

Management Innovation – Operations

MassHousing's Administration of the HAMP Program

Overview

The crisis in the mortgage market over the last two years lends itself easily to hyperbole. That is, it would be hyperbole if it weren't true. Comparisons have been made to the Great Depression, words like “crash”, “bubble” and “burst” are commonplace on TV and radio, in newspapers and magazines. Every economist has a theory and every Sunday morning news program has examined the factors that led to the biggest downturn in the real estate market in our nation's history.

But in the end, there is a homeowner and a mortgage that he or she can't pay. And something that is so big in scope becomes very small. This brings us to the aftermath of the crash – to the clean-up – and to the work of housing finance agencies – and for the purposes of this application – to MassHousing.

MassHousing – like other housing finance agencies – has faced many challenges in the implementation of the HAMP program. HAMP is the “Home Affordable Modification Program”, part of the Obama Administration's “Making Home Affordable Program”. Simply speaking, it is a loan modification program designed to reduce delinquent and at-risk borrowers' monthly mortgage payments. HAMP is effective for mortgages originated on or prior to January 1, 2009, and will expire on December 31, 2012.

For MassHousing's part, the Agency's administration of the HAMP program is unlike anything that MassHousing has ever undertaken, and yet despite the challenges, by April of 2010, MassHousing's conversion from trial plan to permanent modification was 96% overall as compared to the industry's 52% (as reported in the *Making Home Affordable Servicer Performance*). The significance of this difference is obvious – but it is the reason for this discrepancy that speaks to the importance of MassHousing's approach – which was an entirely different approach to processing modifications.

Back to Basics

One reason for the Agency's high level of success in HAMP modifications lay in MassHousing's simple and straight forward approach. Whereas the HAMP program was allowing servicers to enter into trial plans based on verbal disclosures of income and liabilities, MassHousing (from the beginning) required verification of income and liabilities. Under the HAMP program generally, borrowers would enter into a trial as soon as they provided their information – verbally – to a servicer. The application was processed based on the information the borrower provided – with no documentation required on the front-end. If the documentation provided later backed up what the borrower had represented to be true – then they would convert to a modification. Again, from the beginning MassHousing adopted an alternative approach by verifying the borrower's income and liabilities during the underwriting process so that the underwriting is fact based which results in much greater likelihood of successful modification for the borrower.

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Avoiding the Pitfalls

The irony of this issue cannot be overstated. By allowing modification applications to process without requirement specific and documented verification – the sins of the past were being perpetuated. In fact it so-called “no doc” mortgages that are now perceived to be one of the biggest underwriting flaws contributing in large part to the run-up in the real estate market which in turn led to the crushing foreclosure risk facing borrowers who couldn’t afford the mortgages they received.

In many respects, the way that MassHousing has managed its administration of the HAMP program is precisely in line with the way in which it administers its homeownership lending programs each and every day.

MassHousing prides itself on doing underwriting the old-fashioned way. The Agency makes underwriting decisions based on fact because it requires full documentation for every loan it makes. And this is really the only way that an Agency can ensure that the loans it is making are affordable – and sustainable over the long term – in a word – that they are “safe”. In a twist on a commercial of many years ago, “This is your father’s Oldsmobile”. And really this is what housing finance agencies should all be about. Agencies have an obligation not only to create homeownership opportunities for working families but also to make sure that these opportunities are sustainable. No one should ever be put in a loan – or even in a trial modification – if the lender doesn’t know with defined certainty – that the borrower can be a success.

Making a Little Extra Effort Each Step of the Way

In its administration of HAMP, MassHousing took an imperfect system and made it work. In the early days of HAMP – there was little direction on how to proceed – but MassHousing was able to refine and redirect Agency systems and resources to focus on this critical need.

As such, this effort has essentially required the development of a loan production operation within MassHousing's Home Ownership Asset Management Department (HOAM) utilizing both HOAM staff as well as temporary help hired for this effort.

The functions performed by this group include:

- marketing
 - issuance of solicitation letters;
 - telephonic home ownership retention counseling;
 - responding to incoming calls from pro-active borrowers seeking relief;
- application processing
 - evaluating application submissions;

- ensuring that each submission is complete and that all verification materials are included;

MassHousing's work in this regard has required the Agency to train its existing staff and add some additional staff to manage the volume of work required in considering applications for loan modification. At the same time, MassHousing has developed ad-hoc systems to process applications while managing a pipeline of loans, preparing documentation and then reporting to internal committees and MassHousing's Board, Treasury and Fannie Mae. MassHousing staff has worked diligently to adapt its existing servicing system (without the added cost of any additional or special enhancement) to accommodate the forms of relief required of HAMP.

Evaluating the MassHousing Model

MassHousing is proud to say that other than staffing there has not been any expenditure of funds associated with system or staff development. MassHousing has leveraged its existing technology (unenanced servicing application, Microsoft Excel, Access and Word applications) to maintain control. The Agency has relied almost exclusively on the resources within its HOAM Department to achieve the remarkable level of success with HAMP. As well, HOAM staff adopted a new front-end loan production processing approach modified to deal with the unique needs of “at-risk” borrowers and the nuances of underwriting to scenarios of declining incomes.

Again, in addition to the efforts put forth by staff and management involved with this effort to date, MassHousing's success is attributable to its foresight in adopting an alternative approach to processing its cases. This approach has subsequently been mandated for adoption by all HAMP participating servicers. Statistically, servicers that adopt this "verification first" approach enjoy a much greater level of success than those which adopted a "stated income" approach. This was also demonstrated in most all of 2009 by the dramatic contrast between MassHousing's conversion rate in the high 90s and other servicers who were only in single digits.

In the end, then, MassHousing efforts to administer the HAMP program could be likened to “the little engine that could.” The Agency took what it knows best – and applied this common sense approach to an amorphous and constantly changing program – and the Agency did it in a way that beat the “big banks” every day of the week. Consistent attention to detail, a focused determination and goal-oriented effort made this approach a success. For the homeowners who have found ways to stay in their homes because of the work that MassHousing has done – this effort means everything.