

Levering Home Equity through the Bailout

NO 700 BILLION DOLLAR BAILOUT

*We aren't surfs and there is NO WAY the
Government is going to be Our Landowner!*

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**Instead of giving bailout money directly to
lenders, why not first pass it through borrowers?**

**For the lenders, the short to medium term effects
would be essentially the same.**

**The long-term effect would be to lever unfair
lender profit into home equity.**

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**This Document suggests how this could be done
securely, effectively, and fairly.**

Please! It's important to get the message to the people on the Hill, NOW!

THE BETTER WAY TO SOLVE THE MORTGAGE CRISIS

The government should not invest in Bad Debt; we should pull together to pay off Bad Debt.

THE IDEA

The idea is simple:

Reinstate as many of the defaulted loans as possible, and then funnel almost all the bailout money into monthly payments on all currently problematic delinquent and defaulted loans.

Use the bailout money to pay JUST the late and current interest on principal on the currently problematic loans.

Require all the borrowers of currently problematic loans to make monthly payments JUST to principal, and in this way bring their loans up to date as quickly as possible. With any money they have left, they will then make as much EXTRA monthly loan payment to PRINCIPAL as they can afford without undue risk.

WHY IS THIS SUCH A GREAT IDEA

These monthly bail-out installments require the minimum possible money to immediately stabilize the Troubled Mortgage Sector of the Economy with all the right side effects.

The newer loans are mostly interest so that most troubled borrowers will have an easily managed load to bear. In fact, the more egregious the original terms of the loan, the easier time the troubled borrowers will have, and the quicker the loan will be paid off by payment to principal.

Other market sectors have a good change to stabilize themselves if the in-bound cash flow to the troubled Mortgage Sector is made whole in this way.

This is all that is needed in the short term to start down the road to stability and equity. Increasing home equity would provide a continuing source of extra cash flow for troubled markets over the short to medium term. In the long term, increasing home equity and lowering loan balances would go a long way to taking back most of the undeserved projected profits of the overreaching lenders.

It would give all parties TIME by stabilizing markets on a month to month basis, and then make it possible to sort out what else we need to do for the long term.

This approach would also provide equity to troubled borrowers and strongly encourage them to take advantage of this very powerful but fair incentive to tighten their belts in order to build a stable future with homeownership.

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NOTES

This document or a future revision is posted at sellers.com.

There is one critical requirement for all this to work. It is necessary to cancel out all prepayment penalties and allow unlimited payment to principle on all problematic loans and defaults.

This is THE REAL solution that does the RIGHT thing by EVERYBODY with the MINIMUM amount of cost. THIS SOLUTION can do it because it does precisely the direct opposite of what got us into this mess. While getting into this mess, each mortgage payment made the interest situation worse. While getting out of this mess, each bail-out mortgage payment with extra payment to principal makes the interest and equity situation better.

THIS SOLUTION gives troubled lenders extra cash flow and home buyers equity. The extra payment to principal very effectively builds equity for the buyer. 100% of the borrower's payment on problematic loans becomes equity. The lender not only gets cash flow from the loan payment, but also from the extra payment to principal. This is even beyond normal business cash flow because of the extra payment. The extra payment makes funds available to the lender for reinvestment that augment the regular monthly cash flow. This will help housing prices recover causing a further increase in equity as home prices rise.

THIS SOLUTION doesn't require mortgages to be sold or unbundled because the point of contact is where the rubber already meets the road: the mortgage payment. The infrastructure for paying off the bundled loans is already in place and can be used to apply the bail-out money. The loans don't necessarily have to be sold because they are now in good standing each month.

With THIS SOLUTION for the short to medium term, each dollar applied by the borrower will leverage the reversal of the Crisis by about 10 to 20 dollars because the mortgage is paid off much more quickly. Newer loans are mostly interest and the interest is all bailed-out, and so the borrowers can afford to pay off more extra principal. Because the regular payments are mostly interest and little principal, the number of payments a loan is shortened by is significant. It takes quite a few payments, each having only a little principal to bring the loan to the same paid-off condition as the single extra payment to principal by the borrower. Those payments that drop off the loan represent substantial interest profit to the lender in the future, but are substituted with a significant increase in available funds for new investment in the present. The new investments will replace the future lost profits, but they also replace the necessity to renegotiate the loans as seen as one of the most difficult unsolved problem of the bundled mortgages in the 700 Billion dollar bail-out scenario.

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THIS SOLUTION is a month to month minimal mortgage payment bail out that is pay as you go, and has to last only as long as it is needed, not a HUGE 700 Billion dollar grab. Clearly monthly payments are much smaller than respective whole loan. The 700 Billion dollar grab tries to fix the huge mess rather than the much easier task of just a fixing it with a much smaller monthly payment bail-out. **DON'T FORGET** that the reason people take out loans in the first place because they **can not afford to pay mortgages all at once**. So here we are trying to correct a situation that build up over time because paying everything at once was **IMPOSSIBLE**, and what do we want to do? We try to fix that same situation as if paying everything at once is **POSSIBLE**. It is true that lending institutions can do things with money that individuals can not, but in aggregate, the borrowers are on par with the lenders. If it was impossible to do everything all at once getting into the current Mess, it will be impossible to do everything all at once getting out of this Mess.

THIS SOLUTION is self-enforcing because everybody involved gets double benefits from tightening their belts. Everybody will be working together to do their part. The borrowers will be willing to go the extra mile because they are getting highly leveraged pay back in the way of increased home equity for doing the right thing. With each payment the lenders will come closer to their real purpose in life rather than being the bad guys. They will be serving the economy in a way that will be bringing back the middle class that we've been losing in recent years. Remember that without anyone to loan money to, there would be no lenders. Their very existence depends on the wealth and prosperity that they enable. They will start to remember their real purpose in life, as well as having better, more active markets, if they have to work hard and thus better and more honestly earn the money they deserve.

In the short to medium term, THIS SOLUTION loosens up and directly stabilizes the troubled Markets by returning the in-bound cash flow to normal or enhanced levels just as if there had been no problem. If all the mortgage payments are current, then by definition the cash flows are as they should be. Housing Markets will respond and recover, house prices will again increase with the all-important increase in equity. Nothing else will be needed.

In the long term, THIS SOLUTION directly addresses the inequities by reversing the trends and returning the state of affairs to what they should have been in the first place. It will be as if everybody did the right thing in the first place. This is because the distribution of the economy will end up to be very similar to what it would have been if all the loans were conservative fixed rate loans, and all the buyers had scrimped and saved to pay off the mortgages. This can only be good.

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TALKING POINTS

- Instead of giving bailout money directly to lenders, why not first pass it through borrowers? For the lenders, the short to medium term effects would be essentially the same. The long-term effect would be to lever unfair lender profit into home equity.
- THIS SOLUTION is definitely fair to everybody and distributes the pain evenly, minimally, and over time.
- This Mortgage Crisis Solution is THE REAL solution that does the right thing by everybody with the MINIMUM amount of cost. THIS SOLUTION can do it because it does precisely the direct opposite of what got us into this mess.
- If we handle this bailout right, everybody can be better off than before the Crisis, because keeping everyone honest in a constructive way means tightening the belt and becoming leaner and healthier.
- The most powerful step we can take is to reduce debt.
- We shouldn't be trading in home buyer bad debt, we all should be pulling together to make good, and retire bad debt.
- THIS SOLUTION gives troubled lenders extra cash flow and home buyers equity. The extra payment to principal very effectively builds equity for the buyer.
- THIS SOLUTION doesn't require mortgages to be sold or unbundled because the point of contact is where the rubber already meets the road: the mortgage payment. The infrastructure for paying off the bundled loans is already in place and can be used to apply the bail-out money.
- With THIS SOLUTION in the short to medium term, each dollar applied by the borrower will leverage the reversal of the Crisis by about 10 to 20 dollars because the mortgage is paid off much more quickly. Newer loans are mostly interest and the interest is all bailed-out, and so the borrowers can afford to pay off what little is due and pay extra to principal.
- THIS SOLUTION is a month to month minimal mortgage payment bail out that is pay as you go, and has to last only as long as it is needed, not a HUGE 700 Billion dollar grab. Clearly monthly payments are much smaller than the respective whole loan.
- THIS SOLUTION is self-enforcing because everybody involved gets double benefits from tightening their belts. Everybody will work together to do their part. The borrowers will be willing to go the extra mile because they are getting highly leveraged pay back in the way of increased home equity for doing the right thing. With each payment the lenders will come closer to their real purpose in life rather than being the bad guys.
- In the short to medium term, THIS SOLUTION loosens up and directly stabilizes the troubled Markets by returning the in-bound cash flow to normal or enhanced levels just as if there had been no problem. If all the mortgage payments are current, then by definition the cash flows are as much as they should be.
- In the long term, THIS SOLUTION directly addresses the inequities by reversing the trends and returning the state of affairs to what they should have been in the first place. The shortened duration of the loans still give lenders years to prepare, and yet it completely erases their undue profits.
- THIS SOLUTION is definitely fair to everybody and distributes the pain evenly, minimally, and over time.