Making Home Affordable Program: FHA’s Home Affordable Modification Loss Mitigation Option
Basic Program Guidelines
FHA-Home Affordable Modification Program (FHA-HAMP)

FHA-HAMP combines a Partial Claim with a Loan Modification

- Total Partial Claim, including arrearages of up to 12 months Principal, Interest, Taxes, and Insurance (PITI) plus legal fees and costs related to a canceled foreclosure action (maximum over life of loan), and deferred principal, may not exceed 30 percent of the unpaid principal balance as of the default date.

- Mortgagor must first complete a three month trial plan with a payment equal to the monthly PITI to be required on the modified loan (must be a fixed rate mortgage).

- If trial plan payments are not made in a timely manner, the Mortgagor is no longer eligible for FHA-HAMP.
Debt to Income Ratios

Front-End Ratio – The total first mortgage payment (PITI) divided by the Mortgagor’s gross monthly income, shall be 31%.

Back-End Ratio – The total first mortgage payment plus all recurring monthly debt divided by the Mortgagor’s gross monthly income, shall not exceed 55%.
Calculation of Maximum Partial Claim Amount under FHA-HAMP

- Maximum Partial Claim amount is <=30% of the outstanding principal balance.
- Maximum principal deferment on the FHA-HAMP is determined by:
  
  Outstanding Principal Balance x 30% - Amount of Arrearages - Foreclosure fees and costs.
- Subject to the requirements of ML 2008-21.
- Principal deferment shall not exceed amount needed to bring the total monthly mortgage payment to 31 percent of the Mortgagor(s) gross monthly income.
Calculation of Maximum Partial Claim - Example

- Unpaid Principal Balance = $150,000
- Current Monthly Payment (PITI) = $1,220 (P&I = $920 + TI = $300)
- Current Other Recurring Debt = $800
- Gross Monthly Income = $3,500
- Number of Payments Past Due = 3
- Total Arrearage = $3,660
Calculation of Maximum Partial Claim – Example - Continued

- Maximum Partial Claim = $150,000 x 30% = $45,000
- Maximum Monthly PITI = $3,500 x 31% = $1,085 (Front Ratio)
- Maximum Total Monthly Debt = $3,500 x 55% = $1,925 (Back Ratio)
Calculate Terms of Modified Loan – Example - Continued

- New P&I = $1,085 (Max PITI) - $300 (T&I) = $785
- New Mortgage Term = 360 months
- New Interest Rate = 6% (Assumed fixed rate)
- Calculated New Principal Balance = $130,931
Principal Reduction and Total Partial Claim

- Principal Reduction = $150,000 - $130,931 = $19,069

- Total Partial Claim = $19,069 principal deferment + $3,660 arrearage = $22,729

- Total Partial Claim < $45,000 Calculated Maximum Partial Claim

- Mortgagor’s New Back End Ratio is 53.9% [Sum of PITI + Other Recurring Monthly Debt ($1,085 + $800) divided by $3,500 Gross Monthly Income] which satisfies the 55% Back End Ratio limitation.
Requirements to Use FHA-HAMP

Mortgagees must evaluate the defaulted mortgage for Loss Mitigation actions in the following priority order:

1. Existing FHA Home Retention Loss Mitigation Options
2. FHA-HAMP
Mortgagee Incentives

- Loan must be in default (>= 30 days past due)

- 2 types of Incentive Payments:
  
  - Upon completion Mortgagee receives:
    
    - FHA-HAMP - $1,250 ($500 Partial Claim + $750 Loan Mod)
    
    - FHA-HAMP - Mortgagees may also claim up to $250 for reimbursement for a title search and/or recording fees on the Loan Modification.
Partial Claim(s) must be subordinated to the modified first-lien mortgage.

Original Credit and Security Instruments are to be forwarded to HUD’s Secretary-Held Servicing Contractor.
Monitoring

- FHA will monitor Mortgagees for compliance with the terms of this Mortgagee Letter.

- FHA will take administrative action, including sanctions and penalties, against all parties for non-compliance.
Remittance

- Repayment Terms, Option Failure and Disclosures described in Mortgagee Letters 2000-05 and 2003-19 apply.

- Subordination requests and any payments for Partial Claims are to be sent to HUD’s Secretary-Held Assets Servicing Contractor.

- Secretary-Held Assets Servicing Contractor website:
  
  http://www.hud.gov/offices/hsg/sfh/nsc/fmaddr.cfm
Attachment – Guidelines for the FHA-Home Affordable Modification Program

- The Servicer of the modified FHA-HAMP mortgage must be FHA-Approved.
- Mortgagor(s) must be identical on both the existing and new mortgage except as provided below:
  - Change in ownership due to death or divorce.
  - New Mortgagor may be added to the HAMP mortgage, provided at least one existing Mortgagor(s) is retained.
- Mortgagor(s) must be an owner occupant and have sufficient income to make the modified mortgage payment.
- Mortgage must be in default but not more than 12 full mortgage payments past due.
- Mortgagor(s) must not have intentionally defaulted on mortgage.
Attachment – Guidelines for the FHA-Home Affordable Modification Program

- Must be an FHA-insured single family mortgage (1-4 units).
- Mortgages previously modified under HAMP are ineligible.
- Maximum Mortgage Amounts are not applicable.
- Must be re-amortized to a 30 year fixed rate mortgage.
- Property must be the Mortgagor’s primary and only residence.
- The interest rate must be fixed and meet the guidelines in Mortgagee Letter 2008-21.
- There are no current LTV requirements.
Attachment – Guidelines for the FHA-Home Affordable Modification Program

- FHA-HAMP mortgages are made without an appraisal and are required to have a lower monthly principal and interest payment.
- All existing subordinate financing must be subordinated to maintain the first lien priority of the HAMP mortgage.
- No minimum credit score is required.
- The first payment due date must be at least 12 months in the past, and at least 4 full mortgage payments must have been made.
- No Appraisal is required.
- Mortgagor must be under a trial modification payment plan at the modified payment prior to completing the FHA-HAMP and must make timely payments for 3 consecutive months before the Partial Claim is filed.
Attachment – Guidelines for the FHA-Home Affordable Modification Program

- The Mortgagee must obtain the following additional documentation:
  - Mortgagor’s detailed financial information.
  - Hardship Affidavit must be obtained from Mortgagor(s).
  - Provided Mortgagor financial information must be independently verified by obtaining a credit report (for determining indebtedness only) and any other forms of verification the Mortgagee deems appropriate.
Attachment – Guidelines for the FHA-Home Affordable Modification Program

- CAIVRS review is not required, but HUD’s LDP and GSA exclusion lists are required checks for all Mortgagors.

- FHA-HAMP processing and underwriting instructions are:
  - Mortgage is in default but not more than 12 full payments delinquent; Mortgagor combines a Partial Claim for up to 12 months of arrearages, foreclosure costs and principal reduction with a loan modification.

- The Mortgagor may not be charged any additional costs.

- The financial analysis, Hardship Affidavit, and documentation must be maintained in the mortgagee’s claim review file.
Attachment – Guidelines for the FHA-Home Affordable Modification Program

- FHA-HAMP can only be utilized if the Mortgagor(s) does not qualify for other Loss Mitigation Home Retention Options. To qualify for the FHA-HAMP, the Mortgagees must utilize its Loss Mitigation actions in the following priority order:

- Existing FHA Home Retention Loss Mitigation Initiatives (Mortgagee Letters 2008-21, 2003-19, 2002-17, 2000-05)
- FHA-HAMP
Attachment – Guidelines for the FHA-Home Affordable Modification Program

- The Mortgagor’s Monthly Gross Income is the amount before any payroll deductions.
- Front-End Ratio is the Ratio of PITI to Mortgagor Monthly Gross Income. The Front-End Ratio must be 31%.
- The Back-End Ratio is the Ratio of the total first mortgage payment plus all recurring monthly debts to the Mortgagor’s Monthly Gross Income. The Ratio must not exceed 55%.
- The Mortgagee must pull a Credit Report and consider information obtained from the Mortgagor orally or in writing concerning incremental monthly obligations.

Mortgagee Letter 2009-23, Attachment, pages 3 and 4
Attachment – Guidelines for the FHA-Home Affordable Modification Program

- Subordinate liens are not included in the Front-End Ratio, but they are included in the Back-End Ratio.
- UFMIP is not applicable.
- Annual MIP remains the same.
- The maximum one-time only principal reduction on the modification is determined by multiplying the outstanding principal balance by 30% and subtracting the arrearage amounts advanced to cure the default for up to 12 months PITI and allowable foreclosure costs. However, the actual principal reduction for a specific case shall be limited to the amount that will bring the Mortgagor(s) PITI to an amount not to exceed 31% of gross monthly income.
No interest will accrue on the Partial Claim. The payment of the Partial Claim is not due until:

- The maturity of the HAMP mortgage,
- A sale of the property, or
- A pay-off or refinancing of the HAMP mortgage.
Mortgagees shall not proceed with the foreclosure sale until the Mortgagor has been evaluated for the Program and, if eligible, an offer to participate in the FHA-HAMP has been made.

90 days past due mortgages must be considered for other Loss Mitigation prior to being referred to foreclosure.

Mortgagees must escrow for Mortgagors’ real estate taxes and mortgage-related insurance payments.

The Mortgagee will waive all late fees.

The Mortgagee will cover the cost of the credit report.
Attachment – Guidelines for the FHA-Home Affordable Modification Program

- Mortgagees will receive $1,250 plus allowable costs upon the completion of the FHA-HAMP Modification and Partial Claim.
- The Mortgagee may not require the Mortgagor to contribute cash.
- Mortgagees must comply with any disclosure or notice requirements applicable under FHA regulations and state or federal law.
- Mortgagees must comply with the Equal Credit Opportunity Act and the Fair Housing Act.
Mortgagees should have procedures and systems in place to respond to inquiries and complaints.

Mortgagees will be required to maintain servicing files for a minimum of the life of the mortgage plus 3 years.

Mortgagors will be required to provide declarations under penalty of perjury attesting to the truth of information they have provided.

Mortgagee should establish measures to prevent and detect fraud.

Mortgagees and Mortgagees/investors are not required to modify the mortgage if there is evidence indicating the Mortgagor submitted false information.

Mortgagees will collect and transmit Mortgagor and property data to ensure compliance with the program and measure its effectiveness.