



OLR RESEARCH REPORT

February 5, 2013

2013-R-0075

MORTGAGE MODIFICATION PROGRAMS IN CONNECTICUT

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You asked for a summary of mortgage modification programs available in Connecticut, particularly those under the Federal Housing Finance Authority (FHFA). This report identifies some of the main programs that are available in Connecticut.

SUMMARY

The 2009 federal Homeowner Affordability and Stability Plan established the Making Home Affordable Program, which is administered by the U.S. Department of Treasury. The program offers two options for homeowners having difficulty repaying their mortgages: the Home Affordable Refinance Program (HARP) and the Home Affordable Modification program (HAMP). These programs offer access to (1) low-cost refinancing for qualified borrowers with conforming loans owned or guaranteed by the Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and (2) a \$75 billion homeowner stability initiative to prevent foreclosures.

Connecticut has several state foreclosure prevention programs. The Connecticut Fair Alternative Mortgage Lending Initiative and Education Services (CT FAMILIES) and the Homeowner's Equity Recovery Opportunity (HERO) programs provide refinancing opportunities for

qualified buyers. The Emergency Mortgage Assistance Program (EMAP) provides temporary loans for mortgage payments. The Connecticut Housing Finance Authority (CHFA) administers all three programs.

Other foreclosure prevention and loan modification services available in Connecticut include the Connecticut Department of Banking Foreclosure prevention program; the Department of Housing and Urban Development (HUD) approved loan counselors; and the Connecticut Fair Housing Center Foreclosure Prevention Program.

FEDERAL PROGRAMS

The Homeowner Affordability and Stability Plan offers two options for homeowners having difficulty repaying their mortgage: HAMP and HARP. Since you specifically asked about mortgage modification programs, this report focuses on the HAMP program (see [OLR Report 2012-R-0023](#) for additional information on HARP, which helps homeowners who are current on mortgage payments but who cannot get traditional refinancing due to declining property values).

HAMP

FHFA and the U.S. Department of Treasury created HAMP in early 2009. HAMP is a loan modification program designed to reduce delinquent and at-risk borrowers' monthly mortgage payments. The program helps borrowers who are delinquent, as well as borrowers whose default is imminent. HAMP is effective for mortgages originated on or prior to January 1, 2009, and will expire on December 31, 2013.

Program Eligibility. To qualify for the program, the mortgage, borrower, and property must meet certain criteria. To be eligible for the program:

1. Mortgages must have originated on or prior to January 1, 2009.
2. Mortgages that have priority over all other liens or claims on a property in the event of default (first-lien mortgages) that are owned, securitized, or guaranteed by Freddie Mac are eligible with current unpaid principal balances up to:
 - a. 1 Unit - \$729,750
 - b. 2 Units - \$934,200
 - c. 3 Units - \$1,129,250
 - d. 4 Units - \$1,403,400

3. Federal Housing Administration, Veteran's Administration, and Rural Housing Service guaranteed mortgages are eligible, subject to the relevant agency's guidelines.
4. Mortgages can be previously modified, but borrowers may not have previously entered into a Trial Period Plan under HAMP.
5. Borrowers may be current or less than 60 days delinquent and determined to be in imminent default, or 60 days or more delinquent.
6. Borrowers must have documented financial hardship.
7. Borrowers who are in foreclosure, in pending litigation involving the mortgage, or who are in active bankruptcy are eligible for this program.
8. Borrowers must have a monthly housing expense-to-income ratio greater than 31%.
9. Borrowers with a monthly total debt payment-to-income ratio equal to or greater than 55% must agree to enter free HUD-approved credit counseling.
10. Properties must be owner-occupied- one to four unit homes, including condos and cooperatives. Banks or mortgage companies (servicers) must verify that the borrower occupies the property as a primary residence.

Borrower Solicitation. Servicers must actively solicit delinquent borrowers. The monthly mortgage payment can be reduced using a sequential process that may include capitalization of arrearages (rolling arrears into the principal of the loan), rate reduction, term extension, and principal forbearance (moving a portion of the principal of the loan to the end of the mortgage contract). Borrowers who are 31 days or more delinquent must be solicited before the 35th day of delinquency and again between the 61st and 65th day of delinquency if they did not respond to the initial solicitation.

A borrower whose mortgage payments are current, may request to be considered for a home affordable modification. In which case, servicers must first evaluate the borrower for eligibility for a Freddie Mac Relief Refinance Mortgage. A Freddie Mac Relief Refinance Mortgage helps borrowers who are making timely mortgage payments but have been unable to refinance due to declining property values. If the borrower is

not eligible, the servicer must then determine whether the borrower is in imminent default. The Imminent Default Indicator must be used as part of the evaluation of all borrowers who are current or less than 60 days delinquent before considering the borrower for a trial period under HAMP.

Trial Period. A trial period is required during which the borrower must remit the estimated new monthly payments. Servicers enter into a trial period plan with the borrower during the trial period, followed by a modification agreement upon successful completion of the trial period.

Fees. No modification-related fees may be charged to the borrower and no cash contribution is required. Servicers may request reimbursement for certain modification costs that would otherwise be paid by the borrower.

Borrower Incentives. Borrowers and servicers may receive incentives for timely payments, subject to certain requirements.

Borrowers who remain current on their modification receive a “pay for performance” incentive in the form of a principal reduction of up to \$1,000 per year for five years. Beginning with the first trial period month, this incentive accrues monthly for each month the borrower remains current under the trial period plan through the modification. This incentive is considered earned as of each anniversary of the effective date of the trial period plan. A borrower who becomes 90-days or more delinquent at any time during this five-year period forfeits these incentives and is no longer eligible for these incentives. Servicers are expected to report the incentive accrual on the first lien mortgage to the borrower on a monthly basis.

Servicers Incentives. Servicers will receive incentives for successfully completed HAMP modifications based on the term of delinquency when the trial period plan starts:

1. \$1,600 for each successfully completed HAMP modification for mortgages that are less than or equal to 120 days delinquent (less than or equal to 150 days from the due date of last paid installment).
2. \$1,200 for each successfully completed HAMP modification for mortgages that are 121-210 days delinquent (151-240 days from the due date of last paid installment).

3. \$400 for each successfully completed HAMP modification for mortgages that are greater than 210 days delinquent (greater than 240 days from the due date of last paid installment).
4. The payment of this incentive is forfeited if the borrower becomes 90-days or more delinquent at any time during this three-year period. Incentives accrue each month during which the borrower is less than 90 days delinquent and are awarded yearly.

Additional information about HAMP can be found at:

www.freddiemac.com/singlefamily/service/mha_modification.html

Additional information about the federal Making Home Affordable program can be found at: <www.makinghomeaffordable.gov>

CONNECTICUT PROGRAMS

Connecticut has several foreclosure prevention programs. They include: CT FAMILIES and HERO programs which provide refinancing opportunities for qualified buyers; and EMAP which provides temporary loans for mortgage payments.

CT FAMILIES Program

Under this program, eligible homeowners may qualify for a fixed-rate 30-year loan if they are delinquent or anticipate becoming delinquent in their mortgage payments, whether adjustable rate mortgage (ARM) or fixed rate mortgage. Homeowners who are delinquent or who anticipate becoming delinquent in their mortgage payments must demonstrate that their delinquency is the result of a financial hardship caused by circumstances beyond their control. Homeowners must also demonstrate that their loan payment history was current for the six months preceding the onset of their hardship. If the homeowner is unable to demonstrate financial responsibility before the hardship, the lender will review the homeowner's payment record for the last twelve months to determine whether the payment history is acceptable under the program.

EMAP

EMAP provides emergency mortgage assistance payments to eligible homeowners. It was implemented on July 1, 2008. Public Act 08-176, which implemented the program, provided funding for the loans. EMAP is not available for FHA-insured loans.

Lender participation in the program is voluntary. However, a lender must comply with the EMAP statute if it wants to foreclose on a mortgage on a one-to-four family owner-occupied residence if the property is not FHA insured and the borrower:

1. has not mortgaged the property for commercial or business purposes,
2. has not previously received EMAP assistance (unless the person has reinstated the mortgage and has not been delinquent for six consecutive months since the reinstatement), and
3. is not in default under the mortgage, except for the monetary delinquency.

The lender must send a notice to the borrower stating that he or she has 60 days to (1) have a conference with the lender or a face-to-face meeting with a credit counseling agency to attempt to resolve the default and (2) contact CHFA about EMAP if he or she is unsuccessful in conferencing with the lender or meeting with a credit counseling agency. If the borrower fails to comply with the deadlines or CHFA fails to approve the EMAP application within 30 days of its filing, the foreclosure proceeding can continue. EMAP participants can still exercise their rights under the foreclosure mediation program under the law, but doing so simultaneously with an EMAP application cannot delay the EMAP eligibility determination.

HERO Program

HERO is designed to improve the financial situation of Connecticut homeowners who cannot afford current mortgage payments. The program provides fixed-rate mortgages for up to 30 years, as determined by CHFA, and includes property taxes and insurance, including mortgage insurance, homeowner's insurance and, if applicable, flood insurance, in the borrower's monthly payments. CHFA purchases the mortgage from a lender on terms that allow CHFA to set up payment terms affordable to the homeowner. CHFA determines the interest rate and services the mortgage.

Borrowers are eligible if the HERO loan is for a mortgage that has priority over all other liens or claims on a property in the event of default (first lien) and they have:

1. made an effort to meet their financial obligations to the best of their ability;

2. sufficient and stable income to support timely repayment of the loan;
3. legal title to the mortgaged property and live there as a permanent residence; and
4. the ability to account for cash flow if they have stopped making monthly payments by showing how the funds were escrowed, saved, or redirected.

Generally, applicants denied CT FAMILIES and EMAP loans are reviewed for HERO loans. Borrowers must fully disclose to CHFA all assets and liabilities, whether singly or jointly held, and all household income, regardless of source.

CHFA must determine a borrower's eligibility within 30 days of receiving an application. All approved borrowers must attend in-person financial counseling at a CHFA-approved agency.

OTHER FORECLOSURE PREVENTION AND LOAN MODIFICATION ASSISTANCE AVAILABLE IN CONNECTICUT

CT Department of Banking Foreclosure Prevention Program

The state Department of Banking operates a Foreclosure Prevention Program to assist homeowners who are attempting to achieve a loan modification and prevent foreclosure.

Information is available at the [Department of Banking's website](#).

HUD Approved Loan Counselors

Homeowners attempting to achieve a HAMP loan modification can contact a HUD-approved loan counselor who can provide assistance with the application process for obtaining a modification under the federal HAMP guidelines. A list of the organizations in Connecticut offering such assistance is available on the [HUD](#) webpage.

CT Fair Housing Center Foreclosure Prevention Program

Homeowners facing a judicial foreclosure action can consult a manual on the foreclosure process published by the Connecticut Fair Housing Center, a nonprofit organization. The manual, entitled “Representing Yourself in Foreclosure: A Guide for Connecticut Homeowners” is available on the Connecticut Fair Housing Center’s website along information on foreclosure prevention clinics offered to homeowners.

Information is available at the [CT Fair Housing Center website](#).

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