

**New York State Division of Housing and Community Renewal
Westchester Regional Foreclosure Prevention Meeting**

Homeowner Affordability and Stability Plan

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The Administration Two-Pronged Plan

- Projected to help 7 – 9 million homeowners
- Loan Modifications – to reduce borrowers' monthly payments. Projected to help another 3 – 4 million homeowners
- Refinancing of loans owned or guaranteed by Fannie and Freddie - available for 4-5 million homeowners

The Loan Modification Plan

- \$75 billion in incentives to make loans affordable and sustainable
- Borrowers can seek modifications immediately through December 31, 2012
- Guidelines available at http://www.ustreas.gov/press/releases/reports/modification_program_guidelines.pdf.

Servicer Participation

- **Program is voluntary except for institutions that receive TARP funds in the future.**
- **No Safe Harbor: Modifications subject to contractual limitations**
 - Servicers are required to use reasonable efforts to obtain waivers of limits on participation.
- Servicers must enter into the program agreements with Treasury's financial agent on or before December 31, 2009

Borrower Eligibility

- Loans originated on or before January 1, 2009.
- Owner-occupied 1-4 family properties
- For first lien loans with unpaid principal balance (prior to capitalization of arrearages) equal to or less than:
 - \$729,750 for 1 unit
 - \$934,200 for 2 units
 - \$1,129,250 for 3 unit
 - \$1,403,400 for four units
- Covers both borrowers who are in default and those who have not yet missed payments but are at “imminent risk of default.”

Including Loans

- Loans in Foreclosure or other litigation
- Loans in Bankruptcy – at servicer's discretion

Loans Not Covered

- Second liens
- Mortgage loans insured or guaranteed by a federal government agency (FHA, HUD, VA, and Rural Development)

Imminent Risk of Default

- Borrowers will be screened for hardship.
- Consider whether the borrower has had a change in circumstances that causes financial hardship, or is facing a recent or imminent increase in the payment that is likely to create a financial hardship (payment shock).

Borrower Verification

- 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.

Modification vs. Foreclosure – Net Present Value Test

- If the net present value of modification is greater than net present value of foreclosure, the servicer must modify absent fraud or a contract prohibition

Negative Net Present Value

- If NPV of modification is not better than NPV of foreclosure, modification is optional.
- If modification is not pursued, the lender/investor must seek other foreclosure prevention alternatives, including alternative modification programs, deed-in-lieu and short sale programs.

Waterfall Approach to Affordable Modifications

Goal to reduce monthly payment to no more than 31% of gross monthly income (DTI).

- Reduction of interest rates (subject to a rate floor of 2%) for five years
- Extensions of loan terms up to a maximum of 40 years
- Principal forbearance
- Principal reduction – permitted but not required.

What's In? What's Out?

- Servicers must waive their late fees.
- However, servicers may capitalize
 - accrued interest
 - past due real estate taxes and insurance premiums
 - delinquency charges paid to third parties in the ordinary course of servicing and not retained by the servicer
 - any required escrow advances already paid by the servicer and any required escrow advances by the servicer that are currently due and will be paid by the servicer during the Trial Period

Calculating the Borrower's DTI

- Based on front-end DTI (PITIA)
 - Principal
 - Interest
 - Property Taxes
 - Property-related insurance
 - Required homeowners association payments

Required Verification

- Signed Form 4506 T (Request for Transcript of Tax Return)
- Most recent tax return
- Two recent pay stubs, or
- 3rd party, reasonably reliable verification for self-employed and non-wage income
- Attestation that borrower does not have sufficient liquid assets to make monthly mortgage payments

Other Expenses – the “Back End” or Total DTI

- Includes PITIA + credit card debt + second liens,
- No limit
- Total Cumulative DTI > 55% requires housing counseling

Lender Servicer Incentives

- **Subsidy to Reduce Interest Rate to an Affordable DTI:** share with the lender/investor the cost of reductions in monthly payments from 38% DTI to 31% DTI.
- **For each modification**
 - \$1,500 to lender/investors
 - \$1,000 to servicer for modifying a delinquent loan
 - \$1,500 to servicer for modifying a loan that is current but that is at imminent risk of default.

Lender Servicer Incentives (con't)

- **Second liens**
 - Up to \$1,000 to servicer to pay off junior liens
 - \$500 to servicer for attempting to extinguish junior lien
- **“Pay for Success Incentives”**: 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 for three years.

Homeowner Incentives

- Homeowners are eligible for principal reductions for each month they make their payments on time
- Up to \$1,000 of principal reduction payments each year for up to five years.

Additional Features

- **Foreclosure Actions:** Temporarily suspended during the trial period, or while borrowers are considered for alternative foreclosure prevention options.
- **Underwater borrowers:** There is no minimum or maximum LTV ratio for eligibility purposes.
- **Total Borrower Debt load:** Borrowers who otherwise qualify for a modification under this program, but who would have a post-modification Back-End DTI greater than or equal to 55%, will be required to work with a HUD-approved counselor.
- **90 Trial Period**
- **Unpaid Late Fees Waived**

What about Negative Equity?

- Does not explicitly address negative equity.
- “The plan is not intended to replace equity lost by home price depreciation.”
- Does permit modifications for homeowners with negative equity.

Does the Plan Require Principal Reductions?

- No – principal reductions are permitted but not required.
- The program will reimburse servicers for a portion of the cost of a principal reduction, up to the amount the program would have reimbursed if the servicer or investor had used an interest rate reduction to help the borrower achieve an affordable payment of 31% front-end DTI.

What about Second Liens?

- Second lien holders will be required to subordinate to the modified loan.
- Provides the servicer with an incentive payment of up to \$1,000 to pay off junior lien holders.
- Servicers are eligible to receive an additional \$500 incentive payment for efforts made to extinguish second liens on loans modified under this program.

Next Steps – Bankruptcy Reform

- Tailored bankruptcy reform to allow judges to modify mortgages.
- House passed bankruptcy reform legislation on March 5.
- Would require borrowers to attempt modification with their lender.
- Limited to existing mortgages

Safe Harbor Legislation

Criteria

- Owner occupied housing
- Default has occurred or is reasonably imminent
- The servicer “reasonably and in good faith believes” that the net present value of the modification will exceed that of foreclosure

The “Relief Refinance” Program – A Very Broad View

- Loans owned or guaranteed by Fannie and Freddie
- Available 4/1/09 – 6/10/10
- Fannie & Freddie programs are basically similar – but there are differences
- Even Fannie has different standards depending on whether Fannie Refi Plus™ or DU Refi Plus™
 - Refi Plus™ : lender is current servicer and underwriting is manual
 - DU Refi Plus™: any lender using Desktop Originator

Eligibility

- Types of properties
 - 1-4 family primary residences
 - 1-4 family investment properties
 - Second homes
 - All property types
- No limit on number: multiple mortgages to same borrower
- Borrower must be current – no more than 30 days delinquent in last 12 months

Other Eligibility Factors

- Maximum loan to value 105%
 - Some help for borrowers whose first mortgages are less than the value of their house
- Only for first liens: second liens must be subordinated.
 - Can't use refinancing to extinguish seconds
- New loan must be affordable

Goals

- Reduce monthly payment
- Refinance into a more stable product

Product Options

- Fully amortizing FRM or ARM with initial fixed period of 5 years or more, up to 40 year term.
- **NO** ARMS with initial period < than 5 yrs
- **NO** interest only, balloons, second liens
- **NO** jumbo-conforming loans

Additional Freddie limitations

- **NO** amortization term longer than the mortgage being refinanced
- **NO** Fixed Rate Mortgage to an ARM
- **NO** convertible ARMS

Determining Affordability/Streamlined Underwriting

- Refinanced loans must be affordable
- But no requirement that lenders fully re-underwrite and calculate the borrower's DTI
- Freddie
 - No need to re-underwrite a borrower if the refinanced mortgage raises the monthly principal and interest payment by 20% or less.
 - Where monthly principal and interest payment is more than 20%, lenders will use simplified underwriting process to increase borrower success with the new mortgage.
- Fannie
 - No need to obtain any income documentation or calculate a debt-to-income ratio to determine eligibility.
 - Presumption that if the mortgage payment is staying the same or decreasing and the income reported by the borrower is similar to the original income reported for the existing mortgage loan, there is a reasonable expectation that the borrower will be able to repay the new mortgage loan. A verbal verification of employment is required.
 - The lender may also, at its discretion, choose to obtain income documentation, calculate a debt-to-income ratio, or take any other measures it determines prudent to provide this representation and warranty.

Other features

- Credit Scores
 - Fannie: no minimum
 - Freddie: no minimum unless P+I increase by more than 20%, then 620 minimum FICO required
- Mortgage Insurance
 - If existing loan has private mortgage insurance, same amount of MI coverage will be needed for the refinanced loan.
 - If existing loan does not have private mortgage insurance, MI will not be required.

Ineligible loans

- Reverse mortgage loans.
- Second mortgage loans.
- FHA/VA loans.
- Full or partial recourse mortgages.
- Alt-A or subprime loans current servicer is lender

Is it a Fannie or Freddie loan?

- **Call your current mortgage lender or servicer.**
The phone number should be on your monthly mortgage statement or monthly coupon book.
- **Contact Fannie Mae**
 - 1-800-7FANNIE (8 a.m. - 8 p.m. EST)
 - www.fanniemae.com/loanlookup.
- **Contact Freddie Mac**
 - 1-800-FREDDIE (8am to 8pm EST)
 - www.freddiemac.com/mymortgage

More information

- www.financialstability.gov/
- www.makinghomeaffordable.gov
- www.fanniemae.com/homeaffordable or 1-800-7FANNIE (8 a.m. - 8 p.m. EST)
- www.freddiemac.com/avoidforeclosure or 1-800-FREDDIE (8am to 8pm EST)

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