California Housing Finance Agency
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Homeownership Program Bulletin

May 8, 2009 **Program Bulletin #2009-12**

To: CalHFA Approved Lenders and Servicers

CalHFA Loan Modification Program

High foreclosure rates have adversely affected California's families, neighborhoods and property values. Based on current economic forecasts, we anticipate further adverse consequences as high foreclosure rates continue. To help mitigate these foreclosures, CalHFA is introducing the CalHFA Loan Modification Program (CMP) for borrowers with CalHFA mortgages. The CMP is a simple, streamlined loss mitigation tool designed to help families in the single-family loan portfolio retain their home and minimize losses to CalHFA's bondholders that result from foreclosure. Due to the requirements of our bond indenture regarding our loans, which provide security for our bonds, CalHFA cannot effectively participate in the Federal Government's Making Home Affordable Program. Borrowers with CalHFA loans that are part of a Fannie Mae Mortgage-Backed Security are not covered by CalHFA's CMP and should be referred to Fannie Mae's Home Affordable Modification Program for assistance.

The program consists of basic modification terms that can be easily implemented by Servicers and CalHFA loan modification staff to reduce a borrower's monthly payments for a limited time period. This bulletin supersedes guidance on loan modifications contained in the CalHFA Servicers Guide, Section 10, page 3 and Section 6, page 11.

The program consists of the following components:

<u>Property and Borrower Eligibility Criteria (all criteria below must be met to qualify for the program):</u>

- The mortgage is a first lien conventional loan.
- The mortgage loan is 60 days delinquent. The program may include loans in foreclosure or in the process of some other form of loss mitigation activity.
- The mortgage loan is the borrower's principal residence.
- The borrower has a documented financial hardship.
- The documentation to support income must not be more than 90 days old as of the date of program eligibility.
- The property securing the mortgage loan must not be abandoned, vacant, condemned, or in a serious state of disrepair.
- Borrowers currently in bankruptcy are not eligible for the program.

Financial Hardship

CalHFA requires a financial hardship to be fully explained and documented. Examples of financial hardships include, but are not limited to:

- Involuntary loss of employment and borrower is currently unemployed.
- Temporary unemployment has caused a significant delinquency or new employment has resulted in less monthly income.
- Employer reduced borrower's pay (overtime eliminated, regular hours or base pay reduced).
- One of the borrowers' or wage earners' incomes has been eliminated due to death, incarceration, divorce or separation.
- One of the borrowers' or wage earners' incomes has been eliminated or reduced as a result of suffering a permanent or short-term disability or serious illness.
- Self-employed borrower has suffered a documentable decline in business earnings.

Loan Counseling Requirement

Loan counseling with a HUD approved counseling agency is mandatory for all CalHFA borrowers in the CMP. Servicers are required to initiate the referral of borrowers to counseling agencies and verify the counseling has been completed before final approval of the modification. The counseling agency will work with the borrowers to complete Level 2 counseling by obtaining financial information to assess their ability to pay and recommend a course of action based on CalHFA's program criteria. The counseling agency should advise the borrower that a loan modification may not be feasible in their particular situation and in those instances recommend alternative courses of action. See the CalHFA website at www.calhfa.ca.gov/myaccount/cmp for a list of available counseling agencies.

CalHFA may direct Servicers to refer borrowers to specific counseling agencies who are knowledgeable of CalHFA programs.

Verification of Income

The Servicer is required to verify the borrower's income in accordance with the information shown on the "Loan Modification Review Checklist" (Attachment A). The borrower may qualify for the CMP if their income verification demonstrates that the modified monthly payment results in a minimum $200 monthly surplus based on the borrower's net monthly income (or the borrowers' combined net monthly income in the case of co-borrowers). Although CalHFA does not mandate a specific debt ratio (Housing DTI or Total DTI) to determine program eligibility, CalHFA will review and analyze each potential modification on a case-by-case basis. CalHFA may determine, in its sole discretion, that a borrower's pro forma financial condition is not sustainable, even with a positive monthly cash flow, and therefore may not approve a modification.

Program Components

The CMP has separate modification programs for CalHFA's current fully amortized loan programs (30-year and 40-year), and 35-year *interest only* PLUS[SM] (IOP).

Fully Amortized Loan Programs (30-year and 40-year loans)

- Delinquent amounts will be capitalized and added to the unpaid principal balance.
- Loan term may be extended up to 480 months (40 years) from the date of the modification.

- Interest rate may be reduced down to a floor of 3.00% at the discretion of CalHFA.
- Reduced interest rate may be in effect for a maximum of three (3) years from the date of approval, after which the reduced interest rate will be increased to the original Note rate over a two-year period with equal interest rate increases.
- Borrowers will be required at the time of modification to submit one (1) full modified monthly payment (in the form of a cashiers check) along with the signed CMP Agreement.
- CalHFA must receive verification that the borrower has successfully completed credit counseling.
- Borrowers must demonstrate a residual income surplus to determine the sustainability of the proposed modification. As a general guide, CalHFA requires a monthly surplus ranging from $190 to $250, which is defined as total monthly net household income in excess of total expenses.
- Executed CMP Agreements may be recorded (see "Recording the CMP Agreement").

Modification Steps

Step 1: Capitalize all delinquent accrued interest and escrow advances and add such amounts to the unpaid principal balance. Late fees and penalties may be waived by CalHFA or paid by borrower at time of loan modification.

Step 2: Extend the term of the mortgage loan to a maximum of 480 months (40 years) from the effective date of the modification. If this extending term does not bring the borrower to a positive surplus, then adjust the rate.

Step 3: Adjust the interest rate. The reduced interest rate shall not be less than 3.00%.

It is recommended that Servicers reduce the Note rate in increments of 0.125 percent in order to achieve a monthly surplus as outlined above in the Program Components. The reduced rate will be in effect for the first three (3) years of the modification. The interest rate will be returned to the original Note rate in years four (4) and five (5) in equal interest rate increases (rounded to the nearest 0.125%), at which time the rate will be fixed for the remaining term of the modified loan.

Loan Modification Example for Current 30-year and 40-year Loans

Goal: Modify loan to achieve a $200 net monthly surplus

Current UnPaid Balance (UPB)	$224,251	
Current UPB plus past due amounts	$229,702	
Current Note Rate	5.500%	
Current NET Monthly Income		$3,096
Current P&I	$1,285	
Current taxes, HI, MI, HOA	$ 386	
Current Other Monthly Expenses	$1,680	
Total Monthly Debt		$3,351
Total Monthly Surplus / (Deficit)		($ 255)
New PITI to reach $200+ surplus	$1,216	
Minus taxes, HI, MI, HOA	$ 386	
New Maximum P&I to reach $200+ surplus	$ 830	

New Modification Terms

Year	Amortizing Payment – 40 Year Amt.	Rate
1	$822.30	3.00%
2	$822.30	3.00%
3	$822.30	3.00%
4	$996.03	4.25%
5	$1184.74	5.50%

***interest only* Plus[SM] (IOP) Loans**

- Capitalize all delinquent accrued interest and escrow advances and add such amounts to the unpaid principal balance. Late fees and penalties may be waived by CalHFA or paid by borrower at time of loan modification.
- Implement a three (3) year interest-only period at a reduced rate with a floor of 3.00% that will be applied to the new principal balance. The reduced interest rate will be determined in order to achieve a monthly surplus in the range of $190 to $250 for the household. In some cases the original loan's interest-only period may be longer than three years, but that period will be eliminated and replaced by the new three (3) year interest-only term.
- After the three (3) year interest only period, the rate will be stepped up over a three (3) year period to the original Note rate. Loan payments during this step-up period will be amortized over a new 35-year period. To reduce the impact of the change in payment from the interest-only to the amortized period, the payment in year four (4) will stay at the reduced interest rate but will be amortizing.
- After year four (4), the interest rate differential between the reduced rate and the original rate will be divided equally (rounded to the nearest 0.125%) and applied to the year five (5) and year six (6) payments, after which time the rate will be fixed for the remaining life of the loan.
- In the event an IOP loan has converted to the amortizing portion of the loan, the borrower will be placed in the fixed rate modification program.

Loan Modification Example for Current *interest only* PLUS Loan

Goal: Modify loan to achieve a $200 net monthly surplus

Current UPB:	$205,850	
Current UPB plus past due amounts	$213,085	
Current Note Rate:	6.00%	
Current NET Monthly Income		$2,300
Current Interest Only Payment	$1,029	
Current taxes, HI, MI, HOA	$ 410	
Current Other Monthly Expenses	$1,120	
Total Monthly Debt		$2,559
Total Monthly Surplus / (Deficit)		($ 259)
New PITI to reach $200+ surplus	$ 980	
Minus taxes HI, MI, HOA	$ 410	
New max interest rate only pmt to reach $200+	$ 570	

New Interest Only Modified Terms

Year	Interest Only Payment	Rate
1	$554.91	3.125%
2	$554.91	3.125%
3	$554.91	3.125%
	Amortized Payment – 35 Year Amt.	**Rate**
4	$835.00	3.125%
5	$1,008.44 (rounded to the nearest 0.125%)	4.500%
6	$1,214.99	6.000%

Review the CMP Request

Servicer is required to submit a completed loan modification package by mail (not email or fax) with all documentation outlined on the “Loan Modification Review Checklist” (Attachment A). Servicer is required to evaluate and pre-qualify all borrowers pursuant to the guidelines for the CMP prior to the submission of the completed package. Due to the changes in interest rates, the Servicer is encouraged to advise borrowers to seek tax advice to determine the potential impact. Servicers should send the completed packages to:

California Housing Finance Agency
Attn: Portfolio Management

Upon receipt of a completed package, CalHFA will review for compliance with CalHFA Loan Modification Guidelines. CalHFA reserves the right to request additional documentation as deemed appropriate.

Mortgage Insurer Approval and MIP Changes

The CalHFA Loss Mitigation Unit will obtain approval of modification requests from the mortgage insurer. The mortgage insurance premium (MIP) will change and be based on the new modified principal balance. A revised mortgage insurance certification will be issued to reflect the new amount and premium.

Executing the CMP Agreement

The borrower will be required to return the signed CMP Agreement to the Servicer along with the first payment at the proposed new payment amount in the form of a cashier's check within 14 calendar days after the CMP Agreement is sent by the Servicer. The Servicer will review the modification file to ensure compliance with the CMP and forward the CMP Agreement to CalHFA.

Once CalHFA approves and executes CMP Agreement, CalHFA will notify the Servicer to process the payment and record the returned CMP Agreement, if applicable. (See "Recording the CMP Agreement" below). The form of the CMP Agreement may not be modified unless a Servicer obtains CalHFA’s prior written consent.

After the CMP Agreement is executed (and recorded, if applicable), the Servicer will send to CalHFA a conformed copy of CMP Agreement and a signed statement that the loan is now current as of the commencement date of the modification.

Recording the CMP Agreement and Other Liens

For all mortgage loans that are modified pursuant to the CMP, the Servicer must take the necessary steps to ensure that the modified mortgage loan retains its first lien position and is fully enforceable, including a review of a current title report. Where a junior lien is held by a private (non-government) entity, the CMP Agreement must be recorded, a subordination agreement obtained and a title endorsement issued to the original lender loan policy. These requirements do not apply where junior liens are held by a state or local government agency. Where a junior lien is held by a government agency, the Servicer must send written notification to the government agency informing them of the CalHFA loan modification.

Escrow Accounts

In addition, Servicers must verify that all real estate taxes and assessments are current, especially those for manufactured homes taxed as personal property, personal property taxes, condominium/HOA fees, utility assessments (such as water bills), ground rent and other assessments.

Servicers are encouraged to perform an escrow analysis prior to the commencement date of the modified loan. In the event the analysis identifies a shortage, the Servicer must take steps to eliminate the shortage including collecting funds from the borrower, advancing funds and capitalizing third party advances. Any actions taken by the Servicer to eliminate the escrow shortage must be in compliance with applicable laws.

Incentive Fees

CalHFA will pay an incentive fee of $500 to the Servicer after the borrower and CalHFA execute the CMP Agreement and the initial modified payment has been received.

Servicers are reminded to send the completed packages to:

California Housing Finance Agency
Attention: Portfolio Management

Thank you for your continued support of CalHFA loan programs. With your assistance, many low and moderate income families who are facing foreclosure may retain their homes.

For questions about this bulletin, contact the CalHFA Loss Mitigation Department:

Phone 916.324.8088
Fax 916.324.9000
Email mpozdyn@calhfa.ca.gov

You can always visit CalHFA's web site at: www.calhfa.ca.gov.

Loan Modification Review Checklist
Attachment A

Check Box	Required Documents
	Hardship affidavit and Letter explaining the reason for the delinquency with supporting documentation to verify hardship. Documentation supporting hardship **must not** be more than 90 days old as of the date of program eligibility.
	Borrower(s) to provide a list of all personal expenditures (i.e. credit cards loans groceries, utilities, child care, insurance, gasoline, etc.).
	Credit report (for all borrowers)
	Last two (2) years signed federal tax returns including all schedules and k-1s, if applicable. If a borrower is self-employed, provide two (2) years signed business tax returns and YTD Profit and Loss Statement and Balance Sheet.
	Signed IRS Form 4506-T (Request for Transcript of Tax Return)
	Twelve (12) month collection notes/comments (from loan Servicer)
	Twelve (12) month payment history (from loan Servicer)
	Verification of income [last (2) months computer-generated pay stubs with YTD income]
	Verification of all supplemental income, if applicable
	Verbal verification of employment [to be completed no more than five (5) days prior to date of the modification agreement and first payment sent to CalHFA]
	Verification of deposit [last two (2) months bank statements]
	BPO/Appraisal – date of inspection must be within three (3) months of modification review (from loan Servicer-approved provider)
	Current preliminary title report
	Verification of owner occupancy
	Current homeowners insurance declaration page
	Verification of completed counseling from a HUD-approved counseling agency

Loan modifications will be reviewed for final approval upon receipt of a completed package, which contains all the required documents. Delivery of incomplete and/or fraudulent information may result in program ineligibility.