00 = $198,000.00.
   The total purchase price: **2 million homes** times (x) $198,000.00 = **$396 billion dollars.**

2) Assume the following: **2.5 million homes** in or about to enter foreclosure.
   The median home price in the United States: $330,000.00. (2007 peak).
   All of these properties are discounted 40% ($132,000.00).
   Re-appraised purchase price: $330,000.00 minus discount (-) $132,000.00 = $198,000.00.
   The total purchase price: **2.5 million homes** times (x) $198,000.00 = **$495 billion dollars.**

3) Assume the following: **3 million homes** in or about to enter foreclosure.
   The median home price in the United States: $330,000.00. (2007 peak)
   All of these properties are discounted 40% ($132,000.00).
   Re-appraised purchase price: $330,000.00 minus discount (-) $132,000.00 = $198,000.00.
   The total purchase price: **3 million homes times** (x) $198,000.00 = **$594 billion dollars**.

4) Assume the following: **4 million homes** in or about to enter foreclosure.
   The median home price in the United States: $330,000.00. (2007 peak)
   All of these properties are discounted 40% ($132,000.00).
   Re-appraised purchase price: $330,000.00 minus discount (-) $132,000.00 = $198,000.00.
   The total purchase price: **4 million homes** times (x) $198,000.00 = **$792 billion dollars**.

5) Assume the following: **5 million homes** in or about to enter foreclosure.
   The median home price in the United States: $330,000.00. (2007 peak)
   All of these properties are discounted 40% ($132,000.00).
   Re-appraised purchase price: $330,000.00 minus discount (-) $132,000.00 = $198,000.00.
   The total purchase price: **5 million homes** times (x) $198,000.00 = $**990 billion dollars.**

6) In a worst case scenario, the Social Security Trust Fund will have to purchase 5 million homes valued at $198,000.00, for a total outlay of $990 billion. However, the Social Security trust Fund will receive mortgage payments from 5 million home owners based on 30 year mortgages fixed @5%. This totals: $1.923 trillion dollars based on the following:

   Loan Amount: $198,000.00
   Interest rate: 5.0%
   Loan term: 30 years
   Monthly principal and interest: $ 1,062.91
   Total principal paid: $198,000.00
   Total interest paid: $186,646.46
   Total principal plus interest: $384,646.46