



Unemployed Borrower Bridge to HAMP Modification

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Purpose

To provide a more tailored loss mitigation solution in association with the HAMP program for borrowers who have suffered a temporary and significant reduction in household income due to involuntary unemployment.

Optional Program

Due to the Office of the Comptroller of the Currency's (OCC's) collateral valuation treatment of forbearances, the forbearance program must be voluntary.

General Forbearance Bridge Structure

- **Phases of Forbearance** – An unemployed borrower would enter into a forbearance plan for a period up to 90 days long (one phase) that may be renewed twice after the initial forbearance (for a total of three phases).*
- **Reevaluation** – Renewal would be based on an evaluation of the borrower's present financial circumstances at the end of each forbearance phase.
- **Duration** – The total time of forbearance is nine months.
- **Goal** – At the end of the nine-month period, or when the borrower regains employment, the borrower will be evaluated for a HAMP modification. If eligible, the borrower will then complete a trial modification for three months based on household income. The loan will be permanently modified upon compliance with the trial period requirements.

Maximizing Program Availability for Borrowers

- **Low Cost Advancing Vehicle (LCAV)** – Establish a special financing vehicle within Treasury to supply reasonable funds at a fixed rate to participating mortgage servicers to facilitate advances of principal, interest, taxes and insurance for the extended forbearance period.
- **Risk Sharing** – Establish a loss sharing mechanism that would encourage stakeholders to take the greater risk of loss associated with forbearing foreclosure whereby:
 - A portion of lost value of the home is paid to the investor, similar to the home price decline program.
 - Increased debt caused by advancing of taxes and insurance payments (e.g. payments to third parties).

* The accounting treatment of forbearance programs may impact the ability to extend the program for nine months. At this time, there is concern that a forbearance program that exceeds six months would result in a troubled debt restructuring and possibly require a charge off.

Forbearance Process and Calculations

- **Renewal of a Forbearance Phase** – The mortgage servicer would evaluate the borrower for each forbearance phase. The evaluation would be based on the borrower’s current financial circumstances. Servicers would verify the borrower’s employment status.
- **Forbearance Phases** – Borrowers would be eligible for a maximum of three phases (each 90 days).
 - **First Phase:** Borrowers would be eligible based on verified household income. The borrower(s) would be evaluated for their ability to make payments at 31 percent of household income, provided the minimum income threshold is met (see below). If the borrower’s household income is below the threshold, the borrower could postpone mortgage payments until the second phase.
 - **Second Phase:** The borrower must begin making payments based on 31 percent of household income. Also the borrower must pass the NPV reasonable test (below) to proceed to this second phase.
 - **Third Phase:** Borrowers must continue making payments based on 31 percent of household income.
 - **Reemployment:** At any time during the process, if the borrower or borrowers become reemployed, they will be reviewed for a HAMP modification.
- **Payment/Income Threshold** – Borrowers will be expected to pay 31 percent of household income during the forbearance period. However, if 31 percent of household income is less than \$300, guidelines would suggest no payment is required during the first phase of the forbearance. All borrowers in the forbearance plan must begin making payments by the second phase.
- **NPV and Pay Assumptions:** The NPV reasonability test would consist of the following steps:
 - Use 75 percent of the borrower’s total household income as a proxy for expected future income.
 - Determine 31 percent of this number.
 - Determine principal and interest (P&I) portion of the 31 percent (subtract tax, insurance and HOA or condo fees).
 - Determine the interest rate that would apply to achieve this payment assuming the current balance (assume no forbearance and assume full amortization with no term extension). If the rate calculated is equal to or greater than the rate in the table below, the servicer would extend forbearance. If the rate is lower, the forbearance period would end.

<u>LTV</u>	<u>Rate</u>
Below 90	Forbearance should not be extended
90-94	3%
95-99	2.5%
100+	2%

- **Troubled Debt Restructuring (TDR)** – Negative TDR implications to the lender as a result of extending the forbearance period would allow the servicer/lender not to extend the forbearance period at their option.
- **Modification** – Most borrowers on forbearance plans would be eligible for HAMP modifications at the end of the forbearance period provided they meet the other HAMP eligibility criteria (NPV, DTI greater than 31 percent). However, in the event that the borrower(s') new income results in a debt-to-income ratio (based on payments using capitalized arrearages, taxes, insurance advances and foreclosure fees) less than 31 percent, the servicer could either enter into a repayment plan or modify the mortgage without reduction of interest rate or extension of term.

Other Details

- **Fees and Balances** – Late fees would be prohibited from accruing while the borrower is under this forbearance plan.
- **Foreclosure Costs** – Foreclosure costs and fees may be capitalized in the modification.
- **Foreclosure Sale** – No foreclosure sale can occur during forbearance period.

Eligibility Parameters

- **Payment History** – A borrower may be current or delinquent to participate but at least one borrower on the debt/mortgage must be unemployed.
- **Household Income** – Household income shall be used as the basis of evaluating the borrower for forbearance, the minimum payment, and final HAMP modification.
- **Involuntary Unemployment** – The borrower(s) must be unemployed and the unemployment temporary in nature. Unemployment must be demonstrated to be involuntary.
- **Owner Occupied** – The unemployed borrower(s) must be the occupant(s) of the mortgaged dwelling and an obligor on the note/mortgage.
- **Seek Employment** – The borrower(s) must agree to actively seek employment during the forbearance and to immediately notify the lender when the borrower(s') employment status changes.
- **Savings** – Verification of liquid assets is required before entering into the second phase.
- **Unemployment Benefits** – Borrowers must apply for unemployment benefits when eligible. Borrowers must have nine months of unemployment available to be eligible for nine months of forbearance.

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