HUD NEWS

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HUD ANNOUNCES NEW NOTE SALES UNDER EXPANDED DISTRESSED ASSET STABILIZATION PROGRAM

Upcoming sales to target hard-hit metro areas in L.A., Chicago, Southern Ohio, and North Carolina

WASHINGTON – For the second time this year, the U.S. Department of Housing and Urban Development (HUD) will sell thousands of severely delinquent mortgage loans insured by the Federal Housing Administration (FHA) as part of a broader effort to address the housing market's shadow inventory and to target relief to areas experiencing high foreclosure activity. This summer, HUD will sell approximately 20,000 distressed loans through its expanded *Distressed Asset Stabilization Program (DASP)* to increase recoveries to FHA's Mutual Mortgage Insurance (MMI) Fund from non-performing FHA-insured loans, while contributing to stabilization and recovery in some of the nation's communities hit hardest by the housing crisis.

Like previous note sales, HUD's offerings will be conducted through two auctions – on June 26th, the Department will sell approximately 15,000 notes through 'national pools' and on July 10th will offer approximately 5,000 notes through Neighborhood Stabilization Outcome (NSO) pools. The NSO pools will offer qualified bidders notes located in the following metropolitan areas: Los Angeles, Chicago, southern Ohio (including Cincinnati, Columbus and Dayton), and the entire state of North Carolina. HUD is expanding the use of single-family loan sales through a competitive bidding process in which loan pools are sold to the highest bidder, including non-profit and community-based organizations.

"We've seen a tremendous response to our note sales which allow us to support particular areas of our country hard-hit by foreclosures while improving outcomes for FHA," said FHA Commissioner Carol Galante. "These auctions allow us to continue stabilizing hard-hit housing markets and to improve FHA's overall financial position at the same time."

Under this program, severely delinquent FHA-insured loans are sold competitively at a market-determined price generally below the outstanding principal balance. Once the loan is purchased, foreclosure is delayed for a minimum of six additional months, during which time the new servicer can work with the borrower to find an affordable solution to avoid foreclosure. These loans are purchased at market rate, which is generally below the outstanding principal balance, giving the investor the incentive to take additional steps to help the borrower avoid foreclosure, including modifications that may include reduced principal balances.

HUD expects to sell more than 40,000 distressed loans this year through quarterly sales that reduce FHA's total claims costs and increase recovery on losses to FHA's Mutual Mortgage Insurance (MMI) Fund.

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Last March, HUD sold more than 16,000 seriously delinquent mortgages. The first auction, conducted on March 21st, consisted of 12,476 non-performing loans in 10 different “national” pools with a combined unpaid principal balance of $2.2 billion. The second auction occurred on March 27th and consisted of nearly 4,000 loans in five different “Neighborhood Stabilization Outcome (NSO)” pools with a total of $635 million in unpaid principal balance. The NSO pools consisted of loans pooled in geographically concentrated areas and are accompanied by sale terms that promote neighborhood stability in hard-hit communities. NSO pools in the March sale were in the following geographic areas: Atlanta; Cleveland; Greater Orlando, Florida; Southeastern Florida (including Miami); and Southern California. See results from the March note sales.

Distressed Asset Stabilization Program

FHA’s note sales program was resumed in 2010 as a direct sale pilot program that allows pools of mortgages headed for foreclosure to be sold to qualified bidders and charges them with helping to bring the loan out of default. In many cases, this is a less expensive alternative to foreclosure and sale as a real estate-owned (REO) property. An FHA servicer can place a loan into the loan pool if the following criteria are met:

- The borrower is at least six months delinquent on their mortgage;
- The servicer has exhausted all steps in the FHA loss mitigation process; and
- The servicer has initiated foreclosure proceedings;

Last year, as part of an effort to address its seriously delinquent loan portfolio, FHA announced that, over the next several years, it would significantly increase the number of loans it makes available for purchase as well as add a new neighborhood stabilization pool to encourage investment in communities hardest hit by the foreclosure crisis. The “Neighborhood Stabilization Outcome” (NSO) pools, as an additional safeguard in distressed communities, require that no more than 50 percent of the loans within a purchased pool be marketed as real-estate owned (REO) properties and – if the servicer and borrower are unable to avoid taking the loan through foreclosure – that the servicer achieve some other neighborhood stabilizing outcome, which may include holding the property for rental for at least three years.

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