

## AGENCY PRIORITY GOAL: PREVENT FORECLOSURES

**By September 30, 2013, assist 700,000 homeowners who are at risk of losing their homes due to foreclosures.**

### *OVERVIEW*

The recession that began in December 2007 and ended in June 2009<sup>1</sup> was characterized by a shortage of credit, increased unemployment, diminished property values, and millions of home foreclosures. For the vast majority of Americans, their home is the single most expensive and valuable asset they own. As a result, losing a home through foreclosure is often a traumatic life experience that leads to significant deterioration in a person or family's living conditions, economic viability, neighborhood stability, and opportunities for improving quality of life. Foreclosure prevention and the recovery of the housing market are critical components of the Administration's broader plan for economic recovery. After serving over 900,000 homeowners in FY 2010 and 2011, the FY 2012 and 2013 goal committed HUD to serving an additional 700,000 homeowners by September 2013.

HUD works with servicers and borrowers to encourage early intervention and to facilitate loss mitigation actions that prevent foreclosures and keep more Americans in their homes. Many loss mitigation programs aim to lower monthly mortgage payments. However, homeowners must still earn enough monthly income to afford the modified payments. Individuals who have lost their jobs or who have faced significant reductions in their income may still not be able to afford even modified monthly payments.

All loss mitigation programs rely on cooperation with and implementation through third party mortgage servicers and lenders. As such, the rate and volume of assistance provided to eligible homeowners is subject to the infrastructure and customer service administered by these third parties. The Department and the Administration as a whole have acted to partner with and assist the industry to help as many homeowners as possible.

Despite HUD's efforts, sustained unemployment, underwater mortgage loans, and restrictive mortgage credit prevent refinancing and remain significant barriers to mitigating the crisis. These factors are subject to macroeconomic conditions that cannot be controlled by the Department.

### *STRATEGIES*

The Office of Single Family Housing's targeted efforts to help struggling homeowners via the Loss Mitigation and Early Delinquency Intervention Programs have assisted hundreds of thousands of homeowners who are at risk of losing their homes due to foreclosure. Strategies have included improvements like establishing a network of Relationship Managers as a point of contact for borrowers in need of assistance, or implementing new communications tools, such as texting, to reach delinquent borrowers in the very early stages of delinquency when the delinquency is the easiest to cure.

Loan servicers (i.e. banks or lending institutions) most often offer early delinquency intervention assistance to homeowners who are less than 90 days in default. Providing assistance to homeowners who

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<sup>1</sup> Bureau of Labor Statistics, "BLS Spotlight on Statistics," February 2012, "The Recession of 2007-2009." From [http://www.bls.gov/spotlight/2012/recession/pdf/recession\\_bls\\_spotlight.pdf](http://www.bls.gov/spotlight/2012/recession/pdf/recession_bls_spotlight.pdf).

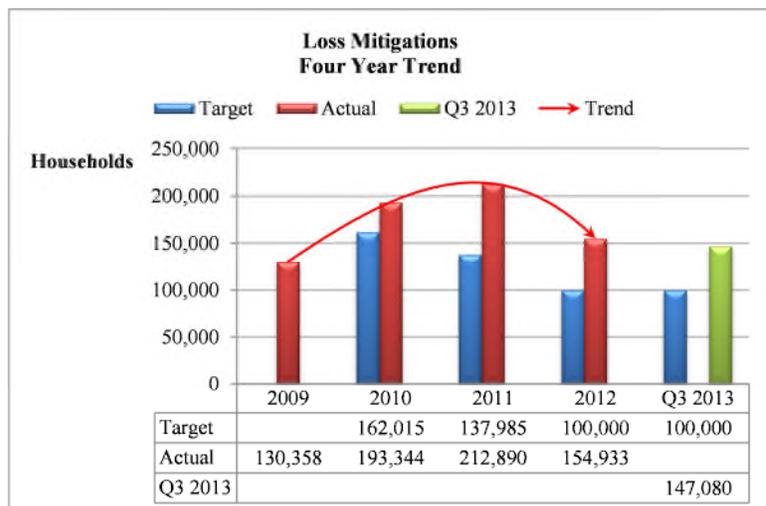
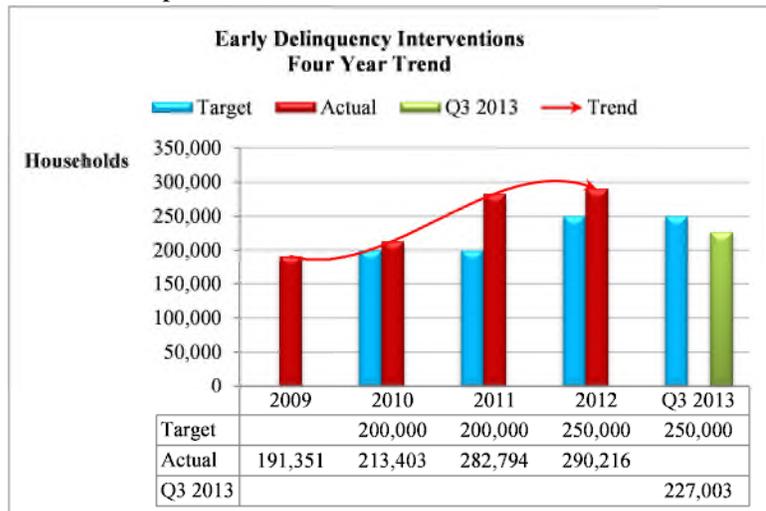
are in the early stages of mortgage payment distress averts the potential for more serious delinquencies, defaults, and foreclosures at a later date. Types of early delinquency interventions include:

- **Repayment.** An agreement in which the borrower agrees to repay delinquent amounts to bring the mortgage current, but is not a special forbearance.
- **Trial Modification.** A repayment plan set up for a borrower who has been conditionally approved for an FHA Home Affordable Modification Plan.

Early delinquency interventions have been effective over the years, but as the housing crisis expanded, HUD implemented both new and improved loss mitigation programs to better assist homeowners most in danger of losing their homes. These loss mitigation products include:

- **FHA Home Affordable Modification Plan.** This program reduces the monthly mortgage payment for eligible homeowners, who have FHA-insured mortgages, bringing the delinquency current and deferring principal in some cases to reach an affordable payment.
- **Special Forbearance.** A repayment plan that allows a borrower who is unemployed to reduce or suspend mortgage payments for a period of time to give payment relief while they seek employment.
- **Mortgage Modifications.** This program permanently changes one or more of the terms of a loan to make the mortgage payment affordable. Mortgage modifications can be combined with a special forbearance action.
- **Partial Claims.** This option allows the lender to advance funds to make a delinquent loan current when a borrower is unable to pay the delinquency through special forbearance or loan modification options. Partial claims can be combined with a special forbearance action.
- **Preforeclosure Sales.** This program allows a borrower in default to sell the home and use the sales proceeds to satisfy the mortgage debt, even if the proceeds are less than the amount owed.
- **Deeds in Lieu.** This option allows a defaulting borrower, who does not qualify for any other HUD loss mitigation option, to sign the house back to the mortgage company without going through the foreclosure process.

In FY 2013 through Q3, HUD exceeded cumulative targets for early delinquency interventions and loss mitigation actions by 21 percent and 96 percent, respectively, for a total of 374,083 homeowners assisted. Our success on this goal is due to our



**HUD FY 2013 Agency Financial Report**  
**Section 1**

continued work with lenders to find ways to help borrowers at risk for foreclosure as well as outreach to borrowers to ensure they are aware of their options when facing foreclosure. Although our performance is strong, HUD continues to closely monitor the high number of defaults longer than 90 days that may go into foreclosure. For detailed quarterly assessments, and to continue to track HUD’s progress on this measure, readers may consult [Performance.gov](http://Performance.gov).

As supporting measures of the Department’s effectiveness in preventing foreclosures, HUD closely follows the Consolidated Claim Workout Ratio and the 6-Month Re-default Rate. The Consolidated Claim Workout Ratio measures the portion of FHA claims paid out as loss mitigation from the total of loss mitigation and foreclosure claims paid out. A high ratio is desirable, because loss mitigation claims are better than foreclosure claims for both the borrower and for FHA. The 6-Month Re-default Rate measures the tendency for homeowners who have received loss mitigation assistance to re-default on their mortgages within the first six months, which is the most vulnerable period for homeowners at risk of foreclosure.

**MEASURING OUR PROGRESS**

The performance indicators in the following table are used to track our progress in preventing foreclosures. Trends for the first two indicators are shown on charts above.

INDICATOR	FY 2012 Target	FY 2012 Actual	FY 2013 Target	Q3 FY 2013 Actual*
Early Delinquency Interventions	250,000	290,216	250,000	227,003
Loan Modifications	100,000	154,933	100,000	147,080
• Consolidated Claim Workout Ratio	50.00%	62.58%	50.0%	63.00%
• 6-Month Re-default Rate	13.00%	13.00%	10.00%	9.00%

\*As of June 30, 2013

The Department’s efforts to mitigate the foreclosure crisis have been led by the Assistant Secretary for Housing – Federal Housing Administration (FHA) Commissioner – and also extend to its close relationships with Treasury. Contributing programs include the FHA Home Affordable Modification Program (HAMP) and the Housing Counseling program. The FY 2012 actuals and the FY 2013 Q3 actuals together exceed the two-year goal of serving 700,000 additional homeowners.

**AGENCY PRIORITY GOAL: REDUCING VACANCY RATES**

**By September 30, 2013, 70 percent of Neighborhood Stabilization Program 2 Neighborhood Investment Clusters will reduce the average residential vacancy rate relative to at least one comparable neighborhood.**

**OVERVIEW**

One result of the downturn of the housing market—with high rates of foreclosure, increases in the number and proportion of vacant properties, and plummeting home values—has been to de-stabilize neighborhoods with high foreclosure rates. As HUD reported to Congress in 2010, “Foreclosures can