

Principal Paydown Plan

By: Jerry R. Lowe

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That [National Association of Consumer Bankruptcy Attorneys \(NACBA\)](#) is gaining Congressional support for its Principal Paydown Plan designed to assist struggling homeowners in Chapter 13 save their homes from foreclosure. The NACBA's website gives the following executive summary of the Principal Paydown Plan:

- 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

The supportive members of Congress have pushed action by the [Federal Housing Finance Agency \(FHFA\)](#) to implement the plan. In fact, Congressmen have requested that the FHFA use its authority over Fannie Mae and Freddie Mac to require them to agree to the Principal Paydown

Plan. Unfortunately, the FHFA concluded that the proposal would not be helpful. Thus, the NACBA continues to look for ways to get the Principal Paydown Plan implemented.

About Jerry R. Lowe

If you are considering filing for bankruptcy protection, call Fresno bankruptcy attorney [Jerry R. Lowe](#) at [\(559\)513-8535](tel:5595138535). Mr. Lowe provides representation for debtors in Chapter 7 and Chapter 13 bankruptcy matters throughout California's Central Valley in communities such as Fresno, Clovis, Reedley, Sanger, Selma, Madera, Chowchilla, Oakhurst, Coarsegold, Auberry, Prather, Coalinga, Avenal, Corcoran, Hanford, Lemoore, Tulare and Visalia.