President's Obama's Plan to Help Responsible Homeowners and Heal the Housing Market

In his State of the Union address, President Obama laid out a Blueprint for an America Built to Last, calling for action to help responsible borrowers and support a housing market recovery. While the government cannot fix the housing market on its own, the President believes that responsible homeowners should not have to sit and wait for the market to hit bottom to get relief when there are measures at hand that can make a meaningful difference, including allowing these homeowners to save thousands of dollars by refinancing at today's low interest rates. That's why the President is putting forward a plan that uses the broad range of tools to help homeowners, supporting middle-class families and the economy.

Key Aspects of the President's Plan

- **Broad Based Refinancing to Help Responsible Borrowers Save an Average of $3,000 per Year:** The President's plan will provide borrowers who are current on their payments with an opportunity to refinance and take advantage of historically low interest rates, cutting through the red tape that prevents these borrowers from saving hundreds of dollars a month and thousands of dollars a year. This plan, which is paid for by a financial fee so that it does not add a dime to the deficit, will:
  - *Provide access to refinancing for all non-GSE borrowers who are current on their payments and meet a set of simple criteria.*
  - *Streamline the refinancing process for all GSE borrowers who are current on their loans.*
  - *Give borrowers the chance to rebuild equity through refinancing.*
- **Homeowner Bill of Rights:** The President is putting forward a single set of standards to make sure borrowers and lenders play by the same rules, including:
  - *Access to a simple mortgage disclosure form, so borrowers understand the loans they are taking out.*
  - *Full disclosure of fees and penalties.*
  - *Guidelines to prevent conflicts of interest that end up hurting homeowners.*
  - *Support to keep responsible families in their homes and out of foreclosure.*
  - *Protection for families against inappropriate foreclosure, including right of appeal.*
- **First Pilot Sale to Transition Foreclosed Property into Rental Housing to Help Stabilize Neighborhoods and Improve Home Prices:** The FHFA, in conjunction with Treasury and HUD, is announcing a pilot sale of foreclosed properties to be transitioned into rental housing.
- **Moving the Market to Provide a Full Year of Forbearance for Borrowers Looking for Work:** Following the Administration's lead, major banks and the GSEs are now providing up to 12 months of forbearance to unemployed borrowers.
- **Pursuing a Joint Investigation into Mortgage Origination and Servicing Abuses:** This effort marshals new resources to investigate misconduct that contributed to the financial crisis under the leadership of federal and state co-chairs.
- **Rehabilitating Neighborhoods and Reducing Foreclosures:** In addition to the steps outlined above, the Administration is expanding eligibility for HAMP to reduce additional foreclosures, increasing incentives for modifications that help borrowers rebuild equity, and is proposing to put people back to work rehabilitating neighborhoods through Project Rebuild.

1. **Broad Based Refinancing Plan**

Millions of homeowners who are current on their mortgages and could benefit from today's low interest rates face substantial barriers to refinancing through no fault of their own. Sometimes homeowners with good credit and clean payment histories are rejected because their mortgages are underwater. In other cases, they are rejected because the banks are worried that they will be left taking losses, even where Fannie Mae or Freddie Mac insure these new mortgages. In the end, these responsible homeowners are stuck paying higher interest rates, costing them thousands of dollars a year.

To address this challenge, the President worked with housing regulators this fall to take action without Congress to make millions of Americans eligible for lower interest rates. However, there are still millions of responsible Americans who continue to face steep barriers to low-cost, streamlined refinancing. So the President is now calling on Congress to open up opportunities to refinancing for responsible borrowers who are current on their payments.

Under the proposal, borrowers with loans insured by Fannie Mae or Freddie Mac (i.e. GSE-insured loans) will have access to streamlined refinancing through the GSEs. Borrowers with standard non-GSE loans will have access to refinancing through a new program run through the FHA. For responsible borrowers, there will be no more barriers and no more excuses.

Key components of the President's plan include:

- **Providing Non-GSE Borrowers Access to Simple, Low-Cost Refinancing:** President Obama is calling on Congress to pass legislation to establish a streamlined refinancing program. The refinancing program will be open to all non-GSE borrowers with standard (non-jumbo) loans who have been keeping up with their mortgage payments. The program will be operated through the FHA.

  Simple and straightforward eligibility criteria: Any borrower with a loan that is not currently guaranteed by the GSEs can qualify if they meet the following criteria:

  - *They are current on their mortgage:* Borrowers will need to have been current on their loan for the past 6 months and have missed no more than one payment in the 6 months prior.

  - *They meet a minimum credit score.* Borrowers must have a current FICO score of 580 to be eligible. Approximately 9 in 10 borrowers have a credit score adequate to meet that requirement.

  - *They have a loan that is no larger than the current FHA conforming loan limits in their area*: Currently, FHA limits vary geographically with the median area home price – set at $271,050 in lowest cost areas and as high as $729,750 in the highest cost areas

- *The loan they are refinancing is for a single family, owner-occupied principal residence*. This will ensure that the program is focused on responsible homeowners trying to stay in their homes.

Streamlined application process: Borrowers will apply through a streamlined process designed to make it simpler and less expensive for borrowers and lenders to refinance. Borrowers will not be required to submit a new appraisal or tax return. To determine a borrower's eligibility, a lender need only confirm that the borrower is employed. (Those who are not employed may still be eligible if they meet the other requirements and present limited credit risk. However, a lender will need to perform a full underwriting of these borrowers to determine whether they are a good fit for the program.)

Program parameters to reduce program cost: The President's plan includes additional steps to reduce program costs, including:

- *Establishing loan-to-value limits for these loans*. The Administration will work with Congress to establish risk-mitigation measures which could include requiring lenders interested in refinancing deeply underwater loans (e.g. greater than 140 LTV) to write down the balance of these loans before they qualify. This would reduce the risk associated with the program and relieve the strain of negative equity on the borrower.

- *Creating a separate fund for new streamlined refinancing program*. This will help the FHA better track and manage the risk involved and ensure that it has no effect on the operation of the existing Mutual Mortgage Insurance (MMI) fund.

EXAMPLE: How Refinancing Can Benefit a Borrower With a Non-GSE Loan

- A borrower has a non-GSE mortgage originated in 2005 with a 6 percent rate and an initial balance of $300,000 – resulting in monthly payments of about $1,800.

- The outstanding balance is now about $272,000 and the borrower's home is now worth $225,000, leaving the borrower underwater (with a loan-to-value ratio of about 120%).

- Though the borrower has been paying his mortgage on time, he cannot refinance at today's historically low rates.

- Under the President's legislative plan, the borrower would be eligible to refinance into a 4.25% percent 30-year loan, which **would reduce monthly payments by about $460 a month.**

Refinancing Plan Will Be Fully Paid For By a Portion of Fee on Largest Financial Institutions: The Administration estimates the cost of its refinancing plan will be in the range of $5 to $10 billion, depending on exact parameters and take-up. This cost will be fully offset by using a portion of the President's proposed Financial Crisis Responsibility Fee, which imposes a fee on the largest financial institutions based on their size and the riskiness of their activities – ensuring that the program does not add a dime to the deficit

- **Fully Streamlining Refinancing for All GSE Borrowers:** The Administration has worked with the FHFA to streamline the GSEs' refinancing program for all responsible, current GSE borrowers. The FHFA has made important progress to-date, including eliminating the restriction on allowing deeply underwater borrowers to access refinancing, lowering fees associated with refinancing, and making it easier to access refinancing with lower closing costs.

  To build on this progress, the Administration is calling on Congress to enact additional changes that will benefit homeowners and save taxpayers money by reducing the number of defaults on GSE loans. We believe these steps are within the existing authority of the FHFA. However, to date, the GSEs have not acted, so the Administration is calling on Congress to do what is in the taxpayer's interest, by:

  a. ***Eliminating appraisal costs for all borrowers*****:** Borrowers who happen to live in communities without a significant number of recent home sales often have to get a manual appraisal to determine whether they are eligible for refinancing into a GSE guaranteed loan, even under the HARP program. Under the Administration's proposal, the GSEs would be directed to use mark-to-market accounting or other alternatives to manual appraisals for any loans for which the loan-to-value cannot be determined with the GSE's Automated Valuation Model. This will eliminate a significant barrier that will reduce cost and time for borrowers and lenders alike.

  b. ***Increasing competition so borrowers get the best possible deal:*** Today, lenders looking to compete with the current servicer of a borrower's loan for that borrower's refinancing business continue to face barriers to participating in HARP. This lack of competition means higher prices and less favorable terms for the borrower. The President's legislative plan would direct the GSEs to require the same streamlined underwriting for new servicers as they do for current servicers, leveling the playing field and unlocking competition between banks for borrowers' business.

  c. ***Extending streamlined refinancing for all GSE borrowers:*** The President's plan would extend these steps to streamline refinancing for homeowners to all GSE borrowers. Those who have significant equity in their home – and thus present less credit risk – should benefit fully from all streamlining, including lower fees and fewer barriers. This will allow more borrowers to take advantage of a program that provides streamlined, low-cost access to today's low interest rates – and make it easier and more automatic for servicers to market and promote this program for all GSE borrowers.

  - **Giving Borrowers the Chance to Rebuild Equity in their Homes Through Refinancing:** All underwater borrowers who decide to participate in either HARP or the refinancing program through the FHA outlined above will have a choice: they can take the benefit of the reduced interest rate in the form of lower monthly payments, or they can apply that savings to rebuilding equity in their homes. The latter course, when combined with a shorter loan term of 20 years, will give the majority of underwater borrowers the chance to get back above water within five years, or less.

To encourage borrowers to make the decision to rebuild equity in their homes, we are proposing that the legislation provide for the GSEs and FHA to cover the closing costs of borrowers who chose this option – a benefit averaging about $3,000 per homeowner. To be eligible, a participant in either program must agree to refinance into a loan with a no more than 20 year term with monthly payments roughly equal to those they make under their current loan. For those who agree to these terms, the lender will receive payment for all closing costs directly from the GSEs or the FHA, depending on the entity involved.

EXAMPLE: How Rebuilding Equity Can Benefit a Borrower

- A borrower has a 6.5 percent $214,000 30-year mortgage originated in 2006. It now has an outstanding balance of $200,000, but the house is worth $160,000 (a loan-to-value ratio of 125). The monthly payment on this mortgage is $1,350.
- While this borrower is responsibly paying her monthly mortgage, she is locked out of refinancing.
- By refinancing into a 4.25 percent 30-year mortgage loan, this borrower will reduce her monthly payment by $370. However, after five years her mortgage balance will remain at $182,000.
- Under the rebuilding equity program, the borrower would refinance into a 20-year mortgage at 3.75 percent and commit her monthly savings to paying down principal. **After five years, her mortgage balance would decline to $152,000, bringing the borrower above water**.
- If the borrower took this option, the GSEs or FHA would also cover her closing costs – potentially saving her about $3,000.

- **Streamlined Refinancing for Rural America:** The Agriculture Department, which supports mortgage financing for thousands of rural families a year, is taking steps to further streamline its USDA-to-USDA refinancing program. This program is designed to provide those who currently have loans insured by the Department of Agriculture with a low-cost, streamlined process for refinancing into today's low rates. The Administration is announcing that the Agriculture Department will further streamline this program by eliminating the requirement for a new appraisal, a new credit report and other documentation normally required in a refinancing. To be eligible, a borrower need only demonstrate that he or she has been current on their loan.

- **Streamlined Refinancing for FHA Borrowers:** Like the Agriculture Department, the Federal Housing Authority is taking steps to make it easier for borrowers with loans insured by their agency to obtain access to low-cost, streamlined refinancing. The current FHA-to-FHA streamlined refinance program allows FHA borrowers who are current on their mortgage to refinance into a new FHA-insured loan at today's lower interest rates without requiring a full re-underwrite of the loan, thereby providing a simple way for borrowers to reduce their mortgage payments.

However, some borrowers who would be eligible for low-cost refinancing through this program are being denied by lenders reticent to make loans that may compromise their status as FHA-approved lenders. To resolve this issue, the FHA is removing these loans from their "Compare Ratio", the process by which the performance of these lenders is reviewed. This will open the program up to many more families with FHA-insured loans.

2. Homeowner Bill of Rights

The Administration believes that the mortgage servicing system is badly broken and would benefit from a single set of strong federal standards   As we have learned over the past few years, the nation is not well served by the inconsistent patchwork of standards in place today, which fails to provide the needed support for both homeowners and investors. The Administration believes that there should be one set of rules that borrowers and lenders alike can follow. A fair set of rules will allow lenders to be transparent about options and allow borrowers to meet their responsibilities to understand the terms of their commitments.

The Administration will therefore work closely with regulators, Congress and stakeholders to create a more robust and comprehensive set of rules that better serves borrowers, investors, and the overall housing market. These rules will be driven by the following set of core principles:

- **Simple, Easy to Understand Mortgage Forms:** Every prospective homeowner should have access to clear, straightforward forms that help inform rather than confuse them when making what is for most families their most consequential financial purchase. To help fulfill this objective, the Consumer Financial Protection Bureau (CFPB) is in the process of developing a simple mortgage disclosure form to be used in all home loans, replacing overlapping and complex forms that include hidden clauses and opaque terms that families cannot understand.

- **No Hidden Fees and Penalties:** Servicers must disclose to homeowners all known fees and penalties in a timely manner and in understandable language, with any changes disclosed before they go into effect.

- **No Conflicts of Interest:** Servicers and investors must implement standards that minimize conflicts of interest and facilitate coordination and communication, including those between multiple investors and junior lien holders, such that loss mitigation efforts are not hindered for borrowers.

- **Assistance For At-Risk Homeowners:**

    - *Early Intervention*: Servicers must make reasonable efforts to contact every homeowner who has either demonstrated hardship or fallen delinquent and provide them with a comprehensive set of options to help them avoid foreclosure. Every such homeowner must be given a reasonable time to apply for a modification.

- *Continuity of Contact:* Servicers must provide all homeowners who have requested assistance or fallen delinquent on their mortgage with access to a customer service employee with 1) a complete record of previous communications with that homeowner; 2) access to all documentation and payments submitted by the homeowner; and 3) access to personnel with decision-making authority on loss mitigation options.

- *Time and Options to Avoid Foreclosure:* Servicers must not initiate a foreclosure action unless they are unable to establish contact with the homeowner after reasonable efforts, or the homeowner has shown a clear inability or lack of interest in pursuing alternatives to foreclosure. Any foreclosure action already under way must stop prior to sale once the servicer has received the required documentation and cannot be restarted unless and until the homeowner fails to complete an application for a modification within a reasonable period, their application for a modification has been denied or the homeowner fails to comply with the terms of the modification received.

- **Safeguards Against Inappropriate Foreclosure**

  - *Right of Appeal*: Servicers must explain to all homeowners any decision to take action based on a failure by the homeowner to meet their payment obligations and provide a reasonable opportunity to appeal that decision in a formal review process.

  - *Certification of Proper Process*: Prior to a foreclosure sale, servicers must certify in writing to the foreclosure attorney or trustee that appropriate loss mitigation alternatives have been considered and that proceeding to foreclosure sale is consistent with applicable law. A copy of this certification must be provided to the borrower.

The agencies of the executive branch with oversight or other authority over servicing practices – the FHA, the USDA, the VA, and Treasury, through the HAMP program – will each take the steps needed in the coming months to implement rules for their programs that are consistent with these standards.

3. Announcement of Initial Pilot Sale in Initiative to Transition Real Estate Owned (REO) Property to Rental Housing to Stabilize Neighborhoods and Improve Housing Prices

When there are vacant and foreclosed homes in neighborhoods, it undermines home prices and stalls the housing recovery. As part of the Administration's effort to help lay the foundation for a stronger housing recovery, the Department of Treasury and HUD have been working with the FHFA on a strategy to transition REO properties into rental housing. Repurposing foreclosed and vacant homes will reduce the inventory of unsold homes, help stabilize housing prices, support neighborhoods, and provide sustainable rental housing for American families.

Today, the FHFA is announcing the first major pilot sale of foreclosed properties into rental housing. This marks the first of a series of steps that the FHFA and the Administration will take to develop a smart national program to help manage REO properties, easing the pressure of these distressed properties on communities and the housing market.

4. Moving the Market to Provide a Full Year of Forbearance for Borrowers Looking for Work

Last summer, the Administration announced that it was extending the minimum forbearance period that unemployed borrowers in FHA and HAMP would receive on their mortgages to a full year, up from four months in FHA and three months in HAMP. This forbearance period allows borrowers to stay in their homes while they look for jobs, which gives these families a better chance of avoiding default and helps the housing market by reducing the number of foreclosures. Extending this period makes good economic sense as the time it takes the average unemployed American to find work has grown through the course of the housing crisis: nearly 60 percent of unemployed Americans are now out of work for more than four months.

These extensions went into effect for HAMP and the FHA in October. Today the Administration is announcing that the market has followed our lead, finally giving millions of families the time needed to find work before going into default.

- **12-Month Forbearance for Mortgages Owned by the GSEs:** Fannie Mae and Freddie Mac have both announced that lenders servicing their loans can provide up to a year of forbearance for unemployed borrowers, up from 3 months. Between them, Fannie and Freddie cover nearly half of the market, so this alone will extend the relief available for a considerable portion of the nation's unemployed homeowners.

- **Move by Major Servicers to Use 12-Month Forbearance as Default Approach:** Key servicers have also followed the Administration's lead in extending forbearance for the unemployed to a year. Wells Fargo and Bank of America, two of the nation's largest lenders, have begun to offer this longer period to customers whose loans they hold on their own books, recognizing that it is not just helpful for these struggling families, but it makes good economic sense for their lenders as well.

- **A New Industry Norm:** With these steps, the industry is gradually moving to a norm of providing 12 months of forbearance for those looking for work. This is a significant shift worthy of note, as only a few months ago unemployed borrowers simply were not being given a fighting chance to find work before being faced with the added burden of a monthly mortgage payment.

5. Joint Investigation into Mortgage Origination and Servicing Abuses

The Department of Justice, the Department of Housing and Urban Development, the Securities and Exchange Commission and state Attorneys General have formed a Residential Mortgage-Backed Securities Working Group under President Obama's Financial Fraud Enforcement Task Force that will be responsible for investigating misconduct contributing to the financial crisis through the pooling and sale of residential mortgage-backed securities. The Department of Justice has announced that this working group will consist of at least 55 DOJ attorneys, analysts, agents and investigators from around the country, joining existing state and federal resources investigating similar misconduct under those authorities.

The working group will be co-chaired by senior officials at the Department of Justice and SEC, including Lanny Breuer, Assistant Attorney General, Criminal Division, DOJ; Robert Khuzami, Director of Enforcement, SEC; John Walsh, U.S. Attorney, District of Colorado; and Tony West, Assistant Attorney General, Civil Division, DOJ. The working group will also be co-chaired by New York Attorney General Schneiderman, who will lead the effort from the state level. Other state Attorneys General have been and will be joining this effort.

6. Putting People Back to Work Rehabilitating Homes, Businesses and Communities Through Project Rebuild

Consistent with a proposal he first put forward in the American Jobs Act, the President will propose in his Budget to invest $15 billion in a national effort to put construction workers on the job rehabilitating and refurbishing hundreds of thousands of vacant and foreclosed homes and businesses. Building on proven approaches to stabilizing neighborhoods with high concentrations of foreclosures – including those piloted through the Neighborhood Stabilization Program – Project Rebuild will bring in expertise and capital from the private sector, focus on commercial and residential property improvements, and expand innovative property solutions like land banks.

In addition, the Budget will provide $1 billion in mandatory funding in 2013 for the Housing Trust Fund to finance the development, rehabilitation and preservation of affordable housing for extremely low income families. These approaches will not only create construction jobs but will help reduce blight and crime and stabilize housing prices in areas hardest hit by the housing crisis.

7. Expanding HAMP Eligibility to Reduce Additional Foreclosures and Help Stabilize Neighborhoods

To date, the Home Affordable Mortgage Program (HAMP) has helped more than 900,000 families permanently modify their loans, providing them with savings of about $500 a month on average. Combined with measures taken by the FHA and private sector modifications, public and private efforts have helped more than 4.6 million Americans get mortgage aid to prevent avoidable foreclosures. Along with extending the HAMP program by one year to December 31, 2013, the Administration is expanding the eligibility for the program so that it reaches a broader pool of distressed borrowers. Additional borrowers will now have an opportunity to receive modification assistance that provides the same homeowner protections and clear rules for servicers established by HAMP. This includes:

- **Ensuring that Borrowers Struggling to Make Ends Meet Because of Debt Beyond Their Mortgage Can Participate in the Program**: To date, if a borrower's first-lien mortgage debt-to-income ratio is below 31% they are ineligible for a HAMP modification. Yet many homeowners who have an affordable first mortgage payment – below that 31% threshold – still struggle beneath the weight of other debt such as second liens and medical bills. Therefore, we are expanding the program to those who struggle with this secondary debt by offering an alternative evaluation opportunity with more flexible debt-to-income criteria.

- **Preventing Additional Foreclosures to Support Renters and Stabilize Communities:** We will also expand eligibility to include properties that are currently occupied by a tenant or which the borrower intends to rent. This will provide critical relief to both renters and those who rent their homes, while further stabilizing communities from the blight of vacant and foreclosed properties. Single-family homes are an important source of affordable rental housing, and foreclosure of non-owner occupied homes has disproportionate negative effects on low-and moderate-income renters.

8. <u>Increasing Incentives for Modifications that Help Borrowers Rebuild Equity</u>

Currently, HAMP includes an option for servicers to provide homeowners with a modification that includes a write-down of the borrower's principal balance when a borrower owes significantly more on their mortgage than their home is worth. These principal reduction modifications help both reduce a borrower's monthly payment and rebuild equity in their homes. While not appropriate in all circumstances, principal reduction modifications are an important tool in the overall effort to help homeowners achieve affordable and sustainable mortgages. To further encourage investors to consider or expand use of principal reduction modifications, the Administration will:

- **Triple the Incentives Provided to Encourage the Reduction of Principal for Underwater Borrowers**: To date, the owner of a loan that qualifies for HAMP receives between 6 and 21 cents on the dollar to write down principal on that loan, depending on the degree of change in the loan-to-value ratio. To increase the amount of principal that is written down, Treasury will triple those incentives, paying from 18 to 63 cents on the dollar.

- **Offer Principal Reduction Incentives for Loans Insured or Owned by the GSEs**: HAMP borrowers who have loans owned or guaranteed by Fannie Mae or Freddie Mac do not currently benefit from principal reduction loan modifications. To encourage the GSEs to offer this assistance to its underwater borrowers, Treasury has notified the GSE's regulator, FHFA, that it will pay principal reduction incentives to Fannie Mae or Freddie Mac if they allow servicers to forgive principal in conjunction with a HAMP modification.