April 28, 2009

Making Home Affordable
Program Update

On February 18, the Obama Administration announced the Making Home Affordable (MHA) Program, a comprehensive plan to stabilize the U.S. housing market. As promised, two weeks later on March 4, the Administration published detailed program guidelines and authorized servicers to begin modifications and refinancings under the plan immediately. Servicers covering more than 75 percent of loans in the country have now begun modifications and refinancings under the Administration's MHA Program.

As previewed in the guidelines released March 4, today we are announcing additional details on the Second Lien Program and the integration of Hope for Homeowners into the MHA Program.

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 mortgage payments. Second liens contribute to the number of American homeowners unable to afford their housing payments. Even where a first mortgage payment may be affordable, the addition of a second mortgage payment can increase monthly payments beyond affordable levels. In addition, second mortgages often complicate or prevent modification or refinancing of a first mortgage. We estimate up to 50 percent of at-risk mortgages currently have second liens. By offering homeowners a way to lower payments on their second mortgages through our Second Lien Program, we may potentially reduce payments further for up to 1 to 1.5 million homeowners, accounting for up to 50 percent of participants in the Home Affordable Modification Program, as well as maximize the effectiveness of our first lien modification program. The program ensures that first and second lien holders are treated fairly and consistent with priority of liens.

Separately, the integration of an improved Hope for Homeowners program will help underwater borrowers, who often face heightened risks of foreclosure, by requiring principal writedowns to help homeowners increase the equity they own in their homes.

These new details on the Second Lien Program and the integration of Hope for Homeowners mark ongoing progress of the Making Home Affordable Program in improving mortgage affordability for responsible homeowners and keeping more Americans in their homes.

Making Home Affordable
Second Lien Program and Support for Hope for Homeowners

1. Second Lien Program To Create a Comprehensive Affordability Solution for Homeowners

- A Second Lien Program to Reach up to 1 to 1.5 Million Homeowners
  - Shared Efforts with Lenders to Reduce Second Mortgage Payments
  - Pay-for-Success Incentives for Servicers, Investors and Borrowers
  - Payment Schedule for Extinguishing Second Mortgages
- Automatic Modification of a Second Lien When a First Lien is Modified

2. Support for Hope for Homeowners

- Inclusion of Hope For Homeowners in the Making Home Affordable Program
  - Requirement that Servicers Seek Hope for Homeowners Refinancing in Tandem with a MHA Trial Modification
  - Pay-For-Success Incentives Similar to Other MHA Modifications
- More Principal Writedowns to Help Underwater Borrowers
- Support for Legislation to Strengthen Hope for Homeowners
- Treasury Purchase of Special Ginnie Mae Pools to Provide Liquidity for Hope for Homeowners Loans

<u>1. Second Lien Program To Create a Comprehensive Affordability Solution for Homeowners</u>: We estimate up to 50 percent of at-risk mortgages have second liens. Even if a first lien is modified to create an affordable payment, second liens can contribute to much higher foreclosure rates if not addressed. The Second Lien Program coordinates with the first mortgage modification program to lower payments on second liens and offer a comprehensive affordability solution for homeowners, helping keep more than a million Americans in their homes. In some cases where appropriately tailored to the borrower, servicers may also choose to accept a lump-sum payment from Treasury to extinguish some or all of a second lien.

- ***A Second Lien Program to reach up to 1 to 1.5 million homeowners, and potentially reduce payments further for up to 50 percent of participants in the Home Affordable Modification Program:*** The Second Lien Program will be a complementary program to the first lien modification program. It is intended to reach more than a million 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 5.1 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 percent of their monthly income – particularly if they received subprime and exotic loans with exploding terms and hidden fees. The Second Lien Program will help create a sustainably affordable mortgage payment for millions of homeowners who qualify for a first mortgage modification, yet still face challenges in affording their monthly payments because of a second mortgage.

    - ***Shared Efforts with Lenders to Reduce Second Mortgage Payments:*** Making Home Affordable will share the cost with lenders of reducing payments for homeowners on second mortgages.
        - <u>For amortizing loans</u> (loans with monthly payments of interest and principal), we will share the cost of reducing the interest rate on the second mortgage to 1 percent. Participating servicers will be required to follow these steps to modify amortizing second liens:
            - Reduce the interest rate to 1 percent;
            - Extend the term of the modified second mortgage to match the term of the modified first mortgage, by amortizing the unpaid principal balance of the second lien over a term that matches the term of the modified first mortgage;
            - Forbear principal in the same proportion as any principal forbearance on the first lien, with the option of extinguishing principal under the Extinguishment Schedule;
            - After five years, the interest rate on the second lien will step up to the then current interest rate on the modified first mortgage, subject to the Interest Rate Cap on the first lien, set equal to the Freddie Mac Survey Rate;
            - The second mortgage will re-amortize over the remaining term at the higher interest rate(s); and
            - Investors will receive an incentive payment from Treasury equal to half of the difference between (i) the interest rate on the first lien as modified and (ii) 1 percent, subject to a floor.

        - <u>For interest-only loans</u>, we will share the cost of reducing the interest rate on the second mortgage to 2 percent. Participating servicers will be required to follow these steps to modify interest-only second liens:
            - Reduce the interest rate to 2 percent;

        - Forbear principal in the same proportion as any principal forbearance on the first lien, with the option of extinguishing principal under the Extinguishment Schedule;
        - After five years, the interest rate on the second lien will step up to the then current interest rate on the modified first mortgage, subject to the Interest Rate Cap on the first lien, set equal to the Freddie Mac Survey Rate;
        - The second lien will amortize over the longer of the remaining term of the modified first lien or the originally scheduled amortization term, with amortization to begin at the time specified in the original contract;
        - Investors will receive an incentive payment from Treasury equal to half of the difference between (i) the lower of the contract rate on the second lien and the interest rate on the first lien as modified and (ii) 2 percent, subject to a floor.

- ***Pay-for-Success Incentives for Servicers and Borrowers:***
    - The Second Lien Program will have a pay-for-success structure similar to the first lien modification program, aligning incentives to reduce homeowner payments in a way most cost effective for taxpayers.
        - Servicers can be paid $500 up-front for a successful modification and then success payments of $250 per year for three years, as long as the modified first loan remains current.
        - Borrowers can receive success payments of up to $250 per year for as many as five years. These payments will be applied to pay down principal on the first mortgage, helping to build the borrower's equity in the home.

- ***Payment Schedule to Compensate Lenders for Extinguishing a Second Mortgage:***
    - As an alternative to modifying the second lien, lenders/investors will have the option to extinguish second liens in exchange for larger payments under a pre-set formula. This will allow second lien holders to target principal extinguishment to the borrowers where extinguishment is most appropriate. For loans that are more than 180 days past due at the time of the modification, the lender/investor will be paid three cents per dollar of UPB extinguished.

    - **Table: Extinguishment Price Schedule: Per Dollar of UPB in LTV range (Loans less than 180 days past due)**

o	**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

- ***Clear and Consistent Guidelines for Second Lien Modifications***: As with the first lien modification program, the Second Lien Program provides clear and consistent guidelines for modifying both amortizing and interest-only second liens. A lack of common standards has limited loan modifications of both first and second liens in the past, even when modifications 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 of a lack of clear standards. Clear and consistent guidelines for modifications are a key component of foreclosure prevention.

- ***Automatic Modification of a Second Lien When a First Lien is Modified***: The Second Lien Program will facilitate automatic modification of a second lien when a first lien is modified for participating servicers, to ensure a comprehensive affordability solution for borrowers.

- ***Second Lien Modification May Not Delay First Lien Modification***: The Second Lien Program will be a voluntary parallel program to the first lien modification program. Modification of a second lien will not delay modification of a first lien. The modification offer for a second lien under the program will occur as soon as the second lien servicer is able to prepare the terms and contact the borrower.

- ***Cost-Effective for Taxpayers***: To protect taxpayers, the MHA Second Lien Program will focus on sound modifications. All the payments are designed around the principle of "pay for success." Borrowers, servicers and lenders/investors all have aligned incentives under the program to complete successful modifications at an affordable and sustainable level.

2. Support for Hope for Homeowners: An improved Hope for Homeowners program can offer an important avenue for struggling borrowers to obtain a sustainable mortgage. Hope for Homeowners can particularly benefit underwater borrowers by helping to increase the equity they own in their homes. These additional supports are designed to work in tandem and take effect with the improved and expanded program under consideration by Congress.

- ***Inclusion of Hope For Homeowners in the Making Home Affordable Program***: Making Home Affordable will include Hope for Homeowners as an important element of a comprehensive program to help responsible homeowners improve affordability of their mortgages and avoid preventable foreclosure.

    - ***Requirement that Servicers Seek Hope for Homeowners Refinancing in Tandem with a MHA Trial Modification***: When a borrower is in a trial Home Affordable Modification, a servicer will be required to evaluate a borrower for a Hope for Homeowners refinance and to offer the refinancing opportunity to the borrower if he or she qualifies. If a servicer determines the borrower is eligible for a Hope for Homeowners refinance in the initial discussion with the borrower, the servicer is required to also offer the refinance at the same time as the trial modification offer.

    - ***Pay-For-Success Incentives Similar to Other MHA Modifications***: Servicers and lenders who help make mortgages more affordable for struggling homeowners through Hope for Homeowners will receive pay-for-success incentive payments similar to the incentive payments offered for Home Affordable Modifications.
        - Servicers can receive a $2,500 up-front incentive payment for a successful Hope for Homeowners refinancing.
        - Lenders who originate the new Hope for Homeowners refinanced loans are eligible for success fees of up to $1,000 per year for up to three years, so long as the refinanced loan remains current.

  - These incentive payments will only be available to servicers and originators who are participants in the Making Home Affordable Program.

- ***More Principal Writedowns to Help Underwater Borrowers:*** Hope for Homeowners offers homeowners mortgage refinancings that include principal writedowns. This will allow underwater borrowers to increase the amount of equity they own in their homes. Underwater borrowers are more likely to be at risk of foreclosure, so increasing equity for these homeowners through Hope for Homeowners will be an important tool for the Administration in preventing avoidable foreclosures and keeping Americans in their homes.

- ***Support for Legislation to Strengthen Hope for Homeowners:*** In order to ensure that many more borrowers are able to participate in Hope for Homeowners, we are working to improve the program and actively pursuing 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 make further improvements to strengthen Hope for Homeowners so that it can function effectively as an integral part of the Making Home Affordable Program.

- ***Treasury Purchase of Special Ginnie Mae Pools to Provide Liquidity for Hope for Homeowners Loans:*** Under HERA authority, Treasury or the GSEs would purchase special Hope for Homeowners Ginnie Mae IIs wrapped by the GSEs. These purchases will increase secondary market liquidity for new Hope for Homeowners loans, supporting additional assistance to homeowners.

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