Making Home Affordable Program Enhancements to Offer More Help for Homeowners

Today the Administration announced enhancements to the Home Affordable Modification Program (HAMP) to provide additional resources for struggling homeowners. These changes will provide temporary mortgage assistance to some unemployed homeowners, encourage servicers to write-down mortgage debt as part of a HAMP modification, allow more borrowers to qualify for modification through HAMP, and help borrowers move to more affordable housing when modification is not possible. The changes will be implemented in the coming months.

Unemployed borrowers meeting eligibility criteria will have an opportunity to have their mortgage payments temporarily reduced to an affordable level for a minimum of 3 months, and up to six months for some borrowers, while they look for a new job. If homeowners don't find a job before the temporary assistance period is over or if they find a job with a reduced income, they will be evaluated for a permanent HAMP modification or may be eligible for HAMP's alternatives to foreclosure program.

To expand the use of principal write-downs, servicers will be required to consider an alternative modification approach that emphasizes principal relief. This alternative modification approach will include incentive payments for each dollar of principal write-down by servicers and investors. The principal reduction and the incentives will be earned by the borrower and lender based on a pay-for-success structure.

Other program enhancements are designed to help more borrowers complete a HAMP modification. Borrower outreach and communications rules will be clarified and strengthened to protect responsible borrowers from unnecessary and costly foreclosure actions and to expand modification opportunities for borrowers in bankruptcy. Servicers will receive increased incentives, allowing them to expand borrower outreach and counseling efforts. With the introduction of FHA-HAMP, the HAMP pay-for-success incentives will be expanded to include borrowers with FHA loans.

For borrowers who continue to struggle and are unable to complete a modification, these program enhancements will help homeowners move to more affordable housing. Relocation assistance payments to borrowers who use the foreclosure alternatives program will be doubled and incentives will be increased for servicers and lenders to raise participation.

Improvements to the Home Affordable Modification Program – More Help for Homeowners

1. Temporary assistance for unemployed homeowners while they search for re-employment
    - Mortgage payments reduced to affordable level for a minimum of three months, and up to 6 months for some borrowers, while eligible homeowner looks for new job
2. Requirement to consider alternative principal write-down approach and increased principal write-down incentives
    - All servicers required to consider alternative modification approach that emphasizes principal write-down with incentives based on the dollar value of the principal reduced
    - The principal reduction and the incentives will be earned by the borrower and investor based on a pay-for-success structure
3. Improvements to reach more borrowers with HAMP modifications
    - Improvements to borrower solicitation requirements including clear performance timeframes for both servicers and borrowers and a prohibition against initiation of a new foreclosure referral when a borrower is cooperating with the servicer to obtain a modification
    - Borrowers in active bankruptcy must be considered for HAMP upon request
    - Increased incentives for servicers to provide permanent HAMP modifications
    - Expansion of HAMP to include homeowners with FHA loans
4. Helping homeowners move to more affordable housing
    - Relocation assistance payments to homeowners receiving foreclosure alternatives doubled
    - Increased incentives to servicers and lenders, including increased incentives for extinguishment of subordinate liens, to encourage more short sales and other alternatives to foreclosure

Program Details

1. Temporary Assistance for Unemployed Homeowners While They Search for Re-Employment

- Mortgage payments reduced to an affordable level for a minimum of 3 months, and up to six months for some borrowers, while eligible homeowner looks for new job.
  - Payment set at 31 percent of monthly income or less while homeowner is unemployed via forbearance plan.
  - Temporary assistance plan offered for a minimum of 3 months, and up to six months for some borrowers, subject to investor and regulator guidelines, ending when borrower becomes re-employed or scheduled assistance period expires. Borrowers who become re-employed during the scheduled assistance period and whose mortgage payment is greater than 31 percent of their new gross monthly income must be considered for HAMP.
- Servicers participating in the Making Home Affordable Program are required to offer assistance to all unemployed borrowers who meet eligibility criteria:
  - Homeowner's mortgage meets HAMP eligibility requirements, including 1) house is owner-occupied 2) loan balance is below $729,750 and 3) loan was originated before January 1, 2009.
  - Borrower submits evidence that they are receiving unemployment insurance (UI) benefits.
  - Borrower requests temporary assistance in the first 90 days of delinquency.
- At the end of the temporary assistance period, homeowners who have a mortgage payment greater than 31 percent of their monthly income must be considered for a permanent HAMP modification.
  - To receive the permanent HAMP modification, homeowners must be current on assistance plan payments, must verify qualifying income with standard documentation, and must meet all other HAMP underwriting requirements including the net present value (NPV) evaluation.
  - Unemployment insurance will not be counted as income when homeowner is evaluated for HAMP.
  - If the scheduled assistance period ends without re-employment, the homeowner may be considered for HAMP alternatives to foreclosure including short sales and deed-in-lieu of foreclosure.
- No cost to government or taxpayers from the forbearance plans.

2. Requirement to Consider Alternative Principal Write-down Approach and Increased Principal Write-down Incentives

- Requirement for all servicers to consider an alternative modification approach including more principal write-down for HAMP-eligible borrowers that owe more than 115 percent of the current value of their home.
  - Servicers will be required to run the standard NPV and an alternative NPV that includes incentives for principal write-down and compare the results.
  - If NPV is higher under alternative approach, servicer will have option to use it.
- Alternative principal reduction allows some underwater homeowners to reduce principal balance of their mortgage in steps over three years, if they remain current on payments.
  - Under alternative approach, servicers assess the NPV of a modification that starts by forbearing principal balance as needed over 115 percent loan-to-value (LTV) to bring borrower payments to 31 percent of income; if a 31 percent monthly payment is not reached by forbearing principal to 115 percent LTV, the servicer will then use standard steps of lowering rate, extending term, and forbearing additional principal.
  - Servicers will initially treat the write-down amount as forbearance and will forgive the forborne amount in three equal steps over three years, as long as the homeowner remains current on payments.
  - Additional guidance will address the treatment of second liens where applicable, which must also agree to first extinguish principal in conjunction with any principal reduction on the first lien.
- For borrowers who have already received a permanent modification, or who are in a trial modification, and are still current on payments at the time the alternative modification approach is operational (later in 2010), servicers will be required to retroactively consider extinguishing an amount of principal balance in the same amount that would have been forgiven under the new alternative approach.
  - To further encourage principal write-downs, Treasury is also increasing the incentives that it provides for loans extinguished or partially extinguished in conjunction with the HAMP Second Lien Program.
  - The following schedule will be available to lenders in exchange for all principal write-downs under HAMP at the time of a loan modification.

Table: Extinguishment Price Schedule: Per Dollar of Unpaid Principal Balance (UPB) in Loan-to-Value (LTV) Range

LTV Range		
<115	**115 to 140**	**> 140**
0.21	0.15	0.10

All second liens that are greater than 6 months delinquent, regardless of LTV, will be paid at the rate of 0.06.

3. Improvements to Reach More Borrowers with HAMP Modifications

- Improve borrower solicitation and communication and expand opportunities for borrowers in bankruptcy
  - Clarifies borrower solicitation requirements and defines "reasonable effort" on the part of the servicer to outreach to borrowers.
    - Encourages early intervention by requiring pro-active solicitation of all borrowers who meet the HAMP eligibility profile and have missed two or more payments.
    - Establishes minimum solicitation requirements that include both phone and mail attempts.
  - Prohibits referral to foreclosure until a borrower is evaluated and found ineligible for HAMP or reasonable contact efforts have failed, protecting responsible borrowers from unnecessary foreclosure actions and costs.
  - Requires servicers to stop foreclosure actions after a borrower enters into a trial plan based on verified income.
  - Requires written certification that a borrower is not HAMP eligible before an attorney or trustee can conduct a foreclosure sale.
  - Establishes a 30-day borrower response period from the date of a non-approval notice during which foreclosure sale is prohibited.
  - Requires servicers to consider borrowers in bankruptcy for HAMP and removes barriers to HAMP evaluation.
    - Allows use of bankruptcy documents to verify income.
    - Allows waiver of the trial period in some cases were a borrower is already performing under a bankruptcy plan.

- Increase incentives for servicers to provide permanent modifications to homeowners
  - Upfront servicer incentive payments increased for permanent modification to allow servicers to increase outreach and counseling efforts and to cover costs of implementing the updated program elements.

- Implement FHA-HAMP, expansion of HAMP to include homeowners with FHA loans.
  - TARP funded incentives will be available to borrowers and servicers whose loans are modified under the FHA-HAMP guidelines. The incentives are comparable to the incentive structure of HAMP.
  - FHA-HAMP provides FHA insured borrowers with modified mortgage payments set at 31 percent of gross monthly income, similar to a HAMP modification.
  - To be eligible for FHA-HAMP incentives, servicers must sign an agreement with Treasury.

4. Helping Homeowners Move to More Affordable Housing

- Increase incentives to provide more homeowners with foreclosure alternatives
  - Increase payoffs to subordinate lien holders who agree to release borrowers from debt to facilitate greater use of foreclosure alternatives including short sales or deeds-in-lieu.
    - The new payoff schedule allows servicers to increase the maximum payoff to subordinate lien holders to 6 percent of the outstanding loan balance and doubles from $1,000 to $2,000 the incentive reimbursement that is available to investors for subordinate lien payoffs, subject to an overall cap of $6,000.
  - Increase servicer incentive payments from $1,000 to $1,500 to increase use of foreclosure alternatives and encourage additional outreach to homeowners unable to complete a modification.

- Double relocation assistance payment for borrowers successfully completing foreclosure alternative to $3,000

- Help homeowners who use a short sale or deed-in-lieu to transition more quickly to housing they can afford.