

Structured Finance Newsletter

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Claire J. Mezzanotte
Managing Director,
ABS/RMBS/Covered Bonds
Structured Finance,
+1 212 806 3272
cmeyzanotte@dbrs.com

Jan Buckler
Senior Vice President,
Research and Modeling
Structured Finance
+1 212 806 3925
jbuckler@dbrs.com

Rosemary Kelley
Senior Vice President, ABS
Structured Finance
+1 212 806 3250
rkelly@dbrs.com

Chris O'Connell
Senior Vice President, ABS
Structured Finance
+1 212 806 3253
coconnell@dbrs.com

Quincy Tang
Senior Vice President, RMBS
Structured Finance
+1 212 806 3256
qtang@dbrs.com

Kathleen Tillwitz
Senior Vice President,
Operational Risk, ABS/RMBS
Structured Finance
+1 212 806 3265
ktillwitz@dbrs.com

Chuck Weilmann
Senior Vice President, ABS
Structured Finance
+1 212 806 3226
cweilmann@dbrs.com

New York
140 Broadway, 35th Floor
New York, NY 10005
+1 212 806 3277

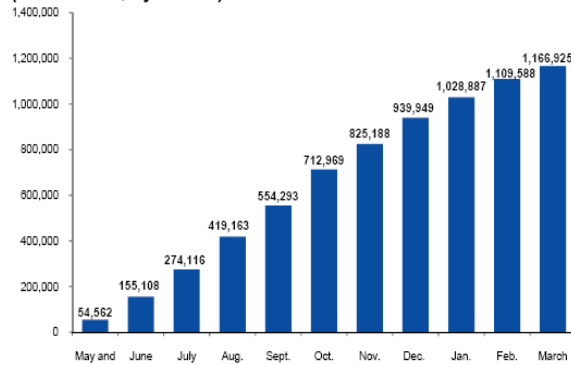
Chicago
101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

Toronto
DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
+1 416 593 5577

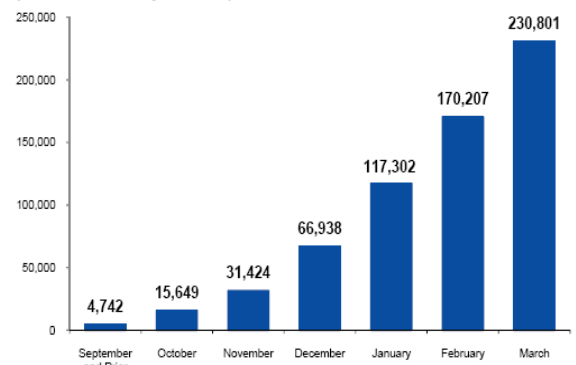
OVERSIGHT PANEL RAISES CONCERNS OVER FORECLOSURE PROGRAMS

Recently, the U.S. Department of the Treasury and the Department of Housing and Urban Development released the Home Affordable Modification Program (HAMP) March 2010 Servicer Performance Report.¹ According to the report, approximately 1.2 million HAMP trial modifications were started since the Program's inception but only 230,801 have actually been converted to permanent modifications (chart 1). The report also indicated that 57,000 trial modifications were done in March compared with 72,000 in February. The report attributed the 20% decrease in new trial modifications to servicers increasingly requiring more upfront documentation from homeowners in order to comply with pending HAMP policy changes. The upcoming requirements will make servicers fully verify borrower eligibility and income documentation before offering a trial modification beginning on June 1, 2010.

**HAMP Trials Started
(Cumulative, by Month)**



**Permanent Modifications Started
(Cumulative, by Month)**



To determine the success of HAMP and other loss mitigation programs, a Congressional Oversight Panel was established by the government. In their latest report entitled, "Evaluating Progress of TARP Foreclosure Mitigation Programs"² the Panel stated that even though the Treasury has taken steps to mitigate previous concerns that HAMP did not adequately address foreclosures caused by unemployment or negative equity, foreclosures continue at a rapid pace. Consequently in 2009, 2.8 million homeowners received a foreclosure notice, and nearly one in four homeowners with a mortgage currently has negative equity. While housing prices have begun to stabilize in many regions, home values in several metropolitan areas continue to fall sharply. Additionally, the Panel found that the "Treasury's response continues to lag well behind the pace of the crisis" and that, even when HAMP is fully operational, they "will not reach the overwhelming majority of homeowners in trouble." The report raises three specific concerns with the Treasury's foreclosure programs:

Timeliness: Since early 2009, the Treasury has initiated half a dozen foreclosure mitigation programs, gradually ramping up the incentives for participation by borrowers, lenders, and servicers. Although the Treasury should be commended for trying new approaches, its pattern of providing ever more generous incentives might backfire, as lenders and servicers might opt to delay modifications in hopes of eventually receiving a better deal.

Sustainability: Although HAMP modifications reduce a homeowner's mortgage payments, many borrowers continue to experience severe financial strain. HAMP typically does not reduce the total principal balance of a mortgage, meaning that a borrower who was underwater before receiving a HAMP modification will likely remain underwater afterward. As a result, many borrowers will eventually redefault and face foreclosure.

Accountability: In addition to being clearer about how much taxpayer money it intends to spend on foreclosure prevention, the Treasury must thoroughly monitor the activities of participating lenders and servicers, audit them, and enforce program rules with strong penalties for failure to follow the requirements.

DBRS believes that the findings noted by the Congressional Oversight Panel may cause further expansion of the upcoming HAMP requirements. These requirements prohibit 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. As a result, DBRS will continue to monitor the industry for its use of modifications as well as its efforts to implement successful foreclosure mitigation programs.

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

1. <http://www.makinghomeaffordable.gov/docs/Mar%20MHA%20Public%20041410%20TO%20CLEAR.PDF>
2. www.cop.senate.gov