Federal Guidelines Issued for "Making Home Affordable" Program

Program addresses Affordable Loan Modifications and Refinancing

A new federal program announced in 2009 is designed to help millions of families restructure or refinance their mortgages in order to achieve affordable mortgage payments. The program provides guidelines for both loan modifications and loan refinancing, and offers incentives to lenders to follow the guidelines.

The programs only apply to existing mortgages is owned by **Fannie Mae or Freddie Mac.** You can find out if your mortgage was sold to either of these government sponsored enterprises by calling Fannie Mae and Freddie Mac or checking on-line:

1-800-7FANNIE or fanniemae.com/homeaffordable
1-800-FREDDIE or freddiemac.com/avoidforeclosure

Home Affordable Refinance

The new refinancing program will be available to 4 to 5 million homeowners who have a solid payment history but can't refinance their mortgages to a lower rate because their homes have lost value or they don't have sufficient equity in their homes. Normally, such borrowers would be unable to refinance if the current loan-to-value ratio is above 80%. Under the Home Affordable Refinance program, however, owner-occupants with a first mortgage up to 105% of the property's market value may be eligible to refinance and to take advantage of today's lower mortgage rates or switch from an adjustable-rate mortgage to a fixed rate mortgage. The principal balance of the current mortgage must be equal to or less than $729,750.

Home Affordable Modification

This program provides a standard framework for modifications while offering incentives for mortgage lenders to modify mortgages.

Eligibility:

- Loans originated before January 1, 2009
- Owner-occupant of a one-to-four unit property
- Principal balance equal to or less than $729,750
- Current mortgage payment is greater than 31% of your gross monthly income
- Demonstrate a hardship, such as interest rate adjustment or change in income or job status

The mortgage can be modified a number of ways in order to achieve an affordable payment. First, the lender can lower the interest rate to as low as 2% if necessary in order to achieve a 31% housing debt-to-income ratio for five years. After that, below-market rates would gradually increase to the prevailing rate in effect when the modification was made. If payments still won't be affordable for the owner, the term may

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Making Home Affordable
Summary of Guidelines

Making Home Affordable ***will offer assistance to as many as 7 to 9 million homeowners***, making their mortgages more affordable and helping to prevent the destructive impact of foreclosures on families, communities and the national economy.

The Home Affordable Refinance program will be available to 4 to 5 million homeowners who have a solid payment history on an existing mortgage owned by Fannie Mae or Freddie Mac. Normally, these borrowers would be unable to refinance because their homes have lost value, pushing their current loan-to-value ratios above 80%. Under the Home Affordable Refinance program, many of them will now be eligible to refinance their loan to take advantage of today's lower mortgage rates or to refinance an adjustable-rate mortgage into a more stable mortgage, such as a 30-year fixed rate loan.

GSE lenders and servicers already have much of the borrower's information on file, so documentation requirements are not likely to be burdensome. In addition, in some cases an appraisal will not be necessary. This flexibility will make the refinance quicker and less costly for both borrowers and lenders. The Home Affordable Refinance program ends in June 2010.

The ***Home Affordable Modification*** program will help up to 3 to 4 million at-risk homeowners avoid foreclosure by reducing monthly mortgage payments. Working with the banking and credit union regulators, the FHA, the VA, the USDA and the Federal Housing Finance Agency, the Treasury Department today announced program guidelines that are expected to become standard industry practice in pursuing affordable and sustainable mortgage modifications. This program will work in tandem with an expanded and improved Hope for Homeowners program.

With the information now available, **servicers can begin immediately to modify eligible mortgages** under the Modification program so that **at-risk borrowers can better afford their payments.** The detailed guidelines (separate document) provide information on the following:

<u>Eligibility and Verification</u>

- Loans originated on or before January 1, 2009.
- First-lien loans on owner-occupied properties with unpaid principal balance up to $729,750. Higher limits allowed for owner-occupied properties with 2-4 units.
- All borrowers must fully document income, including signed IRS 4506-T, two most recent pay stubs, and most recent tax return, and must sign an affidavit of financial hardship.
- Property owner occupancy status will be verified through borrower credit report and other documentation; no investor-owned, vacant, or condemned properties.
- Incentives to lenders and servicers to modify at risk borrowers who have not yet missed payments when the servicer determines that the borrower is at imminent risk of default.
- Modifications can start from now until December 31, 2012; loans can be modified only once under the program.

<u>Loan Modification Terms and Procedures</u>

- Participating servicers are required to service all eligible loans under the rules of the program unless explicitly prohibited by contract; servicers are required to use reasonable efforts to obtain waivers of limits on participation.
- Participating loan servicers will be required to use a net present value (NPV) test on each loan that is at risk of imminent default or at least 60 days delinquent. The NPV test will compare the net present value of cash flows with modification and without modification. If the test is positive

– meaning that the net present value of expected cash flow is greater in the modification scenario – the servicer must modify absent fraud or a contract prohibition.

- Parameters of the NPV test are spelled out in the guidelines, including acceptable discount rates, property valuation methodologies, home price appreciation assumptions, foreclosure costs and timelines, and borrower cure and redefault rate assumptions.
- Servicers will follow a specified sequence of steps in order to reduce the monthly payment to no more than 31% of gross monthly income (DTI).
- The modification sequence requires first reducing the interest rate (subject to a rate floor of 2%), then if necessary extending the term or amortization of the loan up to a maximum of 40 years, and then if necessary forbearing principal. Principal forgiveness or a Hope for Homeowners refinancing are acceptable alternatives.
- The monthly payment includes principal, interest, taxes, insurance, flood insurance, homeowner's association and/or condominium fees. Monthly income includes wages, salary, overtime, fees, commissions, tips, social security, pensions, and all other income.
- Servicers must enter into the program agreements with Treasury's financial agent on or before December 31, 2009.

Payments to Servicers, Lenders, and Responsible Borrowers

- The program will share with the lender/investor the cost of reductions in monthly payments from 38% DTI to 31% DTI.
- Servicers that modify loans according to the guidelines will receive an up-front fee of $1,000 for each modification, plus "pay for success" fees on still-performing loans of $1,000 per year.
- Homeowners who make their payments on time are eligible for up to $1,000 of principal reduction payments each year for up to five years.
- The program will provide one-time bonus incentive payments of $1,500 to lender/investors and $500 to servicers for modifications made while a borrower is still current on mortgage payments.
- The program will include incentives for extinguishing second liens on loans modified under this program.
- No payments will be made under the program to the lender/investor, servicer, or borrower unless and until the servicer has first entered into the program agreements with Treasury's financial agent.
- Similar incentives will be paid for Hope for Homeowner refinances.

Transparency and Accountability

- Measures to prevent and detect fraud, such as documentation and audit requirements, will be central to the program.
- Servicers will be required to collect, maintain and transmit records for verification and compliance review, including borrower eligibility, underwriting, incentive payments, property verification, and other documentation.
- Freddie Mac will audit compliance.

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also be extended, going out as far as 40 years. Finally, the lender may consider a principal reduction as a last resort. The guidelines provide a method to determine whether the modification will be less costly to the lender than going through foreclosure.

There is a three month trial period before the modification is finalized. Foreclosure proceedings are suspended during the trial period as long as the borrower makes timely payments. Borrowers who remain current on their mortgage payments will receive an annual principal reduction of $1,000 for the five year modification period.

If you are delinquent on your mortgage or close to default due to changing circumstances or pending interest rate increases, you should **contact your lender to discuss a possible loan modification**.