

## **HOPE NOW ALLIANCE PRIVATE SECTOR PLAN TO HELP SUBPRIME BORROWERS**

On December 6, 2007, President Bush and Treasury Secretary Paulson announced a private sector HOPE NOW Alliance plan to help borrowers facing interest rate resets for subprime adjustable rate mortgages (ARMs). The plan helps subprime borrowers who can least afford the current, starter rate on their subprime loans, but will not be able to make the higher payments once the interest rate goes up. Of the 1.8 million ARMs expected to reset in 2008 and 2009, HOPE NOW estimates that 1.2 million are eligible to benefit from the plan.

HOPE NOW members have voluntarily agreed on a new set of industry-wide standards to provide systematic relief to three segments of borrowers: (1) those current on their loans and likely to qualify for refinancing opportunities, (2) those current on their loans but unlikely to qualify for refinancing, and (3) those not current on their loans and unlikely to qualify for refinancing.

The framework announced by HOPE NOW and the American Securitization Forum (ASF) applies to all first lien subprime residential ARMs with a fixed rate period of 36 months or less such as 2/28s and 3/27s. These subprime ARM loans must:

- have been originated between January 1, 2005 and July 31, 2007;
- be included in securitized pools; and
- have an initial interest rate reset between January 1, 2008 and July 31, 2010.

Borrowers with these subprime ARMs *should first contact their servicer to discuss refinancing options.*

Contact information for servicers can often be found on the monthly mortgage statement. Borrowers can also contact mortgage counselors in various languages by calling 1.888.995.HOPE (4673) 24 hours a day.

Communication between the borrower and servicer should begin no less than 120 days before the initial reset date.

Here are details about the three categories under the HOPE NOW plan:

### **Segment One--Refinance**

Segment One includes borrowers with current loans who are likely to qualify for any available refinancing mortgage products, including Federal Housing Administration (FHA) mortgage insurance, the FHASecure program, or other readily available mortgage industry products.

- Generally, the servicer will determine whether loans may be eligible for refinancing based on ascertainable data not requiring direct communication with the borrower, such as the loan-to-value ratio (LTV), loan amount, FICO credit score, and payment history. Servicers will generally not determine current income or debt-to-income ratio (DTI) to determine initial eligibility for refinancing.
- If the borrower also has a second mortgage lien on the property, this framework contemplates that the borrower is able to refinance only the first lien, on a “no cash out” basis. The second lien does not have to be refinanced. Any second lien holder will need to agree to subordinate its interest to the refinanced first lien.
- The plan assumes borrowers in this category will refinance their loans if they are unable or unwilling to afford their reset payment. Servicers may evaluate each borrower on a case-by-case basis and are expected to refinance in a manner that avoids any prepayment penalties if possible. Servicers are expected to take reasonable steps to encourage borrowers to refinance by providing borrowers with

information about FHA, FHA Secure, and other readily available mortgage products even if not offered by an affiliated lender.

**FHA Secure** is a refinancing option for homeowners who are in default because of an ARM reset. By refinancing into a FHA insured mortgage, borrowers can expect to pay lower monthly mortgage payments.. Eligible homeowners must:

- 1) Have a non-FHA insured ARM that has reset.
- 2) Have sufficient income to make mortgage payment.
- 3) Have approximately 3 percent cash investment or equity in the home.
- 4) Have a history of on-time mortgage payments before the loan reset.
- 5) Apply for the FHA Secure loan no later than December 31, 2008.

### **Segment Two—Loan Modification**

Segment Two includes borrowers with current loans who are unlikely to qualify for refinancing for various reasons. Reasons may include poor credit scores, low or no equity in their homes, a history of delinquent payments, and an LTV of more than 97 percent. Borrowers are considered current if the loan is not more than 30 days delinquent and if it has not been more than 60 days delinquent in the last 12 months.

Servicers may offer borrowers eligible under Segment Two a loan modification that freezes the interest rate at the introductory level, generally for 5 years. Even if a borrower is eligible for a fast track Segment Two modification, the servicer may use an alternate analysis and vary the terms of the loan modification.

Borrowers are eligible for Segment Two fast track loan modification if:

- The borrower occupies the property as their primary residence.
- The borrower meets the FICO test (see next paragraph).
- The servicer determines that, at the upcoming reset, the payment amount would increase by more than 10 percent.

The borrower meets the FICO test if the current FICO score is less than 660 and is less than a score 10 percent higher than the FICO score at origination. The borrower does not meet the FICO test if the current FICO score is 660 or higher or the current FICO is at least 10 percent higher than the FICO at origination. If the borrower does not meet the FICO test, servicers will use an alternative analysis to determine if the borrower is eligible for a loan modification. The servicer will determine the owner occupancy status, current FICO score, and the FICO score at origination of the loan for this category. The terms of the modification may vary.

### **Segment Three—Loss Mitigation**

Segment Three includes other borrowers with loans that are not current, as defined in Segment Two, which demonstrates difficulty in meeting even the payment based on the introductory interest rate. Borrowers should work with their servicer, which will determine the appropriate loss mitigation strategy. Servicers may determine that the appropriate mitigation approach is loan modification (including rate reduction or principal forgiveness), forbearance, short sale, short payoff, or foreclosure.

## **Links and Information**

**Homeownership Preservation Foundation:** <http://www.995hope.org> and 1.888.995.HOPE

**Hope Now Alliance:** <http://www.hopenow.com>

**White House Fact Sheet:** <http://www.whitehouse.gov/news/releases/2007/12/20071206-7.html>

**American Securitization Forum—Streamlined Framework for Securitized ARM Loans:**  
<http://americansecuritization.com/uploadedFiles/FinalASFStatementonStreamlinedServicingProcedures.pdf>

**NAR Foreclosure Brochure:**  
[http://www.realtor.org/subprime\\_lending.nsf/docfiles/NAR%20Foreclosure%20Brochure.pdf/\\$FILE/NAR%20Foreclosure%20Brochure.pdf](http://www.realtor.org/subprime_lending.nsf/docfiles/NAR%20Foreclosure%20Brochure.pdf/$FILE/NAR%20Foreclosure%20Brochure.pdf)

**NAR Press Release: NAR Supports Administration Efforts On Rate Freeze As Important Step In Protecting Homeowners:**  
[http://www.realtor.org/press\\_room/news\\_releases/2007/supports\\_administration\\_efforts\\_rate\\_freeze.html](http://www.realtor.org/press_room/news_releases/2007/supports_administration_efforts_rate_freeze.html)