U.S. DEPARTMENT OF THE TREASURY
Washington
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Making Home Affordable
Updated Detailed Program Description

The deep contraction in the economy and in the housing market has created devastating consequences for homeowners and communities throughout the country. Millions of responsible families who make their monthly payments and fulfill their obligations have seen their property values fall, and are now unable to refinance to lower mortgage rates. Meanwhile, millions of workers have lost their jobs or had their hours cut, and are now struggling to stay current on their mortgage payments. As a result, as many as 6 million families are expected to face foreclosure in the next several years, with millions more struggling to stay current on their payments.

The present crisis is real, but temporary. As home prices fall, demand for housing will increase, and conditions will ultimately find a new balance. Yet in the absence of decisive action, we risk an intensifying spiral in which lenders foreclose, pushing home prices still lower, reducing the value of household savings, and making it harder for all families to refinance. In some studies, foreclosure on a home has been found to reduce the prices of nearby homes by as much as 9% – creating the potential that even borrowers who make every payment suffer from an increase in foreclosures in their community.

The Obama Administration's Making Home Affordable program ***will offer assistance to as many as 7 to 9 million homeowners*** making a good-faith effort to make their mortgage payments, while attempting to prevent the destructive impact of foreclosures on families and communities. It will not provide money to speculators, and it will target support to the working homeowners who have made every possible effort to stay current on their mortgage payments. Just as the American Recovery and Reinvestment Act works to save or create several million new jobs and the Financial Stability Plan works to get credit flowing, the Making Home Affordable program will support a recovery in the housing market and ensure that these workers can continue paying off their mortgages.

By supporting low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac, providing up to 4 to 5 million homeowners with new access to refinancing and creating a comprehensive stability initiative to offer reduced monthly payments for up to 3 to 4 million at-risk homeowners, this plan – which draws off the best ideas developed within the Administration, as well as from Congressional housing leaders and Federal Deposit Insurance Corporation Chair Sheila Bair – brings together the government, lenders, loan servicers, investors and borrowers to share responsibility towards ensuring working Americans can afford to stay in their homes.

Making Home Affordable

1. **Home Affordable Refinance Program for Responsible Homeowners Suffering From Falling Home Prices**

2. **A Comprehensive $75 Billion Home Affordable Modification Program**

   - A Loan Modification Plan To Reach up to 3 to 4 Million Homeowners
     - Shared Effort with Lenders to Reduce Mortgage 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**

1. **<u>A Home Affordable Refinance Program to Provide Access to Low-Cost Refinancing for Responsible Homeowners Suffering From Falling Home Prices:</u>**

   - ***Provide the Opportunity for Up to 4 to 5 Million Responsible Homeowners to Refinance:*** Mortgage rates are currently at historically low levels, providing homeowners with the opportunity to reduce their monthly payments by refinancing. But under current rules, most families who owe more than 80% of the value of their homes have a difficult time securing refinancing. (For example, if a borrower's home was worth $200,000, he or she would have limited refinancing options if he or she owed more than $160,000.) Yet millions of responsible homeowners who put money down and made their mortgage payments on time have – through no fault of their own – seen the value of their homes drop low enough to make them unable to take advantage of these lower rates. As a result, the Obama Administration is announcing <u>a new program that will provide the opportunity for up to 4 to 5 million responsible homeowners who took out loans owned or guaranteed by Freddie Mac and Fannie Mae (the GSEs) to refinance through the two institutions over time.</u>

   - ***Reducing Monthly Payments:*** For many families, a low-cost refinancing could reduce mortgage payments by thousands of dollars per year. For example, consider a family that took a 30-year fixed rate mortgage of $207,000 with an interest rate of 6.50% on a house worth $260,000 at the time. Today, that family has $200,000 remaining on their mortgage, but the value of that home has fallen 15% to $221,000 – making them ineligible for today's low interest rates that generally require the borrower to have 20% home equity. Under this refinancing plan, that family could refinance to a rate near 5.16% – reducing their annual payments by over $2,300.

2. **<u>A $75 Billion Home Affordable Modification Program to Prevent Foreclosures and Help Responsible Families Stay in Their Homes:</u>** The Treasury Department, working with the GSEs, FHA, the FDIC and other federal agencies, will undertake a comprehensive multi-part strategy to prevent millions of foreclosures and help families stay in their homes. This strategy includes the following five features:

   - ***A Home Affordable Modification Program to Reach Up to 3 to 4 Million At-Risk Homeowners***

   - ***Clear and Consistent Guidelines for Loan Modifications***

   - ***Requiring That Financial Stability Plan Recipients Use Treasury Guidelines for Loan Modifications***

   - ***Allowing Judicial Modifications of Home Mortgages During Bankruptcy When A Borrower Has No Other Options***

   - ***Requiring Strong Oversight, Reporting and Quarterly Meetings with Treasury, the FDIC, the Federal Reserve and HUD to Monitor Performance***

   - ***Strengthening FHA Programs and Providing Support for Local Communities***

A. ***A Home Affordable Modification to Reach Up to 3 to 4 Million At-Risk Homeowners:*** This program is intended to reach millions of responsible homeowners who are struggling to afford their mortgage payments because of the current recession, yet cannot sell their homes because prices have fallen so significantly. In the current economy, in which 3.6 million jobs have been lost over the past 14 months, millions of hard-working families have seen their mortgage payments rise to 40 or even 50% of their monthly income – particularly if they received subprime and exotic loans with exploding terms and hidden fees. The Home Affordable Modification program operates through a shared partnership to help those who commit to make reasonable monthly mortgage payments to stay in their homes, providing families with security and neighborhoods with stability. This plan will also help to stabilize home prices for homeowners in neighborhoods hardest hit by foreclosures. Based on estimates concerning the relationship between foreclosures and home prices, with the average house in the U.S. valued around $200,000, **the average homeowner could see his or her home value stabilized against declines in price by as much as $6,000** relative to what it would otherwise be absent the Home Affordable Modification program.

Who the Program Reaches:

- ***Focusing on Homeowners At Risk:*** **Homeowners at risk, such as those suffering serious hardships, decreases in income, increases in expenses, payment "shock,"** high combined mortgage debt compared to income, who are "underwater" (with a combined mortgage balance higher than the current market value of the house), or who show other indications of being at risk of default may be eligible for a loan modification. Eligibility for the program will sunset at the end of three years.

- ***Reaching Homeowners Before They Have Missed Payments:*** Delinquency will not be a requirement for eligibility. Rather, because loan modifications are more likely to succeed if they are made before a borrower misses a payment, modifications for households at risk of imminent default despite being current on their mortgage payments are eligible to participate, in addition to those who have fallen behind.

- ***Common Sense Restrictions:*** Only owner-occupied homes qualify; no home mortgages larger than the FHFA conforming limit of $729,750 will be eligible. *This program will focus solely on supporting responsible homeowners willing to make payments to stay in their home – it will not aid speculators or house flippers.*

- ***Special Provisions for Families with High Total Debt Levels****:* Borrowers with high total debt qualify, but only if they agree to enter HUD-certified consumer debt counseling. Specifically, homeowners with total "back end" debt (which includes not only housing debt, but other debt including car loans and credit card debt) equal to 55% or more of their income will be required to agree to enter a HUD-certified counseling program as a condition for a modification.

How the Program Works

- The Home Affordable Modification program has a simple goal: reduce the amount homeowners owe per month to sustainable levels. This program will bring together lenders, investors, servicers, borrowers, and the government, so that **all stakeholders share in the cost** of ensuring that responsible homeowners can afford their monthly mortgage payments – helping to reach up to 3 to 4 million at-risk borrowers in all segments of the mortgage market, reducing foreclosures, and helping to avoid further downward pressures on overall home prices. The program has several key components:

i. ***Shared Effort to Reduce Monthly Payments:*** Treasury will partner with financial institutions and investors to reduce homeowners' monthly mortgage payments.

- The lender will have to first reduce monthly payments on mortgages to a specified affordability level (specifically, the lender must bring down monthly payments so that the borrower's monthly mortgage payment is no greater than 38% of his or her income).

- Next, the program will match further reductions in monthly payments dollar-for-dollar, from 38% down to 31% debt-to-income ratio for the borrower.

- To ensure long-term affordability, the modified payments will be kept in place for five years and the loan rate will be capped for the life of the loan. After five years, the interest rate can be gradually stepped-up by 1% per year to the conforming loan survey rate in place at the time of the modification.

- To reach the target affordability level of 31%, interest payments will first be reduced down to as low as 2%. If at that rate the debt to income level is still over 31%, lenders then extend the term or amortization period up to 40 years, and finally forbear principal at no interest, until the payment is reduced to the 31% target.

- Treasury will share the costs of reducing the payment from 38% DTI to 31% DTI dollar for dollar.

- *Note: Lenders can also bring down monthly payments to these affordability targets through reducing the amount of mortgage principal. The program will provide a partial share of the costs of this principal reduction, up to the amount the lender would have received for an interest rate reduction as long as the lender reaches the target rate of affordability at 31% debt-to-income.*

ii. ***"Pay for Success" Incentives to Servicers*:**
- Servicers will receive an up-front fee of $1,000 for each eligible modification meeting guidelines established under this initiative. Servicers will also receive "pay for success" fees –as long as the borrower is successful at staying in the program – of $1,000 each year for three years, subject to a *de minimis* threshold.

- Servicers will get similar incentives if they modify FHA, VA, or Agriculture Department loans, or refinance loans according to the Hope for Homeowners or similar FHA programs.

iii. ***Responsible Modification Incentives:***

- Because loan modifications are more likely to succeed if they are made before a borrower misses a payment, the plan will include an incentive payment of $1,500 to mortgage holders and $500 for servicers for modifications made while a borrower at risk of imminent default is still current on their payments.

- The servicer portion of this incentive will also be available for modifications of FHA, VA, or Agriculture Department loans, or refinance loans under the Hope for Homeowners or similar FHA programs.

iv. ***Incentives to Help Borrowers Stay Current*:** To provide an extra incentive for borrowers to keep paying on time under the modified loan, the initiative will provide a monthly pay for performance success payment that goes straight towards reducing the principal balance on the mortgage loan.

- As long as the borrower stays current on his or her payments, he or she can get up to $1,000 each year for five years, subject to a *de minimis* threshold.

- As with the servicer incentives, these borrower incentives are also available for modifications of FHA, VA, or Agriculture Department loans, or refinance loans under the Hope for Homeowners or similar FHA programs.

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v. ***Home Price Decline Payments:*** To encourage the modification of more mortgages and enable more families to keep their homes, the Administration -- together with the FDIC -- has developed an innovative payment that provides compensation that can partially offset losses from failed modification when home prices decline, but is structured as a simple cash payment on every eligible loan. The Treasury Department will make payments totaling up to $10 billion to discourage lenders, servicers and investors from opting to foreclose on mortgages that could be viable now out of fear that home prices will fall even further later on. This initiative provides servicers with the security to undertake more mortgage modifications by assuring that if home price declines continue to occur or worsen, investor losses are partially offset. Holders of mortgages modified under the program would be provided with an additional payment on each modified loan, linked to declines in the home price index.

vi. ***Second Liens:*** While eligible loan modifications will not require any participation by second lien holders, the program will include additional incentives to extinguish second liens on loans modified under the program, in order to reduce the overall indebtedness of the borrower and improve loan performance. Servicers will be eligible to receive compensation when they contact second lien holders and extinguish valid junior liens (according to a schedule to be specified by the Treasury Department, depending in part on combined loan to value). Servicers will be reimbursed for the release according to the specified schedule, and will also receive an extra $250 for obtaining a release of a valid second lien.

How It Will Be Effective

- ***Protecting Taxpayers and Communities:*** To protect taxpayers, the Home Affordable Modification programwill focus on sound modifications. No payments will be made unless the modification lasts for at least three months, and all the payments are designed around the principal of "pay for success." Borrowers, servicers and lenders/investors all have aligned incentives under the program to get successful modifications at an affordable and sustainable level.

- ***Counseling and Outreach to Maximize Participation:*** Under the plan, the Department of Housing and Urban Development will also make available funding for non-profit counseling agencies to improve outreach and communications, especially to disadvantaged communities and those hardest-hit by foreclosures and vacancies. Borrowers with high debt-to-income levels must agree to use counseling services.

- ***Creating Proper Oversight and Tracking Data to Ensure Program Success:*** Fannie Mae and Freddie Mac will be responsible – subject to Treasury's oversight and the Federal Housing Finance Agency's conservatorship – for monitoring compliance by servicers with the program. Every servicer participating in the program will be required to report standardized loan-level data on modifications, borrower and property characteristics, and outcomes. The data will be pooled so the government and private sector can measure success and make changes where needed. Treasury will meet quarterly with the FDIC, the Federal Reserve, the Department of Housing and Urban Development and the Federal Housing Finance Agency to ensure that the program is on track to meeting its goals.

- ***Limiting the Impact of Foreclosure When Modification Doesn't Work:*** Servicers will receive incentives to take alternatives to foreclosures, like short sales or taking of deeds in lieu of foreclosure. For those borrowers unable to maintain homeownership, even under the affordable terms offered, the plan will provide incentives to encourage families and servicers to avoid the costly foreclosure process and minimize the damage that foreclosure imposes on financial institutions, borrowers and communities alike. Servicers will be eligible for a payment of $500 and can make reimbursable payments up to $1000 to extinguish other liens, and borrowers are eligible for a payment of $1500 in relocation expenses in order to effectuate short sales and deeds-in-lieu of foreclosure. Such methods reduce vacancy, neighborhood decline, and overall costs for financial institutions, borrowers, and affected communities alike.

- Treasury will also work with the GSEs to provide data on foreclosed properties to streamline the process of selling or redeveloping them, thereby ensuring that they do not remain vacant and unsold.

B. ***Clear and Consistent Guidelines for Loan Modifications:*** A lack of common standards has limited loan modifications, even when they are likely to both reduce the chance of foreclosure and raise the value of the securities owned by investors. Mortgage servicers – who should have an interest in instituting common-sense loan modifications – often refrain from doing so because they fear lawsuits. Clear and consistent guidelines for modifications are a key component of foreclosure prevention.

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- ***Clear and Consistent Guidelines for Loan Modifications:*** Working with the FDIC, other federal banking and credit union regulators, the FHA and the Federal Housing Finance Agency, the Administration today announced guidelines for sustainable mortgage modifications that may be used by all federal agencies and the private sector – bringing order and consistency to foreclosure mitigation. The guidelines include detailed protocols for loss mitigation and will serve as standard industry practice.

- ***Applied Across Government and the Private Sector:*** Treasury today issued Guidelines for loan modifications that should serve as standard industry practice across the mortgage industry by working closely with the FDIC and other banking agencies and building on the FDIC's pioneering role in developing a systematic loan modification process last year. The Guidelines – to be posted online – will be used for the Administration's new foreclosure prevention plan. Moreover, all financial institutions receiving Financial Stability Plan financial assistance going forward will be required to implement loan modification plans consistent with Treasury Guidelines. Fannie Mae and Freddie Mac will use these guidelines for loans that they own or guarantee, and the Administration will work with regulators and other federal and state agencies to implement these guidelines across the entire mortgage market. Ginnie Mae, the Federal Housing Administration, Treasury, the Federal Reserve, the FDIC, The Department of Veterans' Affairs and the Department of Agriculture also have agreed to seek to apply these guidelines when permissible and appropriate to all loans owned or guaranteed by these agencies. In addition, it is expected that the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Reserve, the Federal Deposit Insurance Corporation and the National Credit Union Administration where possible and appropriate will encourage the institutions that they supervise to participate in the loan modification program and use the Treasury Guidelines.

- ***Mortgage Insurer Participation.*** The major mortgage insurance firms have agreed to develop a mechanism by which they will make partial claims on modified loans where appropriate in order help prevent avoidable foreclosures.

C. ***Requiring All Financial Stability Plan Recipients to Use Guidelines for Loan Modifications:*** The Treasury Department will require all Financial Stability Plan recipients going forward to participate in foreclosure mitigation plans consistent with Treasury's loan modification guidelines.

D. ***Allowing Judicial Modifications of Home Mortgages During Bankruptcy for Borrowers Who Have Run Out of Options:*** The Obama administration will seek carefully crafted changes to bankruptcy provisions which will help to facilitate the goals of the Making Home Affordable program

- ***How Judicial Modification Works**:* Appropriately tailored bankruptcy legislation provides a mechanism for homeowners who are out of other options to file for bankruptcy and implement a responsible plan to pay the debts that they are able to pay. After borrowers have tried unsuccessfully to obtain affordable loan modifications from their lenders or servicers, in the appropriate circumstances, a bankruptcy judge should be able to reduce the outstanding principal balance of a primary residence home mortgage loan to current fair market value—just as is done with vacation homes or investment properties--when a person has no other options.

- ***Bolster FHA and VA Authority to Protect Issuers and Ensure Loan Modifications Occur:*** Legislation will provide the FHA and VA with the authority they need to provide partial claims in the event of bankruptcy or voluntary modification so that issuers guaranteed by the FHA and VA are not disadvantaged.

E. ***Strengthening FHA Programs and Providing Support for Local Communities***

- ***Ease Restrictions in FHA Programs and Improve Hope for Homeowners***
An improved Hope for Homeowners program can offer an important avenue for struggling borrowers to obtain a sustainable mortgage. In order to ensure that many more borrowers are able to participate in Hope for Homeowners, we will work to improve the program and actively pursue legislation so that the FHA may reduce fees paid by borrowers, increase flexibility for lenders to refinance troubled loans, permit borrowers with higher debt loads to qualify, and address additional challenges that could limit uptake under the program. We will also ensure servicers consider borrowers for refinancing into the improved Hope for Homeowners program whenever feasible, and make similar incentives available to servicers for Hope for Homeowners refinance loans in order to encourage servicers to use this program.

- ***Strengthening Communities Hardest Hit by the Financial and Housing Crises:*** As part of the recovery plan signed by the President, the Department of Housing and Urban Development will award $2 billion in competitive Neighborhood Stabilization Program grants for innovative programs that reduce foreclosure. Additionally, the recovery plan includes an additional $1.5 billion to provide renter assistance, reducing homelessness and avoiding entry into shelters

3. Support Low Mortgage Rates By Strengthening Confidence in Fannie Mae and Freddie Mac:

- ***Ensuring Strength and Security of the Mortgage Market:*** Using funds already authorized in 2008 by Congress for this purpose, the Treasury Department increased its funding commitment to Fannie Mae and Freddie Mac to ensure the strength and security of the mortgage market and to help maintain mortgage affordability.

    - ***Provide Forward-Looking Confidence:*** The increased funding will enable Fannie Mae and Freddie Mac to carry out ambitious efforts to ensure mortgage affordability for responsible homeowners, and provide forward-looking confidence in the mortgage market.

- Treasury is increasing its Preferred Stock Purchase Agreements to $200 billion each from their original level of $100 billion each.

- ***Promoting Stability and Liquidity:*** In addition, the Treasury Department will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities to promote stability and liquidity in the marketplace.

- ***Increasing the Size of Mortgage Portfolios:*** To ensure that Fannie Mae and Freddie Mac can continue to provide assistance in addressing problems in the housing market, Treasury will also be increasing the size of the GSEs' retained mortgage portfolios allowed under the agreements – by $50 billion to $900 billion – along with corresponding increases in the allowable debt outstanding.

- ***Support State Housing Finance Agencies:*** The Administration will work with Fannie Mae and Freddie Mac to support state housing finance agencies in serving homebuyers.

- ***No EESA or Financial Stability Plan Money:*** The $200 billion increase in Treasury's GSE stock purchase funding commitments are being made under the Housing and Economic Recovery Act and **do not use any money from the Financial Stability Plan or Emergency Economic Stabilization Act/TARP.**