BACKGROUND: HUD to Unveil Enhanced FHA Note Sales Program
June 8, 2012

HUD to Enhance Note Sales Program

Beginning in September, HUD plans to launch enhancements to its FHA single family note sales program to include pools of expanded size and usage criteria with the goal of yielding better outcomes for troubled borrowers, neighborhoods and taxpayers alike. Renamed the *Distressed Asset Stabilization Program*, the project sells pools of mortgages headed for foreclosure and seeks to avoid a lengthy, costly foreclosure process.

Program Background

There are thousands of FHA borrowers who are delinquent on their loans and have exhausted the loss mitigation interventions available through the FHA. Absent some additional steps, they will be sent into foreclosure – at a significant cost to the family, the FHA and the taxpayer. By strategically selling notes to new servicers rather than carrying out a foreclosure, FHA can actually reduce costs while helping to stabilize communities.

Since the pilot began in 2010, FHA has sold more than 2,100 loans through its single family note program. In order to submit a note for sale, participating servicers must certify that they have exhausted all FHA loss mitigation options and have initiated foreclosure -- meaning that if the loan were to stay an FHA-insured mortgage under the current servicer, it would be very likely to go to foreclosure. The *Distressed Asset Stabilization Program* offers a better shot for the struggling homeowner and lower losses to the FHA and taxpayer. The note is sold competitively by FHA at a market determined price which, in today's market, is generally below the outstanding principal balance. Once the note is purchased by another servicer, the foreclosure is delayed for a minimum of six additional months and the borrower can get direct help from their servicer to help to find an affordable solution to avoid foreclosure. Finding ways to bring these loans out of default not only helps the borrower, but helps the entire neighborhood avoid the disinvestment and decline in value that accompanies a distressed property.

The pilot has been used primarily by smaller Ginnie Mae servicers without adequate liquidity to buy delinquent loans out of Ginnie Mae securities and hold them until a foreclosure claim is paid. Recently, the program has begun to gain traction among larger servicers. However, they would need to sell a significant number of notes in order to justify the initial investment.

Focusing on Delinquent Loans versus REO Properties

Currently, FHA's inventory of real-estate owned (REO) properties available for sale is at its lowest level since FY 2009. At the same time, its inventory of seriously delinquent loans is near an all time high. With foreclosure processing delays and many neighborhoods still fighting to recover from the housing crisis, going "upstream" will allow us to help more borrowers before they go through foreclosure and their homes come into the REO portfolio. By addressing the growing back log of distressed mortgages rather than focusing efforts on solutions that only apply to vacant properties, FHA can help borrowers and communities mitigate the negative effects of the foreclosure process.

Enhanced Note Sales Program (Distressed Asset Stabilization Program)

The program enhancements include:

Larger loan sales: Under the Distressed Asset Stabilization Program, FHA will significantly ramp up the number of loans available for purchase in its regularly scheduled note sales from approximately 1,800 each year to a quarterly rate of up to 5,000.

1. **Two Pool Types:** The Distressed Asset Stabilization Program will include two types of pools.
    - I. *Standard, National Pools*: The new program increases our standard, unrestricted note sales at the national level in line with our current note sales process.
    - II. *Neighborhood Stabilization Pools*: FHA will assemble pools in communities hardest hit by the foreclosure crisis and include sale provisions to support neighborhood stabilization. We will also work with state and local governments to identify how best to leverage philanthropic and government funds to also accomplish this purpose.