OLR RESEARCH REPORT

June 26, 2012 2012-R-0258

HUD FORECLOSURE PROGRAMS

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You asked for information about the various foreclosure prevention programs offered by the U.S. Department of Housing and Urban Development (HUD).

SUMMARY

HUD offers a variety of options for homeowners struggling to pay their mortgages or facing foreclosure. The options are collectively referred to as the Make Home Affordable (MHA) Program. MHA helps homeowners who:

1. wish to modify or refinance their mortgages for lower payments,
2. have "underwater" mortgages (owe more than their homes are worth),
3. are unemployed, or
4. are seeking a managed exit from their home and mortgage to avoid foreclosure.

The various MHA options are discussed below. More information is also available at http://www.makinghomeaffordable.gov/.

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PROGRAMS TO MODIFY OR REFINANCE A MORTGAGE

Home Affordable Modification Program (HAMP)

HAMP enables an employed homeowner struggling to pay his or her mortgage to lower the monthly mortgage payments. In order to qualify for HAMP, a homeowner must:

1. have obtained his or her mortgage before January 2, 2009;

2. owe up to (a) $729,750 on his or her primary residence or single unit rental property, (b) $934,200 on a 2-unit rental property, (c) $1,129,250 on a 3-unit rental property, or (d) $1,403,400 on a 4-unit rental property;

3. have a financial hardship and either be delinquent or in danger of becoming delinquent on the mortgage payments;

4. be employed and have sufficient, documented income to support a modified payment; and

5. have not been convicted within the previous 10 years of felony larceny, theft, fraud, forgery, money laundering, or tax evasion in connection with a mortgage or real estate transaction.

Additionally, in order to be eligible for HAMP, the homeowner's property cannot be condemned. The homeowner's mortgage servicer must participate in HAMP in order for the homeowner to apply for the program.

As of June 1, 2012, the category of homeowners eligible for HAMP expanded to include a homeowner who:

1. is applying for a modification on a home that is not his or her primary residence, but is currently rented or the homeowner intends to rent it;

2. previously did not qualify for HAMP because his or her debt-to-income ratio was 31% or lower; or

3. previously received a HAMP trial period plan or permanent modification, but defaulted on the payments.

A military homeowner or a homeowner permanently displaced by a job related move may still qualify for HAMP if he or she:

1. was displaced due to an out-of-area job transfer such as permanent change of station (PCS) orders,

2. was occupying the home as a primary residence prior to the displacement,

3. intends to return to the home at some point in the future, and

4. does not own any other single-family real estate.

Home Affordable Refinance Program (HARP)

The Home Affordable Refinance Program (HARP) offers refinancing opportunities to a homeowner who is not delinquent on his or her mortgage, but is unable to refinance through traditional means because the home's value has significantly depreciated.

In order to qualify for HARP, the homeowner's mortgage must:

1. be owned or guaranteed by Freddie Mac or Fannie Mae;

2. have been sold to Freddie Mac or Fannie Mae before June 1, 2009;

3. not have been refinanced under HARP previously unless it is a Fannie Mae loan that was refinanced under HARP between March and May 2009; and

4. have a loan-to-value ratio greater than 80%.

Additionally, the homeowner must be current on the mortgage at the time of refinance, with a good payment history for the 12 previous months. The homeowner's mortgage servicer must participate in HARP in order for the homeowner to apply for the program.

Principal Reduction Alternative (PRA)

PRA enables a homeowner who owes significantly more than his or her property is worth to reduce the mortgage balance owed. In order to qualify for PRA, a homeowner must:

1. owe more than his or her home is worth;

2. occupy the house as his or her primary residence;

3. have obtained the mortgage before January 2, 2009;

4. have a monthly mortgage payment that is more than 31% of his or her gross monthly income;

5. owe up to $729,750 on his or her first mortgage;

6. have a financial hardship and be either delinquent or in danger of falling into delinquency;

7. be employed and have sufficient, documented income to support the modified payment; and

8. not have been convicted within the last 10 years of felony larceny, theft, fraud, forgery, money laundering or tax evasion, in connection with a mortgage or real estate transaction.

The mortgage must not be owned or guaranteed by Fannie Mae or Freddie Mac. The homeowner's mortgage servicer must participate in PRA in order for the homeowner to apply for the program. Each participating mortgage servicer must develop its own written standards for PRA application.

Second Lien Modification Program (2MP)

A homeowner with a first mortgage permanently modified under HAMP may also be able to have a second mortgage on the property modified through the Second Lien Modification Program (2MP). In order to qualify, a homeowner must:

1. have a first mortgage that was modified under HAMP;

2. have not been convicted within the previous 10 years of felony larceny, theft, fraud, forgery, money laundering, or tax evasion in connection with a mortgage or real estate transaction; and

3. have not missed three consecutive monthly payments on his or her HAMP modification.

The following mortgage servicers participate in 2MP:

1. Bank of America, NA;

2. Bayview Loan Servicing, LLC;

3. CitiMortgage, Inc.;
4. GMAC Mortgage, LLC;
5. Green Tree Servicing, LLC;
6. iServe Residential Lending, LLC;
7. iServe Servicing, Inc.;
8. J.P. Morgan Chase Bank, NA;
9. Nationstar Mortgage, LLC;
10. One West Bank;
11. PennyMac Loan Services, LLC;
12. PNC Bank, National Association;
13. PNC Mortgage;
14. Residential Credit Solutions;
15. ServisOne, Inc. dba BSI Financial Services, Inc.; and
16. Wells Fargo Bank, NA;

UNDERWATER MORTGAGES

In addition to HARP and PRA, homeowners who owe more than their homes are worth may apply for the Federal Housing Administration Refinance for Borrowers in Negative Equity (FHA Short Refinance) program, or Treasury/FHA Second Lien Program (FHA2LP).

Federal Housing Administration Refinance for Borrowers in Negative Equity (FHA Short Refinance)

This program enables underwater homeowners who are not behind in their mortgage payments to refinance into a more affordable FHA-insured mortgage. In order to qualify for FHA Short Refinance, a homeowner must:

1. owe more than his or her home is worth;

2. be current on his or her mortgage payments;

3. occupy the house as his or her primary residence;

4. have a total debt that is no more than 55% of his or her monthly gross income;

5. be eligible for a new loan under standard FHA underwriting requirements (a determination of creditworthiness based on the homeowner's overall pattern of credit behavior and a credit score of at least 500); and

6. have not been convicted within the past 10 years of felony larceny, theft, fraud, forgery, money laundering, or tax evasion in connection with a mortgage or real estate transaction.

Mortgages owned or guaranteed by Fannie Mae, Freddie Mac, FHA, the U.S. Department of Veterans Affairs (VA), or the U.S. Department of Agriculture (USDA) are ineligible for this program.

If the homeowner's current lender agrees to participate in the refinance, it will be required to reduce the homeowner's mortgage balance to no more than 97.75% of the home's current value.

Treasury/FHA Second Lien Program (FHA2LP)

This program is for homeowners with two mortgages, the first of which was refinanced through FHA Short Refinance. The homeowner may be able to have the second mortgage on the same home reduced or eliminated. In order to qualify for FHA2LP, the homeowner must:

1. be eligible for FHA Short Refinance;

2. have obtained his or her mortgage before January 2, 2009; and

3. have not been convicted within the previous 10 years of felony larceny, theft, fraud or forgery, money laundering, or tax evasion in connection with a mortgage or real estate transaction.

For eligible homeowners, the first mortgage servicer works with the second mortgage servicer to reduce or eliminate the second mortgage. If the second mortgage servicer agrees to participate in the program, the total mortgage debt after the refinance cannot exceed 115% of the home's current value.

PROGRAMS FOR UNEMPLOYED HOMEOWNERS

Unemployed homeowners may seek assistance through the Home Affordable Unemployment Program (UP) or, in some states, through the programs funded by the Housing Finance Agency's (HFA) Innovation Fund for the Hardest Hit Housing Markets (HHF). Additionally, some homeowners may request a forbearance for up to 12 months.

Home Affordable Unemployment Program (UP)

Through the Home Affordable Unemployment Program (UP), an unemployed homeowner may reduce his or her mortgage payments to 31% of his or her income or suspend the payments altogether for 12 months or more. In order to qualify for UP, a homeowner must:

1. be unemployed and eligible for unemployment benefits,
2. occupy the house as his or her primary residence,
3. have not previously received a HAMP modification,
4. have obtained the mortgage on or before January 1, 2009, and
5. owe up to $729,750 on his or her home.

Additionally, in order to qualify, the mortgage must not be held by Freddie Mac or Fannie Mae. (They both programs have their own forbearance programs available for unemployed homeowners).

HFA Innovation Fund for the Hardest Hit Housing Markets (HHF)

Since 2010, the U.S. Treasury has allocated $7.6 billion to the states hardest hit by the economic crisis, including Alabama, Arizona, California, Florida, Georgia, Illinois, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Washington D.C.

HHF funds have been used to develop programs to help (1) stabilize the local housing markets and (2) families avoid foreclosure.

The funds have been used for programs that provide:

1. mortgage payment assistance for unemployed or underemployed homeowners,

2. principal reduction to help homeowners get into more affordable mortgages,

3. funding to eliminate homeowners' second lien loans, and

4. help for homeowners who are transitioning out of their homes and into more affordable residences.

FHA Forbearance for Unemployed Homeowners

All FHA-approved mortgage servicers must offer a 12-month forbearance period for unemployed homeowners. Servicers participating in MHA must also offer a 12-month forbearance wherever possible under regulator and investor guidelines.

MANAGED EXIT FOR BORROWERS

Homeowners who can no longer afford their mortgages and are seeking to transition out of their homes without going through foreclosure may qualify for assistance through the Home Affordable Foreclosure Alternatives (HAFA) program.

Home Affordable Foreclosure Alternatives (HAFA)

HAFA enables a homeowner to transition out of his or her mortgage through either a short sale or a deed-in-lieu (DIL) of foreclosure. In a short sale, the mortgage company allows the homeowner to sell the home for an amount less than the remaining mortgage balance. In a DIL, the mortgage company allows the homeowner to transfer the house's title back to the company, thus transferring ownership back to the company and cancelling the outstanding mortgage debt as well. In order to qualify for this program, a homeowner must either live in the home or have lived there within the past 12 months. Additionally, the homeowner must have:

1. a documented financial hardship;

1. not purchased a new house within the last 12 months;

2. a first mortgage less than $729,750;

3. obtained the first mortgage before January 2, 2009; and

4. not been convicted within the previous 10 years of felony larceny, theft, fraud, forgery, money laundering, or tax evasion in connection with a mortgage or real estate transaction.

HAFA is available for mortgages owned and guaranteed by Fannie Mae or Freddie Mac. Additionally, over 100 HAMP participating mortgage servicers also participate in HAFA.