Homeowner Affordability & Stability Plan

Overview and Plan Summary

Updated March 29, 2010

Homeowner Affordability and Stability Plan ("HASP")

The Homeowner Affordability and Stability Plan has three prongs:

1. **Refinancing for Responsible Homeowners Suffering From Falling Home Prices**

2. **A Comprehensive $75 Billion Homeowner Stability Initiative**
   - A Loan Modification Plan To Reach 3 to 4 Million Homeowners
   - Shared Effort with Lenders to Reduce Interest Payments
   - Incentives to Servicers and Borrowers
   - Clear and Consistent Guidelines for Loan Modifications
   - Required Participation By Financial Stability Plan Participants
   - Modifications of Home Mortgages During Bankruptcy
   - Strengthen Hope for Homeowners and Other FHA Loan Programs
   - Support Local Communities and Help Displaced Renters

3. **Support Low Mortgage Rates by Strengthening Confidence in Fannie Mae and Freddie Mac**

Servicer Eligibility Requirements

- No payment under the program to lender/investor, servicer, or borrower will be made unless and until the servicer has entered into the program agreements with Treasury's financial agent no later than December 31, 2009.
- Payments after trial period (see pages 11 and 12 of Treasury release)
- Payments only on qualified modifications
- Applies to all qualified loans, not just Fannie Mae or Freddie Mac. This is a Treasury initiative.
- Starts April 1, 2009 for Treasury although Fannie Mae and Freddie Mac launched March 4, 2009.

FHFA Charter Considerations & Conditions

- Charter Interpretation
  - GSE must already hold the credit risk
  - Borrower must be current
  - “Unusual and exigent market circumstances” are present
  - Overall credit risk is reduced (lower payment and/or stable payment)
  - Private mortgage insurance should be sought first but is a requirement of HARP
- These GSE Charter flexibilities expire June 10, 2010 (extended to June 30, 2011 on March 1, 2010)
- MICA and RMIC Support this initiative

Prong 1: Access to Low Cost Refinance (HARP)

- Valuation updated but new Appraisal is not required to be eligible for Refinance under HARP.
- Current (not delinquent) homeowners whose loans are owned or guaranteed by either Fannie Mae or Freddie Mac will qualify for lower mortgage rate refinances at an affordable cost.
- Fannie Mae and Freddie Mac announced guidelines on March 4, 2009. Fannie Mae released DU updates in April 2009 and DU Refi Plus in May 2009. Further updates were released on July 24, 2009 and December 30, 2009.

Limitations on Refinanced Loans

- The refinance will not have a cash-out component, except for closing costs and certain *de minimis* allowances to cover items such as association fees, property tax bills, insurance costs, and rounding adjustments
- The Enterprise will use its best efforts to continue existing mortgage insurance coverage
- Maximum current LTV of 105% (expanded to 125% on July 24, 2009)
- Monthly principal and interest payments will be reduced or the borrower will be refinanced from a more risky loan (such as interest-only or a short-term ARM) to a more stable product

Prong 2: Homeowner Stability Initiative (HAMP)

- $75 billion allocated to reach 3 to 4 million homeowners
- Eligibility Summary: Owner occupied only
  - No maximum or minimum CLTV
  - Loan originated on or before January 1, 2009
  - Default is not required, the program favors current borrowers in imminent danger of default
  - Maximum loan amount of $729,750 for one unit, higher for 2-4 units
  - Total DTI greater than 55% requires homeowner to attend HUD certified consumer debt counseling
- Implemented by Mandate to all Financial Stability Plan Recipients
  - Lender or investor supports the cost of reducing the home payment (PITIH) to 38% of income; government shares the monthly cost to take the payment to 31% for 5 years
  - Incentives to servicers of $1,000 up front plus up to $1,000 per year for 3 years if borrower stays in the program (<90 days delinquent)
  - Current borrower modifications will pay one time $1,500 to mortgage Investor plus up to $500 per annum to servicer while loan is current

Prong 2: Homeowner Stability Initiative (HAMP)

- Implemented by Mandate to all Financial Stability Plan Recipients (continued)
  - $10 billion "Home Price Decline Reserve" to protect servicers from loss of home value on a subsequent default
  - Borrower incentive that will reduce the loan balance up to $1,000 per annum for five years if the borrower remains current
- Common guidelines across Government and Private Sector
  - Common guidelines were released by Treasury, very similar guidelines announced by GSE's
  - All required participants must use the same guidelines and apply them uniformly
  - Treasury has primary role in enforcement but can use the resources of all federal agencies that have a role in real estate
- Modification Waterfall Targets 31% PITIA
  - Capitalize arrearages
  - Reduce interest rate to a floor of 2% by 1/8 intervals
  - Increase term to a maximum of 40 years
  - Forbear principal

Prong 2: Homeowner Stability Initiative (HAMP)

- Modification in Bankruptcy was dropped from legislation May 6, 2009
- FHA/VA new legislation to be introduced
  - Allow FHA and VA to pay partial claims in the event of a cram-down or modification (support for GNMA)
  - Reduce underwriting guidelines and fees for FHA, including FHA's Hope for Homeowners
    - While this did occur, the early losses at FHA has prompted the FHA to tighten guidelines, increase upfront fees and apply for legislated authority to increase fees further
- $2 billion in Neighborhood Stabilization Grants to help reduce foreclosures and an additional $1.5 billion in grants for rent subsidies

Prong 3: Support Low Mortgage Rates

- Treasury invests an additional $100 billion in each of Fannie Mae and Freddie Mac to a total of $400 billion in the GSE's
  - Increase confidence in GSE's as a safe investment
  - Stabilize or reduce debt costs beyond the shorter term
  - December 24, 2009, Treasury removed all limitations of capital support for GSE's, virtually putting them in a full faith and credit status
- Treasury to continue purchase of MBS and PC in the open market. This ends March 31, 2010 with over $1.25 trillion in securities purchased.
- Increase by $50 billion each (to a maximum of $900 billion each) the allowable portfolio limit (portfolio limits are a "topic" currently)
- Support for State Housing Finance Agencies
  - As of December, 2009, Fannie Mae and Freddie Mac executed 125 separate transactions in support of HFA's

Second Lien Support – April 26, 2009

Treasury has released the second lien solution for HAMP

- Modification of a second lien is a complimentary offer to modifications of first liens under MHA program
- Three different solutions:
  - Amortizing Loans: Reduce interest rate to 1%, extend the term to match the modified first, forebear principal to the same proportion as the first, after 5 years the second will be set to the same rate as the modified first. Treasury will pay investor ½ the difference between the 1% and the final rate.
  - Non-Amortizing Loans: Reduce rate to 2%, extend, forebear principal to the same proportion as the first, after 5 years the second will be set to the same rate as the modified first and the term will be set to amortize over the longer of the modified first or the original second lien documents (amortization to start at the time in the original contract). Treasury will pay investor ½ the difference between the 2% and the final rate.
    - For the above two solutions, servicers are paid $500 up front and $250/year for 3 years while the loan is current. Borrower gets $250/year while current for 5 years. Borrower payment is applied to balance of the first.

Second Liens - Continued

- Extinguishing a second lien: If loan is over 180 days past due, government will pay $0.03/$1.00. If less than 180 days past due, government will pay based on the following matrix.

	Second-Lien LTV Range		
Back-End DTI	< 110	110 to 140	> 140
> 55 %	0.09	0.06	0.04
< 55 %	0.12	0.09	0.06

- Modifications of second liens will be automatic when a first lien is modified. However, the second lien modification will not delay the modification of the first.
  - The remainder of the announcement discusses H4H and that any borrower that qualifies for a H4H refinance must be offered the opportunity. Servicers will be paid $2,500 up front and lenders $1,000 per year for 3 years as long as the loan remains current for each H4H refinance.
  - Additional legislation is required to improve H4H to allow FHA to put in place.
  - Treasury and the GSE's would support H4H by buying Ginnie Mae II's backed by H4H.

Second Lien Support – Update

- Second Lien Initiative Fails to Gain Traction
  - Bank of America is the first to “join” on January 26, 2010
  - Wells Fargo follows on March 18, 2010
  - JP Morgan Chase follows on March 22, 2010
- No meaningful activity yet

FHA HAMP

- Enacted August 15, 2009
- Borrower must be at least 30 days past due but no more than 12 months past due
- Used in conjunction with established FHA loss mitigation policies
  - Target PITIA to as close as 31% as possible without going below 31%
  - FHA will make a one time advanced claim payment up to 30% of the balance to allow forbearance

Home Affordable Foreclosure Alternatives (HAFA)

- Short sales and deeds in lieu of foreclosure (November 30, 2009)
- Making Home Affordable supplemental directive 09-09
- Intended for borrowers that do not qualify, refuse to participate or fall out of HAMP
- Same eligibility as HAMP
- Sets procedures, policies and payments
  - Borrowers may be eligible for $1,500 toward relocation
  - Investor is eligible for $1,000 if up to $3,000 is paid to obtain a second lien release
  - Servicer is paid a $1,000 incentive upon settlement

FNMA Alternative Modification to HAMP

- Lender Letter LL-2010-04 (released March 18, 2010)
- Targets active HAMP modifications in place prior to March 1, 2010 that satisfied all requirements except eligibility restrictions
- Based on Mark to Market loan to value
  - >80%, use the HAMP waterfall, including 31% PITIA but income verification is not needed
  - <80%, use the HAMP waterfall, with verified income but PITIA cannot be reduced below 20% of verified income
- $800 servicer incentive payment

Improvements to the Home Affordable Modification Program

- March 26, 2010
- Temporary assistance for unemployed homeowners while they search for re-employment
  - Mortgage payments reduced to affordable level for a minimum of 3 months, and up to 6months for some borrowers, while eligible homeowner looks for new job
- 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

Improvements to the Home Affordable Modification Program

- 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
- 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

Incentives Payments Increased

- Incentive payments for principal forgiveness is current LTV based and applies to both first and second liens. The table is the cents per dollar of forgiveness. If second liens are more than 6 months delinquent, the incentive may not exceed 6 cents per dollar, subject to a cap of $6,000.

Current LTV Range		
<115%	115% - 140%	>140%
0.21	0.15	0.1

- Servicer Incentives increase as follows:
  - Payoff of a subordinate liens from $1,000 to $2,000
  - Foreclosure alternatives from $1,000 to $2,000

FHA Refinance Option for Underwater Borrowers

- Voluntary Option for Borrowers and Lenders
- Homeowner Eligibility
  - Current on existing mortgage
  - Owner occupied
  - Must qualify under current FHA underwriting, including documented income and minimum 500 FICO
  - Maximum 97.5% LTV for FHA loan and total LTV not to exceed 115%
- Lender must agree to write down combined mortgage debt by at least 10% or down to a maximum 115% of value