FACT SHEET: PRINCIPAL REDUCTION MODIFICATION

PRINCIPAL REDUCTION MODIFICATION

BACKGROUND

The Federal Housing Finance Agency (FHFA) undertook an extensive evaluation to determine whether to implement a Principal Reduction Modification program for seriously delinquent, underwater borrowers whose loans are owned or guaranteed by Fannie Mae or Freddie Mac (the Enterprises). FHFA's objective was to develop a program that helped targeted borrowers avoid foreclosure while also adhering to FHFA's mandate to preserve and conserve the assets of the Enterprises. Below are details about the one-time Principal Reduction Modification program announced on April 14, 2016.

PRINCIPAL REDUCTION MODIFICATION PROGRAM

- Underwater borrowers who meet the program's eligibility criteria will receive a solicitation letter containing terms for a modification no later than October 15, 2016.
- The modification terms include capitalization of outstanding arrearages, an interest rate reduction down to the current market rate, an extension of the loan term to 40 years, and forbearance of principal and/or arrearages up to a certain amount to be converted later to forgiveness.[i]
- Upon completion of three timely payments and acceptance of the final modification, the principal forbearance amount calculated under the Streamlined Modification will instead be forgiven.
- Servicers will require time to implement the Principal Reduction Modification program. Before the program is fully implemented, borrowers who believe they <u>may</u> be eligible for a Principal Reduction Modification and wish to pursue one before the program is fully implemented can accept an offered Streamlined Modification that will halt foreclosure proceedings but will not guarantee principal forgiveness.
    - If the borrower is later determined to be eligible for a Principal Reduction Modification, the Streamlined Modification's principal forbearance will be converted to principal forgiveness.
    - Non-eligible borrowers will continue to benefit from the payment relief granted under their Streamlined Modification but will not receive principal reduction.
- Borrowers should not default on their mortgage or on an existing modification in an attempt to become eligible for a Principal Reduction Modification. To be eligible, borrowers must be at least 90 days delinquent as of March 1, 2016. Borrowers struggling to pay their mortgage or who have additional questions about the program should contact their servicer (the company to which they send their mortgage payments).

KEY POINTS ABOUT THE PRINCIPAL REDUCTION MODIFICATION

Seriously delinquent, underwater borrowers must meet the following eligibility criteria:

- Are owner-occupants.
- Are at least 90 days delinquent as of March 1, 2016.
- Have an unpaid principal balance of $250,000 or less.
- Have a mark-to-market loan-to-value ratio of more than 115% after capitalization.

Builds on the Enterprises' existing Streamlined Modification programs.

Eligible population expected to be approximately 33,000 borrowers.

Final crisis-era modification program to give seriously delinquent, underwater borrowers a last opportunity to avoid foreclosure while also addressing negative equity remaining from the financial crisis.

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PRINCIPAL REDUCTION MODIFICATION ELIGIBILITY

- Borrowers must have a first-lien mortgage that is owned or guaranteed by Fannie Mae or Freddie Mac.
- Borrowers must be at least 90 days delinquent as of March 1, 2016.
- The mortgage must have a pre-capitalization unpaid principal balance of $250,000 or less as of March 1, 2016.
- The mark-to-market loan-to-value ratio of the mortgage must be more than 115% after capitalization of arrearages as of the date the borrower is evaluated for the modification.
- The property must be owner-occupied. Investment properties are ineligible.
- Eligible loans must generally meet all other Streamlined Modification eligibility criteria.
- Borrowers who are otherwise eligible for the Principal Reduction Modification and enter into a modification with a first trial payment due date between May 1, 2016 and December 1, 2016 will be eligible to have their principal forbearance converted to forgiveness.

KEY FACTS

The number of underwater homeowners with loans owned or guaranteed by Fannie Mae or Freddie Mac has declined by 80 percent in the last four years.

Of all underwater loans nationally, only about 2 percent are severely delinquent, underwater loans owned or guaranteed by Fannie Mae or Freddie Mac.

As recently as Q1 2015, 50 percent of bank portfolio loan modifications included principal reduction.

Investors in non-performing loan sales commonly use principal reduction modifications.

PRINCIPAL REDUCTION MODIFICATION KEY DATES

- **March 1, 2016** – Eligibility cut-off date; borrowers who become more than 90 days delinquent after this date are not eligible.
- **July 15, 2016** – Loan servicers must solicit, for a Streamlined Modification, all borrowers who are *potentially* eligible for Principal Reduction Modification on or before this date.
- **October 15, 2016** – Loan servicers must solicit all borrowers eligible for the Principal Reduction Modification starting no later than this date.
- **December 31, 2016** – Final date by which servicers may solicit borrowers eligible for the program or inform borrowers that they are eligible to have principal forgiven.

TAX IMPLICATIONS

- All borrowers should consult with a tax advisor regarding the tax consequences of accepting a Principal Reduction Modification. The terms of the Mortgage Forgiveness Debt Relief Act may apply.

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[i] For borrowers with mark-to-market loan-to-value (MTMLTVs) ratios over 115 percent, the Enterprises' standard and streamlined modifications forbear post-capitalization principal (which may include arrearages) down to a 115 percent MTMLTV ratio or, if forbearance would exceed 30 percent of the post-capitalization UPB, forbear 30 percent of principal.