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FHFA Authorizes Principal Reduction for GSE Loans

An estimated 33,000 delinquent Fannie Mae and Freddie Mac (GSE) borrowers may be eligible for a new **one-time principal reduction**An estimated 33,000 delinquent Fannie Mae and Freddie Mac (GSE) borrowers may be eligible for a new one-time principal reduction program that could help them avoid foreclosure of their homes. The Federal Housing Finance Agency announced on Thursday it was offering the opportunity ending years of refusals to permit such modifications of GSE loans.

To be eligible for the new Principal Reduction Program borrowers must be both seriously delinquent and underwater on GSE mortgages, defined as 90 days or more past due as of March 1, 2016 and with mark-to-market loan-to-value ratios (MTMLTV) after of capitalization of arrearages of 115 percent or more. Loans must have an unpaid principal balance of $250,000 or less and the property must be owner occupied.

Under the new program modification terms include capitalization of existing arrearages, an interest rate reduction down to the current market rate, **extension** of the loan term to 40 years and forbearance of principal and/or arrearages up to a certain amount. The forborne amount can be forgiven after three timely mortgage payments and acceptance of the final modification.

Servicers will be **required to notify borrowers** meeting eligibility criteria of the program's terms for a loan modification no later than October 15. As servicers will require some time to implement the program, borrowers have the option to pursue a Streamlined Modification that will halt foreclosure proceedings but will not guarantee principal forgiveness. If the borrower is deemed eligible after the program is in effect that Steamlined Modification can be converted into the new program. Borrower who are not found eligible can continue to benefit from the Streamlined Modification without principal reduction.

FHFA points to the March 1 cut-off for eligibility and stressed that borrowers should not default on their mortgage or on an existing modification in an attempt to become eligible for a Principal Reduction Modification.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/22

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

FHFA also announced today that it has approved further enhancements to its requirements for Freddie Mac and Fannie Mae's **sales of non-performing loans** (NPLs). These changes will establish that buyers of the loans must evaluate borrowers whose MTMLTV ratio exceeds 115 percent for modifications that include principal reduction and/or arrearage forgiveness. The new rules also forbid buyers from unilaterally releasing liens and "walking away" from vacant properties; and, 3) establish more specific proprietary loan modification standards for NPL buyers.

FHFA Director Melvin L. Watts, who had indicated last month that the agency was reevaluating the principal reduction issue, said in a press release, "The national housing market has significantly improved in recent years but there are still areas of the country where home values have not recovered and negative equity remains a real problem. The Principal Reduction Modification program we are announcing today, along with the changes we are making to our NPL sales guidelines, will allow an opportunity for delinquent, underwater borrowers in these areas to **avoid foreclosure** and save their homes."

Director Watt continued, "This plan will no doubt be viewed by some as **too small and too late** and viewed by others as too large and unnecessary. However, the plan is consistent with FHFA's statutory obligation to 'maximize assistance for homeowners' by providing some borrowers what could well be their final opportunity to avoid foreclosure. It is also consistent with our statutory obligation to provide this assistance in ways that we reasonably expect will not have adverse economic consequences for the Enterprises. By meeting both of these statutory obligations, the program satisfies my commitment to implement a principal reduction plan only if we could structure one that would be a 'win-win' for both borrowers and the Enterprises."

In a statement regarding the FHFA announcement Mike Calhoun, President of the Center for Responsible Lending said in part, "Despite improvements in the overall housing market, there are still many homeowners who continue to face hardship in making their mortgage loan payments, and are deeply underwater on their home loans. These conditions are concentrated among homeowners with modest homes and located in low and moderate income neighborhoods. Families and communities of color are particularly facing these hardships.

"The new program recognizes the value of principal reduction as an important tool that helps to keep families in their homes and reduces the cost of foreclosures. Up until now, this effective loan modification tool was not available to homeowners whose mortgages are owned by Fannie Mae and Freddie Mac. However, private lenders have long used principal reduction as one of the best tools to help homeowners remain in their homes and become current on their mortgages. FHFA has made a positive and progressive step forward for the housing market."

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form — whether the documents are readable and understandable — and content — whether they are fair to homebuyers.

-the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
-the right to terminate the contract
-the disclosure that compensation is negotiable
-the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
-that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
-that the commission is due only if there is a successful closing
-that buyers have an obligation — for no longer than 60 days, CFA recommends — to pay a broker who earlier showed them a home they purchased after the contract ended
-seller concessions paid directly to buyers
-dual agency not pre-approved by the contract
-an explanation of how a broker treats different buyer clients interested in the same property
-that buyers should not be required to first go through mediation or arbitration if they have a complaint

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