

Basics about Obama homeowner plan

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The Obama Administration's Homeowner Affordability and Stability Plan was announced in concept in mid-February, and has been fleshed out with more details from Treasury and other agencies since.

A major element in lenders' and servicers' ability to get on board has been release of details by Fannie Mae and Freddie Mac of how the program will work within their systems, as these organizations control so much of the market. Both organizations have been issuing bulletins, and updates on those bulletins, from the initial program announcement even into the period this article was being prepared, with some key documents being published in late April.

Servicers say that efforts to adapt the program to the non-Fannie/Freddie mortgage market has been a mixed experience. On the modification side, it was only on April 6 that Treasury released Supplemental Directive 09-01, which addressed how the program would dovetail with private arrangements.

A spokesperson for Bank of America, the nation's largest mortgage servicer, noted that the institution's ability to make modifications on the non-GSE mortgages varies according to the contract governing each arrangement.

Some private investors grant BofA "delegated authority," points out spokesperson Jumana Bauwens. This allows BofA to handle negotiations as if the loans were in their own portfolio, subject to prudence, "in the best interests of the investor and the customer." At the other extreme, she adds, there are arrangements where consultation between servicer and investor must take place for every modification made on every mortgage. Portfolioed loans "held for investment" mortgages, in industry terminology "can be modified at will, as BofA controls them completely.

The American Securitization Forum represents private mortgage investors, among other key secondary mortgage market players, and is part of the private-sector's Hope Now Alliance (which ABA belongs to) declined to comment on implementation thus far, beyond its initial partial approval.

Program details

The overall Administration program, budgeted at \$75 billion, consists of two major prongs, which we'll look at separately.

Refinancing with HARP

This aspect of the plan—Home Affordable Refinance Program, or HARP—is designed for borrowers who remain current on their loans, but who have been unable to refinance into 30-year fixed-rate mortgages, or other choices more suitable to their conditions, because their homes have declined in value. Under this program, qualifying holders of Fannie and Freddie mortgages can refinance using the new Fannie Home Affordable Refinance options and the Freddie Relief Refinance Mortgage. A key element is that the homeowner can borrow at a loan-to-value ratio of as high as 105% of the property's value.

One indicator is the volume reached by late April at Bank of America Home Loans. Availability of the federal program has been rolled out through BofA's owned, wholesale, and correspondent wings, and 20,000 HARP refinance applications are already in process.

It's estimated that between 4-5 million homeowners with Fannie or Freddie mortgages will qualify for HARP relief.

Modifications with HAMP

This Home Affordable Modification Program, or HAMP, applies to homeowners who are in default, at risk of imminent default, or in foreclosure. The target of the program is to move borrowers, through some combination of modifications, to a 31% of monthly gross income target ratio for monthly payments (including loan payments and related costs). Fannie and Freddie servicers must participate in this program.

In very abbreviated terms, this is the HAMP process:

1. Status—delinquency, imminent default, or foreclosure—must be verified.
2. Hardship must be determined.
3. The Net Present Value of the property is determined, for purposes of determining how much principal forbearance can be permitted in determining the borrower's modified target mortgage monthly payment.
4. Then the borrower's case is subjected to a "standard modification waterfall." This is a series of steps performed in prescribed order in order to bring the monthly payment ratio to as close to 31% as possible, without dipping below that. They include interest rate cuts; extensions of the term and reamortization of the loan; principal forbearance, in the form of an end-of-loan balloon; and more.

(Servicers are required to consider borrowers for refinancing into the FHA Hope for Homeowners program, as well.)

Assuming the modification moves forward, that's not the end. The servicer and borrower must proceed with the plan in a trial period. That runs three months for a defaulted loan and four months for one that was in imminent danger of default. The borrower must be current at the end of the trial period for the loan modification to be permanent. (In the case of non-GSE mortgage backed securities, the trial runs three months unless the contract with the investor requires a

longer term).

Standing behind these steps are incentive payments for various parties in the loan.

Servicer incentive: Each completed modification earns \$1,000, with \$500 more if the borrower was current under the original loan. This is considered earned, and is to be paid, after the trial period ends. In addition, for loans modified to cut monthly payments by at least 6%, there is a further incentive payment called the "pay for success fee," payable annually for three years.

Borrower incentive: Where the payment was cut by at least 6%, the borrower gets an incentive "pay for performance" payment, too, subject to formula, but not more than \$1,000 annually. This is used to reduce principal. This applies for the first five years of the modified loan.

Investor incentive: Investors holding non-GSE mortgage-backed securities are eligible for federal compensation for half of the payment lost through modification. This is subject to formula. Investors also receive a one-time incentive of \$1,500 for each borrower who was current prior to modification, provided the payment drops by at least 6%.

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