

AT A CROSSROADS

LESSONS FROM THE HOME AFFORDABLE MODIFICATION PROGRAM (HAMP)

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Five Principles for National Loan Modification Mortgage Standards

- 1. Efficiency: Loan modification evaluations should be standardized, universally applicable to all loans and servicers, and mandatory for all loans before the foreclosure process can go forward.** Loan modifications must be mandated for qualified homeowners facing hardship where the modification also produces more income for the investor than foreclosure. Outreach to homeowners and loan modification evaluation should be completed before any steps are taken toward foreclosure. Where homeowners seek assistance only after initiation of a judicial or non-judicial foreclosure, the foreclosure should be paused until a full loan modification evaluation has been completed. This generally can be achieved without the servicer needing to start the foreclosure process over, thus preserving efficiency and minimizing the waste of resources.
- 2. Affordability: Loan modification terms must be affordable, fair, and sustainable.** Long-term affordability is the key to success for any loan modification. Loans that are not affordable end in re-default, a costly result for both homeowners and investors. HAMP has proved its worth by dramatically reducing re-default rates.⁴⁷ National standards should follow HAMP's template by requiring affordable monthly payments and prioritizing interest rate reduction and principal forgiveness for long-term sustainability.
- 3. Accessibility: Hardship must be defined to reflect the range of challenges homeowners face.** HAMP has put up barriers to access for many homeowners, including those with second mortgage debt, extended unemployment, limited residual income, subsequent hardships after modification, and those who succeed to the mortgage after death or divorce. The morass at servicers restricts access to HAMP for all homeowners, but particularly those with limited English proficiency. Reaching homeowners in need requires expansive eligibility rules and additional assistance for certain populations.⁴⁸
- 4. Accountability: Transparency and accountability throughout the loan modification process are essential.** National loan modification standards must require transparency of all aspects of the modification process, from application through review and approval or denial. Servicers must be held to account for what they do and when they do it. The public must be given sufficient information in order to evaluate independently servicers' compliance.
- 5. Enforceability: Homeowners must be protected from servicers' noncompliance. Good rules on paper are not enough.** National loan modification standards will only be effective if they are followed. In addition to rigorous enforcement by regulators and inclusion of a review of servicing practices in regular supervisory exams, homeowners must have the ability to appeal modification decisions and obtain independent review of their loan modification applications. To prevent unnecessary foreclosure, homeowners must be able to raise the failure to comply with any loan modification requirements as a defense to judicial or non-judicial foreclosure.