

Unemployment Special Forbearance: Temporary Program Changes

****Fact Sheet****

On Thursday, July 7, 2011, the Obama Administration announced adjustments to Federal Housing Administration (FHA) requirements that will require servicers to extend the forbearance period for unemployed homeowners to 12 months. The Administration also intends to require servicers participating in the Making Home Affordable Program (MHA) to extend the minimum forbearance period to 12 months wherever possible under regulator and investor guidelines.

The current unemployment forbearance programs have mandatory periods that are inadequate for the majority of unemployed borrowers. Today, 60 percent of the unemployed have been out of work for more than three months, the minimum forbearance period in MHA's current program. Furthermore, 45 percent have been out of work for more than six months. Providing the option for a year of forbearance will give struggling homeowners a substantially greater chance of finding employment before they lose their home.

These reforms build on successful Administration initiatives to support unemployed borrowers through the \$7.6 billion Hardest Hit Fund and the \$1 billion Emergency Homeowners' Loan Program (EHLPP). The Hardest Hit Fund, first announced in February 2010, provides support to 18 states and the District of Columbia, which represent the areas hardest hit in the economic downturn, to design and implement programs to help struggling homeowners avoid foreclosure. The EHLPP program complements the Hardest Hit Fund, by serving the remaining 32 states and Puerto Rico.

FHA Type 1 Special Forbearance Temporary Program Changes

- FHA's forbearance extension will become effective on August 1st, 2011, and expire two years from the effective date. Servicers will have 60 days beyond August 1 to implement the extension. On the expiration date, all guidelines pertaining to special forbearances will return to the original program requirements.
- The FHA is temporarily changing its Type 1 Special Forbearance program requirements in the following ways:
 - i. Removing upfront barriers to the participation.
 - ii. Extending the minimum forbearance period from four months to twelve months.
- In addition, the FHA will reemphasize the requirement that servicers conduct a review at the end of the forbearance period to evaluate the borrower for all applicable foreclosure assistance programs, starting with extended forbearance, and notify the borrower in writing whether or not he/she qualifies for any available option.
 - i. If the borrower does not qualify for any foreclosure assistance option, the servicer must provide the borrower with the reason for denial and allow the borrower at least seven calendar days to submit additional information that may impact the servicer's evaluation.
 - 1. Reasons for denial could include, but are not limited to:
 - a. The delinquency exceeds 12 months worth of Principal, Interest, Taxes and Insurance (PITI) installments;
 - b. The borrower is unable to make a partial payment; and/or
 - c. The borrower has qualified for a standard foreclosure assistance option.
- The forbearance plan will continue to its end point unless one of the following conditions occurs:
 - i. The borrower abandons the property.
 - ii. The borrower advises the servicer he/she is no longer going to seek employment and/or will not honor the terms of the forbearance agreement.
 - iii. The borrower allows forbearance payments to become 60 days past due and unpaid.
 - iv. The borrower finds a job and the loan is reinstated.

Home Affordable Unemployment Program (UP) Forbearance Program Changes

- Changes to the Home Affordable Unemployment Program (UP) will require servicers participating in the Administration's Making Home Affordable Program (MHA) to extend the minimum forbearance period from 3 months to 12 months, whenever possible subject to investor and regulator guidance. This policy change will impact participating servicers of mortgage loans not owned or guaranteed by the Government-Sponsored Enterprises (GSEs).
- Additionally, forbearance under UP will become available to borrowers who are seriously delinquent (more than three months delinquent).
- Program changes will be announced in an upcoming Supplemental Directive to be released by Treasury.