



**Making Home Affordable
Program: FHA's Home
Affordable Modification Loss
Mitigation Option**

Basic Program Guidelines

FHA-Home Affordable Modification Program (FHA-HAMP)

FHA-HAMP combines a Partial Claim with a Loan Modification

- **Total Partial Claim, including arrearages of up to 12 months Principal, Interest, Taxes, and Insurance (PITI) plus legal fees and costs related to a canceled foreclosure action (maximum over life of loan), and deferred principal, may not exceed 30 percent of the unpaid principal balance as of the default date.**
- **Mortgagor must first complete a three month trial plan with a payment equal to the monthly PITI to be required on the modified loan (must be a fixed rate mortgage).**
- **If trial plan payments are not made in a timely manner, the Mortgagor is no longer eligible for FHA-HAMP.**

Debt to Income Ratios

Front-End Ratio – The total first mortgage payment (PITI) divided by the Mortgagor's gross monthly income, shall be 31%.

Back-End Ratio – The total first mortgage payment plus all recurring monthly debt divided by the Mortgagor's gross monthly income, shall not exceed 55%.

Calculation of Maximum Partial Claim Amount under FHA-HAMP

- Maximum Partial Claim amount is $\leq 30\%$ of the outstanding principal balance.
- Maximum principal deferment on the FHA-HAMP is determined by:
 - Outstanding Principal Balance x 30% - Amount of Arrearages - Foreclosure fees and costs.
- Subject to the requirements of ML 2008-21.
- Principal deferment shall not exceed amount needed to bring the total monthly mortgage payment to 31 percent of the Mortgagor(s) gross monthly income.

Calculation of Maximum Partial Claim - Example

- Unpaid Principal Balance = \$150,000
- Current Monthly Payment (PITI) = \$1,220 (P&I = \$920 + TI = \$300)
- Current Other Recurring Debt = \$800
- Gross Monthly Income = \$3,500
- Number of Payments Past Due = 3
- Total Arrearage = \$3,660

Calculation of Maximum Partial Claim – Example - Continued

- Maximum Partial Claim = $\$150,000 \times 30\% = \$45,000$
- Maximum Monthly PITI = $\$3,500 \times 31\% = \$1,085$ (Front Ratio)
- Maximum Total Monthly Debt = $\$3,500 \times 55\% = \$1,925$ (Back Ratio)

Calculate Terms of Modified Loan – Example - Continued

- New P&I = \$1,085 (Max PITI) - \$300 (T&I) = \$785
- New Mortgage Term = 360 months
- New Interest Rate = 6% (Assumed fixed rate)
- Calculated New Principal Balance = \$130,931

Principal Reduction and Total Partial Claim

- Principal Reduction = $\$150,000 - \$130,931 = \$19,069$
- Total Partial Claim = $\$19,069$ principal deferment + $\$3,660$ arrearage
= $\$22,729$
- Total Partial Claim < $\$45,000$ Calculated Maximum Partial Claim
- Mortgagor's New Back End Ratio is 53.9% [Sum of PITI + Other Recurring Monthly Debt ($\$1,085 + \800) divided by $\$3,500$ Gross Monthly Income] which satisfies the 55% Back End Ratio limitation.

Requirements to Use FHA-HAMP

Mortgagees must evaluate the defaulted mortgage for Loss Mitigation actions in the following priority order:

- 1. Existing FHA Home Retention
Loss Mitigation Options**
- 2. FHA-HAMP**

Mortgagee Incentives

- **Loan must be in default (≥ 30 days past due)**
- **2 types of Incentive Payments:**
 - **Upon completion Mortgagee receives:**
 - **FHA-HAMP - \$1,250 (\$500 Partial Claim + \$750 Loan Mod)**
 - **FHA-HAMP - Mortgagees may also claim up to \$250 for reimbursement for a title search and/or recording fees on the Loan Modification.**

Partial Claim Filing and Document Delivery

- **Partial Claim(s) must be subordinated to the modified first-lien mortgage.**
- **Original Credit and Security Instruments are to be forwarded to HUD's Secretary-Held Servicing Contractor.**

Monitoring

- **FHA will monitor Mortgagees for compliance with the terms of this Mortgagee Letter.**
- **FHA will take administrative action, including sanctions and penalties, against all parties for non-compliance.**

Remittance

- **Repayment Terms, Option Failure and Disclosures described in Mortgagee Letters 2000-05 and 2003-19 apply.**
- **Subordination requests and any payments for Partial Claims are to be sent to HUD's Secretary-Held Assets Servicing Contractor.**
- **Secretary-Held Assets Servicing Contractor website:**

<http://www.hud.gov/offices/hsg/sfh/nsc/fmaddr.cfm>

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- The Servicer of the modified FHA-HAMP mortgage must be FHA-Approved.
- Mortgagor(s) must be identical on both the existing and new mortgage except as provided below:
 - Change in ownership due to death or divorce.
 - New Mortgagor may be added to the HAMP mortgage, provided at least one existing Mortgagor(s) is retained.
- Mortgagor(s) must be an owner occupant and have sufficient income to make the modified mortgage payment.
- Mortgage must be in default but not more than 12 full mortgage payments past due.
- Mortgagor(s) must not have intentionally defaulted on mortgage.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- Must be an FHA-insured single family mortgage (1-4 units).
- Mortgages previously modified under HAMP are ineligible.
- Maximum Mortgage Amounts are not applicable.
- Must be re-amortized to a 30 year fixed rate mortgage.
- Property must be the Mortgagor's primary and only residence.
- The interest rate must be fixed and meet the guidelines in Mortgagee Letter 2008-21.
- There are no current LTV requirements.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- FHA-HAMP mortgages are made without an appraisal and are required to have a lower monthly principal and interest payment.
- All existing subordinate financing must be subordinated to maintain the first lien priority of the HAMP mortgage.
- No minimum credit score is required.
- The first payment due date must be at least 12 months in the past, and at least 4 full mortgage payments must have been made.
- No Appraisal is required.
- Mortgagor must be under a trial modification payment plan at the modified payment prior to completing the FHA-HAMP and must make timely payments for 3 consecutive months before the Partial Claim is filed.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- The Mortgagee must obtain the following additional documentation:
 - Mortgagor's detailed financial information.
 - Hardship Affidavit must be obtained from Mortgagor(s).
 - Provided Mortgagor financial information must be independently verified by obtaining a credit report (for determining indebtedness only) and any other forms of verification the Mortgagee deems appropriate.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- CAIVRS review is not required, but HUD's LDP and GSA exclusion lists are required checks for all Mortgagors.
- FHA-HAMP processing and underwriting instructions are:
 - Mortgage is in default but not more than 12 full payments delinquent; Mortgagee combines a Partial Claim for up to 12 months of arrearages, foreclosure costs and principal reduction with a loan modification.
 - FHA-HAMP must meet the requirements of Mortgagee Letters 2000-05, 2003-19 and 2008-21 except for the new maximum Partial Claim amount calculation.
- The Mortgagor may not be charged any additional costs.
- The financial analysis, Hardship Affidavit, and documentation must be maintained in the mortgagee's claim review file.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- FHA-HAMP can only be utilized if the Mortgagor(s) does not qualify for other Loss Mitigation Home Retention Options. To qualify for the FHA-HAMP, the Mortgagees must utilize its Loss Mitigation actions in the following priority order:
 - Existing FHA Home Retention Loss Mitigation Initiatives (Mortgagee Letters 2008-21, 2003-19, 2002-17, 2000-05)
 - FHA-HAMP

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- The Mortgagor's Monthly Gross Income is the amount before any payroll deductions.
- Front-End Ratio is the Ratio of PITI to Mortgagor Monthly Gross Income. The Front-End Ratio must be 31%.
- The Back-End Ratio is the Ratio of the total first mortgage payment plus all recurring monthly debts to the Mortgagor's Monthly Gross Income. The Ratio must not exceed 55%.
- The Mortgagee must pull a Credit Report and consider information obtained from the Mortgagor orally or in writing concerning incremental monthly obligations.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- Subordinate liens are not included in the Front-End Ratio, but they are included in the Back-End Ratio.
- UFMIP is not applicable.
- Annual MIP remains the same.
- The maximum one-time only principal reduction on the modification is determined by multiplying the outstanding principal balance by 30% and subtracting the arrearage amounts advanced to cure the default for up to 12 months PITI and allowable foreclosure costs. However, the actual principal reduction for a specific case shall be limited to the amount that will bring the Mortgagor(s) PITI to an amount not to exceed 31% of gross monthly income.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- No interest will accrue on the Partial Claim. The payment of the Partial Claim is not due until:
 - The maturity of the HAMP mortgage,
 - A sale of the property, or
 - A pay-off or refinancing of the HAMP mortgage.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- Mortgagees shall not proceed with the foreclosure sale until the Mortgagor has been evaluated for the Program and, if eligible, an offer to participate in the FHA-HAMP has been made.
- 90 days past due mortgages must be considered for other Loss Mitigation prior to being referred to foreclosure.
- Mortgagees must escrow for Mortgagors' real estate taxes and mortgage-related insurance payments.
- The Mortgagee will waive all late fees.
- The Mortgagee will cover the cost of the credit report.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- Mortgagees will receive \$1,250 plus allowable costs upon the completion of the FHA-HAMP Modification and Partial Claim.
- The Mortgagee may not require the Mortgagor to contribute cash.
- Mortgagees must comply with any disclosure or notice requirements applicable under FHA regulations and state or federal law.
- Mortgagees must comply with the Equal Credit Opportunity Act and the Fair Housing Act.

Attachment – Guidelines for the FHA-Home Affordable Modification Program

- Mortgagees should have procedures and systems in place to respond to inquiries and complaints.
- Mortgagees will be required to maintain servicing files for a minimum of the life of the mortgage plus 3 years.
- Mortgagors will be required to provide declarations under penalty of perjury attesting to the truth of information they have provided.
- Mortgagee should establish measures to prevent and detect fraud.
- Mortgagees and Mortgagees/investors are not required to modify the mortgage if there is evidence indicating the Mortgagor submitted false information.
- Mortgagees will collect and transmit Mortgagor and property data to ensure compliance with the program and measure its effectiveness.