

## Keeping CalHFA Borrowers in Their Homes

*"I could not recall how many times she said 'thank you!' but I believe it was around the neighborhood of at least three times."*

*--Michael Miller, agent for CalHFA*

*Michael is talking about Yolanda, owner of a condominium in San Jose. The market value of the residence had plummeted, but she wanted to keep the home and retire there. Yolanda cried when CalHFA told her we'd been able to reduce her monthly loan payment by \$1,000 and that she'd be able to keep her home.*

When the mortgage delinquency and foreclosure rates began to rise rapidly to historically high levels in the California single family housing market, CalHFA responded by developing an innovative, customized loan modification program that focused on the real-life basic needs of CalHFA borrowers to have the cash necessary to pay their monthly bills. The effort has played a key part in keeping hundreds of families in their homes.

### Financial Model

Rather than simply focus on the ratio of housing expenses to income, or total debt ratio to income, CalHFA developed a financial model that took into account all monthly living expenses. The agency then used the financial model to determine if our loan modification option (e.g. capitalization of delinquent payments, term extension, temporary interest rate reduction) could provide a reduction in monthly housing payments sufficient to generate a positive total monthly cash flow of between \$150 and \$250 after accounting for all the borrower's monthly expenses for the first three years of the modified loan payments. The Agency did not have a source of funds to make up for the average 40% to 50% drop in housing values in California. Therefore, the modification program was directed to homeowners who wanted to continue to live in their homes and not borrowers looking primarily to have their balance reduced to the current value of their home.

Once CalHFA settled on the strategy of providing temporary monthly mortgage payment relief for borrowers with financial hardships, the CalHFA Team had to find a source of funds to subsidize these payments.

### Funding the Program

Through a partnership with CalHFA's reinsurer, Genworth Mortgage Insurance, an agreement was reached whereby Genworth and CalHFA Mortgage Insurance would make advance claim payments on loans that were more than 60 days delinquent, based on a borrower family budget that generated a \$150 to \$250 monthly cash flow.

CalHFA's loan servicers and underwriters would then work with each delinquent borrower to on a family budget that would achieve this monthly cash flow goal, if at all possible.

CalHFA Portfolio Management staff trained the Agency's six major servicers—responsible for 90% of CalHFA loans—to introduce the possibility of a loan modification for borrowers with financial hardships and gather financial information on 60-day-plus delinquent borrowers. The servicers evaluated the information using the unique CalHFA financial modification model to determine whether the borrower(s) qualified for a CalHFA modification, and the exact terms of the modification (e.g. amount of arrearages to be capitalized, the term of the modified loan and the effective starting interest rate and payment).

### **The Positive Results**

*Lindsay is a CalHFA employee and single mother. She was hit especially hard by the 15% pay cut that came with state-mandated furloughs, and was not able to maintain her house payment in the face of other bills. CalHFA was able to lower her monthly payment so she could continue paying her mortgage and bills, and keep her first home.*

*Josh is a single dad raising a young daughter. At the time of his modification approval, he was 12 months behind on his payments, and extremely worried about losing his home and not having a place for him and his daughter to live. CalHFA reduced his interest rate, extended the term of the loan and lowered his monthly payment. He accepted the loan modification offer and brought the loan current.*

As a result of this program, from July 2009 through June 2010, CalHFA received and reviewed over 800 loan modification applications and helped more than 225 families stay in their homes, with another 100 approved modifications pending acceptance by the borrowers. Focusing on the end results of the modification—Could the homeowners make their new monthly payment and pay all of their other bills, and still have a few dollars left for emergencies?—instead of a hypothetical housing expense or total debt ratio has made a world of difference in gaining borrower acceptance of the program. CalHFA has helped hundreds of families stay in their homes, and in California's very depressed housing market, that truly has been a special and very satisfying achievement.