

## **MAKING HOME AFFORDABLE**

### **HOUSING COUNSELOR Q&AS**

#### **1. What is the Making Home Affordable plan (MHA)?**

The Making Home Affordable plan is part of President Obama's broad, comprehensive strategy to get the economy and the housing market back on track. The plan potentially could help up to 9 million families restructure or refinance their mortgages to avoid foreclosure.

The key components of the Making Home Affordable plan are:

- Refinancing for up to 5 million families unable to take advantage of lower interest rates because of falling home values.
- \$75 billion in incentives to provide loan modifications for up to an additional 4 million families, bringing monthly payments to sustainable levels.
- Clear and consistent guidelines for loan modifications.
- Support for judicial modification of certain home mortgages through bankruptcy.
- Strengthening Hope For Homeowners and other FHA programs.
- Strengthening communities hardest hit by the foreclosure crisis through an additional investment of \$2 Billion dollars in Neighborhood Stabilization Grants.

#### **2. What are the Home Affordable Modification and Home Affordable Refinance?**

The Home Affordable Modification and Home Affordable Refinance are the parts of MHA that use refinancing and loan modifications to reduce monthly mortgage payments to a level that borrowers can afford today and into the future.

#### **3. Are all loan types eligible for the Home Affordable Refinance and Home Affordable Modification options? What about FHA/VA/USDA loans?**

The refinancing option is only available for conforming loans owned or securitized by Fannie Mae and Freddie Mac. Most conventional loans including prime, subprime, adjustable, loans owned by lenders and loans in securities are eligible for a Home Affordable Modification. The Administration is working with Congress to enact legislation that will allow FHA, VA and USDA to offer modifications consistent with Making Home Affordable. Currently loans insured or guaranteed by these agencies are being modified under other programs that enable borrowers to retain homeownership.

#### **4. When can loans be refinanced under Making Home Affordable?**

Fannie Mae and Freddie Mac are issuing guidance to originating lenders that will allow them to begin offering the refinance option immediately.

**5. If we are working with a borrower who wants to take advantage of the refinance program, how do we determine if their loan is owned or securitized by Fannie Mae or Freddie Mac?**

Both Fannie Mae and Freddie Mac have established toll-free telephone numbers and web submission processes to make this data available. Borrowers will provide or enter information to determine if either agency owns or securitized the loan. This information is not a guarantee of eligibility for the refinance program, as other qualifying criteria must also be met.

- For Fannie Mae,
  - 1-800-7FANNIE (8am to 8pm EST).
  - resource\_center@fanniemae.com
- Freddie Mac
  - 1-800-FREDDIE (8am to 8pm EST)
  - www.freddiemac.com/avoidforeclosure

**6. What are the eligibility criteria for a Home Affordable Refinance?**

- The property must be owner occupied,
- The borrower must have sufficient income to support the new mortgage debt, and
- The first mortgage may not exceed 105% of the current market value of the property. For example if the property is worth \$200,000, the borrower must owe \$210,000 or less.

**7. What if a borrower has a second lien and the total debt on the property exceeds 105%?**

The borrower may still be eligible for a refinance if the first lien does not exceed 105% of the value of the property and all junior lien holders agree to subordinate to the new first mortgage.

**8. May borrowers take cash out to pay other debts?**

No, only transaction costs may be included in the refinanced amount.

**9. Can delinquent borrowers apply for the refinance option?**

No. Borrowers who are currently delinquent on their mortgage will not qualify. You should contact your servicer to see if a Home Affordable Modification is an option for you.

**10. When will Home Affordable Modifications begin?**

Home Affordable Modifications will begin immediately. Call your servicer to ask if you may be eligible. Detailed Guidelines for the modifications were published on March 4, 2009. The Guidelines require that servicers enter into contracts with Treasury's agent that outline

the roles and responsibilities of each party. These contracts are not expected to be available until April, 2009.

**11. If we are currently working with a borrower on a different workout strategy that will result in an affordable modification, should we stop to see if the borrower is eligible for a Home Affordable Modification?**

Borrowers should be made aware of all options available to them so they can choose the best course of action. The Making Home Affordable program provides an opportunity for borrowers to improve the affordability of their payments. MHA is a significant tool to prevent foreclosures but not the only one. All alternatives that provide affordable and sustainable homeownership opportunities are good for borrowers.

**12. What are the minimum eligibility criteria for a Home Affordable Modification?**

To be eligible for a Home Affordable Modification, a borrower must:

- be an owner-occupant in a one to four unit property, and have
- an unpaid principal balance that is equal to or less than \$729,750 (for one unit properties and higher for two to four unit properties, consult the Guidance for limits),
- a loan that was originated before January 1, 2009,
- a mortgage payment (including taxes, insurance, and homeowners association dues) that is more than 31% of the borrowers' gross monthly income, and
- have experienced a significant change in income or expenses, to the point that the current mortgage payment is no longer affordable.

**13. Do borrowers need to be delinquent in order to qualify for a Home Affordable Modification?**

No. Responsible borrowers who are struggling to remain current on their mortgage payments are eligible if they are at risk of imminent default, for example, because they have had or will soon have a significant increase in their mortgage payment that they cannot afford. A servicer participating in the program must screen every current borrower who contacts the servicer and meets the minimum eligibility criteria to determine if they are at risk of imminent default.

**14. Will the Home Affordable Modification help borrowers who can easily afford their current payment but whose property value is now less than the amount they owe?**

No. Home Affordable Modifications are designed to prevent foreclosures by making mortgage payments affordable for working homeowners struggling to retain homeownership. The plan is not intended to replace equity lost by home price depreciation. However, by preventing avoidable foreclosures, the plan is expected to stabilize and eventually strengthen property values which will benefit all homeowners.

**15. How does the modification work?**

Full details are provided in the Guidelines. In summary, participating servicers will (in order):

- Determine that a loan meets the minimum eligibility criteria (owner occupied, originated before January 1, 2009, UPB equal to or less than \$729,750). If yes:
- Obtain sufficient income information to determine if the borrower has a front-end debt-to-income (DTI) ratio of 31% or greater (verbal income may be accepted for initial evaluation subject to verification prior to final approval). If yes:
- Capitalize (add to the loan amount) accrued interest, past due taxes and insurance, delinquency charges paid to third parties (e.g., for inspecting the property), and escrow advances by the servicer – but not late fees or other default fees charged by the servicer;
- Determine how much of an interest rate reduction is required to get the borrower's mortgage payment to 31% DTI, and if the DTI still exceeds 31% at the rate floor of 2%, modify the loan in other respects specified in the Guidelines;
- Apply a Net Present Value (NPV) test to determine if modification (including the incentive payments) provides the investor with a better financial outcome than foreclosure. If yes:
- Put the borrower on a trial modification at the new interest rate and payment for three months.
- If the borrower is current at the end of the trial modification period, the servicer will execute a modification agreement that includes escrows for taxes and insurance even if the prior loan was not escrowed.

#### **16. Is there a back-end ratio limit on eligibility?**

No. As a condition of the modification, borrowers whose back-end ratio (total debt to income) exceeds 55% must certify that they will participate in a housing counseling program to help them create a sustainable financial plan. The back-end ratio is described in detail in the Guidelines. Generally, it is the ratio of the borrower's total monthly debt payments (such as PITIA, mortgage insurance premiums, junior lien payments, and payments on other debts) to the borrower's gross monthly income.

#### **17. What components are included in the front-end ratio?**

The front-end ratio is explained in detail in the Guidelines. Generally, the front-end ratio is the ratio of PITIA to monthly gross income. PITIA includes principal, interest, property taxes, all property-related insurance (hazard, flood, earthquake, etc) and required homeowners association payments. Monthly gross income is the borrower's income before any payroll deductions, including base pay, commissions, fees, tips, bonuses, housing allowances and other compensation.

Income for wage earners will have to be verified by a signed Form 4506 T (Request for Transcript of Tax Return), the most recent tax return and two recent pay stubs. For self-employed borrowers or non-wage income, the borrower's income must be verified by third party documents providing reasonably reliable evidence. Borrowers must also attest that they do not have sufficient liquid assets to make monthly mortgage payments.

**18. Is the modified interest rate permanent?**

If the modified rate is below the market rate, the modified rate will be fixed for a minimum of five years as specified in the modification agreement. Beginning in year six the rate may increase no more than one percentage point per annum until the note rate reaches the Freddie Mac Primary Mortgage Market Survey rate on the date the modification was executed. If the modified rate exceeds the Survey rate, however, the rate for the remaining term of the loan is the modified rate.

**19. What if reducing the interest rate is not enough to get the borrower's front-end DTI down to 31%?**

If the rate is reduced as low as the 2% floor and the DTI is still above 31%, the Guidelines specify that the lender next extend the amortization period and, at its option, the maturity date up to 40 years. If the DTI still exceeds 31%, then the lender must forbear principal. A lender, at its option, may forgive principal in place of reducing the rate, or in place of extending the term or forbearing principal.

**20. Could the borrower face a balloon payment?**

Yes. If the lender forbears (defers) principal, the amount of the deferred principal will be owed when the loan is paid off or refinanced, or the house is sold. There will be a balloon payment in the amount of the deferred principal but it will not accrue interest. If the lender extends the amortization period but not the term, it will increase the size of the balloon. The amount of the increase will depend upon when the loan is paid off. Clear disclosure to consumers about the balloon payment is important.

**21. Are servicers required to offer permanent principal reductions?**

No. At their option, servicers may forgive principal to achieve the affordability target of 31% front-end DTI. The program will reimburse servicers for a portion of the cost of a principal reduction, up to the amount the program would have reimbursed if the servicer or investor had used an interest rate reduction to help the borrower achieve an affordable payment of 31% front-end DTI.

**22. What if the borrower has a second mortgage and would like to apply for a Home Affordable Modification?**

Under the Home Affordable Modification program, junior lien holders will be required to subordinate to the modified loan. However, through the Home Affordable Modification an incentive payment of up to \$1,000 is available to pay off junior lien holders. Servicers are eligible to receive an additional \$500 incentive payment for efforts made to extinguish second liens on loans modified under this program.

**23. Is the Home Affordable Modification mandatory or can investors or servicers choose not to participate?**

Investor and servicer participation in the program is voluntary. However, the government is offering substantial incentives to servicers, investors and borrowers, and it is expected that most major servicers will participate. Participating servicers will sign a contract with Treasury's financial agent, through which they will agree to review every potentially eligible borrower who calls or writes asking to be considered for the program. All loans that meet eligibility requirements and test "positive" for modifications in the NPV model **must** be modified, unless there is fraud or the modification is prohibited by the pooling and servicing agreement that govern the servicing of the loan. As contracts are signed, a list of participating servicers will be available on the internet at [www.FinancialStability.gov](http://www.FinancialStability.gov). Participation will be mandatory for any institution that accepts future funding from Treasury's Financial Stability Program.

**24. What incentives does the program provide for modifications?**

Investors, servicers and borrowers are all eligible to receive financial incentives for successful Home Affordable Modifications. No incentives are available to any party, however, until after the 90-day trial period.

- Borrowers will receive success incentives for making timely payments on their modified loans. For every month the borrower makes a payment on time, the program will reduce the principal balance on the borrower's loan. Over five years, the total principal reduction could equal \$5,000, which represents additional equity for the borrower.
- Servicers will receive a one time, up-front incentive fee of \$1,000 for each modification of a delinquent loan and a \$1,500 up-front incentive fee for each modification of a current loan. They are also eligible for success incentives. That means that every month a borrower remains current on the modification, the servicer earns an incentive, which could total \$1,000 per year for 3 years.
- Investors will receive a subsidy for a portion of the cost to reduce the interest rate down to an affordable level. They will also receive a one time incentive payment of \$1,500 if they agree to modify a loan that is not delinquent. In addition, investors are also eligible for payments if the prices of homes that secure modified loans decrease in the five year period following the modifications, to compensate for the increased risk exposure.

**25. If a servicer tells us that a loan cannot be modified because the eligibility requirements were not met, or the investor is not participating in the program what should we do?**

If modification under the plan is not an option because the borrower does not meet the eligibility criteria, or the investor is not participating in the program, the counselor should discuss all loss mitigation options including; loan modification scenarios outside this program, opportunities to refinance or access to available local resources such as rescue grants and loans. If homeownership retention is not possible, counselors should discuss short

sales and deeds in lieu of foreclosure as ways to help a borrower transition to more affordable housing.

**26. Are there incentives under the plan for use of short sales and deeds in lieu of foreclosure?**

One of the important components of the Making Home Affordable program is community stabilization. Short sales and deeds in lieu of foreclosure are options that minimize the impact of vacant and abandoned properties on communities. Participating servicers will be eligible for an incentive of \$500 and can make reimbursable payments up to \$1000 to extinguish other liens, Borrowers are eligible for a payment of \$1500 in relocation expenses in order to effectuate short sales and deeds-in-lieu of foreclosure.

**27. Is there a mandatory counseling requirement?**

All delinquent borrowers are encouraged to seek the advice of a HUD-approved housing counselor. Borrowers with a back-end debt-to-income ratio at or above 55% must certify that they will participate in counseling as a condition of a modification under the Making Home Affordable Program.

**28. What level of counseling is required for borrowers with over 55% DTI?**

Borrowers must agree to meet with a counselor from a HUD-approved housing counseling agency or a National Foreclosure Mitigation Counseling Program (NFMC)<sup>1</sup> participating agency to create an action plan that includes steps and a timeline to eliminate unnecessary debt, minimize expenses, increase income and create savings. The action plan will also establish a follow-up schedule with the counselor. A detailed protocol describing the required components of this counseling will be posted on the Internet at [www.FinancialStability.gov](http://www.FinancialStability.gov).

**29. How will servicers make counseling referrals?**

Servicers may refer borrowers to the nationwide Hope Hotline at 888-995-HOPE (4673), provide a website (<http://www.hud.gov/offices/hsg/sfh/hcc/fc/>) for the borrower to use to find a counselor or make a referral to a specific counseling agency providing counseling services under the NFMC or HUD Grant Programs.

The servicer must provide the borrower with a letter stating that counseling is a requirement of the modification terms. This letter may be required by counselors in order to begin counseling. The modification will not take effect until the borrower represents in writing that he or she will obtain counseling.

**30. Can our agency refer eligible borrowers to servicers for a Home Affordable Modification?**

Yes. If a borrower contacts a counseling agency without being referred by a servicer and it is determined the borrower may be eligible for a Home Affordable Modification, the counselor will work with the borrower to submit an intake package to the servicer. To be eligible for compensation, the counseling must conform to Level 3 counseling requirements, as established under the National Foreclosure Mitigation Counseling (NFMC) Program, plus a few additional requirements detailed in the counseling protocol available at NFMC website.

**31. If our agency provides counseling to a borrower who is participating in the Home Affordable Modification program will we be paid a counseling fee? If so, how much?**

NFMC Program funds and HUD Housing Counseling Grant funds can be used to pay counseling agencies for counseling provided to borrowers with back-end debt-to-income ratios greater than 55% and for counseling borrowers who are referred to servicers. TARP funds cannot be used to pay for housing counseling.

NFMC Program reimbursement for the required counseling will be set at a new “Level 4” fixed price pending available resources. Other counseling will be reimbursed at the current fixed price for Level 3 counseling as established in each organization’s existing NFMC Program grant agreement.

HUD Housing Counseling grant recipients may request reimbursement for the actual, documented cost of counseling up to the amount available under the grantee’s counseling award. If a portion of the counseling has been reimbursed by NFMC, HUD Housing Counseling grant recipients may bill against their HUD Housing Counseling grant actual costs not covered by the fixed price NFMC reimbursement, up to the amount available under the grantee’s counseling award.

Housing counseling agencies that do not receive NFMC Program funding or HUD Housing Counseling grant funding are encouraged to provide counseling through other funding sources. For example, servicers can pay for this counseling. If a housing counseling agency participating in HUD’s Housing Counseling Program or the NFMC Program does not have sufficient resources, they are not required to provide this counseling, but must make a reasonable effort to refer borrowers to counseling agencies that can assist them.

**32. How and when will counseling fees be paid?**

Assuming available resources, both the NFMC Program and HUD will reimburse for this counseling in a manner consistent with their respective reimbursement policies. For those receiving HUD Housing Counseling grants, since the mandatory counseling will involve a minimum of two sessions, counseling agencies can request reimbursement for each session separately through HUD. HUD Housing counseling grants are typically drawn down quarterly. Reimbursement for this counseling would occur through the same standard process it does for all other types of counseling. NFMC Program draw downs would occur consistent with NFMC program rules and procedures.



**33. Will counseling agencies receive regular reports from servicers or the GSEs about the success or redefault status of borrowers they have counseled?**

A process is being developed to attach a unique housing counseling agency identifier to the file of any borrower that has received counseling. It is hoped that outcome reports by agencies will be available from Fannie Mae and Freddie Mac.

**34. If a borrower defaults on a modified loan, is he or she eligible for the incentive payment? Another modification?**

Borrowers that default on a modified loan may keep incentive payments that already have been applied to reduce a principal balance, but forfeit payments that have accrued but not yet been paid. Borrowers that default are not eligible for another modification under the Making Home Affordable program.

**35. When will servicers begin modifying loans?**

Servicers may begin to modify loans immediately. Treasury published the detailed program requirements on March 4, 2009, and it will take some time before servicers are fully operational. However, Treasury has encouraged servicers to immediately begin reviewing eligibility of borrowers that are at the greatest risk of foreclosure.

**36. What if my client is in foreclosure? Will there be a moratorium?**

Many lenders have made a commitment to postpone foreclosure sales on all mortgages that meet the minimum eligibility criteria for a Home Affordable Modification until those loans can be fully evaluated.

**37. How can I obtain more information and program updates?**

Detailed Homeowner Affordability and Stability Plan program information and updates are available at [www.FinancialStability.gov](http://www.FinancialStability.gov)

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<sup>1</sup> The National Foreclosure Mitigation Counseling Program (NFMC) was launched in December 2007 with funds appropriated by Congress to increase the availability of foreclosure counseling services across the country. Grants, administered by NeighborWorks America, have been made to fund foreclosure counseling and legal assistance to homeowners at risk of foreclosure to housing counseling intermediaries approved by the U.S. Department of Housing and Urban Development, to qualifying state housing finance agencies (HFAs), and to NeighborWorks organizations.

