GUIDING PRINCIPLES FOR THE FUTURE OF LOSS MITIGATION:

HOW THE LESSONS LEARNED FROM THE FINANCIAL CRISIS CAN INFLUENCE THE PATH FORWARD

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EXECUTIVE SUMMARY

This white paper has been prepared by the U.S. Department of the Treasury (Treasury) in conjunction with the U.S. Department of Housing and Urban Development (HUD) and the Federal Housing Finance Agency (FHFA)—together the Agencies—to continue the collaborative efforts of the past seven years to stabilize the housing market and help struggling homeowners recover from the financial crisis. With the termination of crisis-era programs at the end of this year, the Agencies are working with stakeholders to maintain strong loss mitigation programs going forward. This white paper examines the evolution of loss mitigation programs administered by the Agencies, and discusses the lessons learned from such programs. The paper also lays out five guiding principles that should be a foundation for future loss mitigation programs: accessibility, affordability, sustainability, transparency, and accountability.

The financial crisis of 2008 revealed that the mortgage servicing industry was ill-equipped to adequately respond to the needs of struggling homeowners. Indeed, there was no standard approach among mortgage servicers and investors about how to respond to homeowners who wanted to continue making payments, but were in need of mortgage assistance. Most solutions offered by servicers simply added unpaid interest and fees to the mortgage balance, which often resulted in higher—and thereby less sustainable—payments for homeowners, regardless of a hardship.

In early 2009, a government-sponsored program—Making Home Affordable (MHA)—was established to provide foreclosure alternatives to homeowners impacted by the financial crisis. The Home Affordable Modification Program (HAMP), the first and largest program under MHA, provided a standard for mortgage modifications that crossed mortgage servicer and investor types, with the goal of reducing struggling homeowners' monthly mortgage payments to an affordable and sustainable amount.

> ***"We're not just helping homeowners at risk of falling over the edge; we're preventing their neighbors from being pulled over that edge, too – as defaults and foreclosures contribute to sinking home values, failing local businesses, and lost jobs."***
>
> *~ President Obama*

As the needs of homeowners changed over time, the Agencies responded by expanding the options available under MHA and HAMP, and by introducing additional loss mitigation programs and standard practices for homeowner outreach and engagement. FHFA's Servicing Alignment Initiative (SAI) and HUD's expansion of options for mortgagees with mortgages insured by the Federal Housing Administration (FHA), provided additional assistance to struggling homeowners and furthered the promotion of common standards across mortgage servicers and investors.

In total, through government programs and private sector efforts, 10.5 million modification and mortgage assistance arrangements were completed between April 2009 and the end of May 2016.[i] The Agencies have also helped homeowners by creating a transparent process, setting standards for how modifications should be done, and prompting changes in industry procedures to mirror the standards established through MHA, SAI, and other programs administered by the Agencies.

As a result of the Agencies' programs, regulatory actions, and private sector initiatives, steps taken by the mortgage servicing industry to improve practices over the past seven years have been encouraging. The industry is generally better prepared now to provide assistance to struggling homeowners than it was before the crisis. This is due, in part, to the adoption of certain homeowner engagement standards including continuity of contact, solicitation timeframes, and certain notice and appeal processes required by the Consumer Financial Protection Bureau (CFPB).

There is, however, more work to be done. Certain programs—e.g., MHA programs—introduced in response to the financial crisis were temporary and will end this year. With some exceptions, servicers will no longer be required to evaluate homeowners for a standard mortgage modification like HAMP. Instead, servicers and investors will need to utilize proprietary loss mitigation programs (either existing or new), and determine the appropriateness of such programs in a more economically stable, post-crisis environment. It is in this context that the Agencies intend to continue their collaborative efforts to help design a framework for the future of loss mitigation. Such a framework should incorporate—and modify as necessary—the best practices and guiding principles that have led to positive outcomes for all stakeholders, including homeowners, investors, and servicers.

INTRODUCTION

Over the past seven years, the U.S. Department of the Treasury (Treasury), the U.S. Department of Housing and Urban Development (HUD), and the Federal Housing Finance Agency (FHFA) —together the Agencies—have established programs that have resulted in homeowners being able to avoid foreclosure. These efforts have led to improved consumer engagement in the loss mitigation process, to new standards for the types of loss mitigation products offered to homeowners by servicers, and to standard procedures for how such products are provided. The efforts have also supported the recovery of the housing market and demonstrated that a mortgage modification can be a sustainable option for homeowners seeking to avoid foreclosure.

Foreclosures can have severe consequences for families and communities. In addition to damaging a homeowner's access to credit, foreclosures can hinder children's educational success, increase crime in communities, and drain resources from local governments. Studies have shown that when families with children enter foreclosure, children are more likely to suffer in school and develop behavioral and health issues.[ii] Widespread foreclosures not only depress housing prices in a community, but can create a contagion effect that can ripple through the local economy. Neighborhoods may experience more crime when properties become vacant and local governments reduce police forces due to declining tax revenues.[iii] The personal and societal impacts of mass foreclosures highlight the importance of government-sponsored foreclosure prevention programs to help struggling homeowners.

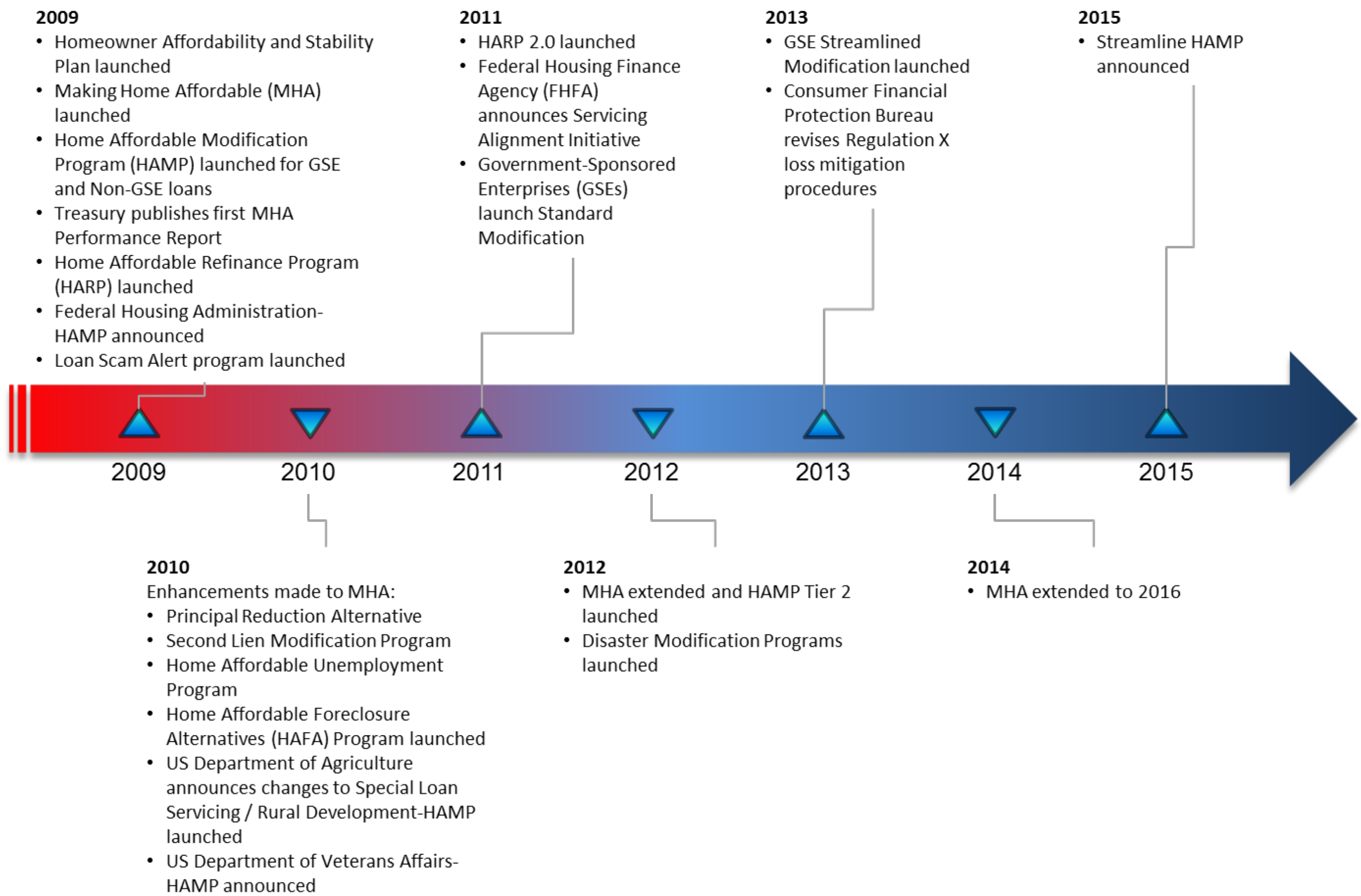
Before 2009, the mortgage industry was not prepared to deal with a financial crisis or modify mortgages on a widespread scale. Mortgage servicers had insufficient resources to address the needs of a market that was struggling from increasing foreclosures. Mortgage servicers' expertise and infrastructure was largely focused on overseeing collection processes and foreclosing on those who failed to pay. In many cases, mortgage servicers were not delegated to approve loan modifications without investor approval. While that model may have been sufficient for the industry during times of economic growth and house-price appreciation, it proved to be inadequate in 2007, when the industry experienced rapidly rising defaults and declining home prices, which—in large part—were driven by widespread foreclosures.

In addition, there was no standard approach among mortgage servicers or investors to assist homeowners who were making payments, but were at risk of becoming delinquent due to a financial hardship. Most solutions offered to a delinquent homeowner before 2009 sought to mitigate the investor's risk by adding unpaid interest and fees to the mortgage balance. These options often resulted in higher payments for homeowners and did not address the hardship or long-term affordability. As a result, the few options for payment relief were typically ineffective and resulted in high re-default rates.[iv]

Since 2009, a number of government-sponsored programs have enabled federal agencies, mortgage servicers, investors, housing counselors, and other stakeholders to gain valuable insights into the development of effective loss mitigation solutions. One such program—Making Home Affordable (MHA) —was established pursuant to the Emergency Economic Stabilization Act of 2008 (EESA).[v] Under MHA, the Home Affordable Modification Program (HAMP) was established to provide permanent mortgage modifications to struggling homeowners with mortgage liens originated on or before January 1, 2009. FHFA and the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, then introduced the Servicing Alignment Initiative (SAI) to assist struggling homeowners and to mitigate GSE losses.

As a result of the collaborative work over the past seven years, progress has been made by the mortgage industry to improve available loss mitigation solutions that benefit homeowners, investors, and servicers. As evidenced by modification performance rates discussed in this paper, MHA, SAI, and the other programs administered by the Agencies have demonstrated that mortgage modifications can be sustainable. In addition, the Consumer Financial Protection Bureau (CFPB) has issued regulations that incorporate key standards for homeowner engagement that did not exist prior to the financial crisis. These include, for example, continuity of contact, solicitation timeframes, and certain notice and appeal processes, all of which are now mandatory mortgage servicing industry practices for institutions regulated by CFPB.

FIGURE 1: TIMELINE OF CRISIS-ERA HOUSING PROGRAM DEVELOPMENTS [SEE APPENDIX B FOR DETAILED TIMELINE]



When the MHA programs terminate on December 31, 2016, there will no longer be a standard loss mitigation option that cuts across servicer and investor types.[vi] Other pieces of the infrastructure supported by MHA and HAMP, such as requirements to offer post-modification counseling, third party escalation centers, and public reporting of modification and servicer performance will also be phased out, or provided on a limited basis depending on investor or servicer. It is in this context that the Agencies look to continue their collaborative efforts and encourage stakeholders to design a framework for the future of loss mitigation. Further, the Agencies recommend that the framework incorporate—albeit modified as necessary for a non-crisis housing market—the best practices developed under MHA and other programs, which have led to positive and sustainable outcomes for homeowners, investors, and servicers.

To further this effort, this paper will examine the evolution and lessons learned from the loss mitigation programs administered by the Agencies. The paper will explore the framework of principles that should inform future loss mitigation offerings, and lay out the potential challenges and open questions that need to be addressed in a more stable housing market.

THE EVOLUTION OF LOSS MITIGATION OPTIONS

In response to the financial crisis, the Agencies introduced MHA, SAI, and other programs to stabilize the housing market and assist in the avoidance of foreclosure. These programs offer both home retention and non-retention solutions for a variety of situations, and include first and second lien modifications, short sales or deeds-in-lieu of foreclosure, and forbearance plans where appropriate—such as for the unemployed.

In addition to participating in HAMP, the GSEs, under the direction of FHFA, implemented SAI, which increased delegation authority for servicers and created a hierarchy of home retention and foreclosure alternative programs that set default servicing standards for GSE loans nationwide. At HUD, the Federal Housing Administration (FHA) provided loss mitigation options and developed process standards for mortgagees to offer to eligible borrowers with mortgages insured by FHA. In all, the programs and processes introduced by the Agencies improved the accessibility, affordability, sustainability, and transparency for loss mitigation options, and increased accountability, which prompted greater positive change within the mortgage industry.

Financial Crisis Loss Mitigation Programs

MHA—particularly through HAMP—established unified principles for effective loss mitigation policy across the servicing industry, with the participation of thousands of mortgage servicers servicing loans owned by private investors or insured or guaranteed by the GSEs, FHA, the U.S. Department of Agriculture's (USDA) Rural Housing Service, and the U.S. Department of Veterans Affairs (VA).[vii] In many cases, HAMP provides financial incentives to homeowners, servicers, and investors to modify the first lien mortgage of a qualified borrower who is behind on his/her mortgage, or in danger of imminent default due to financial hardship. HAMP was established as a response to the financial crisis and will no longer be an option for homeowners after December 31, 2016, except to those struggling homeowners with loans insured or guaranteed by FHA, USDA or VA.

The first option for which most homeowners were evaluated was a traditional HAMP modification—which came to be known as "HAMP Tier 1" for non-GSE loans and "GSE HAMP" for GSE loans. HAMP Tier 1 and GSE HAMP target a housing Debt-to-Income (DTI) ratio of 31 percent and are only offered on loans secured by principal residences. In 2012, additional modification options were developed to increase the number of homeowners eligible for assistance. The Standard Modification for GSE loans and HAMP Tier 2 for non-GSE loans were introduced to help homeowners ineligible for assistance under GSE HAMP or HAMP Tier 1. GSE Standard Modification and HAMP Tier 2 expanded eligibility by providing a target post-modification housing DTI ratio equal to or greater than 10 percent and less than 55 percent, and by opening the program to loans secured by a non-owner occupied property.

As the modification programs matured, the Agencies introduced streamlined modification options for GSE (GSE Streamlined Modification) and non-GSE (Streamline HAMP) loans. Under the streamlined modification, an eligible homeowner who is at least 90-days delinquent is proactively offered a loan modification without being required to submit an application. In addition, the servicer is not required to verify income or underwrite to a targeted housing DTI. However, if a complete borrower application package is received, then a borrower will be evaluated for a HAMP modification—Tier 1, Tier 2 or GSE HAMP as applicable.

HUD also introduced enhancements to the Loss Mitigation Program for FHA-insured mortgages. The Loss Mitigation Home Retention Priority Waterfall for FHA-insured mortgages was revised to achieve a targeted payment reduction of 20 percent for FHA-HAMP modifications with a resulting housing DTI ratio equal to or greater than 25 percent and less than or equal to 31 percent.

The Agencies also introduced foreclosure alternative options such as short sales and deeds-in-lieu of foreclosure to help avoid foreclosure when home retention is not attainable or desirable. The short sale and deed-in-lieu of foreclosure programs provide an opportunity for servicers to further engage with homeowners to find the right solution for the individual homeowner's situation, particularly when the homeowner is not eligible for a modification or—in certain circumstances—no longer desires to stay in the home and owes more than their home is worth.

Standardization of Loss Mitigation Processes

The Agencies created standard processes to improve the modification programs for the benefit of homeowners, servicers, and investors. Prior to 2009, the loss mitigation infrastructure was fragmented. There were few, if any, industry-wide standards or processes to assist struggling homeowners. The introduction and evolution of MHA and SAI resulted in a coherent loss mitigation infrastructure that provides a set of standards and processes for efficient and positive outcomes for all parties.

Some examples of the infrastructure created under the Agencies' programs that have helped millions of homeowners keep their homes include:

- Standards and processes for outreach to delinquent homeowners;
- Widespread availability of independent and expert housing counseling and legal services to help homeowners improve their financial situations, resolve delinquencies, and avoid foreclosure;
- Increased delegation authority for servicers to make loss mitigation decisions based on clear investor guidelines;
- Standardized and transparent "waterfalls" for determining the order in which loss mitigation options are offered (e.g., reinstatement, repayment plan, forbearance, modification, short sale, and then deed-in-lieu of foreclosure);
- Standardized and transparent waterfall steps (e.g., interest rate reduction, term extension, principal forgiveness/forbearance) that are applied to modify the mortgage payment;
- Systems that allow coordination between first and second lien holders to holistically address a homeowner's mortgage situation;
- Post-modification counseling to help homeowners remain current under their modified mortgage;
- Principal reduction programs for underwater homeowners to reduce negative equity and monthly mortgage payments;
- Strong compliance and oversight functions by federal agencies; and
- Opportunities for engaging with stakeholders that represent varied viewpoints and interests to be considered when developing loss mitigation options.

The introduction of this infrastructure transformed the mortgage servicing industry from one focused primarily on collecting payments for investors, to one focused on working with homeowners to find mutually beneficial solutions for all parties.

HOMEOWNER ENGAGEMENT PROCESSES

The government-sponsored programs also introduced consistent treatment for homeowners and established standards for the way in which the mortgage servicing industry should assist struggling homeowners.

In 2010, FHFA directed the GSEs to discuss existing and possible new practices to mitigate losses and—where feasible—develop consistent requirements for servicing non-performing loans and joint standards for evaluating servicer performance. This effort—SAI—set standards that aligned the GSEs, but more importantly, refocused servicers' attention to their obligations to assist homeowners immediately following delinquency, when the pursuit of foreclosure alternatives was more feasible and likely to succeed. Under the initiative, FHFA and the GSEs developed servicing rules to align four key areas:

- **Borrower Contact –** Sets forth uniform standards for borrower communication with a focus on understanding the borrower's situation, and articulates call center benchmarks.
- **Delinquency Management –** Sets borrower solicitation and response standards, defines delinquency timeline and applicable servicer requirements, and articulates processes for reviewing and responding to borrower complaints.
- **Loan Modifications –** Defines eligibility and terms for standard and streamlined modification offerings, targeting borrowers who are ineligible for HAMP.
- **Servicer Incentives and Compensatory Fees –** Provides tiered modification incentives for servicers to encourage them to resolve delinquencies early in the process. Failure to comply with published foreclosure timelines may subject the servicer to compensatory fees for delays within their control.

Once SAI was announced and implemented, FHFA and the GSEs continued to improve and build upon their policy objectives of ensuring that servicers were effectively engaging with homeowners to resolve cases earlier, that there was greater transparency in decisions for distressed homeowners, that servicers were being held accountable for their performance, and that the GSEs and servicers were complying with standards and fostering consistency across key default processes.

Similar efforts and policies were pursued by Treasury in collaboration with FHFA, the GSEs, mortgage servicers, and homeowner advocates, which resulted in HAMP requirements for servicers of non-GSE mortgage loans. Today, many of the key HAMP and SAI procedures for the way in which servicers provide assistance to struggling homeowners have been adopted in Regulation X, which implements the Real Estate Settlements and Procedures Act (RESPA).[viii] Examples include:

- Prohibitions against dual tracking homeowners for modifications and foreclosures;
- Providing the homeowner with a single point of contact (SPOC) at the servicer throughout the loss mitigation process;
- Mandatory solicitation of delinquent homeowners within specified timeframes; and
- Requirements for evaluation notices and an appeals process.

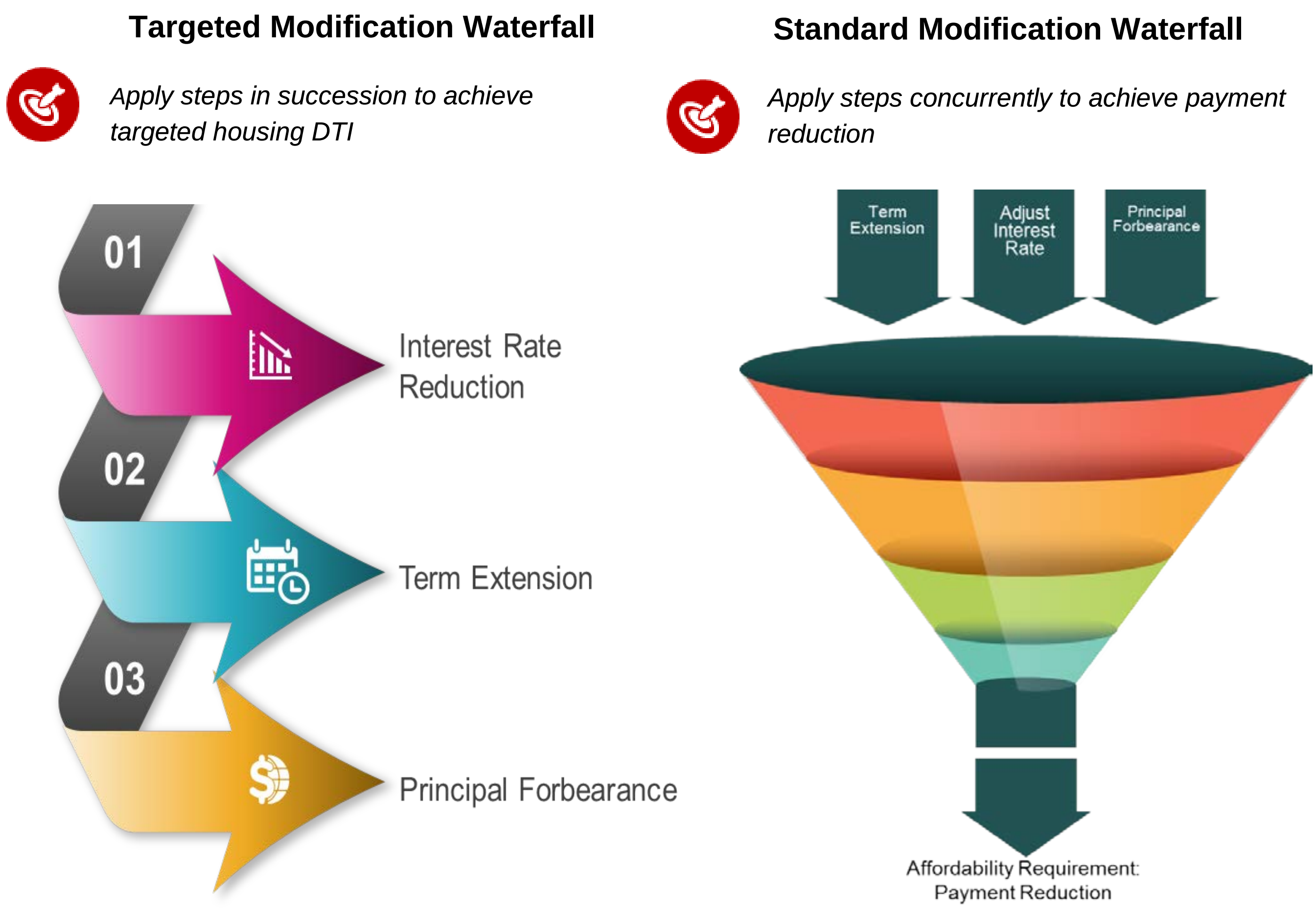
As a result of these policies, all parties better understand the terms of available loss mitigation solutions.

MODIFICATION WATERFALL

The government-sponsored mortgage modification programs established a standard modification waterfall that applies capitalization, interest rate adjustment, term extension, and principal forbearance/forgiveness to qualifying mortgages in a particular order. These waterfalls create a standard application of terms that all parties can understand and which can be enforced if necessary. They also offer affordability and sustainability through payment reduction.

The various programs apply the waterfall steps in different ways. For example, they can be applied in succession to reach a desired outcome, or all at once to determine the resulting payment. Both approaches can result in payment reduction and accommodate a housing DTI target or payment reduction target. Depending on how the waterfall is implemented, some programs are better able to maximize the number of eligible homeowners, while others are better equipped to tailor a modification in a way that specifically targets the homeowner's unique financial situation.

FIGURE 2: MODIFICATION WATERFALLL COMPARISON



HOUSING COUNSELORS

Treasury and HUD co-sponsored events for homeowners that were designed to reduce the stigma associated with mortgage delinquency. At these events, homeowners could meet with mortgage servicers authorized to make on-the-spot decisions, as well as with staff from the GSEs and HUD-approved housing counseling agencies. Congress created the National Foreclosure Mitigation Counseling (NFMC) program[ix] in 2007 to provide struggling homeowners with a source of expert, unbiased housing counseling assistance for those at risk of foreclosure. As discussed in further detail below, housing counselors have played a key role in supporting both homeowners and servicers, and increased the number of foreclosures successfully avoided.

GUIDING PRINCIPLES FOR THE FUTURE OF LOSS MITIGATION

Through their common experiences with loss mitigation programs over the past seven years, the Agencies have identified five principles that should guide future loss mitigation programs. The guiding principles are:

- **Accessibility:** Ensuring that there is a simple process in place for homeowners to seek mortgage assistance and that as many homeowners as possible are able to easily obtain the needed and appropriate level of assistance.
- **Affordability:** Providing homeowners with meaningful payment relief that addresses the needs of the homeowner, the servicer and the investor, to support long-term performance.
- **Sustainability:** Offering solutions designed to resolve the delinquency and be effective long-term for the homeowner, the servicer and the investor.
- **Transparency:** Ensuring that the process to obtain assistance, and the terms of that assistance, are as clear and understandable as possible to homeowners, and that information about options and their utilization is available to the appropriate parties.
- **Accountability:** Ensuring that there is an appropriate level of oversight of the process to obtain mortgage assistance for the protection of all parties.

Balancing these five guiding principles can help maximize participation in foreclosure-avoidance efforts and reduce losses on mortgage assets, thereby creating mutually beneficial outcomes for mortgage servicers, homeowners, and investors.

Accessibility

Accessibility means that homeowners experiencing a wide variety of hardships can understand, participate in, and be eligible for foreclosure alternative programs. Standard processes should be simple to implement and execute at both the servicer and homeowner level. Communication, outreach, and engagement must be clear and concise so that all parties understand the processes and terms—including eligibility and documentation requirements. The needs of homeowners with limited English proficiency should be taken into consideration. In addition, homeowners should have access to clear and effective escalation options when they encounter difficulties in the process of seeking assistance.

SERVICER OPERATIONS

An accessible loss mitigation process in which homeowners are informed and knowledgeable about the programs offered improves the speed and efficiency of operations for servicers. The improvements to the loss mitigation process over the past seven years have changed the business of mortgage servicing. Practices that can help servicers, homeowners, and investors understand the eligibility and documentation requirements for a home retention or foreclosure alternative solution include:

- Adoption of a uniform application, which can reduce the amount of time spent collecting documentation (a benefit to homeowners and servicers);
- Engaging trusted third-party networks to provide early, unbiased advice for borrowers such as housing counselors, call centers like the HOPE Hotline,[x] and anti-scam campaigns;
- Ensuring that homeowners interact with a single point of contact at the mortgage servicer; and
- Proactive communication by servicers with delinquent homeowners.

As the number of delinquencies and foreclosures subsided in recent years, the resources needed to service delinquent homeowners have also decreased. Going forward, those designing future loss mitigation programs should consider:

- The appropriate level of loss mitigation operations needed in a non-crisis environment;
- The role of borrower and servicer incentives;
- How operations and/or processes can be simplified or consolidated;
- How the costs of servicing in loss mitigation should be managed;
- How loss mitigation practices can most effectively address the needs of homeowners and investors; and
- How modifications can affect homeowners' access to credit in the future.

BROAD AVAILABILITY OF MODIFICATIONS

Accessibility also speaks to making home retention and foreclosure alternative solutions broadly available to servicers to be able to assist the greatest number of distressed homeowners while achieving positive investor economics. For long-term hardships, loan modification programs with strict post-modification targets and documentation requirements can negatively impact or limit eligibility and participation by homeowners. The introduction of more flexible programmatic targets—as seen in HAMP Tier 2, and in the GSE Standard Modification—helped to increase the population of eligible borrowers. Additionally, lower documentation requirements for streamlined modifications facilitated broader participation for seriously delinquent borrowers most likely to be foreclosed upon. However, for some short-term hardships the best solution for the homeowner may be an affordable re-payment plan, a modification that capitalizes arrearages and, if necessary, extends the term of the loan, or deferment of payments incrementally to achieve the pre-hardship payment.

Communication and document collection missteps can lead to confusion and decrease accessibility. According to a 2012 Fannie Mae consumer marketing survey, more than 50 percent of borrowers believed they had submitted complete documents, while only five to six percent of borrowers had actually submitted complete documents as reported by the servicer. Depending on the modification option, the level of documentation required can vary significantly—e.g., an income-based modification or one that is underwritten to a target housing DTI requires more documentation than a modification that targets a minimum payment reduction. With this in mind, those designing future modification programs should consider:

- Whether documentation requirements and/or submission methods can be simplified for homeowners and servicers;
- Whether alternative forms of documentation can be used to fully underwrite a modification, and/or what documentation can be obtained by the servicer as opposed to being submitted by the homeowner; and
- What documentation is necessary in exigent circumstances, such as for homeowners at risk of imminent default.

As described above, streamlined modification options for seriously delinquent homeowners were introduced for both GSE and non-GSE loans. The introduction of these programs allowed servicers to target a unique population that had not yet received assistance. There are, however, considerations when looking at a streamlined modification approach. In a streamlined solution, the servicer's ability to verify hardship and ensure payment affordability based on housing DTI ratio evaluation is limited. Nevertheless, streamlined solutions provide greater chances of assistance in cases where the servicer has been unable to establish contact with the borrower, or verify income documentation for certain borrowers—e.g., self-employed borrowers, or multi-generational households. It is important to strike the right balance between a simplified approach and one that maintains the flexibility to address a homeowner's unique situation.

Modifications with verified income and targeted housing DTI ratios—such as HAMP Tier 1 and GSE HAMP—allow servicers to tailor a modification in a way that targets the homeowner's unique financial situation. This type of modification encourages interaction between the homeowner and the servicer that may lead to positive outcomes. There is, however, a risk that homeowners may become disengaged and/or increasingly delinquent while attempting to submit all the necessary documentation to their servicer for a housing DTI ratio evaluation.

Another factor that can affect the availability of foreclosure alternatives is the participation—or lack thereof—of investors. In order for modifications and other foreclosure alternatives to proceed, investors must authorize their servicers to offer foreclosure alternatives and—in many cases— approve the terms of the foreclosure alternative to be offered by the servicer. Servicers also need delegated authority to provide foreclosure alternatives to homeowners. This is especially important when mortgage loans are sold in the secondary market as mortgage-backed securities—e.g., deposited into a trust that holds many mortgages and the trust issues mortgage-backed securities to numerous investors. With rising housing prices and a more stable economic environment, ensuring investor participation requires additional attention.

Considerations related to investor participation should include:

- What impact foreclosure alternatives can have on investors (e.g., the impact on the value of a mortgage-backed security or other secondary market transactions);
- Whether mortgage-backed securities can remain liquid in a housing market with higher than usual modification rates; and
- Whether insurance on mortgage-backed securities is necessary to protect the value of the security when a loan is modified.

Affordability

Affordability refers to meaningful payment relief to achieve sustainable monthly payments that meet the needs of the homeowner based on their particular type of hardship. Homeowners should not be required to pay upfront costs or fees for loss mitigation assistance.

WATERFALL STEPS TO ACHIEVE PAYMENT REDUCTION

The government-sponsored programs made payment reduction a pillar of loan modifications, and targeted payment reduction through a waterfall for those borrowers unable to afford the monthly mortgage payment. As discussed above, each program applies capitalization, interest rate adjustment, term extension, and principal forbearance/forgiveness to qualifying mortgages. Those steps are applied in succession or simultaneously—depending on the program—to achieve affordable modifications. While these steps are the current industry standard, a different order or different steps may lead to better outcomes for homeowners, servicers, and investors in a non-crisis economic environment. The order of application of waterfall steps should be evaluated for future modification programs. Additional questions for consideration include:

- Whether a step-up modification—one in which the interest rate and, by extension, the monthly payment, increases gradually after a five year period until it reaches the market rate at the time of modification—is a viable tool to achieve payment reduction, particularly in an environment of higher market interest rates;
- Whether alternative solutions can help homeowners build equity more quickly;
- Whether there should be different waterfalls for homeowners with different equity positions;
- Whether there should be different foreclosure alternatives for homeowners with short-term and long-term hardships; and

- What additional options should be made available for homeowners in areas of localized distress and/or federally declared disaster areas.

HOLISTIC APPROACH

In addition to focusing on mortgage payment reduction, servicers—working directly with the homeowner or with a housing counselor—should review and address a homeowner's complete financial picture where possible.

For example, second liens should be reviewed—and where possible addressed—as part of a holistic approach to the homeowner's financial situation. Under MHA, Treasury pioneered a modification program for second liens designed to work in tandem with a modification under HAMP Tier 1, HAMP Tier 2, or GSE Standard Modification. Under the program, a reporting system was developed to notify the servicer of a second lien once the first lien had been modified. The second lien holder then extinguishes or modifies the second lien and provides a more comprehensive solution to the homeowner's overall mortgage debt. The use of housing counselors can also assist in addressing the homeowner's broader financial picture. Housing counselors have the expertise to work with borrowers to review their entire income, expense, credit and debt profile, and help the borrower make long-term changes to improve their spending and savings habits. Specific barriers to successful repayment of the mortgage—such as student loan debt, a second lien, or negative equity—can be addressed as part of the loss mitigation process when a homeowner works with a housing counselor.

Finally, both the servicer and the borrower need to be aware of the wide array of subsidy or other assistance programs that may be available from local or private charitable organizations. These may include home retention programs, or programs that help families transition to an alternative housing situation with minimal additional damage to credit, savings, or children's educational stability. Any future loss mitigation framework must create comprehensive solutions that help those homeowners in need achieve greater affordability by lowering their overall monthly payments. If an affordable modification is not possible, the servicer should discuss other foreclosure alternatives with a homeowner—such as a short sale or deed-in-lieu of foreclosure—and ensure that the homeowner is aware of all sources of assistance for his/her transition.

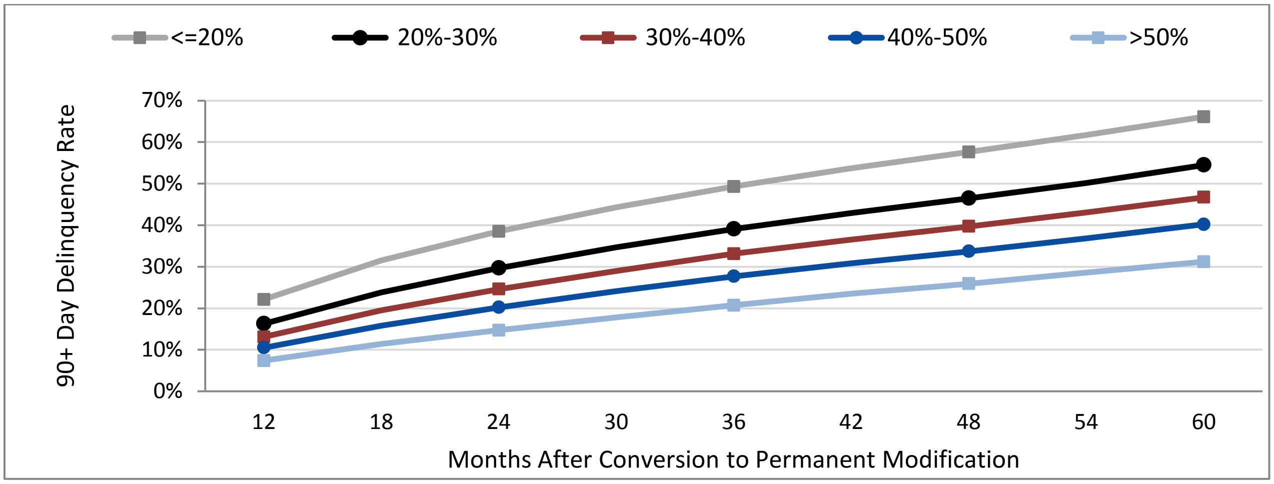
Sustainability

Sustainability means offering solutions that work the first time. It is in the best interest of all parties to find the right solution as soon as possible when a homeowner becomes delinquent. Modifications made earlier in the delinquency process can reduce the risk that a homeowner will re-default in the future. Moreover, modifications that provide meaningful payment reduction will reduce the chance that borrowers will need additional help. Making sure that modifications meet these tests will decrease the chance of a homeowner re-defaulting.

PAYMENT REDUCTION

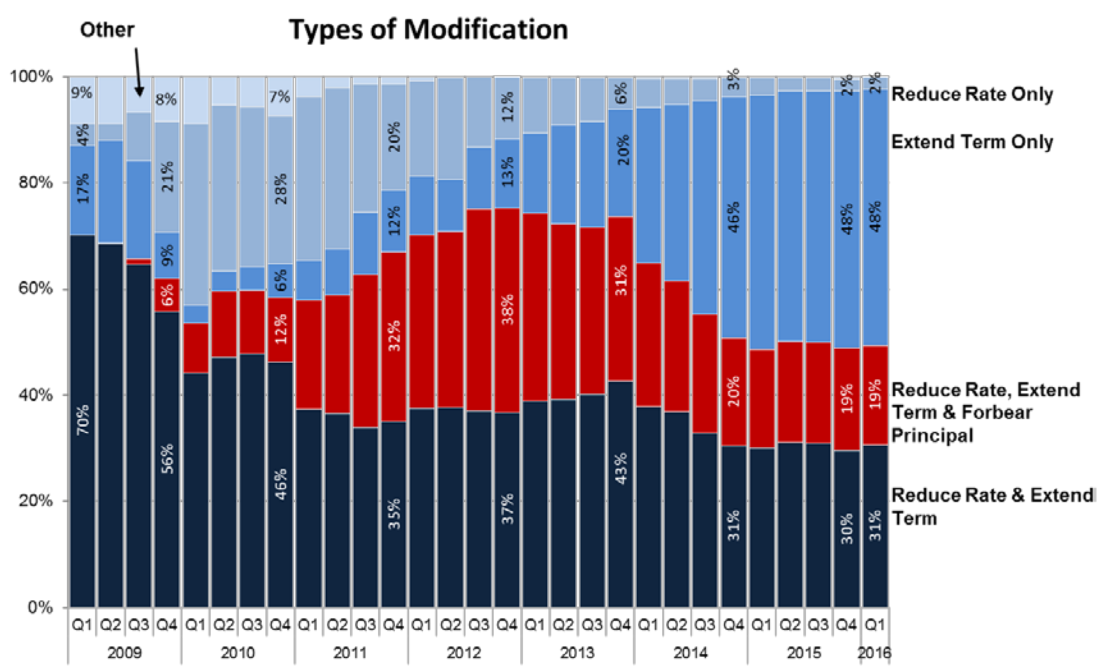
The data show that greater payment reduction can reduce the chance of re-default and ensure that homeowners have sustainable outcomes. For example, data from HAMP found that modifications with deeper payment reduction consistently outperform modifications with smaller payment reduction.

FIGURE 3: IMPACT OF PAYMENT REDUCTION (AS A PERCENTAGE OF THE ORIGINAL PAYMENT) ON DELINQUENCY RATES ACROSS 12-60 MONTH VINTAGES (GSE HAMP AND HAMP TIER 1).

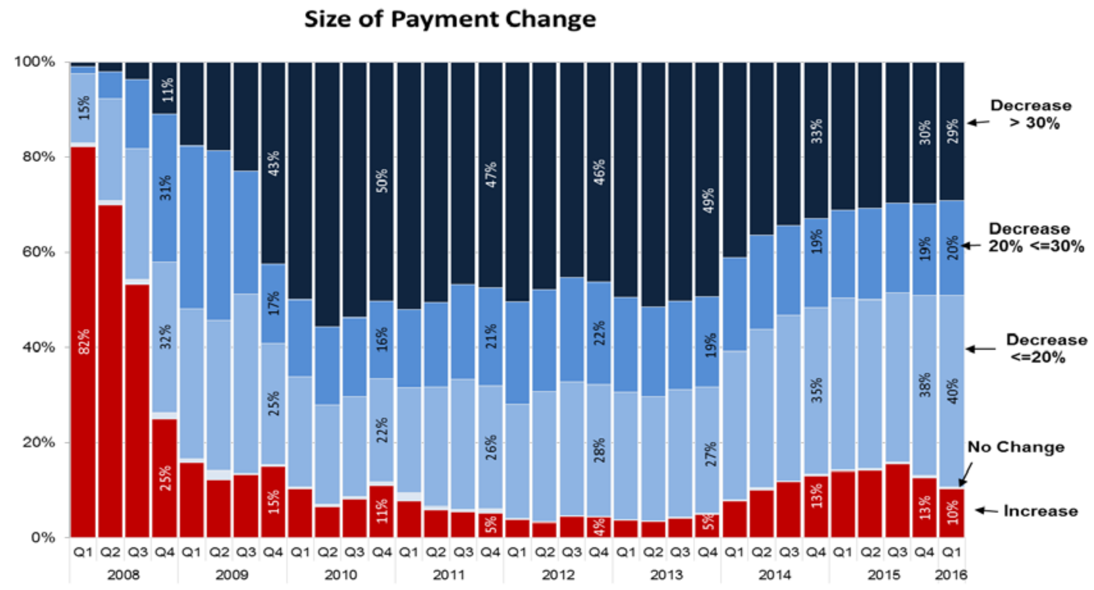


Likewise, data from FHFA demonstrates that payment reduction is a driver of performance for GSE-modified loans. Sixty percent of all GSE modifications offer up to a 30 percent payment reduction, with 29 percent of modifications offering payment reduction of more than 30 percent. These payment decreases are a result of using a waterfall of interest rate reduction, term extension and principal forbearance. Forty-eight percent of GSE modifications require only a term extension to provide meaningful payment reduction.

FIGURE 4: TYPES OF GSE MODIFICATIONS AND SIZE OF PAYMENT CHANGE



Source: FHFA (Fannie Mae and Freddie Mac)



Source: FHFA (Fannie Mae and Freddie Mac)

This finding is further supported by data tracked by Office of the Comptroller of Currency (OCC): "Among modifications that reduce borrowers' monthly payments, modifications that reduce payments by at least 10 percent consistently re-default at lower rates than modifications that reduce payments by less than 10 percent—the larger the reduction in monthly payment, the lower the subsequent re-default rate."[xi]

In considering the future of mortgage modifications, however, attention should also be paid to how payment reduction can best be targeted to balance the benefits among all parties.

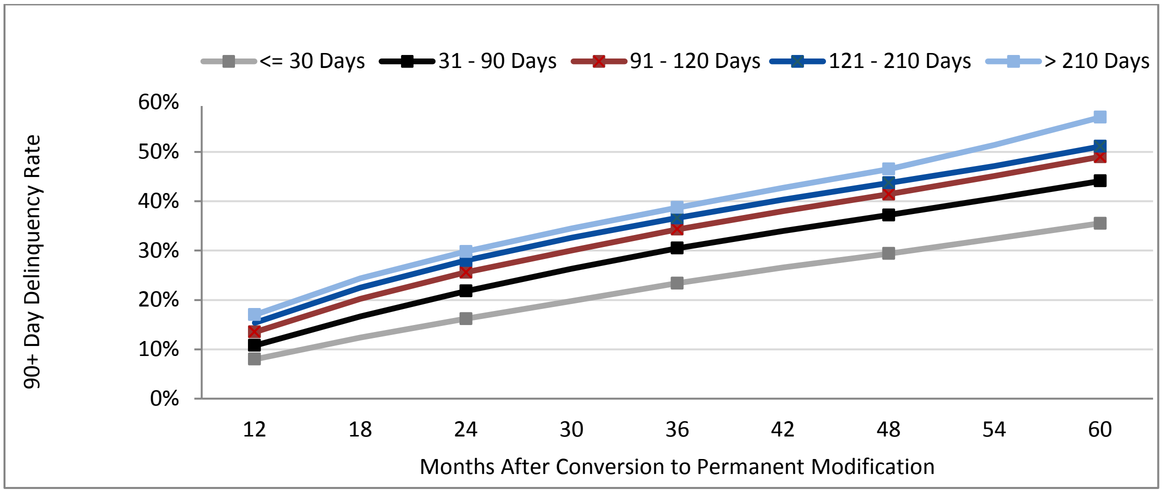
Considerations related to payment reduction should include:

- The ability to provide sufficient payment reduction in different home price and interest rate environments;
- The flexibility to provide more payment relief to struggling homeowners in areas of greater economic distress;
- Whether the solution should target a standard level of payment reduction;
- Whether there should be different payment reduction strategies for homeowners with adjustable rate mortgage loans;
- If it is better to achieve deeper payment reduction that gradually step-up after a shorter time period, or to utilize longer-term solutions;
- Whether preference should be given to step-up payment plans versus fixed payment plans; and
- Whether the borrower has a short-term or long-term financial hardship.

EARLY INTERVENTION

Data from HAMP has demonstrated that early intervention with delinquent homeowners is critical to preventing re-default after modification. The chart below shows that across all vintages, making modifications early in the delinquency of a homeowner can significantly improve the performance of the modified loan. The data highlight the importance of early interaction with delinquent homeowners as required under MHA and SAI.

FIGURE 5: IMPACT OF DELINQUENCY STAGE PRIOR TO MODIFICATION (IN DAYS) ON POST-MODIFICATION DELINQUENCY RATES AFTER MODIFICATION ACROSS 12-60 MONTH VINTAGES (GSE HAMP AND HAMP TIER 1).



HOUSING COUNSELING

Housing and financial counseling can bolster the success of loss mitigation programs. Independent research has found that working with a HUD-approved housing counseling agency improves homeowner and servicer outcomes. The Urban Institute studied 240,000 loans over a four-year period and found that housing counseling funded by the NFMC program greatly increased a homeowner's ability to cure a serious delinquency or foreclosure. Counseled homeowners were nearly twice as likely to receive a cure for their serious delinquency or foreclosure as non-NFMC counseled homeowners. Counseled homeowners are nearly three times as likely to receive a loan modification compared to non-counseled homeowners. Once modified, NFMC counseled homeowners are less likely to re-default. This effect is largely attributable to services provided by counselors such as budgeting and financial management education, and developing an appropriate solution given the homeowner's financial conditions.[xii] Housing counselors also help homeowners find alternatives to foreclosure when saving the home is not an option—counseled homeowners are more likely to obtain a short sale than non-counseled homeowners.

HUD recently published some early insights from The First-Time Homebuyer Education and Counseling Demonstration.[xiii] This study is following 5,800 participants in a randomized experiment to understand the impact of housing counseling on long-term housing success. HUD will publish the results over the next four years. Even at this early stage the study is providing important data about preferences and barriers. For example, the study found that early enrollees who were randomly assigned to receive housing education and counseling had a significantly higher positive response to the statement: "If in financial difficulty, the respondent would contact the lender for assistance before missing a mortgage payment."

Congress has appropriated substantial funding for NFMC, and nearly two million homeowners received foreclosure counseling between March 2008 and June 2015. The Agencies introduced housing and financial counseling into the loss mitigation process under the theory that a homeowner working with a trusted expert advisor would be more engaged and have a better understanding of the foreclosure alternatives provided by the servicer—which would result in more sustainable outcomes for all parties. Under MHA, servicers are required to offer financial counseling to homeowners to help them remain current on their modified mortgage loans. These counseling services help homeowners address their unique financial situations and hardships, and make sure that they understand the terms of their modified mortgage loans. In the future, considerations related to counseling should include:

- Whether the role of counselors should be adjusted or expanded to better serve homeowners;
- How servicers can help match homeowners with HUD-approved housing counseling agencies;
- How servicers can help ensure that homeowners complete counseling; and
- Whether servicers and homeowners share responsibility for compensating counselors given the decline and possible end of funding under NFMC.

Transparency

Transparency means making sure that the loss mitigation process is clear and understandable by all parties—and be made available in the public domain. Treasury and the GSEs—under the direction of FHFA—did this by standardizing the modification process and publishing the requirements. This allows housing counselors and borrowers to know generally what to expect when entering into a loan modification trial plan—whether a HAMP modification or any of the GSE proprietary modification offerings.

As discussed above, HAMP and the GSE Standard Modification require servicers to use a waterfall to evaluate each loan that meets the eligibility requirements. These waterfall steps are clearly outlined and understood by all parties, which provides transparency in the evaluation process. Clear explanation of the waterfall steps to homeowners and investors helps set expectations for how the servicer will achieve lower payments, and the amount of payment reduction.

The MHA.gov website facilitates transparency and accessibility by making standardized application packages, evaluation tools, fraud prevention information, and other educational resources available to the public.[xiv] Homeowners are also able to access CheckMyNPV.com to assist in determining eligibility and to confirm the accuracy of a Net Present Value (NPV) denial.[xv] The GSEs provide public information and consumer education on loans, loss mitigation, and how to obtain assistance on their respective websites: KnowYourOptions.com for Fannie Mae, and FreddieMac.com. When homeowners apply for assistance, disclosing such information can help them understand the factors that servicers will consider in their application and what factors might make them ineligible for assistance. One possible option for the future would be to establish a new government website to serve as a central and official location for homeowners to find information about eligibility for all current loss mitigation options—including a way to validate eligibility—and a standard application, regardless of servicer or investor.

Another example of transparency includes clear communications with homeowners to help them understand the terms of their modifications. These communications should cover the amount by which a payment will be reduced and for how long, whether there will be a balloon payment at the end of the modification, and what other options are available if payment reduction is not possible. Homeowners should be able to work with a HUD-approved counseling agency or other trusted advisor to help them understand the terms of their modifications and other options.

Throughout the life of the crisis-era programs, the Agencies have collected—and to a certain extent made publicly available—performance data to measure the success of the programs. This has allowed the Agencies, independent researchers and others to study and report on the programs' outcomes. Continued study of the data from these programs can help identify areas for improvement under future programs and enable planning for future crises.

Some of the remaining considerations related to the use of data for future modification programs include:

- Whether other sources of data can help improve the loss mitigation process;
- Whether loan-level performance data should be made available for research purposes;

- How to protect the private information of homeowners seeking assistance;
- Whether there should be a government or industry standard for collecting and reporting future foreclosure prevention data, and if so, to whom that information would be reported;
- How to protect data ownership for those reporting their data through appropriate licenses and legal frameworks; and
- Whether a government agency should manage the collection of foreclosure prevention data to promote accountability.

Accountability

Accountability refers to oversight of foreclosure prevention programs. A number of federal and state agencies have oversight responsibilities for the mortgage servicing industry and the loss mitigation process. One particular benefit to MHA/HAMP is that it crossed investor types and servicers—bank and non-bank—and provided a standard set of guidelines to which all were held accountable.

To promote accountability under MHA, Treasury implemented a robust compliance process. This includes loan level testing, as well as process and controls testing against defined MHA requirements. This approach provides comprehensive insight into how each servicer is implementing MHA programs—including whether the servicer is properly identifying, contacting, and evaluating potentially eligible homeowners—and the accuracy and timeliness of the MHA data reported by the servicer.

Moreover, public reporting of servicer performance through Treasury's MHA Program Performance Report, and FHFA's Foreclosure Prevention Report, facilitates accountability and has proven to be a useful tool in improving servicer performance.[xvi, xvii] The MHA Program Performance Report publishes detailed metrics on the MHA programs including assessments of the performance of servicers participating in the MHA program. The assessments include compliance ratings—which reflect servicers' compliance with specific MHA guidelines—and program results—which reflect how timely and effectively servicers assist eligible homeowners and report program activity. FHFA monitors the GSEs' individual Servicer Scorecards[xviii] on a quarterly basis. These types of scorecards should continue as they provide detailed metrics on servicer performance with respect to performing and non-performing loans. The scorecards can also help identify trends on how servicers perform compared to their peers.

The ability to escalate a case, either to MHA's customer support centers or directly to Fannie Mae or Freddie Mac as the investors, also helps hold servicers accountable. These escalation centers provide homeowners with an avenue to dispute or raise concerns related to servicer activities, and to receive assistance with other application-related matters. They also provide timely resolution of homeowners' issues by requiring servicers to respond within specified timeframes and tracking those responses at the servicer level.

THE PATH FORWARD

Since 2009, there has been a positive trend of collaboration among government agencies, servicers, investors, and consumer advocates; all working diligently to stabilize the housing market and help struggling homeowners keep their homes following the financial crisis. More than ten million homeowners have received assistance from government and industry programs. In addition, the introduction of mortgage modification programs has led to new industry standards for loss mitigation.

With the retirement of MHA, the industry will shoulder more responsibility for assisting struggling homeowners through proprietary modifications and other loss mitigation programs. One of the most important things we have learned from the crisis-era efforts is that a collaborative process results in better outcomes for all stakeholders. That lesson should not be forgotten, as the industry takes a more prominent role in defining the future of loss mitigation offerings. Further, the Agencies believe that, going forward, servicers, homeowners, and investors can all benefit from programs that incorporate the five key principles discussed in this paper: accessibility, affordability, sustainability, transparency, and accountability.

The progress in developing successful loss mitigations programs over the past seven years has been encouraging and has benefitted homeowners, servicers, and investors. We look forward to further evolution of home retention solutions and foreclosure alternative programs that will benefit all stakeholders.

To this end, the Agencies will continue engaging with the stakeholders—particularly mortgage servicers—as home retention and foreclosure alternative options are developed, with the goal of assessing how these new options will incorporate and further develop these core principles.

APPENDIX A: GLOSSARY OF TERMS

Debt-to-Income: A comparison or ratio of gross income to housing and other expenses (or debts) the homeowner owes, generally, on a monthly basis.

Deed: A document that legally transfers ownership of property from one person to another. The deed is recorded on public record with the property description and the owner's signature. Also known as the title.

Deed-in-Lieu of Foreclosure: A foreclosure alternative in which the homeowner transfers all interest in a property to a lender/mortgagee to avoid foreclosure.

Default: If the mortgagor fails to make any payment or to perform any other obligation under the mortgage.

Delinquency: A period of time during which a borrower and a borrower's mortgage loan obligation are delinquent. A borrower and a borrower's mortgage loan obligation are delinquent beginning on the date a periodic payment sufficient to cover principal, interest, and, if applicable, escrow becomes due and unpaid, until such time as no periodic payment is due and unpaid.

Delinquent: The borrower's mortgage payment is due and not paid.

Equity: An owner's financial interest in a property which is calculated by subtracting the amount still owed on the mortgage loan(s) from the current market value of the property.

Federal Housing Administration (FHA): A government agency created to provide mortgage insurance on loans made by FHA-approved lenders through the United and its territories. FHA insures mortgages on single family and multifamily homes including manufactured homes and hospitals.

FHA HAMP: A program that allows mortgagees to offer modifications to FHA-insured mortgages to reduce a borrower's monthly mortgage payments and avoid foreclosure.

Forbearance: A temporary reduction or suspension of a mortgage payment without alteration of the obligation to repay the reduced or suspended amounts.

Foreclosure Sale: The legal process by which a property is sold and the proceeds of the sale applied to an outstanding mortgage debt. A foreclosure occurs when the loan becomes delinquent because payments have not been made or when the homeowner is in default for a reason other than the failure to make timely mortgage payments.

Government Sponsored Enterprise (GSE): Private organizations with government charters and backing. For example, Fannie Mae and Freddie Mac are GSEs. Fannie Mae and Freddie Mac own or guarantee mortgage loans. They have modification programs and requirements similar to MHA in addition to other loss mitigation programs.

GSE HAMP: A program that allows servicers to modify Fannie Mae or Freddie Mac owned or guaranteed mortgages with similar terms to HAMP Tier 1.

GSE Standard Modification: A modification program implemented under the FHFA Servicing Alignment Initiative designed for borrowers ineligible for GSE HAMP.

GSE Streamlined Modification: A modification program implemented under the FHFA Servicing Alignment Initiative that offers the same modification terms as the GSE Standard Modification without borrower income and hardship documentation.

Home Affordable Modification Program (HAMP): A loan modification program that provides homeowners the opportunity to modify their first lien mortgage loans to make them more affordable.

HAMP Tier 1 Modification: A modification program for first lien mortgages secured by principal residences that were originated on or before January 1, 2009 that is designed to lower monthly mortgage payments to a targeted housing DTI of 31 percent.

HAMP Tier 2 Modification: An extension to the original HAMP Modification Program (HAMP Tier 1). Through expanded eligibility criteria this also allows borrowers who did not meet the original HAMP Modification Eligibility criteria another opportunity to receive a HAMP Modification, generally, with terms similar to the GSE Standard Modification.

Home Retention Options: A loss mitigation solution available to a homeowner struggling to make a mortgage payment that allows the homeowner to stay in his or her home. Home retention options generally include HAMP or other types of loan modifications, forbearance or deferment, and repayment plans.

Housing Counselor: A professional who is trained to provide tools to current and prospective homeowners and renters so that they can make responsible choices to address their housing needs in light of their financial situations.

Imminent Default: A borrower who is current or less than 60 days past due on their mortgage payment and is experiencing a significant, documented reduction in income or some other hardship that will prevent them from making the next required mortgage payment during the month that it is due and where, without assistance, loss of the property is likely.

Investor: The owner(s) of the mortgage.

Loss Mitigation: The process of a homeowner and the servicer working together to devise a solution for avoiding foreclosure and mitigate an investor or guarantor's losses. Includes home retention options as well as foreclosure alternative programs, such as short sales or deeds-in-lieu of foreclosure.

Modification: A change made to the terms of a homeowner's loan. Loan modifications may include lowering the loan's interest rate, extending the term of the loan, moving from an adjustable to a fixed-rate loan, deferring some portion of the unpaid principal balance or unpaid monthly payments to the end of the loan, and/or forgiving some portion of the unpaid principal balance.

Monthly Payment: Refers to what you pay on a particular mortgage on a monthly basis for principal, interest, real estate taxes, property insurance and, if applicable, homeowners association fees. For mortgages modified under HAMP or other first-lien modification programs, it does not include any payments on your second mortgage.

National Foreclosure Mitigation Counseling (NFMC): A program launched in December 2007 with funds appropriated by Congress to address the nationwide foreclosure crisis by dramatically increasing the availability of counseling for families at risk of foreclosure.

Negative Equity: The condition of an owner's financial interest in a property is negative due to the amount owed on the mortgage loan(s) is greater than the current market value of the property.

Net Present Value (NPV): Net present value (NPV) refers to the value today of a cash-generating investment, such as a bond or a mortgage. When investors are faced with two alternative investment options, they prefer the one that has a higher net present value. In the context of a distressed mortgage, the investment options an investor faces is whether to modify a mortgage or leave as is, the latter of which may result in either repayment in accordance with the original terms or foreclosure.

Principal Forbearance: A portion of the principal of a loan that is non-interest bearing and non-amortizing. The amount of principal forbearance normally results in a balloon payment fully due and payable upon the earliest of the borrower's transfer of the property, payoff of the interest bearing unpaid principal balance, or at the maturity of the mortgage loan.

Principal Reduction: A portion of the principal of the loan that is forgiven as part of a modification to the loan. The reduction can be applied at the outset of the modification or provided in installments over a period of time. It can be used in addition to, or as a replacement for, principal forbearance to achieve payment reduction for the borrower.

RD-HAMP: An MHA program that provides borrower and servicer incentives for the modification of certain mortgage loans under the Rural Housing Service's Special Loan Servicing that result in sustainable mortgage payments.

Repayment Plan: A home retention option in which the homeowner and servicer agree to a schedule for past due amounts to be paid in addition to paying the regularly scheduled mortgage payments over a period, generally, up to twelve months in duration, which could be extended as necessary.

Resolved Hardship Modification: Borrowers with a resolved hardship (e.g., a Federally Declared Disaster) are provided the opportunity to modify the loan through incremental term extension to achieve the pre-disaster monthly mortgage payment.

Seriously Delinquent: A homeowner mortgage payment status in which the homeowner is generally at least 90 days or more past due on his or her mortgage payment.

Servicer: A firm that works on behalf of a mortgage investor in support of a mortgage, including collecting payments, ensuring payment of real estate taxes and insurance premiums, managing escrow accounts, managing communications with the homeowner, and negotiating loss mitigation options or foreclosure when necessary.

Short Sale: A loan workout program wherein the lender accepts the proceeds from the sale of a property securing the mortgage to a third party for less than the total amount of the unpaid balance of the loan. Generally, the remaining debt is forgiven.

Single Point of Contact (SPOC): The single individual or team of individuals at the servicer organization who is responsible for serving as the homeowner's contact point through the entire process of seeking help with his or her mortgage. Also known as a relationship manager.

Servicing Alignment Initiative (SAI): A program led by the FHFA to establish consistent policies and processes for the servicing of delinquent loans owned or guaranteed by Fannie Mae and Freddie Mac.

Streamline HAMP (non-GSE): A HAMP modification option similar to HAMP Tier 2 that provides seriously delinquent homeowners the opportunity to receive a modification with no income documentation and reduced hardship documentation.

Underwater: The condition of having negative equity or owing more on the property than the property is worth.

Treasury FHA HAMP: An MHA program that provides borrower and servicer incentives for the modification of certain mortgage loans under FHA-HAMP that result in sustainable mortgage payments.

VA HAMP: A program that allows homeowners to modify their Department of Veteran's Affairs insured or guaranteed mortgages.

APPENDIX B: TIMELINE OF GOVERNMENT-SPONSORED FINANCIAL CRISIS EFFORTS

2007

Congress creates the National Foreclosure Mitigation Counseling program and appropriates $180 million for housing counseling and legal aid organizations to address foreclosure crisis

2009

- Homeowner Affordability and Stability Plan launched
- Making Home Affordable (MHA) launched
- Home Affordable Modification Program (HAMP) launched
- Treasury publishes first MHA Performance Report
- Home Affordable Refinance Program (HARP) launched
- Federal Housing Administration (FHA) HAMP announced
- Loan Scam Alert program launched

2011

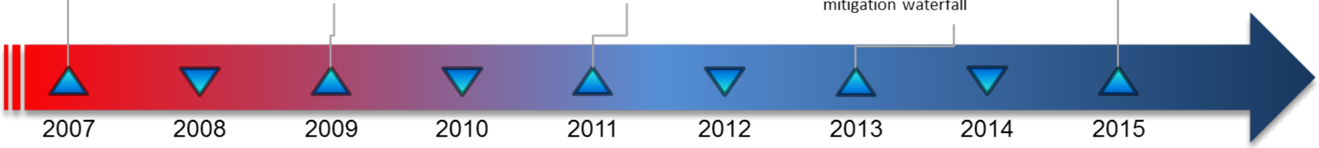
- HARP 2.0 announced
- FHFA/GSEs announce Servicing Alignment Initiative
- UP forbearance plans extended to 12 months
- Treasury introduces tiered servicer incentives based on delinquency
- Treasury introduces Single Point of Contact guidance
- Treasury publishes first quarterly Servicer Assessment
- FHFA/GSEs launch Standard Modification
- Treasury issues guidance on servicing transfers

2013

- FHFA/GSEs launch Streamlined Modification
- 2MP expanded to GSE Standard Modification
- Treasury introduces borrower post-modification counseling
- Consumer Financial Protection Bureau revises Regulation X loss mitigation procedures
- MHA launches Outreach and Borrower Intake Project
- MHA extended to December 2015
- Simplified HAMP income documentation guidance published
- FHA announces changes to loss mitigation waterfall

2015

- Streamline HAMP announced
- GSE-HAMP borrower incentive ($5k) enhanced
- Consolidated Appropriations Act, 2016 enacted calling for termination of MHA



2008

- Emergency Economic Stabilization Act of 2008 is enacted
- Government-Sponsored Enterprises (GSEs) placed under conservatorship
- Federal Housing Finance Administration (FHFA)/HOPE NOW Streamlined Modification Program announced

2010

- Hardest Hit Fund announced
- HARP extended
- Enhancements made to MHA
  - Principal Reduction Alternative (PRA)
  - Second Lien Modification Program (2MP)
  - Home Affordable Unemployment Program (UP)
  - Home Affordable Foreclosure Alternatives (HAFA)
  - Safe Harbor guidance for MHA
  - Dual tracking foreclosure guidance for MHA
  - Escalation guidance for MHA
- US Department of Agriculture announces Special Loan Servicing Changes / Rural Development-HAMP
- Fannie Mae announces participation in 2MP

2012

- FHFA/GSE Aligned Disaster Modification Program launched
- HAMP Tier 2 launched
- Treasury increases incentives for PRA and 2MP
- MHA is extended and expanded
- GSE Short Sale Alignment (Standard Short Sale and Deed-in-Lieu) launched
- Guidance on helping owners affected by Federally Declared Disaster areas announced
- $25 billion mortgage servicing settlement announced

2014

- Premium on HAMP Tier 2 interest rate and 10% minimum payment reduction requirement and interest rate adjustment (-50 bps) removed
- HAFA relocation assistance to $10K & removal of junior lien cap increased
- Non-GSE HAMP incentive ($5k) & recast offer enhanced
- MHA extended to December 2016

APPENDIX C: MODIFICATION PROGRAMS BY AGENCY

Please Note: The chart below includes additional information regarding the loss mitigation options discussed in this report. This is not an exhaustive list of all programs administered by the Agencies.

The U.S. Department of Agriculture	
Rural Development (RD) / Special Loan Servicing **Continues past December 2016**	A program to provide eligible borrowers with sustainable mortgage payments through modification of RD-guaranteed first lien mortgage loans. This program provides borrowers with affordable monthly mortgage payments tied to a percentage of their monthly gross income and requires the borrower to complete a trial payment plan before the loan is permanently modified.

The Federal Housing Finance Agency	
HAMP Tier 1 (GSE) **Expires December 2016**	Modification program for homeowners who (1) have mortgages insured or guaranteed by the GSEs; (2) not previously had their mortgages modified through HAMP; (3) are in delinquency or in imminent default; (4) have single family principal residences; and (5) have monthly mortgage payment ratios above 31 percent.
GSE Standard Modification **Continues past December 2016**	An aligned GSE product designed for borrowers ineligible for HAMP. This program applies to borrowers who (1) are at least 60 days delinquent or less than 60 days if determined for Imminent Default; (2) have properties that are not condemned or abandoned; (3) have eligible hardships; and (4) have completed Borrower Response Packages, including verified income and hardship documentation.
GSE Streamlined Modification **Continues past December 2016**	Modification program that does not require income or hardship documentation for homeowners who (1) are 90 or more days delinquent (or 60 or more days delinquent on a HAMP Modification with a step-rate feature); (2) have properties that are primary residences, second homes, investment properties, vacant or condemned properties; and (3) have not previously defaulted or failed a Trial Period Plan with similar terms.

The U.S. Department of Housing and Urban Development	
FHA-HAMP **Continues past December 2016**	A program that allows mortgagees to modify the FHA-insured first lien mortgage loan for eligible borrowers that results in sustainable mortgage payments. This program results in borrowers receiving affordable monthly mortgage payments tied to a percentage of their monthly gross income and requires the borrower to complete a trial payment plan before the loan is permanently modified.

The U.S. Department of the Treasury	
HAMP Tier 1 (non-GSE) **Expires December 2016**	Modification program for homeowners who (1) have mortgages not insured or guaranteed by the GSEs; (2) have not previously had their mortgages modified through HAMP; (3) are in delinquency or in imminent default; (4) have single family principal residences; and (5) have monthly mortgage payment ratios above 31 percent.
HAMP Tier 2 (non-GSE) **Expires December 2016**	Modification program for homeowners who (1) have mortgages not insured or guaranteed by the GSEs; (2) are not eligible for HAMP Tier 1; (3) have not received a modification under HAMP Tier 2; (4) have mortgages secured by principal residences or rental properties; and (5) are delinquent or in imminent default.
Streamline HAMP (non-GSE) **Expires December 2016**	Modification program that does not require income documentation and reduced hardship documentation for homeowners who (1) have mortgages not insured or guaranteed by the GSEs; (2) have mortgages secured by principal residences or rental properties; (3) are delinquent; (4) have received a previous solicitation for HAMP; and (5) have experienced a change in circumstances if they received Tier 1 or Tier 2 modifications.
Treasury FHA-HAMP and RD-HAMP **Expires December 2016**	If the FHA-insured or RD-guaranteed mortgage loan meets Treasury's eligibility criteria, the borrower and servicer are eligible for Treasury incentives.
Second Lien Modification Program (2MP) **Expires December 2016**	A program designed to work in tandem with HAMP and the GSE Streamlined Modification to offer borrowers with second mortgage liens even greater affordability. Under 2MP, when a borrower's first lien is modified and the servicer of the second lien is a 2MP participant, that servicer must offer to modify the borrower's second lien according to a defined protocol and/or to accept a lump sum payment from Treasury in exchange for full or partial extinguishment of the second lien.

Department of Veteran's Affairs	
VA-HAMP **Continues past December 2016**	A modification program for homeowners who have mortgages insured by the Department of Veteran's Affairs.

APPENDIX D: ENDNOTES

[i] U.S. Department of Housing and Urban Development, April 2016 National Scorecard. Available at http://portal.hud.gov/hudportal/HUD?src=/initiatives/Housing_Scorecard.

[ii] Ioan Voicu, Vicki Been, Mary Weselcouch, and Andrew Tschirhart, "Loan Modifications: What Works," (2013). Available at http://furmancenter.org/files/LoanModificationsWhatWorksNovember2013.pdf.

[iii] Eric Baumer, Kevin Wolff, and Ashley Arnio, "A Multicity Neighborhood Analysis of Foreclosure and Crime," (2012). Available at https://www.researchgate.net/profile/Ashley_Arnio/publication/262001722_A_multicity_neighborhood_analysis_of_foreclosure_and_crime/links/548f12390cf214269f263556. pdf.

[iv] Ioan Voicu, Vicki Been, Mary Weselcouch, and Andrew Tschirhart, "Loan Modifications: What Works," (2013). Available at http://furmancenter.org/files/LoanModificationsWhatWorksNovember2013.pdf.

[v] 12. U.S.C. §§ 5201, et seq. (2012)

[vi] Section 709(b) of the Consolidated Appropriations Act, 2016, signed into law on December 18, 2015, provides that the MHA Program will terminate on December 31, 2016, except with respect to certain loan modification applications made before such date. Pub. L. No. 113-235 (2015).

[vii] Various terms were used to distinguish HAMP by investor, insurer or guarantor. Treasury HAMP refers to the program guidelines issued by Treasury via Supplemental Directives for loans owned by private investors. For loans guaranteed by the GSEs, the general term is GSE HAMP. Loans insured by the FHA are covered by FHA-HAMP and Treasury FHA-HAMP. Loans guaranteed by the USDA's Rural Housing Service are covered by guidelines under the Special Loan Servicing program and RD-HAMP. And finally, VA HAMP covers loans guaranteed by the U.S. Department of Veterans Affairs.

[viii] 12 C.F.R. 1024.41(h). A copy of the final rule is available at: http://files.consumerfinance.gov/f/201301_cfpb_final-rule_servicing-respa.pdf .

[ix] Additional information on NFMC is available at: http://www.neighborworks.org/Homes-Finances/Foreclosure/Foreclosure-Counseling-(NFMC)

[x] The Homeowner's HOPE™ Hotline at 888-995-HOPE™ is a counseling service provided by the Homeownership Preservation Foundation (HPF). HPF was founded by a coalition of mortgage servicers and HUD-approved housing counseling agencies. HPF established and continues to operate the toll-free phone resource for homeowners who are having trouble making their mortgage payments. HOPE™ Hotline counselors are HUD-approved and specifically trained in foreclosure prevention options. When Treasury was looking for a way to make information about MHA available to the public, it recognized the important resource that HPF provided and contracted with HPF to expand the HOPE Hotline to include screening for MHA eligibility.

[xi] OCC Mortgage Metrics Report 3rd Quarter 2015, p. 37.

[xii] Kenneth M. Temkin, Neil S. Mayer, Charles A. Calhoun, Peter A. Tatian, and Taz George, "National Foreclosure Mitigation Counseling Program Evaluation: Final Report, Rounds 3 Through 5," (2014), The Urban Institute. Available at http://www.neighborworks.org/HomesFinances/Foreclosure/Foreclosure-Counseling-(NFMC)/Urban-Institute-Evaluation

[xiii] The Housing Scorecard is available at http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2016/HUDNo_16-102

[xiv] Fraud prevention information is available at https://www.makinghomeaffordable.gov/get-answers/pages/get-answers-how-avoid-scams.aspx

[xv] Eligibility requirements under the MHA program require servicers to conduct an NPV test before making a final decision about whether to modify a mortgage under HAMP. Treasury posted information

about the Treasury HAMP Net Present Value (NPV) Model publicly on its website and created an online tool—CheckmyNPV.com—that allows homeowners to estimate their own NPV outcome. Treasury also publicly posted detailed information about the model itself for servicers, investors and the general public. The model calculates the total discounted future cash flows for a modified loan as compared to the total discounted future cash flows for the unmodified loan.

[xvi] The archive of MHA Program Performance Reports is available at https://www.treasury.gov/initiatives/financial-stability/reports/Pages/Making-Home-Affordable-Program-Performance-Report.aspx

[xvii] The archive of FHFA Foreclosure Prevention Reports is available at http://www.fhfa.gov/DataTools/Pages/Data-Reports

[xviii] Freddie Mac Servicer Scorecards are available at http://www.freddiemac.com/singlefamily/service/servicing_success_program.html

Fannie Mae Servicer Scorecards are available at https://www.fanniemae.com/singlefamily/star