



Sustainable Loan Modifications

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Introduction


- Foreclosures at record levels
 - First wave: Driven by loan terms & home values
 - » Concentration in “sand states” and LMI communities (but spreading)
 - Second wave: Driven by unemployment
- Various local, state and federal responses
 - Effects unclear; scale overwhelming
 - Homeowner Affordability and Stability Program
 - » most recent and most significant effort
- Industry efforts
 - Net present value of losses in foreclosure vs. workout



Foreclosure Process

Judicial Foreclosures

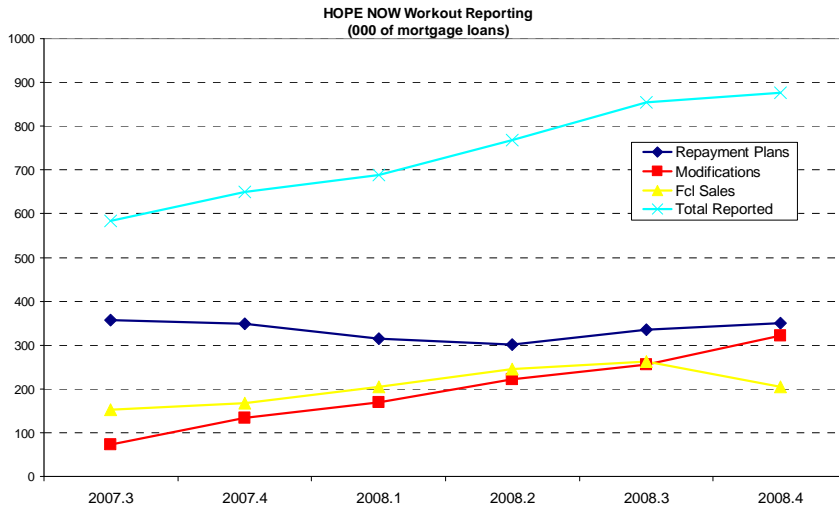
- Lis Pendens
- Summons and Complaint
- Service to Parties
- Homeowner Responses
- Court Hearing & Judge's Decisions
- Sale Notice
- Foreclosure Sale
- Confirmation of Sale



Defining Terms

- “Workout” is generic term
- Repayment plan is temporary (usually <24 months)
 - Provide temporary forbearance and/or spread out missed payments over time
- Modification permanently alters original loan contract
 - Capitalization of arrearages - increase principal (past payments and fees)
 - Move from ARM to FRM (frozen or reset mod)
 - Reduction in the interest rate – (maybe time limited)
 - Reduce principal

Use of Modifications is on the Rise



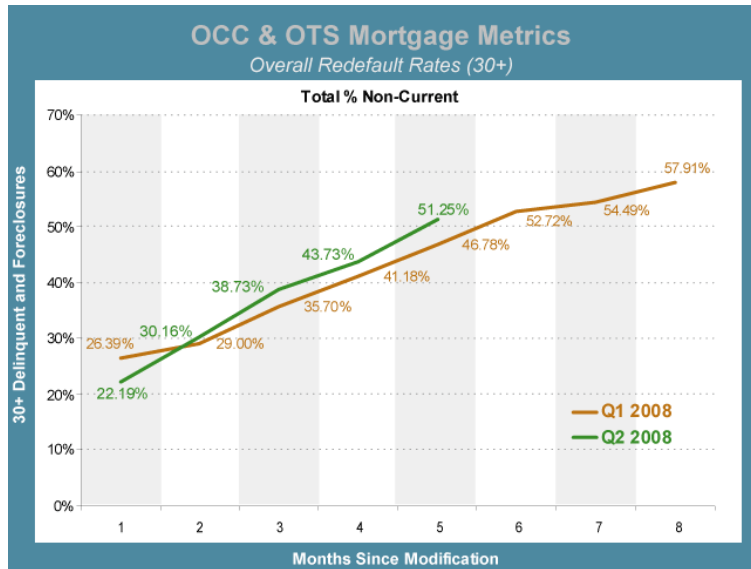
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Re-default of Modified Loans

- What happens to Modified Loans? Do they work? It depends...
 - Varied stories
- OCC (Mortgage Metrics Report):
 - 3 months, 36 percent more than 30 days past due
 - 6 months, 53 percent more than 30 days past due
 - 8 months, 58 percent more than 30 days past due
- Hope Now (coalition of major lenders):
 - “30-40%” re-default in 2008
- Fitch Report (May 2008)
 - 60% re-default

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Re-default



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Not all Mods are Created Equal

- Several sources of data indicate largest share of mods have increased payments by adding arrearage to balance
- Other mods maintained current payment levels by freezing interest rates
- Few mods have actually reduced monthly payments by reducing interest rates or principal balances

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Not all Modifications Are Equal, I

- White's Analysis of Wells Fargo CTS data
 - 35% of modifications reduced monthly payments below the initial payment
 - » 18% left the payment the same
 - » 47% actually increased the monthly payment

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Not all Modifications Are Equal, II

- Credit Suisse Analysis (LP data)
 - 40 percent of modifications that increase amount owed and do not reduce monthly payments redefault within 8 months
 - 15 percent of Reset modifications redefault
 - » But 90 percent of these borrowers were current on their mortgage at the time of the modification.
 - 23 percent of principal reduction modifications redefault
 - » even though 80 percent of these mortgages were in default

Rod Dubitsky, Larry Yang, Stevan Stevanovic, and Thomas Suehr, *Subprime Loan Modifications Update*, Credit Suisse, Fixed Income Research, October 2008

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Why Aren't There More Sustainable Mods?

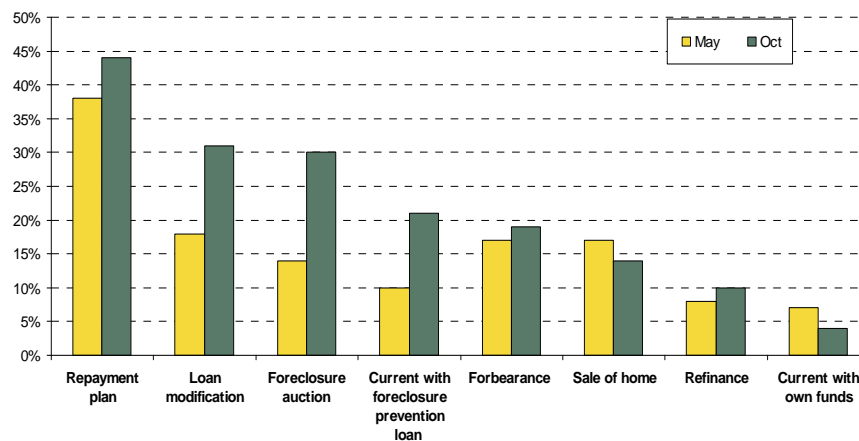
- Servicers are constrained by P&S agreements limiting modifications (REMIC regs; litigation anxiety)
- Servicers may benefit more from foreclosures
- Servicers' loss mitigation staff are limited and overtaxed
- Servicers and investors slow to update foreclosure loss estimates that support modifications as better option
- Lending industry concerned about "moral hazard" of "rewarding" borrowers with reduced payments or loans

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Chicago HOPI Counselor Survey March/Oct 2007

139 counselors in total served 25,000 clients 6/06-6/07

How common is each outcome for borrowers in default that you counsel?
% Very Common



Source: NHS Default Counselor Surveys 2007

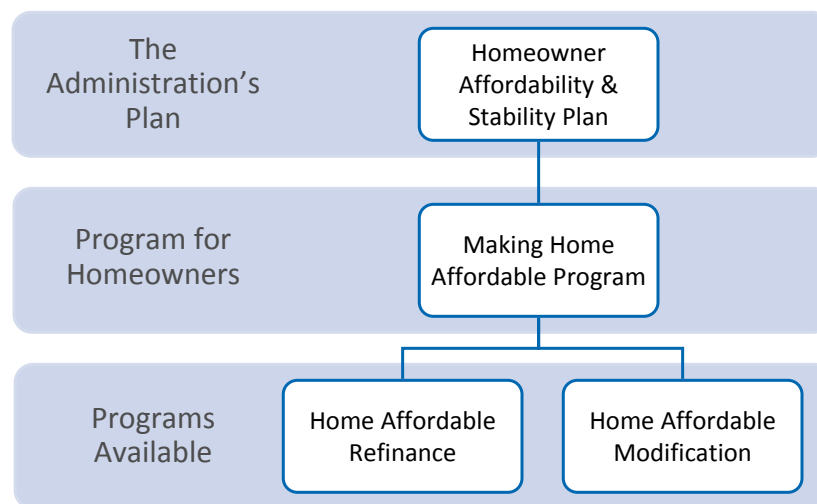
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Homeowner Affordability and Stability Plan

- HASP Provisions (many, but...)
 1. Refinancing of current but underwater GSE loans
 2. Modifications of other delinquent or at risk loans
- Could have profound effect on market

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Background





Home Affordable Modification

- Purpose - Modifies loans of qualifying at-risk borrowers to achieve affordable payments
 - Encourages participation from all parties through use of incentives
- Scope - An estimated 3 to 4 million borrowers are eligible



\$75 Billion Homeowner Affordable Modification Initiative


- **Available for home owner-occupants "at risk of imminent default"**
 - even if they are current in making mortgage payments, as well as those already delinquent
 - applies to mortgages at or below \$729,750.
- **Borrowers will have to sign affidavits attesting to their financial hardships.**
 - documenting 'hardship'
 - avoid optics of those 'undeserving' borrowers getting help
- **Interest rates could be lowered to 2%**
 - Emphasis on using the FHA Hope for Homeowners loan program to refinance underwater loans



Homeowner Stability Modifications

- Goal: bringing their monthly payments to 31% of their income
 - Lender required to reduce interest rates, without subsidy, so the monthly payment does not exceed 38 percent of borrower income.
 - Federal subsidy would be used to match, on a dollar-for-dollar basis, further reductions to bring the debt-to-income ratio down to 31 percent.
- After 5 years, the rate could increase *gradually* to the loan rate in effect at the time of the modification.
 - Lenders may also reduce principal and receive a subsidy of an equal amount – so long as reduction lowers payments to 31% of income.
- Currently only first mortgages

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Modification Incentives

- Loan servicers will receive \$1,000 up front for each qualified loan modification.
 - For borrowers who stay current on the modified loan, servicers will receive a monthly "pay for success" fees up to \$1,000 a year for 3 years.
 - Servicers will also receive \$500 if they modify "at-risk" mortgages before the borrower becomes delinquent.
- Borrowers will receive a monthly reduction in their mortgage balance, up to \$1,000 a year for 5 years.
 - If DTI ratio > 55% will sign counseling referral form
- Also: 'Insurance fund' for lenders against losses if home prices decline more than expected linked to home price index declines.

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Modification Example

Before		After	
•Payment:	\$1,850	•Payment:	\$1,254
•Interest Rate:	6.50%	•Interest Rate:	
		– First 60 Months	2.00%
		– Final Rate	4.85%
•Term, in Months:	324	•Term, in Months:	326
•Months Delinquent:	10	•Amt Capitalized:	\$18,342

Monthly Savings \$596
(for 60 Months)

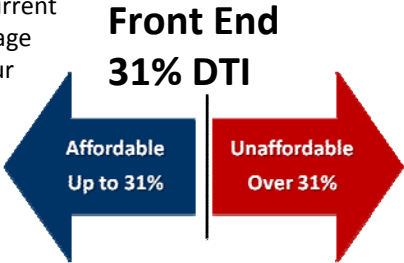
Debt-to-Income Ratios


- **Front-End DTI Ratio**

- Used to determine whether your monthly mortgage payment is “affordable”
- Calculated by dividing your current monthly mortgage payment by your gross monthly income

Back-End DTI Ratio

- Used to determine how much of your income is needed to pay off all of your debts
 - Calculated by dividing your totally monthly debt payments by your gross monthly income





Is housing counseling required under Making Home Affordable?

- **Answer:**

- For a Home Affordable Modification, you must agree to obtain counseling from a HUD-approved housing counselor if your back-end DTI is at or above 55%.
 - Or sign a waiver
- Counseling is optional if your back-end DTI is under 55%
- HUD-approved housing counseling is free
 - Select “Find a Counselor” on the Making Home Affordable website, www.MakingHomeAffordable.gov
 - Call **1-888-995-HOPE** (4673)



Modification Terms

- Taxes and insurance must be escrowed
- Accrued interest and expenses will be added to the amount due - All late fees will be waived
- No modification fee can be charged
- Pending foreclosures must be postponed during evaluation & trial periods
- Borrowers must be truthful

Loss Mitigation Package

- Cover letter
- Foreclosure Prevention Plan
- Financial Information Documents
 - » last two pay stubs
 - » copy of previous year income tax return
- Copy of the signed borrower release form
- Quick summary of the counselor's organization
- Any additional forms in the servicer's package.




Easy-to-Use Main Navigation for Homeowners to Quickly Find Information

Online Self-Assessment Tools for Home Affordable Refinance & Home Affordable Modification

Informative Video for Homeowners Needing Help


- On the Home Page, consumers can access:
- Spanish Content
 - Consumer FAQs
 - Helpful Links in Footer
 - 888-995-HOPE



Are servicers required to participate?

- **Answer:**

- If a Fannie Mae or Freddie Mac loan, yes.
- For other loans, participation is optional. However, significant financial incentives are being provided to encourage participation.



Refinance Option

Fannie Mae

Fannie Mae - 1-800-732-6643 (800-7FANNIE)

<http://loanlookup.fanniemae.com/loanlookup/>

Freddie Mac

1-800-373-3343 (800-FREDDIE) - Freddie Mac

<https://ww3.freddiemac.com/corporate/index.html>

Some Key Questions about Mods

- **Who is offered a mod?**
 - Does this vary by race, income and location?
- **If offered, who receives each type of mod?**
 - Are most aggressive mods being used for least risky borrowers?
 - Do servicers treat different classes of borrowers differently?
 - » Does performance (redefault) show treatment is risk-based?
- **Are mods matched optimally to borrowers by type?**
 - By what standard? Re-default? 'Deservedness'?
- **What is the role of 3rd party counseling?**
 - » What are impediments to counselors being able to be more effective?
 - » How do borrowers and lenders value counseling services?
 - » What role does/can counseling play in fostering sustainable mods?
 - » How can counseling best be provided?

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Contacting Mortgage Servicers

Participating servicers contact information shown here.

Link to Hope Now website for additional list of servicers and their contact information.

- On the Contact Your Mortgage Servicer page:**
- List of participating mortgage servicers and their contact information
 - Link to Hope Now website
 - Link to Modification and Refinance pages
 - Link to Understanding Your Mortgage

Mortgage Servicer List

CONTACT YOUR MORTGAGE SERVICER

Once you have determined if you are eligible for a Home Affordable Refinance or Modification, the next step is to contact your mortgage servicer to discuss your situation. A wide array of servicers have agreed to participate in the Home Affordable Modification program and have already engaged borrowers and extended capacity to begin the modification process for eligible homeowners. The following is a list of servicers who have formalized their commitment to the program through a signed contract:

Name	Web Site	Phone
Bank of America, N.A.	www.bankofamerica.com/mha	1-800-846-2222
Chase Financial LLC	www.chase.com	1-866-550-5705
CoMortgage, Inc.	www.comortgage.com	1-866-915-9417
Countryside Home Loans Servicing LP	www.countryside.com/media/hasa.html	1-800-669-6607
GMAC Mortgage LLC	www.gmacmortgage.com	1-800-766-4622
Home Loan Servicer, Inc.	www.hls.com	1-800-622-5035
Ocean Financial Corporation, Inc.	www.ocean.com	1-800-746-2936
Saxon Mortgage Services	www.saxson.com	1-800-594-8422
Servier Portfolio Servicing	www.servier.com	1-888-818-8032
Wells Fargo Bank, NA	www.wellsfargo.com/homeowner	1-800-678-7986
Wellshire Credit Corporation	www.wellshire.com	1-888-502-0100

Helpful Links

- [Understanding Your Mortgage Statement](#)
- [Refinance Eligibility](#)
- [Modification Eligibility](#)



Tips to improve negotiations with the servicer

- Keep the call short and to the point.
- Determine if there are discrepancies between the information the servicer has and the current situation.
- Be honest
- Stick to the facts
- Ask questions.



Borrower Focus Groups

- **Borrowers are under a great deal of stress, leading them to avoid help.**
 - “I was always week to week. I get paid, I pay my bills. I get paid, I pay my bills. Then it’s not there. Then you’re in trouble. I didn’t know which way to turn. I didn’t know there was help out there.”
- **Borrowers feel little sympathy from their lender (although borrowers dealing with loss mitigation staff were more favorable)**
 - “They make you feel like a **deadbeat**...the way they **interrogate** you, they seem like they want to **catch you in a lie** because the questions are repetitious...the only thing I’m going to say is blah, blah, blah. I’m not lying. I need help.”
 - They want us to lose our homes. **They don’t care.**”
- **Selling to avoid foreclosure**
 - “**Where am I going to go?** ...especially with how expensive everything is even if I sell my house there is no way you can buy anything else.”
 - “I don’t want to sell **because my mom loves that house.**”
- **Trust for nonprofit counselors:**
 - “They’re a lot **more compassionate**...you don’t feel like you’re **being put down**. Even though they could hang up the phone and laugh...I don’t feel that.”



Beware of Rescue Scams

- Beware of any company that promises:
 - That it's safe to skip your mortgage payments
 - That walking away from your house won't affect your credit
 - They will buy your house and sell it back to you later
 - A specific result, for a fee

There is never a fee for getting information about the Making Home Affordable program from your servicer or a HUD-approved housing counselor.



Impact of Bankruptcy

- Automatic Stay
 - Creditor must Cease & Desist
 - Plan is put into effect
- Time to Assess the Situation
 - Determine possibility of recovery
 - Determine practicality of recovery
 - Determine type of recovery



Servicemembers Civil Relief Act of 2003 (SCRA)

Designed to safeguard and protect the interests of persons in military service.

- All active duty personnel, all branches

(includes dependents & co-makers)

- Not just during time of war
- Begins at date of active duty
 - » Enlistment
 - » Called up
- Ends at end of active duty plus 90 days



Additional Resources

- For Immediate Borrower Assistance:
 - Call **1-888-995-HOPE** (4673)
- Find a HUD-Approved Housing Counselor:
 - Visit www.MakingHomeAffordable.gov
- Find Your Servicer's Phone Number:
 - Refer to your monthly mortgage statement, or
 - Look up on www.MakingHomeAffordable.gov