

Structured Finance Newsletter

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HAMP ENHANCEMENTS HELP UNEMPLOYED HOMEOWNERS

On March 26, 2010, the Administration announced enhancements to the existing Home Affordable Modification Program (HAMP) to provide additional resources for struggling homeowners. The changes will provide temporary mortgage assistance to some unemployed homeowners, encourage servicers to write-down mortgage debt as part of a HAMP modification, allow more borrowers to qualify for a modification through HAMP, and help borrowers move to more affordable housing when a modification is not possible. Implementation of these changes is expected to take place in the fall with the costs shared between the private sector and the Federal government. The Federal cost of these changes will be funded through the \$50 billion allocation for housing programs under the Troubled Asset Relief Program (TARP). Listed below are some of the highlights of the program:

Eligibility Criteria:

- Mortgage meets HAMP eligibility requirements
- Property is 1-4 family owner-occupied
- Loan balance is below \$729,750
- Mortgage was originated before January 1, 2009
- Borrower needs to provide evidence that they are receiving unemployment insurance benefits
- Borrower must request temporary assistance within the first 90 days of delinquency
- Borrowers in active bankruptcy **must** be considered for HAMP upon request

Temporary Assistance:

- Monthly mortgage payments (including all liens) will be reduced to a maximum of 31% of the borrower's monthly income through a forbearance plan for 3 months while they are searching for a new job.
- The forbearance plan may be extended to 6 months for some borrowers but is subject to investor and regulator guidelines.

Temporary Assistance Period Ends:

- The temporary assistance period ends when the borrower becomes re-employed or the scheduled assistance period expires.
- Borrowers who become re-employed during the scheduled assistance period and whose mortgage payment is greater than 31% of their new gross monthly income **must** be considered for a permanent HAMP modification if they were current on the temporary forbearance plan.
- If the borrower remains unemployed at the end of the assistance period, he can be considered for other HAMP alternatives to foreclosure such as a short sale or deed-in-lieu of foreclosure.

Requirement To Consider Principal Write-downs:

- Servicers are required to consider an alternative modification approach including more principal write-downs for HAMP-eligible borrowers that owe more than 115 percent of the current value of their home.
- Servicers will initially treat the write-down amount as forbearance and will forgive the forbore amount in three equal steps over three years, as long as the homeowner remains current on payments.
- For borrowers who have already received a permanent modification, or who are in a trial modification, and are still current on payments at the time the alternative modification approach is operational (later in 2010), servicers will be required to retroactively consider extinguishing an amount of principal balance in the same amount that would have been forgiven under the new alternative approach.
- To further encourage principal write-downs, the U.S. Treasury is including incentive payments for each dollar of principal write-down by servicers based on a pay-for-success structure.

The U.S. Treasury indicated that 57.4% of the borrowers requesting permanent HAMP modifications cite loss of income as the reason for hardship. DBRS believes that prohibiting the referral of a loan to foreclosure until a borrower is evaluated and found ineligible for HAMP, in addition to making it mandatory to consider principal forgiveness on loans with greater than 115% LTV, will increase foreclosure timelines and facilitate more principal write-downs. However, since the borrower is required to request assistance within the first 90 days of delinquency and the final details of the program are not expected to be available until the fall, many currently delinquent loans will likely be ineligible for the assistance.

For questions or comments, please contact Kathleen Tillwitz at ktillwitz@dbrs.com.

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