
FEDERAL HOUSING FINANCE AGENCY



NEWS RELEASE

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Statement of FHFA Director James B. Lockhart

Welcome. I am pleased that you are able to be here. I would also like to welcome Brian Montgomery, HUD Assistant Secretary and FHA Commissioner; Neel Kashkari, Interim Assistant Treasury Secretary for Financial Stability; Faith Schwartz, Executive Director of HOPE NOW and Michael Heid, Wells Fargo. As a Navy veteran, I do not like interfering with your Veterans Day, but as you all know there is a battle going on in the housing market.

As housing prices have fallen, delinquencies on mortgages have tripled, not just for subprime and Alt-A, but also for prime mortgages. Foreclosures have increased almost 150% from two years ago. Foreclosures hurt families, their neighbors, whole communities and the overall housing market. We need to stop this downward spiral.

Today we are announcing a major program designed to greatly reduce preventable foreclosures with a simplified, streamlined loan modification program to get struggling homeowners into mortgages that they can afford. It is an achievable goal if homeowners, banks, mortgage servicers, investors, Fannie Mae and Freddie Mac all work together.

As the regulator of Fannie Mae, Freddie Mac and the Federal Home Loan Banks (FHLBanks), the Federal Housing Finance Agency (FHFA) strongly supports the Enterprises' leadership role in setting industry standards for assisting "at risk" borrowers who could lose their homes to foreclosure. This streamlined modification program with uniform eligibility requirements will be supported by a

consistent, efficient process approved by key industry participants. This program resulted from a unified effort among the Enterprises, Hope Now and its twenty-seven servicer partners, the Department of the Treasury, the Federal Housing Administration (FHA) and FHFA.

In developing this program, we have drawn on the FDIC's experience and assistance, and have greatly benefited from the FDIC's input.

Fannie Mae and Freddie Mac own or guarantee almost 31 million mortgages, about 58% of all single family mortgages. Although these mortgages only represent 20% of serious delinquencies, I believe their leadership role combined with the many partners of HOPE NOW should spread this approach throughout the whole mortgage loan servicing business. The performance of private label mortgage backed securities that were sliced and diced and sold to investors is just the opposite of Fannie Mae's and Freddie Mac's. Private label securities represent less than 20% of the mortgages but 60% of the serious delinquencies. As the regulator of the housing GSEs that own over a quarter of a trillion dollars of private label securities, I ask the private label MBS servicers and investors to rapidly adopt this program as the industry standard. Not only will this streamlined program assist borrowers, but broad acceptance and effective implementation could stabilize communities and property values.

The program targets the highest risk borrower who has missed three payments or more, owns and occupies the property as a primary residence, and has not filed for bankruptcy. To be considered for the program, a seriously delinquent borrower should contact his or her servicer and provide the requested income information. The program creates a fast-track method of getting troubled borrowers to an affordable monthly payment where "affordable" is defined as a first mortgage payment, including homeowner association dues, of no more than 38 percent of the household's monthly gross income. This affordable payment will be achieved through a mix of reducing the mortgage interest rate, extending the life of the loan or even deferring payment on part of the principal. Servicers will have flexibility in the mix used to get there, but the goal is to create a more affordable payment.

If the servicer is unable to create an affordable payment with this streamlined program, it will further evaluate the borrower's situation through a customized process. The key to success is the borrower's ongoing cooperation and communication with the servicer. Borrowers shouldn't fear working with servicers. They have dedicated personnel who are experienced in working with borrowers who are struggling with finances, but who are eager to keep their homes.

The streamlined modification program complements existing loss mitigation programs. We expect that it could significantly increase the number of modifications completed. Borrowers who participate will be strongly encouraged to seek financial counseling through HUD-approved agencies – particularly, if the default is a result of being overextended or due to financial mismanagement.

Fannie Mae and Freddie Mac will soon issue specific guidance to their servicers implementing this program requiring implementation by December 15th. To encourage participation, servicers will receive a fixed payment of \$800 for each loan modified through this program.

Troubled borrowers eligible for this program have already experienced significant erosion in their credit scores, making them unlikely to obtain mortgage credit, through typical means. Many also lack equity in their homes. This streamlined program is meant to reach as many of these borrowers as possible to give them a chance to save their homes and begin restoring their credit. The borrowers' ultimate obligation to repay his or her current mortgage does not change.

Regrettably, there are many American families in this situation. This unified effort on the part of the Fannie Mae, Freddie Mac, private lenders and servicers, and the Federal agencies represented here is a bold attempt to move quickly in defining a nationwide program that can quickly and easily reach many of these troubled borrowers, thereby stabilizing those families and the communities and neighborhoods in which they live.

Thank you and now I will turn it over to Faith Schwartz.

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QUESTIONS AND ANSWERS ON THE STREAMLINED MODIFICATION PROGRAM

Q: What is a modification?

A: A modification is a change to the original mortgage terms. It may include a change to the product (an ARM to a fixed rate mortgage), interest rate, amortization term and maturity date, and/or unpaid principal balance. The change/s is made to create a more affordable payment for the borrower.

Q: What is a streamlined modification?

A: A streamlined modification is a modification that requires less documentation and less processing. In this case, the streamlined modification seeks to create a monthly mortgage payment that is sustainable for troubled borrowers by targeting a benchmark ratio of housing payment to monthly gross household income.

Q: What is the benchmark ratio?

A: This is the first time the industry has agreed on an industry standard. The benchmark ratio for calculating the affordable payment is 38 percent of monthly gross household income. Once the affordable payment is determined, there are several steps the servicer can take to create that payment – extending the term, reducing the interest rate, and forbearing interest. In the event that the affordable payment is still beyond the borrower’s means, the borrower’s situation will be reviewed on a case-by-case basis using a cash flow budget.

Q: Who participated in creating the Streamlined Modification Program? Is this identical to the FDIC’s IndyMac protocol?

A: This program resulted from a unified effort among the Enterprises, Hope Now and its twenty-seven servicer partners, Treasury, the Federal Housing Administration (FHA) and FHFA. In addition, we’ve drawn on the FDIC’s experience and assistance from developing the IndyMac streamlined approach and have greatly benefited from the FDIC’s input and example. To accommodate the need for more flexibility among a larger number of servicers, the Streamlined Modification Program does differ from the IndyMac model in a few areas. However, it uses the same fundamental tools to achieve the same affordability target.

Q: *How is this different from Citi's announcement today?*

A: This effort compliments efforts of those banks that have mortgage portfolios and can reach out directly to borrowers for loans they own and service. This is a significant announcement in that Fannie Mae, Freddie Mac and FHFA have mutually agreed as major investors to a single streamlined modification program with a common affordability standard. The majority of HOPE NOW banks who own portfolio mortgages will adopt or offer programs as or more aggressive than what's being announced.

Q: *What is the role of HOPE NOW?*

A: HOPE NOW has the leading servicers as members. HOPE NOW collaborated with Fannie Mae, Freddie Mac and FHFA on arriving at a standard that is consistent and addresses the capacity challenge for servicers dealing with increased delinquencies. This will take on-going work to implement for servicers. We anticipate this being implemented by December 15th.

Q: *Why is there not a foreclosure moratorium?*

A: Any borrower who qualifies and responds to the servicer will be given the opportunity to provide the required information for consideration. If necessary, the scheduling of a foreclosure sale will be suspended. A suspension requires that the borrower maintain contact, desires to keep his or her home, has the ability to make the affordable payment offered, and promptly respond to requests for information and signed documents.

Q: *Why is it necessary?*

A: With the rise in serious delinquencies and increasing number of loans in foreclosure, this program will help borrowers who have missed three or more payments, but want to keep their homes. Because the eligibility requirements and process are streamlined and consistent, the program will allow servicers to reach more borrowers more quickly.

Q: *Who is eligible?*

A: The highest risk borrower, who has missed three payments or more, owns and occupies the property as a primary residence, and has not filed bankruptcy. The loan is a Freddie Mac, Fannie Mae or portfolio loan with participating investors. To qualify for the streamlined modification, the borrower must certify that he or she experienced a hardship or change in financial circumstances, and did not purposely default to obtain a modification.

Q: Why must the borrower be 90 days delinquent? Why not earlier in the delinquency cycle?

A: This is a streamlined solution targeted to reach the most at risk borrower. For borrowers who do not qualify, other solutions are available. This in no way substitutes for the meaningful efforts by all servicers and investors that are currently in place. The 212,000 workouts reported by HOPE NOW in September are testimony to that fact. We will continue to see those efforts produce meaningful results.

Q: How many people will this help?

A: While difficult to assess, it is clear delinquencies are predicted to continue well into 2009. Foreclosure estimates are significant. Having a streamlined approach will assist many borrowers who default and more quickly. We estimate this will ultimately help thousands of borrowers.

Q: What if a borrower is not eligible but still wants to save his/her home?

A: If the servicer is unable to create an affordable payment with this streamlined program, it will further evaluate the borrower's situation via the standard process. The standard modification program requires a personal cash-flow budget customized to the borrower's situation.

Q: How do borrowers apply?

A: To be considered for the program, a seriously delinquent borrower should contact his or her servicer and provide the requested information – monthly gross household income, association dues and fees, and a hardship statement.

Q: How do borrowers complete the modification process?

A: Upon receiving the Modification Agreement from the servicer, the borrower signs it and returns it with the 1st payment at the modified terms along with income verification. Once the borrower makes three payments at the modified terms and the account is current as of day 90 of the modified plan, the modification is complete.

Q: What are the goals of the program?

First, we hope that other industry participants -- portfolio lenders and representatives of private label security investors – readily and rapidly adopt this program as the industry standard. Second, the program could increase the number of modifications significantly. Third, broad acceptance and effective implementation could stabilize communities and property values.

Q: When will servicers start offering this program?

A: We expect that by December 15th, servicers will be positioned to work with eligible borrowers.

Q: Will servicers get more details on this program?

A: Both Fannie Mae and Freddie Mac will be communicating directly with their approved servicers through an announcement, letter or bulletin.

Links:

Hope Now <http://www.hopenow.com/>

HUD <http://www.hud.gov/foreclosure/>