Priority Goal 1: Foreclosure Prevention

Goal Statement

Assist 3.1 million homeowners who are at risk of losing their homes due to foreclosure.

Overview

Millions of homeowners are in danger of losing their homes to foreclosure after experiencing a decline in income due to the economic recession.[E1] In September 2011, 4.8 million homeowners had missed at least one mortgage payment. Of these homeowners, 1.7 million are in the process of foreclosure, with more than 2.1 million others seriously delinquent and at high risk of foreclosure. Furthermore, as of June 2011, roughly 10.9 million homeowners owe more on their homes than their properties are worth, including some who are current on their mortgage payments and some who have missed at least one payment.

In May 2010, HUD issued its FY 2010 – 2015 Strategic Plan that included a goal to Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers.[E2] HUD also established a two-year Priority Goal (PG) to Stem the Foreclosure Crisis. With the aim of preventing foreclosures, this PG is intended to support other efforts of the Administration to address the economic crisis by assisting 3.1 million homeowners who are at risk of losing their homes due to foreclosure.

In order to fight unprecedented numbers of "loan scams" occurring in Bakersfield, California, and the surrounding area of Kern County, Fresno Field Policy and Management staff worked with the Santa Ana Homeownership Center to use Single Family Marketing and Outreach funds for a billboard along Highway 99 going into Kern County. The billboard will run for three months in a very high visibility location.

HUD's key measures of success for this goal include:

- 400,000 homeowners will be assisted through FHA early delinquency intervention.
- 300,000 homeowners will be assisted through FHA loss mitigation programs.
- For all FHA borrowers who receive loss mitigation assistance, achieve a Consolidated Claim Workout Ratio of 75 percent, and for those receiving a Consolidated Claim Workout achieve a 6-month re-default rate of 20 percent or less.
- 2.4 million homeowners will be assisted through the joint HUD-Treasury Home Affordable Modification Program (HAMP).

Contributing Programs

FHA

Since its inception in 1934, FHA has been assisting underserved, low- and moderate-income, and often first-time or minority homebuyers by insuring mortgages for single family homes. Not only does FHA provide opportunities to buy a home, it also has tools (such as early delinquency intervention and loss mitigation) that assist homeowners to stay in their home. FHA programs and tools that help to accomplish this PG are discussed below.

Early Delinquency Intervention

Servicers of FHA insured loans most frequently offer early delinquency intervention assistance to homeowners who are less than 90 days in default. Providing assistance to homeowners who are in the early stages of mortgage payment distress reduces the potential for more serious delinquencies, defaults, and foreclosures at a later date. These interventions include[E3]—special forbearance, repayment, and military indulgence.

Loss Mitigation Programs

Early delinquency interventions have been effective over the years, but as the housing crisis grew, FHA implemented both new and improved loss mitigation programs to better assist homeowners most in danger of losing their homes. These loss mitigation products[E4] include — the FHA Home Affordable Modification Program (HAMP), special forbearance, mortgage modifications, partial claims, pre-foreclosure (short) sales, and deeds in lieu of foreclosure.

An FHA borrower in Michigan had fallen behind in mortgage payments due to medical expenses for their son injured in a little league baseball game. Both borrowers' incomes at work had also decreased due to overtime being cut off. The lender had placed them on a trial repayment plan to ensure they had overcome their reason for default before completing a permanent loss mitigation option. The borrowers then incurred additional medical expenses and were unable to complete the trial plan. The borrower had subsequently been able to obtain reimbursement for some of their medical expenses. The Housing Specialist at the National Servicing Center contacted the servicer and had them place the pending foreclosure sale on hold and review the case again with the updated information. The borrower provided additional documentation to show they had overcome the medical issues, and they were approved for a trial plan with a loan modification. The borrower completed the three month trial plan successfully, and the lender brought the loan current with a loan modification providing payment relief of around $200 per month.

Consolidated Claim Workout (CCW) Ratio

The CCW is a ratio that indicates the effectiveness of HUD's programs at reducing foreclosures. The CCW aggregates FHA's incentive claims for loss mitigation actions (e.g., partial claims, special forbearances, loan modifications, FHA HAMP modifications, pre-foreclosure sales, and deeds in lieu of foreclosure) as a share of total paid claims for FHA insurance benefits. The higher the CCW ratio, the more effective HUD has been at preventing foreclosure.

Re-default Rate

FHA works with borrowers to provide realistic and sustainable options for homeowners to retain their homes and satisfy the terms of their

mortgages. HUD's success at providing such sustainable options can be assessed by looking at borrower re-default rates.

Housing Counseling Assistance

HUD's housing counseling program helps consumers make well-informed decisions concerning home buying and mortgage finance, as well as foreclosure prevention. During FY 2011, Congress eliminated funding for this program; however, prior year obligated funds continued to flow to housing counseling agencies with which these organizations provide comprehensive advice and assistance to households in making appropriate housing choices. These foreclosure prevention services are provided free of charge.

Joint HUD-Treasury Programs

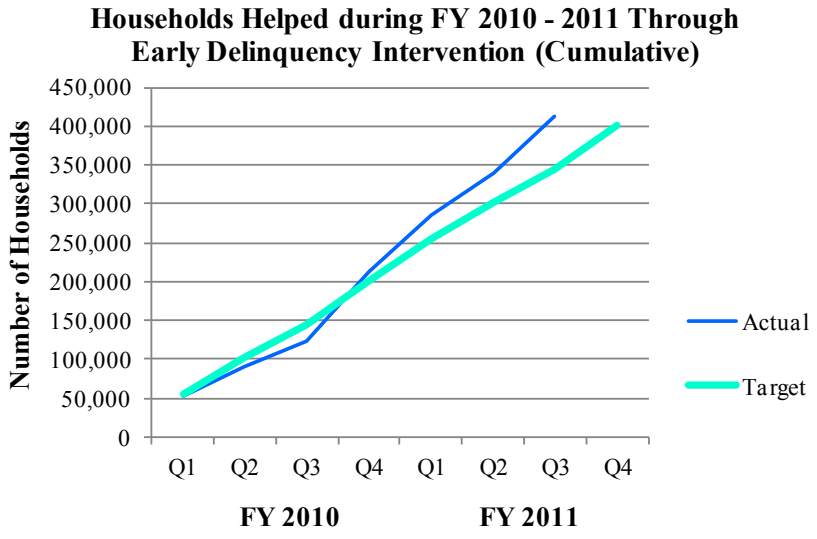
HAMP,[E5] launched in May 2009 (expiring in December 31, 2012), reduces housing payments for eligible households to 31 percent of their gross monthly income for five years. This program applies to homeowners who have conventional mortgages and receive a conventional workout.

When initially introduced to the public, HAMP excluded FHA-insured mortgages, stating that FHA would develop its own standalone program. In July 2009, FHA announced its new Loss Mitigation option, the FHA-HAMP. This program provides homeowners in default a greater opportunity to reduce their mortgage payments to sustainable levels. The HAMP goal to assist 2.4 million homeowners is measured from the program inception until it expires in December of 2012.

Accomplishments

Early Delinquency Intervention

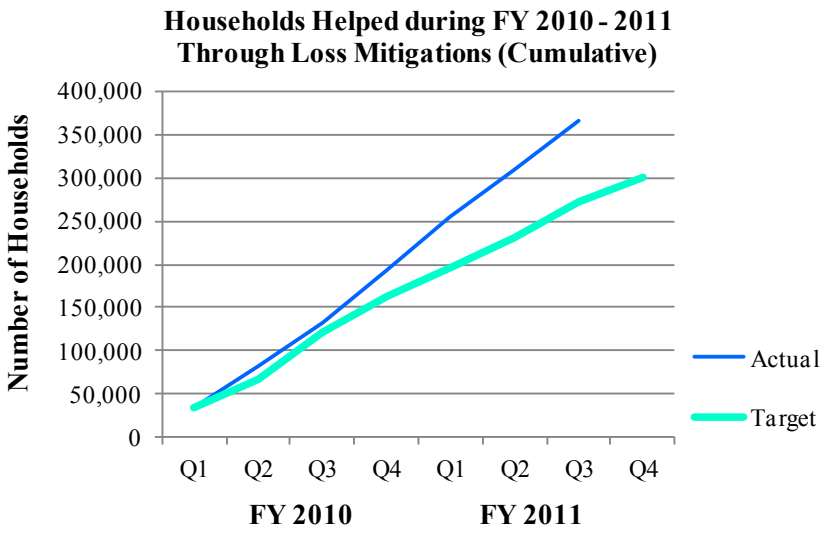
As of the third quarter of FY 2011, HUD had assisted a cumulative total of 411,441 homeowners (since the beginning of FY 2010) to avoid foreclosure through early delinquency intervention, which exceeds the goal of assisting 400,000 homeowners by the end of FY 2011. The number of homeowners assisted during FY 2011 through the third quarter was 198,038.



Note: Data for this goal has only been kept by household since the beginning of FY 2010.

Loss Mitigation Programs

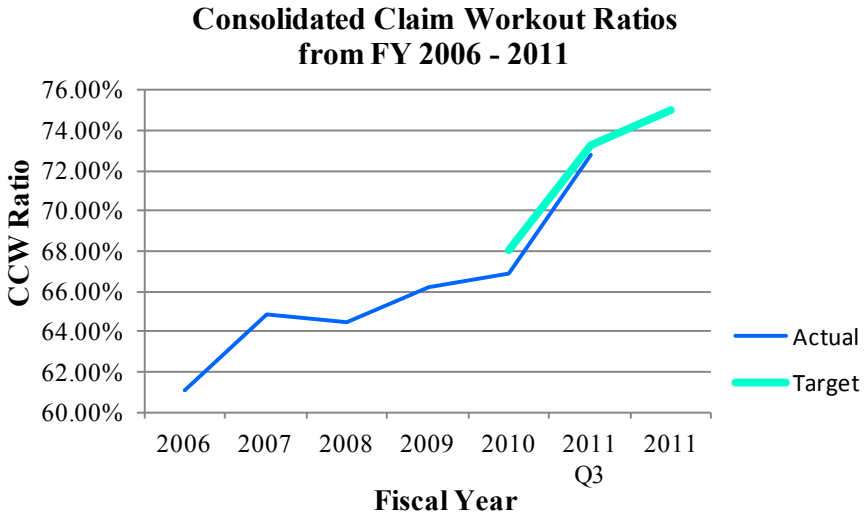
By the end of the second quarter, HUD had achieved its FY 2011 goal of assisting 300,000 homeowners to avoid foreclosure through loss mitigation programs. As of the third quarter of FY 2011 the cumulative total was 365,932 homeowners assisted, with 172,588 homeowners assisted during FY 2011 so far.



Note: Data for this goal has only been kept by household since the beginning of FY 2010.

Consolidated Claim Workout (CCW) Ratio

The CCW ratio as of the end of the third quarter of FY 2011 was 72.80 percent, which is slightly below the third quarter target of 73.25 percent. However, over the course of this past year it has become difficult to use the CCW ratio as a meaningful indicator of progress in stemming the foreclosure crisis.

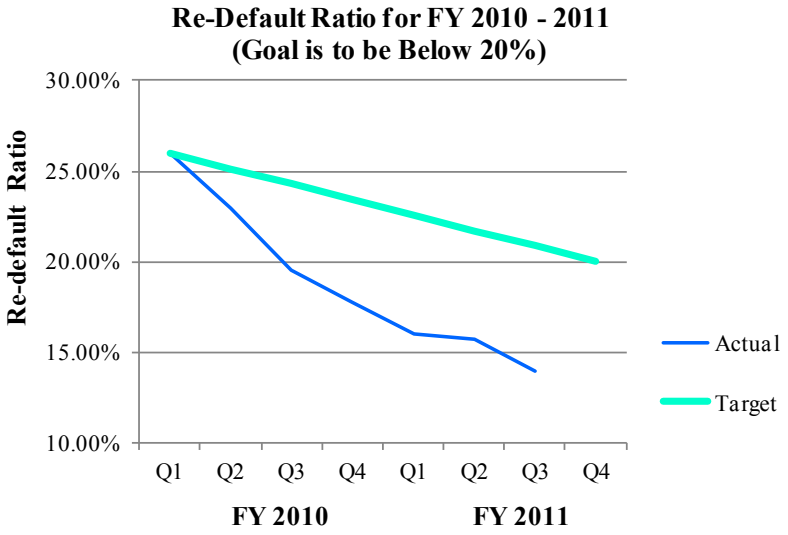


Note: This data is based on claims data submitted to HUD through lender claim payments. Annual targets were not set for this goal prior to FY 2010.

This is because many foreclosure actions have been put on hold due to questions raised about the sufficiency of documentation used by many major lenders to certify legal standing to process foreclosure actions. As a result, some lenders put in place self-imposed delays in completing foreclosure actions, and many state governments have issued moratoria, required additional steps in the foreclosure process, or else questioned lender practices in court. Because of these actions, the Department is now considering alternative measures for assessing progress of FHA in stemming the foreclosure crisis.

Re-default Rate

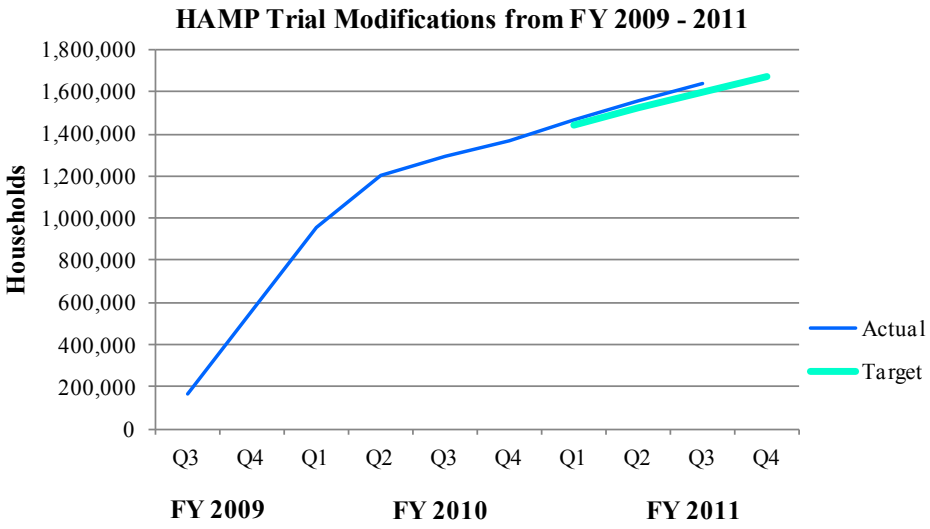
HUD is on target to meet this goal, having maintained a re-default ratio below the 20 percent target since the third quarter of FY 2010. As of the third quarter of FY 2011, the ratio was 13.91 percent, which is significantly better than the third quarter target of 20.85 percent.



Note: Data for this goal has only been kept by household since the beginning of FY 2010.

Joint HUD-Treasury Programs

HAMP has helped over 1.6 million homeowners through June of 2011. The program has been criticized for not meeting the high expectations originally held for it. However, the number of households helped through this program has been significant. Initially, the requirements for participation in the program were too restrictive and too dependent on the cooperation of servicers. The program has been modified on a number of occasions to require more accountability from servicers as well as to provide additional incentives to improve servicer performance. Program results have improved since then.



Data Sources and Relevance

The data for Goal 1 come from FHA's internal business systems, which contain highly accurate records on claim transactions with insured lenders. The data lag by one quarter to accomodate any processing delays and assure completeness. However, decisions by loan servicers to file or not to file (full) claims or loss mitigation claims reflect corporate policies and decisions that can significantly affect the results reported in this report. For example, foreclosure moratoriums

have been established by several FHA loan servicers as a result of alleged irregularities in the foreclosure process. That has not only affected the rate of foreclosure completion, but has also decreased the rate of claim filing for cases that have already gone through a foreclosure auction. A reversal of such a moratorium would negatively impact the results for this measure.

While data on foreclosure prevention is based on the number of households, data for calculating the Consolidated Claims Workout Ratio is based on the number of claims rather than on the number of households. Making Home Affordable data are maintained by the Department of the Treasury, except for a small portion that is in the FHA data systems. All data are current and are directly related to the goals.

Challenges

FHA continues to be a major player in stabilizing the mortgage market. A high rate of foreclosures could continue if high unemployment, low housing prices, and an unstable financial market persist. FHA and its private sector partners will continue to play an important role in combating the housing crisis and addressing homeownership issues. The Department's signature initiative as identified in the Strategic Plan for this area seeks to promote sustainable homeownership, implement new mortgage insurance premiums and underwriting policies, and restore FHA's capital reserve ratio to the Congressionally mandated 2 percent level by 2014.

HUD's major challenge is to find ways to assure full cooperation from lenders in utilizing available programs for preventing foreclosures while maintaining high loan standards that minimize risk to the FHA mortgage insurance program. FHA also works with other federal programs to help assure neighborhood integrity in areas where foreclosures are high and to prevent and enforce laws against mortgage scams that target vulnerable homeowners.

External Factors Affecting this Goal

The external factors affecting HUD's ability to influence foreclosure rates and improve outcomes are those related to economics, state and local conditions, federal partnerships, and FHA program partners.

- The foreclosure crisis is rooted in several interacting economic crises: shrinkage of inflated home valuations, a decline in mortgage credit because of financial stresses and retrenchment in capital markets, and declining household incomes and unemployment resulting from the sluggish national recovery from the recession of 2007-2009. History shows that economic recessions following financial crises typically have slower recoveries than those that are cyclical downturns. Additionally, households are sharply reducing debt loads and spending that flowed from home equity loans based on unsustainable home values. As of December 2010, mortgage debt exceeded home values for about 11 million "underwater" homeowners.
- State laws that favor creditors have been shown to increase the frequency and rapidity of foreclosures, and thus depress housing prices more sharply. Additionally, local housing

markets and economies may have more severe challenges resulting from concentrations of earlier subprime mortgage activity or particularly stressed economies that reduce housing demand. Local markets also may have differing capacities for conversion of surplus owner-occupied units to rental housing.

- The federal response to the foreclosure crisis involves a partnership of HUD with the Treasury Department and Federal Housing Finance Agency, which have responsibilities for regulating mortgage lenders and the housing Government Sponsored Enterprises. Economic policies of the Federal Reserve affect the ability of homeowners to refinance through policies that reduce interest rates.
- FHA, together with approved lenders, provides some of the best options for troubled borrowers. Efforts that depend on these private sector partners include early delinquency intervention, loss mitigation, the FHA Refinance Option, and the FHA Home Affordable Modification Program (FHA-HAMP).

Looking to the Future

In FY 2012-2013, HUD will continue the important work of foreclosure prevention through the work of FHA and housing counseling programs to provide assistance to troubled homeowners. Through the Loss Mitigation and Early Delinquency programs, FHA will aim to prevent or resolve mortgage delinquency, default, and foreclosure with the primary objective to preserve homeownership. In FY 2011, HUD implemented the Emergency Home Loan Program to help homeowners who are at risk of foreclosure in 27 states across the country and Puerto Rico. The program assists homeowners who have experienced a reduction in income and are at risk of foreclosure due to involuntary unemployment or underemployment as a result of economic or medical conditions.

HUD will also work to reduce vacancy rates in neighborhoods hardest hit by the foreclosure crisis though the Neighborhood Stabilization Program (NSP) in partnership with FHA and the National Community Stabilization Trust. The NSP provides grants to states, local governments, nonprofits, or a consortium of public and private nonprofit entities on a competitive basis to acquire and rehabilitate foreclosed and abandoned properties. FHA will also make 100 percent of its Real Estate Owned properties available to grantees in neighborhoods identified as having the highest foreclosure and vacancy rates in order to help speed recovery of the markets in these communities.