Fed Loan Program to Stabilize Homeowners and the Housing Market

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Summary	Federal Reserve loan program to stabilize homeowners and the housing market to help assure both liquidity and long-term economic recovery
Why Needed	Millions of homeowners will be unable to catch up on the payments they owe after forbearance, leading to delinquencies, defaults, loan modifications, and foreclosures Thousands of businesses and agencies that make up the housing system — lenders, loan servicers, housing agencies — will suffer losses, because borrowers cannot pay what they owe during the national emergency
Purpose	Enable low and middle-income homeowners to avoid default on their mortgages despite not having made forborne monthly payments
Coverage	Roughly 8 million homeowners who may not be able to make mortgage payments Covers up to 6 months of forborne monthly payments by homeowners
What Facility Does	Purchases COVID-19 Servicer Lines of Credit for Homeowner Forbearance ("Lines of Credit")
Facility Design	
Fed role	$36 billion investment purchases Tranche 1 of the Facility
Treasury role	$24 billion investment purchase Tranches 2 of the Facility Treasury funds help subsidize the interest rate on draws from the Facility to 0% and cover any shortfall in repayment from forborne payments
What Facility Provides	
for Homeowners	Enables borrowers to avoid ultimate loan default despite forborne payments 0% interest on forborne monthly payments Allows repayment forborne amounts upon pay-off of mortgage (unless borrower chooses to pay earlier)
for the Fed	Earns 2% on its investment (10 year Treasury rate + approx. 100 bp)
for Treasury	Treasury's investment will be subordinate to Federal Reserve's receiving its full 2% return on Tranche 1
	If loans prepay at 150% PSA, Treasury could recover ¾ of its investment ($18 billion) Net taxpayer investment after such recovery: approximately **$6 billion** Receives all residual repayments from Lines of Credit
	Helps avoid losses and claims on FHA, VA, RD, Fannie Mae, and Freddie Mac Avoids any need for (and repays) GNMA temporary loans to servicers
for Servicers	Avoids significant financial consequences of collectively needing liquidity for advances of regular principal & interest to mortgage investors, and advances of borrower taxes, insurance, and mortgage insurance premiums.
for MBS/Bond holders	Ongoing payment stream Reduces impact of significant prepayments from loan defaults and buyouts of loans from MBS

Eligible Loans	Eligible loans are single family first mortgages: - Made to owner-occupants of 1 to 4-unit dwellings - With outstanding loan amount beneath Fannie Mae / Freddie Mac limits for respective area, and - Covered by forbearance by federal or state law or policy or investor or HFA determination in current emergency
	Mortgagor agrees under Forbearance Agreement with Servicer to repay forborne amounts
	Servicer draws on Facility to cover or reimburse the portion or all of the Monthly Payment (for loan principal & interest and for insurance, taxes and mortgage insurance) not made by the borrower ("Advanced Forborne Amounts")
	Advanced Forborne Amounts are still due from the borrower Mortgage insurer continues to insure these unpaid amounts, as they would in any claim
	Mortgagor repays these Advanced Forborne Amounts by - deferring repayment until termination of mortgage, or - can select a repayment option which is approved by state and federal regulators, HFA or mortgage investor
	Mortgagor is not placed in default because of having their payments forborne; Loan is considered current as long as borrower resumes making regular monthly payments but with the Advanced Forborne Amount still to be paid
	Loan insurance remains on the outstanding amount of the loan including the Advanced Forborne Amounts
Servicer	Enters into Funding facility with Commercial Bank Intermediary for the Federal Reserve
Eligible Servicers	Approved GNMA issuer, Approved Fannie Mae or Freddie Mac seller/servicer, State or local housing finance agency or department, Bona fide non-profit lender as defined under rules relating to SAFE Act exemptions, Community development financial institution, Bank, credit union, insurance company or other regulated entity
Line of Credit	Enters into a COVID-19 Servicer Line of Credit for Single-Family Borrower Forbearance ("Line of Credit") with a Commercial Bank Intermediary on behalf of the Federal Reserve Evidences Line of Credit by a pass-through note ("Note") to Commercial Bank Intermediary, secured solely by Servicer receipts of repaid Advanced Forborne Amounts
Draws	Draws monthly on Line of Credit in an amount equal to Advanced Forborne Amounts that Servicer has provided or is providing under Forbearance Agreements
	Service pays Draw Fee (equal to 12.5 basis points of Draw or 2.5 basis points for loans owned or serviced by HFA, Non-profit lender or CDFI)
Use of Draw	Servicer uses Draw funds (together with Owner's payment if any) to make full scheduled Monthly Payments due on the Eligible Loan, in order to pay:

	- scheduled amounts to mortgage investor (or mortgage owner in case of whole loans), - collect servicing fee, - pay mortgage insurance premiums, GNMA, Fannie Mae and Freddie Mac guaranty fees, and -make scheduled deposits to escrow account
	Servicer agrees to follow loan insurer's procedures to assure that the loan being forborne does not negatively affect the insurability of the mortgage
Repayment of Draw	Collects and remits each month to the Commercial Bank Intermediary an amount equal to: - any early repayment of Advanced Forborne Amount from or on behalf of Owner, including from any voluntary prepayment, partial claim or increased monthly payments through a voluntary modification, and - if loan is prepaid or goes to term, Servicer allocates: * remaining regular principal to MBS/bond/loan holder, and * amount equal to remaining unpaid Advanced Forborne Amount to the Commercial Bank Intermediary
Monthly Trial Balance	Provides monthly trial balance to Commercial Bank Intermediary listing outstanding Advanced Forborne Amounts and repayments by Eligible Loan
Commercial Bank Intermediary	Enters into a COVID-19 Line of Credit with individual participating Servicers Administers Lines of Credit on behalf of Federal Reserve and Treasury, including: -keeps record of each Line of Credit -pays monthly Draws to Servicers during the Emergency -allocates funding of Draws between Treasury & Federal Reserve -provides monthly reports for Treasury and Federal Reserve to document the balance of and activity on their investment - collects and remits all repayments of Lines of Credit from Servicers -Allocates monthly repayments from Lines of Credit to Federal Reserve until it receives full repayment including interest on Tranche 1, and thereafter allocates all repayments to Treasury -Is paid a management fee by Federal Reserve and Treasury (which may be funded by the Draw fees).

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