4-14-2016

FHFA Announces Principal Reduction Modification Program and Further Enhancements to NPL Sales Requirements

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News Release

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FOR IMMEDIATE RELEASE

4/14/2016

Washington, D.C. – The Federal Housing Finance Agency (FHFA) today announced that Fannie Mae and Freddie Mac will offer principal reduction to certain seriously delinquent, underwater borrowers who are still struggling in the aftermath of the financial crisis to help them avoid foreclosure and stay in their homes. The new Principal Reduction Modification program is a one-time offering for borrowers whose loans are owned or guaranteed by Fannie Mae or Freddie Mac and who meet specific eligibility criteria. The modification will be available to owner-occupant borrowers who are 90 days or more delinquent as of March 1, 2016, whose mortgages have an outstanding unpaid principal balance of $250,000 or less, and whose mark-to-market loan-to-value (MTMLTV) ratios exceed 115 percent. Other eligibility criteria apply (see attached Fact Sheet for eligibility criteria and key dates).

The program was approved under FHFA's statutory authority in the Emergency Economic Stabilization Act of 2008 "to implement a plan that seeks to maximize assistance for homeowners and … minimize foreclosures," including through a "reduction in loan principal," while minimizing losses for the Enterprises (12 USC 5220(b)) as well as other provisions of law.

FHFA expects that approximately 33,000 borrowers will be eligible for a Principal Reduction Modification. Servicers must solicit borrowers eligible for a Principal Reduction Modification no later than October 15, 2016.

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). The new enhancements: 1) establish that NPL buyers must evaluate borrowers whose MTMLTV ratio exceeds 115 percent for modifications that include principal reduction and/or arrearage forgiveness; 2) forbid NPL buyers from unilaterally releasing liens and "walking away" from vacant properties; and, 3) establish more specific proprietary loan modification standards for NPL buyers.

The new enhancements draw on the experiences of Freddie Mac and Fannie Mae with NPL sales over the past year and are consistent with current practices of most NPL investors. They are designed to minimize foreclosures, help mitigate the potential for neighborhood blight and decay, and help improve loan modification success rates.

"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," said FHFA Director Melvin L. Watt. "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," he said.

In announcing the Principal Reduction Modification program, Director Watt also said: "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."

Attachments:

Fact Sheet: Principal Reduction Modification

Frequently Asked Questions: Principal Reduction Modification

FHFA's Analysis of a Principal Reduction Modification Program and Enhanced Non-Performing Loan Sales Requirements

Fact Sheet: Enhanced Non-Performing Loan Sale Guidelines - *updated in 2018*

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The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 11 Federal Home Loan Banks. These government-sponsored enterprises provide more than $5.7 trillion in funding for the U.S. mortgage markets and financial institutions. Additional information is available at www.FHFA.gov, on Twitter @FHFA, YouTube and LinkedIn.

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