

## **The Home Affordable Modification Program (HAMP) and Current Issues**



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# **The Home Affordable Modification Program (HAMP) and Current Issues**

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## **Presenters**

**DAVID BRADLEY** is founder and principal of Just Mortgages in Dallas, Texas, a mortgage brokerage firm he established in 2001, and incorporated in 2002. With expertise in the mortgage industry and as a CPA, Mr. Bradley understands the importance of financial education and the application of the principals learned. In 2004, "The Just Mortgages Show" (a radio broadcast) hit the air waves of the Dallas/Fort Worth metropolis, which launched another facet of his career, speaking and teaching on the investment skills he had developed over the years. The show covered a variety of subjects from investment real estate, mortgage financing alternatives, to credit restoration techniques. Mr. Bradley earned his B.B.A. from Texas A&M University-Corpus Christi. He is a licensed mortgage broker in the state of Texas, and a member of the Texas Society of Certified Public Accountants and the Better Business Bureau of Dallas/Northeast Texas.

**DAVID D. McELROY** is a loss mitigation and real estate operations specialist with Progressive Southern in Plano, Texas. He is a mortgage banking professional with more than 25 years progressive experience in default servicing which includes loss mitigation, risk mitigation, and financial analysis. Mr. McElroy has extensive experience negotiating with creditors, mortgage companies, and the IRS to secure compromises through settlement, short sale or short payoff. He also has experience with reviewing and analyzing credit reports, loan applications, income and employment, asset reserves, and all documents to verify information needed to determine borrower's ability to meet requirements of loan. Mr. McElroy holds licenses for life, health and real estate in the state of Texas. He earned his undergraduate degree from the University of Minnesota and studied real estate investing at Texas A&M extension campus. Mr. McElroy is a member of The Michael Group Real Estate, Moneylogic Financial Wellness Group and is a collaborating partner for Adobe Title Loss Mitigation Services.

## **HAMP Program Benefits and Current Issues**

- Does the system have the capacity to implement HAMP?
- What is the long term solution to the problem?

For decades equity buildup in a home has been the largest store of wealth for most Americans. From 2005-2007 home prices in the US reached their zenith. The financial system was flush with liquidity. There were federal directives forcing lenders to make increasing numbers of Americans homeowners. To accomplish this edict, exotic new mortgage lending programs were created. Credit, income, and asset documentation standards were significantly relaxed; making an ever growing number of people qualified home buyers. To keep the system rolling, mortgages were packaged, insured and sold to investors. At the peak of the boom, it is estimated that 40% of home buyers were qualifying to buy a home with Subprime mortgage products. Then the dam began to crack. Overnight, the liquidity in the mortgage banking industry evaporated. In June of 2007, questions over the value of mortgage backed securities drowned the market in tidal wave of worry. In March of 2008, Bear Stearns, an 85 year old investment bank, went down and was swallowed by CitiBank for only \$2 per share. On September 15<sup>th</sup>, 2008 Shearson Lehman collapsed. Lehman's bankruptcy, caused millions of people to lose jobs, hundreds of thousands of home foreclosures and trillions of dollars of debt being added to governments around the world. Most of these losses would not have happened if Lehman had been supported or wound down in an orderly fashion. The disorderly unwinding of Lehman Brothers turned a manageable financial problem into the collapse of the US housing markets.

The American dream of home ownership has for many turned into a night mare. Currently about 25% of all homes in the U.S. have negative equity. About 11.5 million homes have 0-5% equity. In the next 3-4 years real estate values could drop 5-10% from current levels. That could mean as many as 50,000,000 home owners could owe more on their home than its worth. This scenario is driven by reduced demand, coupled with increased supply. Tightening mortgage lending standards against a back drop of falling

consumer credit scores reduces the number of eligible buyers in the market place. Increasing numbers of foreclosures coming for liquidation continues to depress home values. The HAMP program is an attempt to stem foreclosure activity and keep more people in their homes. The greatest problem with the program is lack of institutional capacity to handle the huge volume of borrowers needing assistance. Freddie Mac estimates that up to 60% of all borrowers who end up in foreclosure are not aware of what they could have done to avoid it. Borrowers are reluctant to speak to their lenders out of embarrassment or fear that doing so will accelerate the foreclosure process. Those that do speak with their lenders discover a maze of misinformation, confusion and disappointment. While many troubled owners struggle to keep their home, others are simply walking away in defeat. A careful examination of HAMP guidelines reveals the goal of the program is determining the least costly loss mitigation solution for the lender. In the final analysis the net present value "NPV" calculation determines if modifications will be approved. That calculation tells a lender if liquidation or modification will bring the greatest value to the investor. This would seem to indicate that the larger the negative equity in the subject property, the greater the likelihood the modification will be approved. Those borrowers approved for modification and home retention may do so at the peril of making payments on an asset that is worth substantially less than they owe. If that is true, then, what was, in the past, the single greatest store of wealth for the average American is now a financial disaster. It could take a lifetime for the value of a home to equal the debt that the modified mortgage has allowed the owner to keep.

In the final analysis it would seem that a homeowner may be better served to liquidate even if approved for a modification. Under current lending guidelines a borrower selling a home through short sale could qualify for a new mortgage in as few as three years. A short sale is being allowed to sell a home for less than what is owned on it in cooperation with the seller's lender. It may be prudent to liquidate, be free of the negative equity, modified or not, returning in a few years to purchase a home at today's depressed prices.

## **Getting HAMP Letter Certification**

The U.S. Department of Treasury has issued a requirement for HAMP Certification Prior to Foreclosure Sale. Recently, several large servicers have taken actions to temporarily suspend foreclosures in a number of states, pending review of their internal foreclosure procedures. As a participant in the Making Home Affordable (MHA) program, lenders are required to comply with all federal and state laws and are prohibited from conducting a foreclosure until they have issued a written certification to counsel or the trustee stating that all other loss mitigation options have been exhausted as outlined in the Home Affordable Modification Program (HAMP) guidelines. There must be a written policy describing how the lender/servicer will implement this certification. Compliance is subject to audit by Treasury.

Two new file formats are available @ [www.HMPAdmin.com](http://www.HMPAdmin.com):

- 1. Missing OMR Report**

Provides servicers with a list of loans for which the Official Monthly Report (OMR) has not been successfully processed.

- 2. Disqualified Loans Report**

Provides servicers with a list of permanent HAMP and Second Lien Modification Program (2MP) loans that are disqualified during the current reporting cycle.

A servicer may access by logging in to [www.HMPAdmin.com](http://www.HMPAdmin.com), then selecting "HAMP Loan Reporting: Tools & Documents" then navigate to the File Formats/Servicer Reports Schema Files section. As of Monday, October 12, 2010, servicers were able to upload and submit data reporting files via the HAMP Reporting Tool; The NPV Transaction Portal is also available to servicers.

There are an increasing numbers of law suits being filed in federal court against lenders for not following the Treasury certification directive and having no standing to foreclose (MN and AZ recent examples). These directives are indicative of Treasury's growing desire to slow foreclosures in favor of HAMP solutions.

HAMP Non-Approval Notice Required to be sent to each borrower if HAMP application is rejected.

The letter must contain the follow language:

*“You have 30 calendar days from the date of this notice to contact [name of servicer] to discuss the reason for non-approval for a HAMP modification or to discuss alternative loss mitigation options that may be available to you. Your loan may be referred to foreclosure during this time, or any pending foreclosure action may continue. However, no foreclosure sale will be conducted and you will not lose your home during this 30-day period [or any longer period required for us to review supplemental material you may provide in response to this Notice].”*

#### **Foreclosure Attorney and Trustee Communication required**

Servicers must have a written policy with procedures to notify their foreclosure attorney/trustee regarding a borrower’s HAMP status. This must include the borrower’s eligible for HAMP, borrower solicitation requirements and if the borrower was evaluated for or is currently in a HAMP modification trial period plan. Servicers must make sure that their foreclosure attorney or trustee complies with all the requirements in the Supplemental Directive pertinent to stays of foreclosure actions.

#### **Certification Prior to Foreclosure Sale**

Servicers must also have written procedures to insure that all eligible HAMP borrowers have the opportunity to do so. The servicer must provide the foreclosure attorney/trustee a written certification that one of the five circumstances under the **“Prohibition on Referral and Sale”** section of this Supplemental Directive exists, and all other available loss mitigation alternatives have been exhausted and that foreclosure is the only remaining alternative. *This certification must be provided no sooner than seven business days prior to the scheduled foreclosure sale date (the Deadline) or any extension thereof.*

Read the full directive @ <https://www.hmpadmin.com/portal/docs...cer/sd1002.pdf>

HAMP Administrative directives do NOT apply to Government Sponsored Entity (GSE) owned loans. GSE's each have their own similar directives.

GSE's have long established participation agreements with servicers. Non GSE's only have forced upon them TARP agreements which if repaid TARP, as most have, they may argue are no longer binding.

### **HAMP Eligibility and Requirements**

As part of Helping Families Save Their Homes Act of 2009 (HFSTHA), Congress established the Servicer Safe Harbor. Home Affordable Modification Program (HAMP) modifications including Principal Reduction Alternative modifications “PRA”, second mortgage modification “2MP”, short sale or deed-in-lieu of foreclosure are “qualified loss mitigation plans”. The “FHA Program Adjustments to Support Refinancing for Underwater Homeowners,” will also qualify for the same treatment. Servicers are required to evaluate the benefit of principal reduction for every HAMP eligible loan with a loan-to-value greater than 115%.

### **Bankruptcy**

Servicers may waive the Trial Period Plan “TPP” for borrowers in Chapter 13 Bankruptcy who are eligible for HAMP. For this treatment the borrower must pay all post-petition mortgage payments, of which 3 are equal to or more than the amount of the proposed modified payment. This must be approved by the bankruptcy court and the waiver must be permitted by investor guidelines. For either an active Chapter 7 or Chapter 13 bankruptcy, the servicer may accept copies of the bankruptcy schedules and tax returns in lieu of the RMA and Form 4506T or EZ to determine borrower’s eligibility. If the bankruptcy schedules are greater than 90 days old the borrower must provide updated evidence of income. The borrowers must also provide a Hardship Affidavit (or RMA).

### **Trust as property owner**

A loan secured by a property owned by an inter vivos revocable trust is eligible for HAMP as long as the borrower is a trustee of the trust, the primary beneficiary of the trust and the property is their principal residence. The borrower must execute HAMP documents as both an individual and as trustee of the trust.

### **Borrower and co borrower treatment**

Borrower and co-borrower income must be considered evaluation, even if the co-borrower is not an occupant of the property. Each borrower and co-borrower is eligible for only one HAMP.

An occupying co-borrower may be considered individually for HAMP if a recorded quitclaim deed shows that the non-occupying co-borrower has relinquished all rights to the property.

### **Foreclosure**

A foreclosure sale may not take place less than 30 days after the date of a Non-Approval Notice, or any longer period required to review supplemental material provided by the borrower in response to a Non-Approval Notice, unless the reason for non-approval is an ineligible mortgage or property, the borrower withdraws, or the loan was previously modified under HAMP. If HAMP application is received at least 7 days before a foreclosure sale date, the servicer must suspend the sale. However servicers are not required to suspend a foreclosure if the borrower received a permanent modification and again became or failed to make one or more payments during the TPP by the last day of the month in which it was due or the borrower was evaluated ineligible for HAMP.

### **NPV rejection**

If a negative NPV result causes rejection of a HAMP application, the Non-Approval Notice need not include what that number was but must include a list of the data upon which that number was based, within 30 days of that notice. The borrower may respond to the data list with correction and return those corrections to the servicer for review. A foreclosure may not take place less than 30 days from the date the NPV data is sent to the borrower.

### **HAMP Applications**

A servicer may evaluate a borrower for HAMP only after the servicer receives an “Initial Package”. The package must contain a “Request for Modification Affidavit Form”, an IRS Form 4506-T or 4506T-EZ, and evidence of income. Within 10 business days following receipt of an Initial Package, the servicer must acknowledge in writing the borrower’s request for HAMP participation. If the Initial Package is received from the borrower via email, the servicer may email the acknowledgment. Within 30 calendar days from the date an Initial Package the servicer must review the documentation provided. If the package is incomplete the servicer must send the borrower an Incomplete Information Notice, “IIN” The notice must list the missing documentation required to verify borrower program eligibility. The IIN must include a documentation receipt deadline of not less than 30 days from the date of the notice. If the documents are not received by that deadline, the servicer must make a second written attempt to contact the borrower regarding the documents. The second deadline for document delivery must be no less the 15 days from the date of this second notice. If a borrower fails to comply within the second deadline the borrower may be rejected from HAMP.

Every borrower seeking a modification must sign a Hardship Affidavit stating why the borrower is unable to make their mortgage payment. Reasons may include a reduction of income, change in family status, increase in the monthly mortgage payment, an increase in other expenses, an/or the absence of cash reserves equal to 3 times the borrower’s monthly debt obligation. HAMP does not distinguish between short-term and long-term hardships for eligibility purposes.

### **Income evaluation**

Borrowers who receive benefit income must provide proof of receipt of payments. Copies of the two most recent bank statements may be provided. Borrowers who are unemployed and receiving unemployment benefits may be considered for Home Affordable Unemployment Program. If approved the borrower may qualify for a reduced

payment equal to 31% of their income. They may also qualify for a forbearance of payments for 90 days while they are seeking employment.

If rental income is to be used for program qualification the schedule E from the borrower's 1040 tax return may be used to verify income. If the property was not rented during that tax year the servicers may accept a current lease agreement verified with bank statements or cancelled rent checks. Only 75 percent of the monthly gross rental may be used as qualifying income. Borrowers are not required to use alimony, separation maintenance or child support as qualifying income. If this income is used it must be supported with copies of the divorce decree, separation agreement or other filed legal agreements. This must be coupled with proof of receipt of payments. Non-borrower household income may be used for HAMP qualification if that party occupies the subject property. Only the income that the non-borrower contributes to the mortgage should be used. If only net income is available, 125% of that income should be used as monthly gross income. All non-taxed income, including non-taxed social security income, is considered net income.

### **Debt Ratios**

To qualify for HAMP, verified income documentation must confirm that the borrower's monthly mortgage payment ratio prior to the modification is greater than 31 percent. The monthly mortgage payment ratio is the ratio of the borrower's current monthly mortgage payment to the monthly gross income of all borrowers on the mortgage note, whether or not those borrowers reside in the property. Borrowers with Back-end DTI ratios at or above 55% must obtain HUD-approved counseling.

### **Monthly Mortgage Payment**

"The monthly mortgage payment used to determine borrower eligibility includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner's association fees, as applicable,

regardless of whether these expenses are included in the borrower's current mortgage payment. It also includes any escrow payment shortage amounts that are subject to a repayment plan. The monthly mortgage payment does not include mortgage insurance premium payments or payments due to holders of subordinate liens.”

### **Owner Occupancy**

A credit report may be used to confirm that the property is the borrower's principal residence. If the credit report is inconclusive the lender may request subject property utility statements that are in the borrower's name. Even if the mortgage was originally for an investment purposes but is now the borrower's primary residence, it may qualify for the HAMP program.

### **Do they qualify for Hope for Homeowners (H4H)?**

Qualifying for an H4H refinance should not delay eligible borrowers from receiving a TPP Notice. To qualify for H4H the existing mortgage must have closed after January 1<sup>st</sup> 2008, the loan amount of the new H4H loan may not exceed \$550,440, must not have ownership in any other homes and the subject property must be only one unit.

### **Water Fall Rules**

**1. Capitalize past due payments** and escrow shortages. All HAMP loans must contain escrows.

### **2. Interest Rate Reduction**

Next reduce the starting interest rate in increments of .125% to get as close as possible to the target monthly mortgage payment ratio. The interest rate floor is 2.0 percent. If a borrower has an ARM or interest-only mortgage, the existing interest rate will convert to a fixed interest rate, fully amortizing loan.

### **3. Term Extension**

If necessary extend the term and re-amortize the mortgage loan by up to 40 years. The term extension is made monthly increments until the desired result of 31% Front Housing Debt to Income ratio is reached.

#### **4. Principal Forbearance**

If necessary, the servicer will provide for principal forbearance to achieve the target monthly mortgage payment ratio. The principal forbearance amount is non-interest bearing and non-amortizing.

#### **5. Principal Forgiveness**

There is no requirement to forgive principal under HAMP. However, servicers may forgive principal to achieve the target monthly mortgage payment ratio on a standalone basis or before any step in the standard waterfall process. If principal is forgiven, subsequent steps in the standard waterfall may not be skipped. If principal is forgiven and the interest rate is not reduced, the existing rate will be fixed and treated as the modified rate.

Servicers are not required to forbear more than the greater of; 30 percent of the principal balance after capitalization **or** an amount resulting in an adjusted balances being 100% of current loan to value. Principal forbearance must be reported to the IRS on form 1098.

#### **Exceptions**

Servicers may agree to a modification where the interest rate does not step up after five years or where the interest rate is reduced to less than 2.0 percent.

Principal forbearance may be substituted for extending the term to achieve the target monthly mortgage payment ratio of 31 percent. A modification may reduce the borrower's monthly mortgage payment ratio below 31 percent.

#### **Net Present Value (NPV) Testing**

NPV test compares the investment value of the loan with and without the modification. If the NPV result is positive, the modification will be approved. If the NPV result for modification is negative, the servicer still has the option to modify. Before foreclosure, the lender should exhaust all other options, internal modification programs, short sales and deed-in-lieu of foreclosure.

Servicer with \$40 billion or more in servicing may create their own NPV model based on the actual cure and re-default rate of their own portfolio.

Mortgage insurance is considered when calculating the NPV. Partial claims should be entered into the NPV calculations which increase the value of the modification. Mortgage insurers must also approve the modification.

### **Trial Period Plans**

The trial period is at least three months in duration. Borrowers who make all trial period payments timely and who satisfy all other trial period requirements will be offered a permanent modification.

### **Credit Bureau Reporting**

Servicers should report in accordance with the Fair Credit Reporting Act as well as other applicable laws and credit bureau requirements as provided by the Consumer Data Industry Association (CDIA). If a borrower was current prior to the trial period and they pay trial period payments on time then the borrower should be reported as on time. Special comment code “AC” “Paying under a partial or modified payment agreement” should be used.

Once modified, special comment code ‘CN’ “Loan modified under a federal government plan” should be used.

### **Servicer Modification Incentive**

\$1,000 for each completed modification and if the rate is reduced by 6% or more they will receive a “pay for success” fee for 3 years. The fee will be equal to the lesser of \$1,000 or ½ of the reduction in the borrower’s annualized monthly payment.

### **FHA-Home Affordable Modification Option**

FHA-HAMP combines a modification with a “Partial Claim”. Up to 12 months of PITI, which must include any previous Partial Claim amount, may be advanced to cure arrearage. Late fees or other default charges must be forgiven. Then up to 30% of the principal balance may be deferred through an interest-free subordinate mortgage that is not due until the first mortgage is paid off.

The new rate is “no more than 50 basis points above the most recent Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate conforming mortgages (US average), rounded to the nearest one-eighth of one percent (0.125%), as of the date the Modification Agreement is executed.” The weekly survey results are published on the Freddie Mac website at <http://www.freddiemac.com/pmms/> and the Federal Reserve Board includes the average 30-year survey rate in the list of Selected Interest Rates that it publishes weekly in its Statistical Release H.15 at <http://www.federalreserve.gov/releases/h15/>. The servicer will receive an incentive fee of up to \$1,250 to modify these loans.

### **RD-HAMP**

On August 26, 2010, the Rural Housing Service (RHS) implemented a new program to help guaranteed loan borrowers who have Rural Housing loans (USDA loans) who have defaulted on their loans, or who are facing imminent default, avoid foreclosure. Under the program, lenders are authorized to modify the loan by reducing the mortgage interest rate to a rate that is at or below the maximum RHS allowable interest rate and to extend the loan term to 40 years from the time of loan modification. If the modification does not reduce the borrower’s payments to 31% of income, RHS may make a mortgage recovery advance to the borrower. Such an advance may not exceed the sum of 12 months of principal, interest, taxes and insurance payments, legal fees and foreclosure costs related to the cancelled foreclosure action, and a principal reduction, which may not exceed 30% of the principal balance of the loan as of the date of default. Moreover, the amount of the total recovery advance may not exceed the amount necessary to bring the borrower’s

mortgage payment to less than 31% of income. The mortgage advance is interest free and is due on the due date of the guaranteed note held by the lender unless the guaranteed loan is paid off early or the property securing the note is transferred, in which case the note is due upon the date of payment or transfer RHS.

## **Possible Changes to be aware of**

We are at the end of the useful life of the HAMP program. Of the 4-5 million homes at risk of foreclosure that the program was to have helped, only about 500,000 have received relief. This \$75 billion program designed to lower borrowers' monthly payments, by reducing mortgage rates and extending loan terms, has failed. The country's housing finance system remains fragile. We must address this issue in a manner that is fair to delinquent households, servicers, mortgage investors, neighborhoods and is in the best interest of taxpayers and housing markets.

FHFA, the regulator and conservator of Fannie Mae, Freddie Mac, and the regulator of the 12 Federal Home Loan Banks, announced that HAMP would be extended through June 30, 2011 instead of the originally scheduled June 10, 2010 program conclusion.

The goal of HAMP was to reduce the monthly carrying costs to increase the owner's ability to pay and thus avoid the larger loss of foreclosure. Unfortunately, operational inefficiencies, red tape, frequently lost paperwork, poor oversight and extended process times, prevented hundreds of thousands of borrowers from this retention option.

It's estimated that only 25% of total foreclosures have worked their way through the system. That means that three times that volume is on its way to market. Banks are currently sitting one trillion dollars of excess reserves. Bank of America and Wells Fargo each have one trillion dollars of mortgage backed security exposure with Freddie Mac and FNMA. When a mortgage defaults, they must buy that loan back. Banks are set up to manage financial instruments not real estate. Banks are now selling more homes than home builders. The strain on the banking system as they manage loss mitigation activities has pushed them to the limits of their operational efficiency. There is not a problem with liquidity, but rather a fear of insolvency.

During the S&L crises in the mid 1990s, operational efficiencies of large banks, with over 10 billion in assets, was running at 70% representing operational distress. With only

25% of total foreclosures behind us, banks are already operating at those levels. As three times that many foreclosures work through the system, the likelihood of that number going to 100% is imaginable.

The Fed has already been subsidizing banks by keeping their net interest margins at historic levels. The Fed is transferring  $\frac{3}{4}$  of a trillion dollars per year from consumer and corporate savers to the banking industry. We are not going to see a recovery in consumer demand until this ends. If you look at the Edger report, you will see a new line item for banks on their balance sheet for loan repurchase. These losses will force banks to become insolvent.

The 2,300 pages of the Dodd-Frank Act are now law, representing a vast regulatory expansion. A measure creating as much government intervention as this act does will be debated for years. Over the next 18-24 months, hundreds of new rules must be written to fulfill the edicts of Dodd-Frank. This environment of uncertainty creates a reluctance on the part of business to make decisions for the future. Business is likely to wait until there is some definitive answer to what this new law actually means before they are willing to hire new employees and grow. Historically the burst of a highly leveraged asset bubble is followed by a period of synchronized deleveraging throughout financial markets. Deleveraging creates a time of slow economic growth. Reduced demand with increased supply leads to asset price deflation. Home prices will likely continue to fall through 2013 as millions of foreclosures hit the market for liquidation. In conclusion, we have embarked on a journey of state managed capitalism, with unprecedented oversight and rule-making influenced through appropriation capability.

## **HAMP Tips: Making Home Affordable**

A Consumer's Guide to the Home Affordable Modification Program "HAMP"  
Submission Process

### **Step 1: Look up your loan**

If your mortgage is owned by Fannie Mae or Freddie Mac, you may be eligible for a "Home Affordable Refinance" HARP. You may qualify for a HARP if the subject property is own-occupied, single family 1-4 unit or condo. You must be current on your mortgage payments with no 30 late pays in the past 12 months. The new loan may not exceed 125% of the subject current market value and must be owned by Fannie Mae or Freddie Mac. The new loan may not exceed \$417,000, in most areas or \$729,500 in high-cost areas like San Francisco, Boston or Washington, DC. The borrower must qualify with full income and asset documentation under otherwise normal FHA underwriting guidelines.

You can contact Fannie Mae and Freddie Mac directly at these web addresses to determine if either own your loan.

#### **Fannie Mae**

1-800-7FANNIE (8am to 8pm EST)

[www.fanniemae.com/loanlookup](http://www.fanniemae.com/loanlookup)

#### **Freddie Mac**

1-800-FREDDIE (8am to 8pm EST)

[www.freddiemac.com/mymortgage](http://www.freddiemac.com/mymortgage)

### **Step 2: Determine if your lender is participating in the Making Homes Affordable HAMP program**

Go to the site below, type in your lender's name and find out;  
[http://makinghomeaffordable.gov/contact\\_servicer.html](http://makinghomeaffordable.gov/contact_servicer.html).

#### **If your lender is participating, submit the items listed below**

1. Request for Modification and Affidavit Form (RMA)
2. IRS Form 4506-T or 4506-T(EZ)
3. Two most recent bank statements (all pages with no white out)
4. Two most recent paystubs

5. Most recent, signed tax returns with w2s
6. Explanation, in writing, anything that might make your application appears to be incomplete. (For example, if you don't have a bank account, you need to inform the servicer in writing so they understand why there are no bank statements).

### **Step 3: Follow up weekly**

Be prepared to be on hold for extended periods and/or disconnected before you are able to speak with anyone. It's best to call early in the morning when the staff is fresh and call volume is lower. Avoid calling on Fridays, the 15<sup>th</sup> of the month or the end of the month. These are general high volume call days for most lenders. Have your account number available at all times. With each call, ask if anything is missing from your application. Ask for the direct line to the department processing your package.

Your application will start in the set up department, where it will be checked for completeness. If complete it will be placed in a Q waiting for assignment to a case worker. Either just before or when the case is assigned to a negotiator a valuation will be completed for you home. The lender may use an electronic valuation model, hire a realtor to do a Broker's Price Opinion "BPO" or hire an appraisal company to do a full appraisal. Once the valuation is received the case worker can underwrite you file for program qualification. The next step in the process is to run the Net Present Value calculation NPV. This compares the value of your loan modified against the value unmodified. If the NPV calculation is positive that means that your lender will experience a smaller loss modifying your loan rather than liquidating it. If the NPV is negative it means that the lender would experience a lesser loss if the loan was liquidated. If the NPV is positive then your case may go to quality control for an audit of accuracy. From here the case may also need to be submitted to the investor and/or mortgage insurance company for their approval.

### **Common Submission Errors**

Application must be completely filed out with all requested information and must be legible. Unsigned tax returns, even if filed electronically and/or failing to submit all pages. You must complete and submit sign a 4506 T or E. It must identify the type of return you filed (for example 1040). You must submit both the full signed tax return and the 4506 form with the submission.

Failing to submit all pages of a bank statement, or account printouts missing account number and/or owners name. Make sure all copies are legible and that any copied materials does not cut off the edges of a copied form.

You must submit, in writing, a hardship letter explaining what has happen causing you to no longer afford your mortgage. It must be sign and dated within 30 days of the day of underwriting. It's common to have to re-date and fax the same letters during the process to comply with this requirement.

For self-employed borrower, you must submit year to date profit and loss statements, good through the most recent calendar month. The statement must be signed and dated. If you receive social security income you must supply a copy of the award letter and 2 month's bank statements showing receipt of those funds. Rental income, if not on tax returns, must be documents with a copy of the lease, cancel rent check or other forms of proof of receipt.

Include the mortgage loan account number on all document pages submitted to your lender. This reduces the possibly of loss when sent to your lender. Be prepared to resend documents multiple times, it's common for them to get lost or out date during the process. Before you send any requested document, ask for the best fax number to do so. Fax numbers change and sometimes missing documents must be sent to a different number. At the time you fax the document ask how long it will be for it show up in document imaging. Call and request acknowledgement of the receipt of the faxed document on the day you were told it would show up in imaging. If your lender can not

find it, refax and call each day until it is acknowledged. It's important to follow up at least once per week, even though there may be no apparent progress on your case file.

**If you are denied what's next**

It's more common to be turned down than approved, even if you were told you qualified. It's natural being frustrated with the process. The following will let you know what you need to do next.

**First** remember, this is a marathon not a sprint. You have thousands of dollars at stake. It will not help your cause if you are rude to your lender's staff. This is only the 1<sup>st</sup> round in the battle to find a solution to your mortgage problem.

**Second** get ready to resubmit. Gather copies of pay stubs, bank statements, tax returns, W2s, benefit award letters, utility bills, budget work sheets and all HAMP forms. Now carefully read the HAMP denial letter. Look for the details of why you were denied. It may not be clearly stated. You will need to call your lender for clarification and to find the exact reasons you were turned down. This may require probing. Your income may have been too high or too low for program qualifications. You may have failed the NPV calculation. Your file may have been missing information or it may contain errors. Get a copy of your credit report and compare it to your budget work sheet. If the credit report has debt you did not disclose or is missing obligations that you stated you are paying, you may need to supply alternate documentation to prove you have or don't have obligations that show or are not reported on the credit report.

It may be useful to acquire and read the most recent published "Home Affordability Modification Program" document, to better understand program guidelines.

You may wish retain a loan modification company or an attorney to proceed. This may give you the assistance you need to successfully complete the modification negotiation. A trained profession can help you cut through all the miles red tape and bureaucratic road blocks.

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