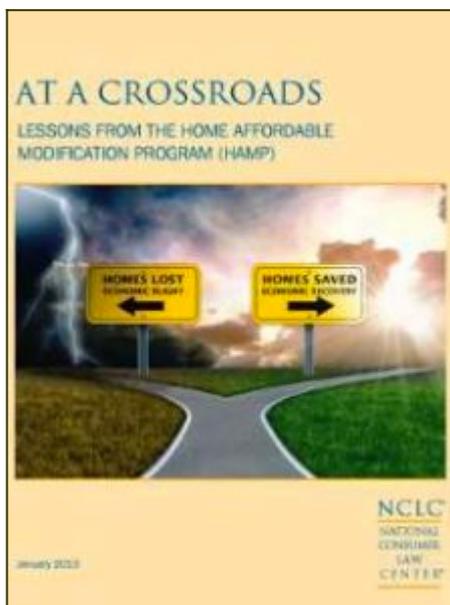


At A Crossroads

LESSONS FROM THE HOME AFFORDABLE MODIFICATION PROGRAM (HAMP)

In 2013, our nation stands at a crossroads. We are still in the midst of the worst foreclosure crisis we have ever experienced. The successes, failures, and missed opportunities of HAMP provide a roadmap for a way out of the current crisis as well as a way to prevent its repetition. With up to 10 million homes at high risk for foreclosure in the next several years, we need uniform, strong, enforceable national mortgage standards now. The delay has cost trillions of dollars. But we can still seize the moment to transform the system of mortgage servicing from the chaos that currently reigns. We can protect homeowners, communities, and investors. But the government must act now.



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[Report \(PDF\)](#)

[Executive Summary \(PDF\)](#)

[Charts \(PDF\)](#)

[Five Principles for National Loan Modification Standards \(PDF\)](#)

[Mortgage Servicing Reform Recommendations \(PDF\)](#)

[Press Release \(PDF\)](#)

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This report builds on NCLC's advocacy, training, and public policy work to promote sustainable

homeownership for all and to strengthen the mortgage market and our economy. Learn more about NCLC's work in this area.

Overview

Over the last four years, the foreclosure rate has been more than three times what it was in 1933, at the height of the Great Depression. As of May 2012, nearly 4 million foreclosures had been completed since the beginning of the crisis in 2007. Another 10 million homes are estimated to be at high risk.

Key failure:

- ▶ HAMP's failure to reach its intended scale of 3 to 4 million households has one root cause: massive servicer noncompliance.

Key successes:

- ▶ Both homeowners and investors can win with an effective loan modification. HAMP modifications must pass a rigorous economic analysis, the net present value test, to ensure that investors will benefit from the modification, after accounting for the risk of the modification's failure.
- ▶ Reduced risk of failure: 80% of HAMP-compliant modifications are still performing a year after they have been made.
- ▶ Nearly 850,000 homeowners are in sustainable, performing permanent HAMP modifications, many of whom would never have gotten a permanent modification but for HAMP.

Key potential:

National loan modification standards should incorporate the successes of HAMP (scheduled to end on Dec. 31, 2013), which has provided for increased access to sustainable modifications for many homeowners. But national loan modification standards must not fall into the same trap that HAMP did. Without strong mandates and enforceable consequences for noncompliance, servicers will continue to implement modifications haphazardly or not at all, leaving the economy in a tailspin.

Key recommendations

Drawing on the lessons of HAMP, the report identifies five core principles for effective national loan modification standards, a crucial component of national mortgage servicing standards.

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.

2. Affordability: Loan modification terms must be affordable, fair, and sustainable. HAMP has proved its worth by dramatically reducing re-default rates. 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, or 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.

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.

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.