

# Compendium of Federal Single Family Mortgage Programs and Related Activities

November 2011



The Federal Housing Inspectors General



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# Table of Contents

Introduction .....	4
Who We Are: The Federal Housing Inspectors General .....	7
U.S. Department of Housing and Urban Development .....	8
U.S. Department of Agriculture.....	10
U.S. Department of Veterans Affairs .....	12
Federal Housing Finance Agency.....	14
Federal Single Family Mortgage Programs and Related Activities	
HUD.....	17
USDA.....	59
VA.....	65
FHFA.....	73
Additional Program Information .....	106
Acronyms and Abbreviations .....	107
Glossary.....	111
Table of Program Comparisons .....	114
Federal Housing Inspectors General Contact Information.....	117

# Introduction

November 3, 2011

Dear Reader:

This is the inaugural effort of an ongoing joint initiative by the Inspectors General who oversee four federal agencies that play significant roles in supporting housing in the United States, the Federal Housing Finance Agency (FHFA), the Department of Housing and Urban Development (HUD), the Department of Agriculture (USDA), and the Department of Veterans Affairs (VA). We are working together to eliminate fraud, waste, and abuse, and to protect the taxpayer.

This Compendium is intended to serve as a guide to federal housing programs and activities. It focuses primarily on single family mortgage programs and related activities, and contains content collected by the four Offices of Inspector General regarding programs administered by their respective agencies, but it has not been prepared in accordance with Government Auditing Standards. The Compendium also provides useful background information regarding the activities of each of the Federal Housing Inspectors General. We hope you find it useful. Thank you.

Sincerely,

Steve A. Linick  
Inspector General  
Federal Housing Finance Agency

John P. McCarty  
Acting Deputy Inspector General  
U.S. Housing and Urban Development

Phyllis A. Fong  
Inspector General  
U.S. Department of Agriculture

George J. Opfer  
Inspector General  
U.S. Department of Veterans Affairs



**Who We Are:**  
**The Federal Housing Inspectors General**



## U.S. Department of Housing and Urban Development

The U.S. Department of Housing and Urban Development (HUD) was established in 1934, with the creation of the Federal Housing Administration via the National Housing Act. This statute, and the Housing Act of 1937, established that the federal government would subsidize public housing in local communities in order to improve living conditions for low-income families. HUD became a Cabinet-level department in 1965 and continues to administer the principal federal housing programs that provide assistance for housing and for the development of communities.

HUD's Office of Inspector General (HUD-OIG) was established by the Inspector General Act of 1978. Over the years, HUD-OIG has forged an alliance with HUD personnel in recommending ways to improve departmental operations and in prosecuting program abuses. HUD-OIG strives to make a difference in HUD's performance and accountability.

HUD-OIG is committed to the statutory mission of detecting and preventing fraud, waste, and abuse and promoting the effectiveness and efficiency of government operations. While organizationally located with the Department, HUD-OIG operates independently with separate budgetary authority. Its activities seek to:

- Promote efficiency and effectiveness in programs and operations;
- Detect and deter fraud and abuse;
- Investigate allegations of misconduct by HUD employees; and
- Review and make recommendations regarding existing and proposed legislation and regulations affecting HUD.

HUD-OIG's high profile audits and investigations continue to complement the Department's strategic initiatives and its employees continue to work with the Department to improve HUD's effectiveness. As a result, HUD-OIG has developed and implemented better and more effective audit recommendations.

During the last public reporting period from October 1, 2010 to March 31, 2011, HUD-OIG reported \$262.5 million in recoveries and receivables, 693 indictments and informations, 500 convictions and 767 arrests.<sup>1</sup> HUD-OIG's audit work identified more than \$767.7 million in funds that could be put to better use, more than \$96 million in questioned costs, and accumulated more than \$25.8 million in collections.<sup>2</sup>

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1 This represents all cost transactions during the period in which dollar amounts were reported with any recommendation. Funds put to better use means quantifying savings that would be used more efficiently if management took actions to implement and complete OIG recommendations. HUD-OIG Audit Operations Manual, July 2011 version, page 111/236.

2 Online at <http://csfintraweb.hudoig.gov/Docs/sar-65.pdf>.



## U.S. Department of Agriculture

The U.S. Department of Agriculture (USDA) was created in 1862. Today, USDA improves the Nation's economy and quality of life by providing leadership on food, agriculture, natural resources and related issues based on sound public policy, the best available science, and efficient management. During FY2010, USDA has aided 85,420 rural Americans in purchasing or repairing their homes with affordable loans while simultaneously stimulating the economy and creating jobs in the construction and real estate sectors.

The USDA's Office of Inspector General (USDA-OIG) was administratively established by the Secretary of Agriculture in 1962 following a major criminal fraud scandal affecting several USDA agencies. USDA-OIG was later legislatively established by Congress under the Inspector General Act of 1978, as amended. The Office of Audit examines the economy and efficiency of USDA program and operations, including program results, compliance with applicable laws and regulations, and fair presentation of financial reports.

USDA-OIG has performed numerous audits of the Single Family Housing Guaranteed (GLP) and Direct Loan Programs (DLP), both of which are discussed later in the Compendium. These programs have received additional audit coverage due to the passing of the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act included almost \$10.5 billion in funds for the GLP and \$1 billion in funds for the DLP. USDA-OIG's role, as mandated by the Recovery Act, was to monitor agency activities and ensure that funds were expended in a manner that minimized the risk of improper use.

In order to accomplish its Recovery Act role, USDA-OIG has conducted work in multiple phases to ensure (1) USDA Recovery Act-related programs were timely and effectively implemented; (2) proper internal control procedures were established; (3) program participants met eligibility guidelines; (4) participants properly complied with program requirements; and (5) agencies established effective compliance operations.<sup>3</sup> Results from

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<sup>3</sup> Audit 04703-01-CH, *Controls Over Eligibility Determinations for Single Family Housing Guaranteed Loan Recovery Act Funds (Phase I)*, dated September 2009, and Audit 04703-1-KC, *Single-Family Housing Direct Loans Recovery Act Controls (Phase I)*, dated November 2009.

the continuing phases include identifying weaknesses in key DLP controls,<sup>4</sup> and estimating that 27,206 GLP Recovery Act loans (over 33 percent of the portfolio) did not satisfy GLP eligibility criteria, and therefore should not have been made; these “ineligible” loans have a projected total value of over \$4.0 billion.<sup>5</sup>

USDA-OIG’s most recent activities through March 31, 2011, have led to \$47.8 million in recoveries and restitutions, 114 program improvement recommendations, \$11.1 million in funds that could be put to better use, 516 arrests, and 249 convictions.

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<sup>4</sup> Audit 04703–02–KC, *Single-Family Housing Direct Loans Recovery Act Controls (Phase II)*, dated September 2010.

<sup>5</sup> Audit 04703–02–CH(1), *Rural Development Guaranteed Single Family Housing Loans Made by Lenders to Ineligible Borrowers*, dated December 2010.



## U.S. Department of Veterans Affairs

The Veterans Administration was established in 1930 to consolidate Government activities for war Veterans. It became the U.S. Department of Veterans Affairs (VA) with Cabinet-level status in 1989. During FY2010, in partnership with HUD, VA provided more than 18,000 Veterans with permanent housing. VA also guaranteed approximately 314,000 loans for Veterans. Of these guaranteed loans, 192,600 were for home purchases and 121,400 were for the refinance of mortgages on home loans. Additionally, VA provided 1,549 Specially Adapted Housing grants to severely disabled Veterans and Servicemembers to construct an adapted dwelling or modify an existing one to meet their special needs.

The VA's Office of Inspector General (VA-OIG) is dedicated to helping VA ensure that Veterans and their families receive the care, support and recognition they have earned through service to their country. VA-OIG continues to be responsive to the needs of its customers by working with the VA management team to identify and address the issues that are important to them and the Veterans served.

VA-OIG's Office of Investigations (OI) conducts criminal and administrative investigations of wrongdoing in VA programs and operations in an independent and objective manner. OI seeks prosecution, administrative action, and/or monetary recoveries where appropriate as it strives to establish an environment in VA that is safe and free from criminal activity and management abuse.

VA-OIG's Office of Audits and Evaluations (OAE) contributes to the improvement and management of VA programs and activities by providing customers with timely, balanced, credible and independent financial and performance audits that address the economy, efficiency, and effectiveness of VA operations. OAE identifies constructive solutions and opportunities for improvement.

During this reporting period, October 1, 2010–March 31, 2011, VA-OIG issued 140 reports on VA programs and operations and identified over \$3 billion in monetary benefits. VA-OIG criminal investigators closed 476 investigations, and made 258 arrests for a variety of crimes.



## Federal Housing Finance Agency

The Federal Housing Finance Agency (FHFA) was created by the Housing and Economic Recovery Act of 2008 (HERA), in the midst of the worst economic crisis in decades. HERA created FHFA by consolidating into one agency HUD's Office of Federal Housing Enterprise Oversight (OFHEO), the Federal Housing Finance Board (FHFB), and the Government Sponsored Enterprise (GSE) mission office within HUD. FHFA's mission is to provide effective supervision, regulation, and oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the 12 Federal Home Loan Banks (FHLBs). FHFA is charged with promoting their safety and soundness, as well as supporting housing finance and affordable housing, and fostering a stable and liquid mortgage market.

In September 2008, FHFA became the conservator of Fannie Mae and Freddie Mac. At that time, both Enterprises began to receive federal support and, to date, have received more than \$169 billion from the U.S. Treasury. As conservator, FHFA ensures that they are preserving and conserving their assets.

HERA also established FHFA's Office of Inspector General (FHFA-OIG). FHFA-OIG began operation in October 2010, following Senate confirmation of its first Inspector General. FHFA-OIG works to: promote the economy, efficiency, and effectiveness of FHFA's programs; prevent and detect fraud, waste, and abuse; and seek sanctions and prosecutions against those who are responsible for such fraud, waste, and abuse. FHFA-OIG also provides independent and objective reporting to the FHFA Director, Congress, and the American people through audits, evaluations, and investigations.

FHFA-OIG has had several key accomplishments in the year since it began. From a standing start, with limited staff and resources, FHFA-OIG commenced operations and issued 10 reports through September 30, 2011. For additional information on any of FHFA-OIG's published reports, visit [www.fhfoig.gov/Reports](http://www.fhfoig.gov/Reports).

FHFA-OIG has also initiated and participated in criminal, civil, and administrative investigations. Notably, FHFA-OIG made significant contributions to the investigation, prosecution, and conviction of seven individuals connected to Taylor, Bean & Whitaker Mortgage Corporation and Colonial Bank, who defrauded Freddie Mac and other victims out of \$2.9 billion, making it among the largest mortgage frauds in U.S. history.

FHFA-OIG has also commented on proposed FHFA policies and regulations, leading FHFA to revise or withdraw a number of proposals.



## **HUD Single Family Mortgage Programs and Related Activities**

One- to Four-Family Home Mortgage Insurance

Single Family Disposition Program

Mortgage Insurance for Disaster Victims

Rehabilitation Loan Insurance

Adjustable Rate Mortgages (ARMs)

Energy Efficient Mortgage Insurance

Good Neighbor Next Door

Graduated Payment Mortgage

FHA Home Affordable Modification Program (HAMP)

Loss Mitigation

Manufactured Homes Loan Insurance (Title I)

Property Improvement Loan Insurance (Title I)

Home Equity Conversion Mortgage

HOPE for Homeowners

Insured Mortgages on Hawaiian Home Lands

FHA Insured Mortgages on Indian Land

Neighborhood Stabilization Program 1

Neighborhood Stabilization Program 2

Neighborhood Stabilization Program 3

Emergency Homeowners' Loan Program

Ginnie Mae Mortgage-Backed Securities (MBS)

**Agency Name**

Federal Housing Administration (FHA)

**Administering Agency**

Assistant Secretary for Housing—Federal Housing Commissioner  
U.S. Department of Housing and Urban Development  
Washington, DC 20410-8000

**ONE- TO FOUR-FAMILY HOME MORTGAGE INSURANCE PROGRAM**

<b>Legal Authority</b>	Section 203(b) of the National Housing Act (12 U.S.C. § 1709(b)). Condominium units were authorized for FHA insurance by the Housing and Economic Recovery Act of 2008 (HERA) (Public Law 110-289). Regulations are at 24 CFR part 203, subpart A. See also HUD Handbook 4155.1 REV-5.
<b>Clientele</b>	Any person who meets certain cash investment, mortgage payment, and credit requirements. The program is generally limited to owner-occupants.
<b>Program Description</b>	Homebuyers may obtain FHA-insured mortgages from HUD-approved lenders to purchase homes (including condominium units) with low down payments. By insuring commercial lenders against loss, HUD encourages them to invest capital in the home mortgage market. HUD insures loans made by private financial institutions a portion of the sales price with terms for up to 30 years. The loan may finance homes in both urban and rural areas. The maximum mortgage amounts are at least \$271,050 in all areas, with higher limits in areas with higher median house prices up to a maximum of \$625,500 for one-unit homes through December 31, 2011.* Higher limits also exist for two- to four-family properties. The loan limits change annually, based on home price estimates. The limits are benchmarked to the loan limits of the Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. The mortgagee collects from the borrower an up-front mortgage insurance premium payment, which may be financed, at the time of loan closing, as well as annual premiums that are not financed but included in the regular mortgage payment.
<b>FY2010 Total Mortgage Insurance Coverage</b>	There are 1,667,611 insurance endorsements** totaling \$297,601,814,242.

\* Mortgage Letter 2011-29.

\*\* Total loans that HUD has endorsed for insurance (e.g., HUD accepts liability for valid claims against the loans upon borrowers' defaults).

### SINGLE FAMILY DISPOSITION PROGRAM

<b>Legal Authority</b>	Section 204(g) of the National Housing Act (12 U.S.C. § 1710(g)). 24 CFR part 291; HUD Handbook 4310.5.										
<b>Clientele</b>	Individual bidders are eligible if they can finance their home purchase and provide an earnest money deposit with their bids. Nonprofit and government entities have special eligibility requirements, as detailed on HUD's website.										
<b>Program Description</b>	This program's purpose is to dispose of properties acquired by the FHA through foreclosure of an insured or Secretary-held mortgage or loan under the National Housing Act. Single family foreclosed properties contain one to four units. Listings of properties in inventory are available on the Internet. Individual parties may submit an offer through the Internet, using a real estate broker licensed with HUD. Nonprofit and government entities may purchase properties at a discount through a lottery system without a real estate broker.										
<b>FY2010 Total Disposed Properties</b>	<table> <tr> <td>Number of Properties Sold.....</td> <td style="text-align: right;">87,812</td> </tr> <tr> <td>Unpaid Balance on Defaulted Loans.....</td> <td style="text-align: right;">\$9,939,090,403</td> </tr> <tr> <td>Acquisition Amount.....</td> <td style="text-align: right;">\$11,425,520,661</td> </tr> <tr> <td>Net Sales Proceeds to HUD.....</td> <td style="text-align: right;">\$5,742,781,859</td> </tr> <tr> <td>Final Profit and Loss Amount.....</td> <td style="text-align: right;">\$(6,754,615,329)</td> </tr> </table>	Number of Properties Sold.....	87,812	Unpaid Balance on Defaulted Loans.....	\$9,939,090,403	Acquisition Amount.....	\$11,425,520,661	Net Sales Proceeds to HUD.....	\$5,742,781,859	Final Profit and Loss Amount.....	\$(6,754,615,329)
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### MORTGAGE INSURANCE FOR DISASTER VICTIMS PROGRAM

<b>Legal Authority</b>	Section 203(h) of the National Housing Act (12 U.S.C. § 1709(h)). Regulations are at 24 CFR part 203.
<b>Clientele</b>	Any person whose home has been destroyed or severely damaged in a presidentially declared disaster area is eligible to apply for mortgage insurance under this program, even if they were renting the property. The borrower's application for mortgage insurance must be submitted to an FHA-approved lending institution within one year of the President's declaration of the disaster.
<b>Program Description</b>	This program helps victims in presidentially declared disaster areas recover by making it easier for them to obtain mortgage loans and become homeowners or reestablish themselves as homeowners. The program provides mortgage insurance to protect lenders against the risk of default on loans to qualified disaster victims. Individuals are eligible

<p><b>Program Description</b> <i>continued</i></p>	<p>for this program if their homes are located in an area that was declared by the President as a disaster area and were destroyed or damaged to such an extent that reconstruction or replacement is necessary. Insured loans may be used to finance the purchase or reconstruction of a one-family home that will be the principal residence of the homeowner. This program resembles the Section 203(b) program (Mortgage Insurance for One- to Four-Family Homes), FHA’s basic mortgage insurance program.</p> <p>Section 203(h) offers features that make homeownership easier. For example, no down payment is required. The borrower is eligible for 100 percent financing. Closing costs and prepaid expenses must be paid by the borrower in cash or paid through premium pricing by the seller, subject to a limitation on seller concessions. Mortgagees collect from the borrowers an up-front insurance premium (which may be financed) at the time of purchase, as well as monthly premiums that are not financed, but instead are added to the regular mortgage payment.*</p>
<p><b>FY2010 Insurance Coverage</b></p>	<p>There are 55 insurance endorsements totaling \$8,647,571.</p>

\* Online at <http://portal.hud.gov/hudportal/documents/huddoc?id=ProgramsofHUD.pdf>, page 41/145.

**REHABILITATION LOAN INSURANCE PROGRAM**

<p><b>Legal Authority</b></p>	<p>Section 203(k) of the National Housing Act (12 U.S.C. § 1709(k)); 24 CFR 203.50.</p>
<p><b>Clientele</b></p>	<p>Any person able to make the cash investment and the mortgage payments.</p>
<p><b>Program Description</b></p>	<p>HUD insures rehabilitation loans up to approximately 96.5 percent of the lesser of appraised value before rehabilitation plus rehabilitation costs or 110 percent of appraised value after rehabilitation. A loan can be used to (1) finance rehabilitation of an existing property; (2) finance rehabilitation and refinancing of the outstanding indebtedness of a property; and (3) finance purchase and rehabilitation of a property. An eligible rehabilitation loan must involve a principal obligation not exceeding the amount allowed under Section 203(b) home mortgage insurance.*</p>
<p><b>FY2010 Total Insurance Coverage (\$\$)</b></p>	<p>There are 22,483 insurance endorsements totaling \$3,862,603,277.</p>

\* Online at [http://portal.hud.gov/hudportal/HUD?src=/hudprograms/rli\\_section203k](http://portal.hud.gov/hudportal/HUD?src=/hudprograms/rli_section203k).

### ADJUSTABLE RATE MORTGAGES (ARMS) PROGRAM

<b>Legal Authority</b>	Section 251 of the National Housing Act (12 U.S.C. § 1715z-16); 24 CFR 203.49.
<b>Clientele</b>	All FHA-approved lenders may make adjustable rate mortgages (ARMs) to qualifying, creditworthy applicants who will be owner-occupants.
<b>Program Description</b>	<p>Under this HUD-insured mortgage, the interest rate and monthly payment may change during the life of the loan. The buyer and lender negotiate the initial interest rate, discount points, and the margin.</p> <p>The one-year Treasury Constant Maturities Index is used for determining the interest rate changes. FHA lenders may offer ARMs that have interest rates that are fixed for the first 1, 3, 5, 7, or 10 years of the mortgage. The interest rate for one-year and 3-year insured ARMs may not be increased or decreased by more than one percentage point per year after the fixed-payment period is over, with a maximum change of 5 percentage points over the life of the loan. For 5-year, 7-year, and 10-year ARMs, the interest rate may change a maximum of 2 percentage points annually and 6 percentage points over the life of the loan.</p> <p>Lenders are required to disclose to borrowers the nature of the ARM loan at the time of loan application. In addition, borrowers must be informed at least 25 days in advance of any adjustment to the monthly payment.*</p>
<b>FY2010 Total ARMs</b>	There are 46,980 insurance endorsements totaling \$11,448,066,351.

\* Online at <http://portal.hud.gov/hudportal/HUD?src=/hudprograms/arms>.

### ENERGY EFFICIENT MORTGAGE INSURANCE PROGRAM

<b>Legal Authority</b>	Section 513 of the Housing and Community Development Act of 1992 (Public Law 102–550) (42 U.S.C. § 12712 note). Regulations are at 24 CFR 203.18(i).
<b>Clientele</b>	One- to four-unit existing and new properties are eligible.
<b>Program Description</b>	<p>FHA’s Energy Efficient Mortgage program (EEM) helps homebuyers or homeowners save money on utility bills by enabling them to finance the cost of adding energy efficiency features to new or existing housing as part of their FHA insured home purchase or refinancing mortgage.</p> <p>An FHA mortgage may exceed the normal maximum loan limits by the cost of energy efficient improvements, providing those improvements were verified to be cost-effective, meaning that the total cost of the improvements is less than the total present value of the energy saved over the useful life of the energy improvement. The borrower may be qualified for the loan without the additional loan funds used for energy upgrades, but must make a 3.5 percent cash investment in the property based on the lesser of sales price or appraised value.</p> <p>The cost of the energy improvements and estimate of the energy savings must be determined by a home energy rating, which may be financed as part of the cost-effective energy package. Energy improvements to an existing home may be installed within a limited time period after the insured loan has closed, depending on the program under which the mortgage is insured. Energy improvements to a newly constructed home must be installed prior to closing. The maximum mortgage amount for a single-family unit depends on its location and is adjusted annually.*</p>
<b>FY2010 Total Mortgage Insurance Coverage</b>	There are 2,496 insurance endorsements totaling \$484,393,024.

\* Online at <http://portal.hud.gov/hudportal/documents/huddoc?id=ProgramsofHUD.pdf>.

### GOOD NEIGHBOR NEXT DOOR PROGRAM

<b>Legal Authority</b>	Section 204(g) of the National Housing Act (12 U.S.C. § 1710(g)). Regulations are at 24 CFR part 291, subpart F.								
<b>Clientele</b>	Purchasers must be employed as a full-time law enforcement officer, teacher, firefighter, or emergency medical technician, and must certify that they intend to continue such employment for at least one year following the date of closing. The eligible purchaser does not need to be a first-time homebuyer. However, the purchaser (or spouse) cannot have owned another home for one year prior to the time a bid for purchase is submitted, and the purchaser must agree to live in the HUD home as the principal residence for 3 years after move-in.*								
<b>Program Description</b>	HUD wants to make American communities stronger and build a safer nation. The Good Neighbor Next Door program promotes these goals by encouraging persons whose daily professional responsibilities represent a nexus to their communities' needs to purchase and live in homes in these communities. This program makes homes in revitalization areas available to law enforcement officers, teachers, firefighters, and emergency medical technicians. Each year, HUD sells a limited number of properties from its inventory at a 50 percent discount from the list price to eligible persons in the above professions. To make these homes even more affordable, eligible program participants may apply for an FHA-insured mortgage with a down payment of only \$100. Because homes sold through this program are located in revitalization areas, there may be additional assistance from state or local government sources. If the home needs repairs, the purchaser may also use FHA's Section 203(k) mortgage program. The Section 203(k) program provides financing for both the purchase of the home and cost of needed repairs.**								
<b>FY2010 Total Properties Sold</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Number of Properties Sold.....</td> <td style="text-align: right;">1,926</td> </tr> <tr> <td>Sales Price.....</td> <td style="text-align: right;">\$133,378,815</td> </tr> <tr> <td>Net Cash Received by HUD.....</td> <td style="text-align: right;">\$89,925,751</td> </tr> <tr> <td>Appraised As Is Value.....</td> <td style="text-align: right;">\$153,355,920</td> </tr> </table>	Number of Properties Sold.....	1,926	Sales Price.....	\$133,378,815	Net Cash Received by HUD.....	\$89,925,751	Appraised As Is Value.....	\$153,355,920
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\* Online at <http://portal.hud.gov/hudportal/HUD?src=/hudprograms/gnnd>.

\*\* Online at <http://portal.hud.gov/hudportal/HUD?src=/hudprograms/gnnd>.

### GRADUATED PAYMENT MORTGAGE PROGRAM

<b>Legal Authority</b>	Section 245(a) of the National Housing Act (12 U.S.C. § 1715z-10(a)); 24 CFR 203.45; Handbook 4240.4, REV-2.
<b>Clientele</b>	All FHA-approved lenders may make graduated payment mortgages (GPMs) available to persons who intend to use the mortgage property as their primary residence and who expect to see their income rise appreciably in the future.
<b>Program Description</b>	This program enables a household with a limited income that is expected to rise to buy a home sooner by making mortgage payments that start small and increase gradually over time. The program targets early homeownership by helping first-time homebuyers and others with limited incomes, particularly young families who expect their income to rise, but may not yet be able to handle all of the upfront and monthly costs involved in buying and owning a home. The GPM works in times of high interest rates when first-time homebuyers cannot meet the standard mortgage payment, but expect their incomes to increase substantially in the next 5 to 10 years. The GPM accrues negative amortization so that the borrower's initial mortgage payments are made at a nominally discounted interest rate from the standard prevailing rate. The difference is then added to the principal balance. The GPM program offers five different plans varying in length of time and rate of increase of nominal interest rate. It is anticipated that when the interest rate, and thus the mortgage payment, increases with time the borrower's income also will have increased to accommodate the higher payments. Larger than usual down payments are required to prevent the total amount of the loan from exceeding the statutory loan-to-value ratios. Down payments required for GPMs vary in proportion to interest rates on the loans. In all other ways, the GPM is subject to the rules governing ordinary HUD-insured home loans.*
<b>FY2010 Total Graduated Payment Mortgages</b>	None

\* Online at <http://portal.hud.gov/hudportal/documents/huddoc?id=ProgramsofHUD.pdf>, page 46/145.

### FHA HOME AFFORDABLE MODIFICATION PROGRAM (HAMP)

<b>Legal Authority</b>	<p>On May 20, 2009, the President signed the “Helping Families Save Their Homes Act of 2009.” This new law provides the Federal Housing Administration (FHA) with additional loss mitigation authority to assist FHA mortgagors under the Making Home Affordable Program (MHA). Section 230(b) of the National Housing Act (12 U.S.C. § 1715u(b)), as amended by the Helping Families Save Their Homes Act of 2009, Division A of Public Law 111–22*; Mortgagee Letters 2009–23 and attachment, 2010–04.</p>
<b>Clientele</b>	<p>Mortgagors with FHA-insured mortgages that do not qualify for other loss mitigation programs and with adequate debt-to-income ratios. Homeowners must successfully complete a trial payment plan before becoming a full participant in the program.</p>
<b>Program Description</b>	<p>The MHA Program is designed to help homeowners retain their homes and to prevent the destructive impact of foreclosures on families and communities. One key component of MHA provides homeowners the opportunity to reduce their mortgage payments by the use of a loan modification through the Home Affordable Modification Program. When initially introduced to the public, MHA excluded FHA-insured mortgages, stating that FHA would develop its own standalone program. The new FHA-HAMP authority will allow the use of a partial claim up to 30 percent of the unpaid principal balance as of the date of default combined with a loan modification. The objective of FHA-HAMP is to assist FHA mortgagors who are in default to modify their mortgage to an affordable payment. According to Mortgagee Letter 2000–05 and subsequent guidance, disposition options (pre-foreclosure sales and deeds-in-lieu of foreclosure) are available immediately upon default, if the cause of the default is incurable, i.e., the borrower has no realistic opportunity to replace the lost income or reduce expenses sufficiently to meet the mortgage obligation.</p> <p>To confirm if the mortgagor is capable of making the new FHA-HAMP payment, the mortgagor must successfully complete a trial payment plan. The trial payment plan shall be for a three-month period and the mortgagor must make each scheduled payment on time. The mortgagor’s monthly payment required during the trial payment plan must be the amount of the future modified mortgage payment. The mortgagee must service the mortgage during the trial period in the same manner as it</p>

<p><b>Program Description</b> <i>continued</i></p>	<p>would service a mortgage in forbearance. If the mortgagor does not successfully complete the trial payment plan by making the three payments on time, the mortgagor is no longer eligible for FHA-HAMP. Prior to proceeding to foreclosure, the mortgagee must re-examine and re-evaluate the borrower’s financial condition and confirm that none of FHA’s other Loss Mitigation options could assist the mortgagor.</p> <p>FHA-HAMP can be utilized only if the mortgagor does not qualify for current loss mitigation home retention options (priority order FHA Special Forbearance, Loan Modification and Partial Claim) under existing guidelines (ML 2008–21, 2003–19, 2002–17, 2000–05). To qualify for the FHA-HAMP program, mortgagees must evaluate the defaulted mortgage for loss mitigation actions using the aforementioned priority order. According to Mortgagee Letter 2000–05 and subsequent guidance, disposition options (pre-foreclosure sales and deeds-in-lieu of foreclosure) are available immediately upon default, if the cause of the default is incurable, i.e., the borrower has no realistic opportunity to replace the lost income or reduce expenses sufficiently to meet the mortgage obligation.</p> <p>If the mortgagor does not successfully execute the loan modification, the mortgagor is no longer eligible for FHA-HAMP. In such cases, per 24 CFR 203.355, the mortgagee must re-evaluate the mortgagor’s eligibility for the other appropriate loss mitigation actions prior to commencing or continuing a foreclosure.</p> <p>Mortgagees that utilize FHA-HAMP are eligible to receive incentive payments. Mortgagees utilizing this initiative will be allowed to first file for a partial claim (to bring the loan current and defer principal where appropriate), followed by a loan modification claim (claim type 32). Under FHA-HAMP, the mortgagee may receive an incentive fee of up to \$1,250. This total includes \$500 for the partial claim and \$750 for the loan modification. Mortgagees may also claim up to \$250 for reimbursement for a title search and/or recording fees.</p>
<p><b>FY2010 Total HAMP Modifications</b></p>	<p>There are 2,015 claims paid totaling \$64,966,175.</p>

\* Programs of HUD, 2011, online at <http://portal.hud.gov/hudportal/documents/huddoc?id=ProgramsofHUD.pdf>, page 45/145.

## LOSS MITIGATION PROGRAM

<b>Legal Authority</b>	Sections 204(a) (12 U.S.C. § 1710(a)) and 230 ( <i>id.</i> § 1715u) of the National Housing Act; 24 CFR part 203.
<b>Clientele</b>	Any FHA-insured borrower who is in default for at least 90 days (120 days for partial claim) and who occupies the mortgaged property as a primary residence may be eligible for home retention loss mitigation. FHA-HAMP, pre-foreclosure sale and deed-in-lieu options are available immediately upon default, if the cause of the default is incurable.
<b>Program Description</b>	<p>FHA Loss Mitigation delegates to mortgagees both the authority and the responsibility to utilize certain actions and strategies to assist borrowers in default or imminent default retain their homes, and/or reduce losses to the insurance fund that result from mortgage foreclosures. Mortgagees may utilize any of several loss mitigation options that lead to home retention, including: FHA-HAMP, long-term special forbearance, mortgage modification, and partial claim (an option exclusive to HUD wherein the Department makes a no-interest loan to the borrower in an amount sufficient to reinstate the mortgage). If the borrower is unable or unwilling to support the mortgage debt, servicers must consider use of other loss mitigation tools, including a pre-foreclosure sale or a deed in lieu of foreclosure, before initiating legal action to foreclose the mortgage.</p> <p>HUD encourages mortgagees to utilize loss mitigation by reimbursing administrative costs (title reports, recording fees) involved in these actions and by paying financial incentives. Though mortgagees have flexibility in selecting the loss mitigation strategy appropriate for each borrower, participation in the loss mitigation program is not optional. Prior to initiation of foreclosure, mortgagees are required to evaluate all defaulted borrowers for loss mitigation options eligibility, quickly activate appropriate loss mitigation options, provide housing counseling availability information, consider all reasonable means to assist the borrower in addressing the delinquency, and retain written documentation of compliance with loss mitigation requirements. Failure to comply may result in the loss of incentive compensation, interest curtailment, and other financial and administrative sanctions, including withdrawal of HUD's approval of a mortgagee.</p>
<b>FY2010 Total Loss Mitigation Actions</b>	There are 182,968 claims paid totaling \$336,113,367.

### MANUFACTURED HOMES LOAN INSURANCE (TITLE I) PROGRAM

<b>Legal Authority</b>	Section 2 of Title I of the National Housing Act (12 U.S.C. § 1703); 24 CFR part 201.
<b>Clientele</b>	Any person able to make the cash investment and the loan payments; however, the home must be the principal residence of the borrower.
<b>Program Description</b>	<p>HUD insures loans to finance the purchase of manufactured homes or lots. The loans are made by private lending institutions. The maximum loan amount is \$69,678 for a manufactured home, \$92,904 for a manufactured home and a suitably developed lot, and \$23,226 for a developed lot. The maximum limits for combination home and lot loans may be increased up to 85 percent in designated high-cost areas. The maximum loan term varies from 15 to 25 years, depending on the type of loan. Most manufactured home loans are financed through purchases by lenders of retail installment contracts between homebuyers and manufactured home dealers.</p> <p>The borrower retains ownership of the property and may sell the home and move at any time, keeping the sales proceeds in excess of the mortgage balance. The borrower cannot be forced to sell the home to pay off the mortgage, even if the mortgage balance grows to exceed the value of the property. An FHA-insured reverse mortgage need not be repaid until the borrower moves, sells, or dies. When the loan is due and payable, if the loan exceeds the property's value, the borrower (or the heirs) will owe no more than the property's value.*</p>
<b>FY2010 Total Insurance Coverage</b>	There are 1,776 insurance endorsements totaling \$84,436,715.

\* Online at <http://portal.hud.gov/hudportal/documents/huddoc?id=ProgramsofHUD.pdf>, pg. 43/145.

### PROPERTY IMPROVEMENT LOAN INSURANCE (TITLE I) PROGRAM

<b>Legal Authority</b>	Section 2 of Title I of the National Housing Act (12 U.S.C. § 1703). Regulations are at 24 CFR part 201.
<b>Clientele</b>	Any person who is able to make loan payments and has at least a 50 percent ownership in the property to be improved.
<b>Program Description</b>	HUD insures loans to finance improvements, alterations, and repairs of individual homes, apartment buildings, and nonresidential structures, as well as new construction of nonresidential buildings. Loans on single family homes (except manufactured homes) and nonresidential structures may be for up to \$25,000 and may extend to 20 years. Loans on apartment buildings may be as high as \$12,000 per unit, but the total for

<b>Program Description</b> <i>continued</i>	the building cannot exceed \$60,000, and the loan term cannot exceed 20 years. A loan on a manufactured home that is classified as real property may be for up to \$17,500 with a maximum loan term of 15 years. Loans on other manufactured homes are limited to \$7,500 and a maximum term of 12 years. A property improvement loan may be a loan from the lender to the borrower or a retail sales installment contract (purchased by a lender) between the borrower and the contractor or dealer providing the materials or services. Loans over \$7,500 must be secured by a recorded mortgage or deed of trust on the improved property.*
<b>FY2010 Total Loan Insurance Coverage</b>	There are 4,407 insurance endorsements totaling \$64,063,600.

\* Online at <http://portal.hud.gov/hudportal/documents/huddoc?id=ProgramsofHUD.pdf>, pg. 50/145.

### HOME EQUITY CONVERSION MORTGAGE PROGRAM

<b>Legal Authority</b>	The Housing and Community Development Act of 1987 (Public Law 100–242, 2/5/88) established a Federal mortgage insurance program, Section 255 of the National Housing Act (12 U.S.C. § 1715z–20), to insure home equity conversion mortgages. The FHA Modernization Act moved all new HECM program endorsements to the Mutual Mortgage Insurance Fund effective FY2009; 24 CFR parts 200 and 206; Handbook 4235.1, REV–1.
<b>Clientele</b>	HECM benefits homeowners who are 62 years or older, own the property, and are faced with financial hardship. The homeowners must also occupy the property as their principal residence and must not be delinquent on any federal debt.
<b>Program Description</b>	Reverse mortgages can provide a valuable financing alternative for qualified homeowners. Any lender authorized to make HUD-insured loans may originate reverse mortgages.  Borrowers may choose from among five payment options: (1) tenure, by which the borrower receives monthly payments from the lender for as long as the borrower lives and continues to occupy the home as a principal residence; (2) term, by which the borrower receives monthly payments for a fixed period selected by the borrower; (3) line of credit, by which the borrower can make withdrawals up to a maximum amount, at times and in amounts of the borrower's choosing; (4) modified tenure, by which the tenure option is combined with a line of credit; and (5) modified term, by which the term option is combined with a line of credit.

**Program Description**  
*continued*

The borrower retains ownership of the property and may sell the home and move at any time, keeping the sales proceeds in excess of the mortgage balance. The borrower cannot be forced to sell the home to pay off the mortgage, even if the mortgage balance grows to exceed the value of the property. An FHA-insured reverse mortgage need not be repaid until the borrower moves, sells, or dies. When the loan is due and payable, if the loan exceeds the property's value, the borrower (or the heirs) will owe no more than the property's value.\*

The mortgage amount is based on the age of the youngest borrower, the current interest rate, the lesser of appraised value or the HECM FHA mortgage limit or the sales price, and the initial Mortgage Insurance Premium (MIP)—the borrower's choices are HECM Standard or HECM SAVER initial MIP.

**Financial Requirements**

No income or employment qualifications are required of the borrower, no repayment as long as the property is the borrower's principal residence and the mortgage's obligations are met. Closing costs may be financed in the mortgage.

**Property Requirements**

The following eligible property types must meet all FHA property standards and flood requirements: Single family homes or 1–4 unit homes with one unit occupied by the borrower, HUD-approved condominiums, and manufactured homes that meet FHA requirements.

**How the Program Works**

Homeowners who are age 62 or older and have either paid off their mortgage or who have only a small mortgage balance remaining, and are currently living in their homes, are eligible to participate in FHA's reverse mortgage program. The program allows those homeowners to borrow against the equity in their homes. They may select from five payment plans:

- (1) Tenure—equal monthly payments as long as at least one borrower lives and continues to occupy the property as a principal residence.
- (2) Term—equal monthly payments for a fixed period of months selected.

**Program Description***continued*

- (3) Line of Credit—unscheduled payments or in installments, at times and in an amount of the borrower's choosing until the line of credit is exhausted.
- (4) Modified Tenure—combination of line of credit plus scheduled monthly payments for as long as the borrower remains in the home.
- (5) Modified Term—combination of line of credit plus monthly payments for a fixed period of months selected by the borrower.

Borrowers can change payment options for a fee of \$20. Unlike ordinary home equity loans, an FHA reverse mortgage HECM does not require repayment as long as the home is the principal residence and the obligations of the mortgage are met. Lenders recover their principal, plus interest, when the home is sold. The remaining value of the home goes to the borrower or his or her heirs. If the sales proceeds are insufficient to pay the amount owed, FHA will pay the lender the amount of the shortfall. FHA collects an insurance premium from all borrowers to provide this coverage.

The amount a homeowner can borrow depends on: the youngest borrower's age, the current interest rate, and the lesser of the appraised value of the home and the HECM FHA mortgage limit for the borrower's area or the sales price.

Borrowers select an initial Mortgage Insurance Premium (MIP) option of either 2% HECM Standard option or .01% HECM Saver option.

Borrowers can borrow more with the HECM Standard option. Also, the amount that can be borrowed may increase depending upon the value of the borrower's home, the older the borrower is, and the interest rate. If there is more than one borrower, the age of the youngest borrower is used to determine the amount that can be borrowed. For an estimate of HECM cash benefits, go to HECM Home Page and select an online calculator. There is no limit on the value of homes qualifying for a HECM. The value of the borrower's home will be determined by an appraisal. However, the amount that may be borrowed is derived from the lower of the appraised value, sales price or the FHA HECM mortgage limit of \$625,500. The borrower is charged an upfront insurance

**Program Description**  
*continued*

premium of 2 percent of the maximum claim amount for HECM Standard and .01 percent for the HECM Saver. In addition, the borrower will have an annual mortgage insurance premium of 1.25%.

**HECM Costs**

A borrower can pay for most of the costs of a HECM by financing them and having them paid from the proceeds of the loan. Financing the costs means that the borrower does not have to pay for them out of pocket. On the other hand, financing the costs reduces the net loan amount available to the borrower. The HECM loan includes several fees, including an origination fee, closing costs, mortgage insurance premium, interest and servicing fees.

**Origination Fee**

A borrower will pay an origination fee to compensate the lender for processing the HECM loan. A lender can charge a HECM origination fee up to \$2,500 if the borrower's home is valued at less than \$125,000. If the home is valued at more than \$125,000 lenders can charge 2% of the first \$200,000 of the home's value plus 1% of the amount over \$200,000. HECM origination fees are capped at \$6,000.

**Closing Costs**

Closing costs from third parties can include an appraisal, title search and insurance, surveys, inspections, recording fees, mortgage taxes, credit checks and other fees.

**Mortgage Insurance Premium (MIP)**

The borrower will incur a cost for FHA HECM insurance. The mortgage insurance premium (MIP) can be financed as part of the loan. The borrower will be charged an initial MIP at closing, which is either 2% (HECM Standard) or .01% (HECM Saver) of the lesser of the home's appraised value, the FHA HECM mortgage limit for the borrower's area or the sales price. Over the life of the loan, the borrower will also be charged an annual MIP that equals 1.25% of the mortgage balance. The HECM insurance guarantees that the borrower will receive expected loan advances. The insurance also guarantees that, if the borrower or his or her heirs sell the home to repay the loan, the borrower's total debt can never be greater than the home's value.

<p><b>Program Description</b> <i>continued</i></p>	<p><b>Servicing Fee</b></p> <p>Lenders or their agents provide servicing throughout the life of the HECM. Servicing includes sending account statements, disbursing loan proceeds, and making certain that the borrower keeps up with loan requirements such as paying taxes and insurance. HECM lenders may charge a monthly servicing fee of no more than \$30 if the loan has an annually adjusting interest rate and \$35 if the interest rate adjusts monthly. At loan origination, HECM lenders set aside the servicing fee and deduct the fee from the borrower's available funds. Each month the monthly servicing fee is added to the loan balance.</p> <p><b>Interest Rate</b></p> <p>HECM borrowers can choose an adjustable interest rate or a fixed rate. If a borrower chooses an adjustable interest rate, he or she may choose to have the interest rate adjust monthly or annually. Lenders may not adjust annually adjusted HECMs by more than 2 percentage points per year and not by more than 5 total percentage points over the life of the loan. FHA does not require interest rate caps on monthly adjusted HECMs.**</p> <p>Beginning October 4, 2010, homeowners seeking to obtain an FHA HECM have had the option of reducing their closing costs by selecting HECM Saver as their initial mortgage insurance premium. The HECM Saver differs from the traditional HECM Standard Program in that eligible borrowers 62 and older will be charged significantly lower upfront fees. However, the lower upfront fees do result in less money being made available to the borrower than is available under HECM Standard.</p> <p>There are no additional eligibility requirements for HECM Saver; homeowners just need to meet existing HECM program requirements. HECM Saver is available for all HECM transaction types and payment plans. Additional information about HECM Saver can be obtained from a HUD-approved HECM Counselor or FHA-approved lender.**</p>
<p><b>FY2010 Total Reverse Mortgages</b></p>	<p>There are 78,575 insurance endorsements totaling a maximum claim amount of \$20,974,064,501.</p>

\* Online at <http://portal.hud.gov/hudportal/documents/huddoc?id=ProgramsofHUD.pdf>.

\*\* Online at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/hecm/hecmabou](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hecm/hecmabou).

\*\*\* Online at [http://portal.hud.gov/hudportal/documents/huddoc?id=DOC\\_13007.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_13007.pdf).

## HOPE FOR HOMEOWNERS PROGRAM

<b>Legal Authority</b>	HERA established the HOPE for Homeowners program, under a new section 257 of the National Housing Act.* The Helping Families Save Their Homes Act of 2009 amends the National Housing Act, providing for key changes in the HOPE for Homeowners (H4H) Program.** 24 CFR part 4001, Mortgagee Letter 2009–43.
<b>Clientele</b>	H4H loans are available for eligible borrowers who are either current or delinquent. If an eligible borrower’s home is in foreclosure, he or she may still be able to apply for H4H, depending on the status of the foreclosure process for that borrower’s property. Borrowers in bankruptcy may participate. However, borrowers who have filed for a Chapter 7 or 13 bankruptcy that has not been discharged must obtain approval for the refinance from the bankruptcy trustee.
<b>Program Description</b>	<p>HOPE for Homeowners (H4H) is a program created by Congress to help borrowers at risk of default and foreclosure. The program provides new, 30-year, fixed rate mortgages that are insured by the Federal Housing Administration (FHA). It may help borrowers to refinance their mortgages into a more affordable payment. Participation in the H4H program is voluntary, and both lenders and borrowers must agree to participate. The H4H program ends September 30, 2011; all loans must be insured by this date. Borrowers cannot take out a second mortgage for the first five years of the loan, except under certain circumstances for emergency repairs.</p> <p>If a borrower is current on his or her existing mortgage, a new H4H mortgage will be no more than 105% of the new appraised value of the borrower’s home, with the lender essentially writing down the borrower’s current mortgage to that amount. If a borrower is delinquent on his or her mortgage, the H4H loan will be no more than 90% or 96.5% of the home’s value, depending on the borrower’s current financial situation. The amount of the H4H mortgage may not exceed the nationwide maximum mortgage limits as follows:</p> <ul style="list-style-type: none"> <li>• One-unit: \$550,440</li> <li>• Two-units: \$704,682</li> <li>• Three-units: \$851,796</li> <li>• Four-units: \$1,058,574</li> </ul>

<p><b>Program Description</b> <i>continued</i></p>	<p>A borrower may be eligible if, among other factors:</p> <ul style="list-style-type: none"> <li>• The home is the borrower's primary residence, and the borrower has no ownership interest in any other residential property, with the exception of inherited properties.</li> <li>• The borrower's existing mortgage was originated on or before January 1, 2008, and the borrower has made at least six full payments.</li> <li>• The borrower's total monthly mortgage payment(s) is (are) more than 31 percent of his or her gross monthly income, and the borrower is not able to pay the existing mortgage without help.</li> <li>• The borrower's net worth is less than \$1,000,000, excluding certain retirement accounts.</li> <li>• The borrower can certify that he or she has not been convicted of fraud in the past 10 years, intentionally defaulted on debts, and did not knowingly or willingly provide material false information to obtain the existing mortgage(s).</li> <li>• The borrower has not intentionally defaulted on the mortgage or on any other substantial debt (\$100,000 or more) in the last five years.***</li> </ul> <p>Key changes to the H4H Program resulting from the Helping Families Save Their Homes Act include: +</p> <ul style="list-style-type: none"> <li>• Borrowers are ineligible if their net worth exceeds \$1,000,000.</li> <li>• Borrowers must not have defaulted on any substantial debt in the last 5 years.</li> <li>• The age of appraisal now follows standard FHA guidance.</li> <li>• Reduced mortgage insurance premiums.</li> <li>• Revised loan-to-value and debt-to-income ratios.</li> <li>• Maximum loan-to-value excludes the Upfront Mortgage Insurance Premium.</li> <li>• Eliminated requirement for obtaining most recent two year tax returns.</li> <li>• Eliminated special lender and underwriter certification.</li> <li>• Exit Premium replaces Shared Equity.</li> <li>• Shared Appreciation feature eliminated.</li> <li>• New note and mortgage replaces previous shared equity and shared appreciation notes and mortgages.</li> <li>• Lenders must submit 5 test cases for pre-closing review by FHA.</li> </ul>
<p><b>FY2010 Total H4H Loans</b></p>	<p>There are 107 insurance endorsements totaling \$19,751,454.</p>

\* Programs of HUD 2011.

\*\* Mortgagee Letter 2009-43.

\*\*\* Online at [www.hud.gov/offices/hsg/sfh/h4h/faqs\\_consumers\\_h2h.pdf](http://www.hud.gov/offices/hsg/sfh/h4h/faqs_consumers_h2h.pdf).

+ Mortgagee Letter 2009-43.

### INSURED MORTGAGES ON HAWAIIAN HOME LANDS PROGRAM

<b>Legal Authority</b>	Section 247 of the National Housing Act (12 U.S.C. § 1715z–12). Regulations are at 24 CFR 203.43i.
<b>Clientele</b>	Any Native Hawaiian wishing to live on Hawaiian home land and intending to use the mortgaged property as their primary residence are eligible to apply for mortgage insurance.
<b>Program Description</b>	<p>FHA insures loans made to native Hawaiians to purchase one- to four-family dwellings located on Hawaiian home lands. Regulations pertaining to these loans are fundamentally the same as regular Section 203(b) loans except that they are only available to Native Hawaiians on Hawaiian home lands.</p> <p>FHA’s mortgage insurance provides opportunities to low- and moderate-income Native Hawaiians to purchase a home on Hawaiian home lands. Because a mortgage is taken on a homestead lease granted by the Department of Hawaiian Homelands, many lenders have been reluctant to finance housing. With FHA insurance, the lender’s risk is minimized, and this program increases the availability of mortgage credit to Native Hawaiians to live on Hawaiian home lands. FHA’s low down payment requirements and flexible underwriting standards increase the ability of Native Hawaiians to meet the requirements for the loan.</p> <p>A Native Hawaiian means any descendant of not less than one-half part of the blood of the races inhabiting the Hawaiian Islands before January 1, 1778 (or, in the case of an individual who succeeds a spouse or parent in an interest in a lease of Hawaiian home lands, such lower percentage as may be established for such succession under Section 209 of the Hawaiian Homes Commission Act, 1920, or under the corresponding provision of the constitution of the State of Hawaii adopted under Section 4 of the Act entitled, “An Act to provide for the admission of the State of Hawaii into the Union,” approved March 18, 1959).*</p>
<b>FY2010 Total Insurance Coverage</b>	There are 232 insurance endorsements totaling \$45,944,294.

\* Online at <http://portal.hud.gov/hudportal/documents/huddoc?id=ProgramsofHUD.pdf>, page 54/175.

## FHA INSURED MORTGAGES ON INDIAN LAND PROGRAM

<b>Legal Authority</b>	Section 248 of the National Housing Act (12 U.S.C. § 1715z–13). Regulations are at 24 CFR 203.43h.
<b>Clientele</b>	Any Native Americans wishing to live on Indian land and intending to use the mortgage property as the primary residence is eligible to apply for mortgage insurance.
<b>Program Description</b>	FHA insures loans made to Native Americans to buy, build, or rehabilitate houses on Indian land. These loans are fundamentally the same as regular Section 203(b) loans except that they are only available to Native Americans on Indian land. Native Americans are the most poorly housed sector of the American population. FHA's mortgage insurance provides opportunities for low- and moderate-income Native Americans to purchase a home in their communities on Indian land. Because of the complex title issues on Indian land, many lenders have been reluctant to finance housing. With FHA insurance, the lender's risk is minimized, and this program increases the availability of mortgage credit to Native Americans living on Indian land. FHA's low down payment requirements and flexible underwriting standards increase the ability of Native Americans to meet the requirements for the loan.*
<b>FY2010 Total Insurance Coverage</b>	None.

\* Online at <http://portal.hud.gov/hudportal/documents/huddoc?id=ProgramsofHUD.pdf>, page 55/145.

### HUD's Oversight of FHA Programs

#### Federal Supervision and Regulation

HUD-OIG became statutory with the signing of the Inspector General Act of 1978 (Public Law 95–452). The Offices of Inspector General were established to conduct and supervise audits and investigations relating to programs and operations of the establishments, and to provide leadership and coordination and recommended policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in, such programs and operations; and (C) to provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.<sup>1</sup> We are a trusted and respected resource for HUD, Congress, and the American public in ensuring the integrity, efficiency, and effectiveness of HUD programs

<sup>1</sup> Online at [www.ignet.gov/pande/leg/igactasof0609.pdf](http://www.ignet.gov/pande/leg/igactasof0609.pdf), page 1/27.

and operations. We are committed to working jointly with HUD management to achieve their goals.<sup>2</sup>

HUD's Mortgagee Review Board (the Board) was established in the Federal Housing Administration, which is in the Office of the Assistant Secretary for Housing—Federal Housing Commissioner, by section 202(c)(1) of the National Housing Act (12 U.S.C. § 1708(c)(1)), as added by section 142 of the Department of Housing and Urban Development Reform Act of 1989 (Public Law 101-235, approved December 15, 1989). Except as limited by this part, the Board shall exercise all of the functions of the Secretary with respect to administrative actions against mortgagees and lenders and such other functions as are provided in this part. The Board may, in its discretion, approve the initiation of a suspension or debarment action against a mortgagee or lender by any Suspending or Debarring Official under part 24 of this subtitle A. The Board shall have all powers necessary and incident to the performance of these functions. The Board may redelegate its authority to review submissions and conduct hearings under § 25.8. The Board may also redelegate its authority to impose administrative sanctions on the grounds specified in §§ 25.9(e), (h), and (u), and to take all other nondiscretionary acts. With respect to actions taken against Title I lenders and loan correspondents, the Board may redelegate its authority to take administrative actions for failure to remain in compliance with the requirements for approval in 24 CFR 202.5(i), 202.5(n), 202.7(b)(4), 202.8(b)(1) and 202.8(b)(3).<sup>3</sup>

HUD's Office of Lender Activities and Program Compliance is responsible for administering various risk management activities related to FHA-approved lenders. The framework of the Office's risk management strategy is:

- Gatekeeping— Approving and recertifying only responsible loan correspondents and lenders to originate and/or service HUD/FHA insured mortgages in FHA's Title I and Title II loan programs.
- Monitoring— Assessing lender performance, internal controls and compliance with HUD/FHA origination and servicing requirements, largely through on-site reviews of lender practices, but also through off-site evaluations and analyses.
- Enforcement— Sanctioning those lenders, and related parties, that fail to comply with HUD/FHA requirements.

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2 Online at <http://csfintraweb.hudoig.gov/Docs/Mission%20Statement.pdf>.

3 Online at <http://law.justia.com/cfr/title24/24-1.1.1.1.20.html#24:1.1.1.1.20.0.52.2>.

HUD's four Homeownership Centers (HOCs) deal with the many different aspects of FHA mortgage insurance for a designated geographic area. Included among the functions are: implementing underwriting and insuring standards; monitoring the origination and servicing practices of HUD-approved single family mortgagees and Title I lenders, overseeing the disposition of HUD-owned properties and monitoring the performance of other field contracts, as well as promoting FHA single family programs to the industry and the public. Case specific issues are handled by the appropriate HOC.<sup>4</sup>

When a review uncovers activities that expose HUD to an unacceptable level of risk, the lender may agree to indemnify HUD's losses on specific noncompliant loans. If HUD agrees to indemnification as a means to resolve HUD's findings, HUD and the lender execute an Indemnification Agreement. The agreement states that the lender will repay HUD for any losses that HUD incurs because it insured the loans covered by the agreement. HUD/FHA loans may also be indemnified as a result of enforcement activities of HUD's Mortgagee Review Board and of the HUD Office of General Counsel's Office of Program Enforcement. If HUD incurs a loss, it seeks payment from the indemnifying lender based on the terms of the Indemnification Agreement. As of March 2004, HUD's Financial Operations Center (FOC) was assigned responsibility for monitoring SF Indemnification Agreements, calculating HUD's net loss after claim payment, and the billing and collecting of these debts.<sup>5</sup>

### State Supervision and Regulation

The state supervision requirements will vary by state, by the type of institution that the mortgagee (i.e., state or local bank, non-supervised, etc.) is, and the type of business (i.e., single family residential, manufactured housing, etc.) that it conducts.

### Private Oversight

Not applicable

### External Audit Requirements

HUD Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs* applies.

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4 Online at <http://hudatwork.hud.gov/po/h/hs/sfhqrsf.cfm>.

5 Online at HUD Handbook 4740.2, REV-2, Chapter 8, page 8-3.

Title II non-supervised mortgagees and/or loan correspondents are required to have an annual audit and to submit their reported audited financial statements and compliance data electronically through the Lender Assessment Subsystem (LASS) within 90 days of the close of its fiscal year, regardless of the number of loans originated or serviced. The hard copy of the basic financial statements and the audit report must be issued before the mortgagee initiates its electronic submission.

The audit shall be performed in accordance with generally accepted government auditing standards (GAGAS)—also referred to as the “Yellow Book”—and shall include the auditor’s report on the basic financial statements, an auditor’s computation of the mortgagee’s adjusted net worth, and a hard copy of the completed LASS Financial Data Templates (FDT). The auditor’s report must include an opinion on the auditor’s computation of mortgagee’s adjusted net worth and on the fair presentation of the hard copy of the LASS FDT in relation to the audited basic financial statements, in accordance with The Statement on Auditing Standards (SAS) 29, “Reporting on Information Accompanying the Basic Financial Statements in Auditor Submitted Documents.” These reports are required for every Title II non-supervised mortgagee or loan correspondent, regardless of the number of loans originated or serviced during the fiscal year.

For all lenders the audit report shall also cover internal controls and compliance with specific requirements that have a direct and material effect on HUD-assisted mortgages, including an opinion on compliance with specific requirements applicable to major or non-major HUD-assisted programs.

An independent auditor’s report on compliance with specific requirements applicable to major/non-major HUD programs is required. Major program mortgagees are subject to an audit of their compliance with HUD major programs. Non-major program mortgagees are subject to a review of their compliance with HUD non-major programs. A major program is an individual assistance program or a group of programs in a category of federal financial assistance, which exceeds \$300,000 during the applicable year. A project, which has an outstanding HUD-insured or guaranteed loan balance exceeding \$300,000 as of the reporting date, shall be considered a major program. A mortgagee or loan correspondent, which originates and/or services an aggregate of FHA-insured loans exceeding \$300,000 during the period under audit, is considered a major program (HUD Handbook 4060.1, paragraph 4-4A1e).

Effective May 20, 2010, FHA no longer accepts new applications for loan correspondent approval. Loan correspondents approved and in good standing will be permitted to retain their approval through December 31, 2010. After December 31, 2010, loan correspondents (also referred to as sponsored third party originators) will be permitted to continue participation in FHA programs by establishing a sponsorship relationship with an FHA-approved mortgagee, as explained in the rule.<sup>6</sup>

FHA extended the annual approval and audit requirements to supervised mortgagees. Effective January 1, 2010, and consistent with the authority of section 203(b)(1) of the National Housing Act, all supervised mortgagees must now submit an annual audited financial statement within 90 days of their fiscal year end. Audited financial statements must be submitted in accordance with HUD Handbook 4060.1 REV-2 and prepared and audited in accordance with HUD-OIG's most recent Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*. Financial Statements must be submitted electronically through the LASS.<sup>7</sup>

**Participation in Single Family Programs.** Irrespective of size, all applicants for approval and lenders and mortgagees with FHA approval that wish to participate in FHA single family programs must possess a minimum net worth of not less than \$1,000,000 plus an additional net worth of one percent of the total volume in excess of \$25 million of FHA single family insured mortgages originated, underwritten, purchased, or serviced during the prior fiscal year, up to a maximum required net worth of \$2.5 million. Not less than 20 percent of a mortgagee's required net worth must be liquid assets consisting of cash or its equivalent acceptable to the Secretary.<sup>8</sup>

## Performance Measures

The data for the performance measures on each of the Single Family programs are from HUD's Office of Evaluation.



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<sup>6</sup> Mortgagee Letter 2010-20 and Final Rule FR 5356-F-02.

<sup>7</sup> Mortgagee Letter 2009-31.

<sup>8</sup> Online at [www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-20ml.pdf](http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-20ml.pdf).

**Agency Name**

HUD’s Office of Community Planning and Development

**Administering Agency**

Assistant Secretary for Community Planning and Development  
 U.S. Department of Housing and Urban Development  
 Washington, DC 20410-7000

**NEIGHBORHOOD STABILIZATION PROGRAM 1**

<p><b>Legal Authority</b></p>	<p>Division B, Title III of the Housing and Economic Recovery Act established the Neighborhood Stabilization Program (NSP) and appropriated \$3.92 billion in funding (commonly referred to as NSP1). Docket No. FR 5255–N–01 (FR Vol. 73, No. 194, 10/6/08), Bridge Notice—FR 5255–N–02, 6/19/09, Unified NSP 1 &amp; NSP 3 Notice—FR 5447–N–01.*</p>
<p><b>Clientele</b></p>	<p>States and units of general local government administer the NSP grants. All NSP-funded activities must benefit low- and moderate-income persons whose income does not exceed 120 percent of area median income.** NSP grantees must use at least 25 percent of the funds appropriated for the purchase and redevelopment of abandoned or foreclosed homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50 percent of the area median income.</p>
<p><b>Program Description</b></p>	<p>This program provides for emergency assistance grants to states and units of general local government to purchase and redevelop foreclosed and abandoned homes and residential properties. NSP1 is a component of HUD’s Community Development Block Grant (CDBG) program.</p> <p>NSP1 funds may be used to: establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties; purchase and rehabilitate homes and residential properties abandoned or foreclosed; establish land banks for foreclosed homes; demolish blighted structures; and redevelop demolished or vacant properties. NSP1 grants are awarded on a formula basis to state, local, and territorial governments.</p>

<p><b>Program Description</b> <i>continued</i></p>	<p>Under NSP1, grantees have 18 months from the date HUD signed their grant agreements to obligate these funds and four years to expend grant awards. NSP1 grantees develop their own programs and funding priorities. The Disaster Recovery Grant Reporting (DRGR) system was developed by HUD for Disaster Recovery program management, but it is being utilized by NSP1 for reporting purposes. Data from the system is used by HUD staff to review activities funded under NSP1 and for required quarterly reports to Congress.***</p> <p><b>Eligible Uses</b></p> <p>Among other activities, NSP1 funds may be used to:</p> <ul style="list-style-type: none"> <li>• Establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties</li> <li>• Purchase and rehabilitate homes and residential properties abandoned or foreclosed</li> <li>• Establish land banks for foreclosed homes</li> <li>• Demolish blighted structures</li> <li>• Redevelop demolished or vacant properties</li> </ul> <p>Homebuyers cannot receive assistance directly from HUD. NSP funds can be used to help homebuyers purchase homes, but they must contact an NSP grantee for application details. NSP operates on a national scale, but participation requirements may differ from one state or city to another. For information on how to purchase a home with NSP assistance, a borrower should contact an NSP grantee in his or her area.+</p>						
<p><b>FY2010 Total NSP1 Funds/ Outlays</b></p>	<table> <tr> <td>Appropriated Funds.....</td> <td>\$ 3.92 billion</td> </tr> <tr> <td>Grant Award Funds.....</td> <td>\$ 3.92 billion</td> </tr> <tr> <td>FY2010 Outlays.....</td> <td>\$ 1,559,761,083</td> </tr> </table>	Appropriated Funds.....	\$ 3.92 billion	Grant Award Funds.....	\$ 3.92 billion	FY2010 Outlays.....	\$ 1,559,761,083
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\* Online at <http://hudnsphelp.info/index.cfm?do=viewLawsandNotices>.

\*\* Online at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/programs/neighborhoodspg](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/neighborhoodspg).

\*\*\* Online at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/programs/neighborhoodspg/nsp1](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/neighborhoodspg/nsp1).

+ Online at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/programs/neighborhoodspg](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/neighborhoodspg).

**NEIGHBORHOOD STABILIZATION PROGRAM 2**

<p><b>Legal Authority</b></p>	<p>Title XII of Division A of the American Recovery and Reinvestment Act of 2009 (Recovery Act) (Public Law No. 111–5). Docket FR 5300–N–01 (FR Vol. 73, No. 249, 12/29/08), Docket FR 5321–N–01, NOFA, 5/4/09, Docket FR 5321–C–02, NOFA Correction, 6/11/09, Docket FR 5321–C–03, NSP NOFA Correction, 11/9/09, FR 5321–C–04–NSP 2 NOFA Correction, 1/12/10, FR 5321–N–04, Notice of Definition Revision to NOFA for FY2009, 4/2/10, FR 5321–N–03, Notice of Change in Definition and Modification to NSP, 4/9/10, FR 5435–N–01, Notice of NSP Reallocation Process Changes, 8/23/10.*</p>
<p><b>Clientele</b></p>	<p>States and units of general local government administer the NSP grants. All activities funded by NSP must benefit low- and moderate-income persons whose income does not exceed 120 percent of area median income.** NSP grantees must use at least 25 percent of the funds appropriated for the purchase and redevelopment of abandoned or foreclosed homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50 percent of the area median income.</p>
<p><b>Program Description</b></p>	<p>The Recovery Act included an additional \$2 billion appropriation for the Neighborhood Stabilization Program (commonly referred to as NSP), as authorized in HERA and described above, for the redevelopment of abandoned and foreclosed homes and residential properties. NSP2 provides competitive grant awards to states, units of general local government, and nonprofit organizations to undertake eligible activities as provided under HERA, as amended.</p> <p>The Recovery Act also authorized the establishment of the NSP Technical Assistance (NSP-TA) program to improve the capacities of NSP grantees and the implementation of their programs. Fifty million dollars of the \$2 billion Recovery Act appropriation is set aside for this purpose. Eligible applicants for competitive NSP-TA awards are states, units of general local government, nonprofit organizations, and other organizations capable of providing technical assistance to NSP grantees.***</p> <p>NSP2 grantees are required to expend 50 percent of NSP2 funds in two years after HUD signs the grant agreement and to expend 100 percent of NSP2 funds within three years after HUD signs the grant agreement (ARRA, 123 Stat. 217).+</p>

<b>Program Description</b> <i>continued</i>	<b>Eligible Uses</b> Among other activities, NSP2 funds may be used to: <ul style="list-style-type: none"> <li>• Establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties</li> <li>• Purchase and rehabilitate homes and residential properties abandoned or foreclosed</li> <li>• Establish land banks for foreclosed homes</li> <li>• Demolish blighted structures</li> <li>• Redevelop demolished or vacant properties</li> </ul>								
<b>FY2010 Total NSP2 Funds/ Expenditures</b>	<table> <tr> <td>Appropriated Funds.....</td> <td>\$2 billion</td> </tr> <tr> <td>Grant Award Funds.....</td> <td>\$1.98 billion</td> </tr> <tr> <td>Funds Available/Unobligated Balance.....</td> <td>\$1,998,048,565</td> </tr> <tr> <td>FY2010 Outlays.....</td> <td>\$500,679,660</td> </tr> </table>	Appropriated Funds.....	\$2 billion	Grant Award Funds.....	\$1.98 billion	Funds Available/Unobligated Balance.....	\$1,998,048,565	FY2010 Outlays.....	\$500,679,660
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\* Online at <http://hudnsphelp.info/index.cfm?do=viewLawsandNotices>.

\*\* Online at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/programs/neighborhoodspg](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/neighborhoodspg).

\*\*\* 2011 Programs of HUD.

+ Online at [http://www.whitehouse.gov/sites/default/files/omb/circulars/a133\\_compliance/2011/hud.pdf](http://www.whitehouse.gov/sites/default/files/omb/circulars/a133_compliance/2011/hud.pdf).

### NEIGHBORHOOD STABILIZATION PROGRAM 3

<b>Legal Authority</b>	The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) authorized \$1 billion for the Neighborhood Stabilization Program (commonly referred to as NSP), as authorized in HERA and described above. (Public Law 111–203, approved July 21, 2010). FR 5447–N–01, Unified NSP 1 & 3 Notice, 10/19/10.*
<b>Clientele</b>	All activities funded by NSP must benefit low- and moderate-income persons whose income does not exceed 120 percent of area median income.** NSP grantees must use at least 25 percent of the funds appropriated for the purchase and redevelopment of abandoned or foreclosed homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50 percent of the area median income.
<b>Program Description</b>	NSP3 provides formula grant awards to states and units of general local government to undertake eligible activities as provided under HERA, and HUD may make available up to 2 percent of the funds for technical assistance grants. Under NSP3, grantees have 2 years from the date HUD signed their grant agreements to expend 50% these funds and 3 years to expend an amount equal to these allocations.

<p><b>Program Description</b> <i>continued</i></p>	<p><b>Eligible Uses</b></p> <p>Among other activities, NSP3 funds may be used to:</p> <ul style="list-style-type: none"> <li>• Establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties;</li> <li>• Purchase and rehabilitate homes and residential properties abandoned or foreclosed;</li> <li>• Establish land banks for foreclosed homes;</li> <li>• Demolish blighted structures; and</li> <li>• Redevelop demolished or vacant properties.</li> </ul>
<p><b>FY2010 Total NSP3 Funds/ Expenditures</b></p>	<p>Appropriated Funds..... \$1 billion</p> <p>Grant Award Funds..... \$970 million</p> <p>No funds were available or expended in FY2010. Funding was not made available until FY2011.</p>

\* Online at <http://hudnshelp.info/index.cfm?do=viewLawsandNotices>.

\*\* Online at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/programs/neighborhoodspg](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/neighborhoodspg).

### HUD's Oversight of the Neighborhood Stabilization Programs

#### Federal Supervision and Regulation

HUD-OIG became statutory with the signing of the Inspector General Act of 1978 (Public Law 95-452). The Offices of Inspector General were established to conduct and supervise audits and investigations relating to programs and operations of the establishments, and to provide leadership and coordination and recommended policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in, such programs and operations; and (C) to provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.<sup>9</sup> We are a trusted and respected resource for HUD, Congress, and the American public in ensuring the integrity, efficiency, and effectiveness of HUD programs and operations. We are committed to working jointly with HUD management to achieve their goals.<sup>10</sup> The Office of Community Planning and Development is responsible for monitoring the grantees of NSP funding.

9 Online at <http://www.ignet.gov/pande/leg/igactasof0609.pdf>, page 1/27.

10 Online at <http://csfintraweb.hudoig.gov/Docs/Mission%20Statement.pdf>.

## State Supervision and Regulation

The state shall make reviews and audits, including on-site reviews of any sub recipients, designated public agencies, and units of general local government as may be necessary or appropriate to meet the requirements of 42 U.S.C. § 5304(e)(2), as amended, as modified by this notice. In the case of noncompliance with these requirements, the state shall take such actions as may be appropriate to prevent a continuance of the deficiency, mitigate any adverse effects or consequences, and prevent a recurrence. The state shall establish remedies for noncompliance by any designated public agencies or units of general local government and for its sub recipients. The common rule applies to NSP so the grantee is responsible for monitoring its sub grantees / developers.<sup>11</sup>

## Private Oversight

Not applicable

## External Audit Requirements

Single Audit Act and OMB Circular A-133 apply.<sup>12</sup>

## Performance Measures

The data for the performance measures on each of the Neighborhood Stabilization programs are from SF-133 Report on Budget Execution and Budget Resources ending 9/30/11.



## Agency Name

HUD's Office of Housing Counseling

## Administering Agency(s) for Housing Program

Assistant Secretary for Housing—Federal Housing Commissioner  
U.S. Department of Housing and Urban Development  
Washington, DC 20410-8000

<sup>11</sup> Online at [http://hudnsphelp.info/media/resources/NSP2\\_NOFA.pdf](http://hudnsphelp.info/media/resources/NSP2_NOFA.pdf).

<sup>12</sup> Online at [www.whitehouse.gov/omb/financial\\_fin\\_single\\_audit](http://www.whitehouse.gov/omb/financial_fin_single_audit).

## EMERGENCY HOMEOWNERS' LOAN PROGRAM

<b>Legal Authority</b>	The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) reauthorized the emergency homeowners assistance program provided by the Emergency Housing Act of 1975 (12 U.S.C. § 2701 et seq.) and made \$1 billion available for this program. 24 CFR, part 2700, FR 5470–F–01, FR 5470–N–02 (Companion Notice).
<b>Clientele</b>	<p>Homeowners who are at risk of foreclosure and have experienced a substantial reduction in income due to involuntary unemployment, underemployment, or a medical condition.</p> <p><b>Eligible Lending Institutions</b></p> <p>In order to participate in the Emergency Homeowners' Loan Program as a lender or servicer, a lending institution must be approved as a mortgagee by the FHA in accordance with the applicable requirements in 24 CFR part 203, and meet such other requirements as may be prescribed by HUD.*</p> <p><b>States with Comparable Programs</b></p> <p>HUD is authorized to allow funding for the Emergency Homeowners' Loan Program to be administered by a state that has an existing program that is determined by HUD to provide substantially similar assistance to homeowners.**</p>
<b>Program Description</b>	<p>When first established in 1975, the Emergency Homeowners' Loan Program conferred on HUD standby authority to insure or make loans to, or emergency mortgage payments on behalf of, homeowners to defray mortgage expenses so as to prevent widespread mortgage foreclosures and distress sales of homes due to a substantial reduction of income resulting from the temporary involuntary loss of employment or underemployment due to adverse economic conditions. Dodd-Frank revised the 1975 Act to provide that temporary involuntary unemployment or under-employment may also be due to medical conditions, and that HUD may fund States with programs substantially similar to the Program. This program provides up to 24 months of mortgage payments assistance or \$50,000, whichever occurs first.</p> <p><b>Allocation of Program Funds</b></p> <ul style="list-style-type: none"> <li>• <b>Recipient Geography:</b> HUD will assist borrowers living in Puerto Rico and the 32 states otherwise not funded by Treasury's Innovation Fund for Hardest Hit Housing Markets program.</li> </ul>

**Program Description**  
*continued*

- **Allocation Amount:** An allocation amount will be reserved to assist homeowners living in each of these states. The total amount reserved will be based on the state's approximate share of unemployed homeowners with a mortgage relative to all unemployed homeowners with a mortgage (See attached allocation list).
- **Targeting Funds to Local Geographies:** HUD will provide information that identifies pockets within each of the designated states that have suffered the most from recent spikes in unemployment and/or mortgage delinquencies. HUD will encourage the use of program dollars in these hardest-hit areas.
- **Income Thresholds:** Has a total pre-event household income equal to, or less than, 120 percent of the Area Median Income (AMI), which includes wage, salary, and self-employed earnings and income.
- **Significant Income Reduction:** Has a current gross income that is at least 15 percent lower than the pre-event income.
- **Employment Type:** Both wage and salary workers and self-employed individuals are eligible.
- **Delinquency and Likelihood of Foreclosure:** Must be at least three months delinquent on payments and have received notification of an intention to foreclose. This requirement can be documented by any written communication from the mortgagee to the homeowner indicating at least three months of missed payments and the mortgagee's intent to foreclose. In addition, the homeowner can self-certify that there is a likelihood of initiation of foreclosure on the part of their mortgagee due to the homeowner being at least three months delinquent in their monthly payment.
- **Ability to Resume Repayment:** Has a reasonable likelihood of being able to resume repayment of the first mortgage obligations within 2 years, and meet other housing expenses and debt obligations when the household regains full employment, as determined by: The homeowner must have a back-end ratio or DTI below 55% (principal, interest, taxes, insurance, revolving and fixed installment debt divided by total gross monthly income). For this calculation, gross income will be measured at the pre-event level.
- **Principal Residence:** Must reside in the mortgaged property as principal residence. The mortgaged property must also be a single family residence (1 to 4 unit structure or condominium unit).

<b>Program Description</b> <i>continued</i>	<ul style="list-style-type: none"> <li>• <b>Creation of HUD Note:</b> After the first assistance payment is made on behalf of the homeowner, the fiscal agent will create an open-ended “HUD note” and a mortgage to be in the name of the Secretary of HUD of sufficient size to accommodate the expected amount of assistance to be provided to homeowner.***</li> </ul> <p>This new program will complement Treasury’s Hardest Hit Fund by providing assistance to homeowners in hard hit local areas that may not be included in the hardest hit target states. +</p>
<b>FY2010 Total Funds/ Expenditures</b>	None.

\* Online at <http://edocket.access.gpo.gov/2011/pdf/2011-4816.pdf>, (2700. 105).

\*\* Online at <http://edocket.access.gpo.gov/2011/pdf/2011-4816.pdf>.

\*\*\* Online at [www.hud.gov/offices/hsg/sfh/hcc/msgs/EHLP100810.pdf](http://www.hud.gov/offices/hsg/sfh/hcc/msgs/EHLP100810.pdf).

+ Online at [http://portal.hud.gov/hudportal/HUD?src=/press/press\\_releases\\_media\\_advisories/2010/HUDNo.10-176](http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2010/HUDNo.10-176).

## HUD’s Oversight of the Emergency Homeowners’ Loan Program

### Federal Supervision and Regulation

HUD-OIG became statutory with the signing of the Inspector General Act of 1978 (Public Law 95–452). The Offices of Inspector General were established to conduct and supervise audits and investigations relating to programs and operations of the establishments, and to provide leadership and coordination and recommended policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in, such programs and operations; and (C) to provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.<sup>13</sup> We are a trusted and respected resource for HUD, Congress, and the American public in ensuring the integrity, efficiency, and effectiveness of HUD programs and operations. We are committed to working jointly with HUD management to achieve their goals.<sup>14</sup>

HUD’s Program Support Division, the final loan approver, will perform a 100% review each week and sample risky loans to make sure that everything up to that point has been done properly (this work will be performed by Program Development and Research). HUD will monitor the grants in those states that do not have their own such programs to distribute and monitor the grant funds.

<sup>13</sup> Online at <http://www.ignet.gov/pande/leg/igactasof0609.pdf>, page 1/27.

<sup>14</sup> Online at <http://csfintraweb.hudoig.gov/Docs/Mission%20Statement.pdf>.

## State Supervision and Regulation

The state supervision requirements will vary by state and by the type of lending institution.

## Private Oversight

Not applicable.

## External Audit Requirements

The Single Audit Act and OMB Circular A-133 apply.<sup>15</sup>



## Agency Name

Government National Mortgage Association (referred to as Ginnie Mae)

## Administering Agency(s) for Housing Program

HUD

### GINNIE MAE MORTGAGE-BACKED SECURITIES (MBS)

<b>Legal Authority</b>	Ginnie Mae is a government corporation. As a part of government, laws passed by the Congress of the United States and signed by the President govern its conduct. The statutory authority of Ginnie Mae is derived from Title III of the National Housing Act, 12 U.S.C. § 1716 et seq.*
<b>Regulatory Authority</b>	As a government corporation, Ginnie Mae and its program are also governed by a set of regulations. These regulations are published in the Code of Federal Regulations at Title 24, Part 300–310.** The Mortgage-Backed Securities Guide (HUD Handbook 5500.3) implements the Ginnie Mae statute and regulations.
<b>Clientele</b>	<ul style="list-style-type: none"> <li>• Approved lenders originate loans under guidelines of federal credit programs.</li> <li>• Issuers pool eligible government insured or guaranteed mortgage loans and securitize these pools into either Ginnie Mae I MBS or Ginnie Mae II create mortgage-backed securities. Unlike others in the market, Ginnie Mae does not buy or sell these pools of loans or issue MBS. Examples of issuers by institution type include mortgage bankers, savings and loans, commercial banks, credit unions and mutual savings banks.***</li> </ul>

<sup>15</sup> Online at [http://www.whitehouse.gov/omb/financial\\_fin\\_single\\_audit](http://www.whitehouse.gov/omb/financial_fin_single_audit).

<b>Clientele</b> <i>continued</i>	<ul style="list-style-type: none"> <li>Investors purchase securities and receive monthly pass through of principal and interest collected from borrowers.</li> </ul>
<b>Program Description</b>	<p>Mortgage-backed securities (MBS) are pools of mortgages used as collateral for the issuance of securities in the secondary market. MBS are commonly referred to as “pass-through” certificates because the principal and interest of the underlying loans is “passed through” to investors. The interest rate of the security is lower than the interest rate of the underlying loan to allow for payment of servicing and guaranty fees. Ginnie Mae MBS are fully modified pass-through securities guaranteed by the full faith and credit of the United States government. Regardless of whether the mortgage payment is made, investors in Ginnie Mae MBS will receive full and timely payment of principal as well as interest. Ginnie Mae MBS are created when eligible mortgage loans (those insured or guaranteed by FHA, the VA, RHS or PIH) are pooled by approved issuers and securitized. Ginnie Mae MBS investors receive a pro rata share of the resulting cash flows (again, net of servicing and guaranty fees).</p> <p>Ginnie Mae securities are the <i>only</i> MBS to carry the full faith and credit guaranty of the United States government, which means that even in difficult times an investment in Ginnie Mae MBS is one of the safest an investor can make.</p> <p>Ginnie Mae I MBS are modified pass-through mortgage-backed securities on which registered holders receive separate principal and interest payments on each of their certificates. Ginnie Mae I MBS are based on single-family pools and are Ginnie Mae’s most heavily-traded MBS product. The underlying mortgages generally have the same or similar maturities and the same interest rate on the mortgages. Single-family Ginnie Mae I pools have a 50 basis point (0.5 percent) guaranty and servicing fee. The Ginnie Mae I MBS also permits the securitization of multifamily mortgages. Ginnie Mae I payments are made to holders on the 15th day of each month.</p> <p><b>Ginnie Mae I Key Program Provisions</b></p> <p>A pool must consist of mortgages within one of the following mortgage pools and guaranteed securities types:</p> <ul style="list-style-type: none"> <li>Single-family level payment mortgages</li> <li>Single-family buydown mortgages</li> </ul>

**Program Description**  
*continued*

- Single-family graduated payment mortgages
- Single-family growing equity mortgages
- Manufactured home loans
- Project construction loans, including multifamily residential, hospital, nursing home, and group practice facility loans
- Project (permanent) loans, including multifamily residential, hospital, nursing home, and group practice facility loans.

**Single-Family Level Payment Mortgages:** \$1 million (may be \$25,000 if issued in connection with a local or state housing bond financing program). Pools consisting of at least one loan may be issued for a minimum of \$25,000 under the bond program.+

**Ginnie Mae II MBS Program**

The Ginnie Mae II MBS Program was introduced in 1983 in response to the changing demands of the secondary mortgage marketplace. Ginnie Mae II MBS are modified pass-through mortgage-backed securities for which registered holders receive an aggregate principal and interest payment from a central paying agent. Ginnie Mae II MBS have become useful tools for “pipeline” management for our issuers. They also provide additional flexibility and liquidity. For example, Ginnie Mae II securities permit greater flexibility with respect to loan characteristics: coupon rates on the underlying mortgages can vary between 25 and 75 basis points above the interest rate on the pool for pools issued on or after July 1, 2003 and between 50 and 150 basis points for pools issued before July 1, 2003. Multiple-issuer as well as single-issuer pools are permitted under the program.

The Ginnie Mae II MBS also allows small issuers who do not meet the dollar requirements of the Ginnie Mae I MBS program to participate in the secondary mortgage market. In addition, the Ginnie Mae II MBS permits the securitization of adjustable rate mortgages (ARMs). The Ginnie Mae II MBS have a central paying and transfer agent that collects payments from all issuers and makes one consolidated payment, on the 20th of each month, to each security holder. An issuer may participate in the Ginnie Mae II MBS either by issuing custom, single-issuer pools or through participation in the issuance of multiple-issuer pools. A custom pool has a single issuer that originates and administers the entire pool. A multiple issuer pool typically combines loans with similar characteristics.

**Program Description**  
*continued*

The resulting pool backs a single MBS issue and each participant is responsible for administering the mortgage loans that it contributes to the pool. The securitization provisions are set forth in detail in the Ginnie Mae MBS Guide (Ginnie Mae Handbook 5500.3).

There are five programs within Ginnie Mae II, each representing a different type of mortgage. Under each type, both the custom pool and multiple issuer pool approaches are permissible. Any one pool must consist of only one of the following mortgage types:

- Single-family level payment mortgages (FHA, VA, or RHS loans)
- Single-family graduated payment mortgages (FHA or VA)
- Single-family growing equity mortgages (FHA or VA)
- Manufactured home loans (FHA or VA)
- Single-family adjustable rate mortgages (FHA or VA).

**Interest Rates on Mortgages:** Loans with different interest rates, within one-half percent range in pools issued after July 1, 2003 and within a one percent range in pools issued before July 1, 2003, may be included in the same pool or loan package, except in the manufactured home loan program where a different rule is applicable. The minimum sizes of pools and loan packages are as follows:

**Single-Family Level Payment Mortgages**

- Custom pools: \$1 million (may be \$25,000 if issued in connection with a Local or State housing bond financing program. If this pool is ever traded in the secondary market, the securities must be sold with a letter stating that the underlying mortgages were a part of a mortgage revenue bond program and the security holder may experience different prepayment characteristics than is customary).
- Loan packages: \$250,000

**Graduated Payment Mortgages**

- Custom pools: \$500,000
- Loan packages: \$250,000

**Growing Equity Mortgages**

- Custom pools: \$500,000
- Loan packages: \$250,000

<b>Program Description</b> <i>continued</i>	<b>Manufactured Home Loans</b> <ul style="list-style-type: none"> <li>• Custom pools: \$350,000</li> <li>• Loan packages: \$250,000</li> </ul> <b>Adjustable Rate Mortgages</b> <ul style="list-style-type: none"> <li>• Custom pools: \$500,000 (\$250,000 if the pool was rejected for a multiple issue in the preceding month)</li> <li>• Loan packages: \$250,000</li> </ul> <b>Minimum Denominations:</b> The original principal or face amount of the certificate issued, and reissues and exchanges thereof, shall be in denominations of not less than twenty-five thousand dollars (\$25,000), or if larger, in denominations which are multiples of one dollar (\$1.00).
<b>FY2010 Total Ginnie Mae MBS</b>	Single Family MBS totaled \$388 billion. ++

\* Online at [www.ginniemae.gov/guide/statreg.asp?subTitle=About](http://www.ginniemae.gov/guide/statreg.asp?subTitle=About).

\*\* Online at [www.ginniemae.gov/guide/statreg.asp?subTitle=About](http://www.ginniemae.gov/guide/statreg.asp?subTitle=About).

\*\*\* Online at [www.ginniemae.gov/issuers/issuers.asp?Section=Issuers](http://www.ginniemae.gov/issuers/issuers.asp?Section=Issuers).

+ Online at [www.ginniemae.gov/issuers/mbs1.asp?Section=Issuers](http://www.ginniemae.gov/issuers/mbs1.asp?Section=Issuers).

++ Ginnie Mae's *FY2010 Report to Congress* reported \$413 billion in FY2010 issuances and included a combination of Single Family, Multifamily, and Reverse Mortgage. Of that, \$388 billion was associated with Single Family.

## HUD'S Oversight of Ginnie Mae Programs

### Federal Supervision and Regulation

Ginnie Mae complies with the Chief Financial Officer and Federal Financial Reform Act of 1990 (Chief Financial Officers Act or CFO Act). Under the CFO Act, Ginnie Mae must submit an annual independent audit of its financial statements to the Congress and to the Office of Management and Budget (OMB). HUD-OIG contracts for the performance of the independent audit under the Comptroller General's standards known as Generally Accepted Government Auditing Standards, (GAGAS) using Generally Accepted Accounting Principles (GAAP). Ginnie Mae also complies with OMB Circulars and Bulletins. As such, Ginnie Mae provides assurance to OMB and the Secretary of HUD that its internal controls over financial reporting meet the requirements of OMB Circular No. A-123 REV, Management Controls. Ginnie Mae MBS are specifically exempt from meeting the requirements of Federal or State securities laws and regulations.

## State Supervision and Regulation

Ginnie Mae is exempt under its statute; however, lenders and issuers are subject to such regulation and supervision.

## Private Oversight

No direct oversight is provided. Indirect secondary market oversight of MBS is made through private ratings agencies and investment securities advisors.

## External Audit Requirements

Ginnie Mae is subject to auditing requirements contained in HUD Handbook 2000.04—Consolidated Audit Guide for Audits of HUD Programs, Chapter 6.

**Audited Financial Statements.** Issuers are required to submit audited annual financial statements, which include a balance sheet, statement of operations, cash flow statements, notes to financial statements, and supplemental schedules as stipulated in chapter 2 of this guide. The financial documents are to be submitted to Ginnie Mae’s review agent using the transmittal/checklist presented in attachment F to this chapter.

**Other Reports.** In addition to the financial statements, all issuers must submit a report on internal controls and a report on compliance with specific requirements. A sample report on consideration of internal controls and report of compliance with specific requirements are included in chapter 2.<sup>16</sup> The computations of the issuer’s and issuer parent’s adjusted net worth and an issuer’s insurance requirements are to be reported on supplemental schedules to the basic financial statements. The computation of the issuer’s and issuer parent’s adjusted net worth is designed to eliminate those assets considered unacceptable by Ginnie Mae. Note that the adjusted net worth computation for the issuer’s parent is only required when the issuer’s parent presents a consolidated financial statement, along with consolidating schedules that reflect the financial condition of the issuer, and the issuer makes up less than 40 percent of the parent’s equity. Similarly, the required reporting format for presenting this analysis is provided in attachment B for the issuer and attachment C for the issuer’s parent. The required reporting format for presenting the analysis of the issuer’s insurance is presented in attachment D.

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<sup>16</sup> HUD Handbook 2000.04 – Consolidated Audit Guide of HUD Programs.

Ginnie Mae requires submission of audited financial statements for the issuer. However, Ginnie Mae will accept alternative financial statements (i.e., not exclusively of the issuer) if certain conditions are met as stated below:

1. For issuers that make up 40 percent or more of the equity of their parent (the 40 percent threshold may be collectively met by related party issuers that have entered into a cross-default agreement with Ginnie Mae), Ginnie Mae will accept consolidated financial statements of the issuer's parent provided that the consolidating schedules, which distinguish the balance sheet and operating statement of the Ginnie Mae issuer, are included with the parent's audit. The consolidating schedules must be subjected to the auditing procedures applied to the consolidated statement of the parent.
2. For an issuer whose equity is less than 40 percent of the equity of its parent, Ginnie Mae will accept consolidated financial statements of the issuer's parent provided the conditions in item (1) above are met and the issuer's parent enters into a corporate guarantee agreement (agreement) with Ginnie Mae to guarantee the performance of the issuer. The parent must meet the terms and conditions of the agreement for the issuer to remain in good standing with Ginnie Mae. Further, the issuer is required to submit with its parent's consolidated audited financial statements an adjusted net worth calculation on the parent. The parent's net worth, after adjustments for unacceptable assets, is required to be at least 110 percent (120 percent for issuers approved to issue manufactured housing or multifamily pools) of the required net worth of the issuer. That organization's auditor, in accordance with this audit guide, must audit the parent's audited financial statement and adjusted net worth calculations. The parent must also demonstrate in its adjusted net worth calculation that it meets the 110 percent (120 percent for issuers approved to issue manufactured housing or multifamily pools) requirement noted above.

The required format for presenting the "presentation of adjusted net worth calculation for issuer's parent" is provided in attachment C of this chapter.

3. For issuers that are federal- or state-regulated institutions, such as those under the supervision of the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision, Ginnie Mae will accept audited financial statements of the issuer's parent, so long as the issuer makes up 40 percent or more of the parent's equity and there is no more

than one bank holding company covered in the audit. In such instances and in addition to the audited financial statement of the issuer's parent, the issuer must submit its unaudited regulatory report (Call report, OTS report, or 10K).

Although Ginnie Mae may accept alternative audited financial statements, all other required reports (internal controls, compliance with specific requirements, adjusted net worth calculation, insurance requirement) must be prepared by a certified public accounting firm that is an independent auditor (auditor) exclusively for the issuer.<sup>17</sup>

### Performance Measures

The data for the performance measures on the Ginnie Mae programs are from Ginnie Mae's *FY2010 Report to Congress*.

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<sup>17</sup> Online at [www.hudoig.gov/pdf/AuditGuides/ch6.pdf](http://www.hudoig.gov/pdf/AuditGuides/ch6.pdf).

## **USDA Single Family Mortgage Programs and Related Activities**

Single Family Housing Guaranteed Loan Program (GLP)

Single Family Housing Direct Loan Program (DLP)

**Agency Name**

U.S. Department of Agriculture (USDA)

**Administering Agency(s)**

Rural Development's Rural Housing Service (RHS)

**SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM (GLP)**

<b>Legal Authority</b>	The Housing Act of 1949, Section 502, as amended by 42 U.S.C. § 1472. The Code of Federal Regulations covers the GLP at Title 7 Part 1980 Subpart D.
<b>Clientele</b>	The GLP program is designed to benefit participants who live in designated rural areas, do not have adequate housing in the local vicinity, can meet strict income limitations, and are unable to obtain credit without the Government's assistance.
<b>Program Description</b>	<p>The GLP's basic objective is to assist eligible households in obtaining adequate but modest, decent, safe, and sanitary dwellings in rural areas.</p> <p>Under the GLP, private lenders are responsible for underwriting the loan and determining that borrowers meet the agency's eligibility criteria. The lender's underwriting process includes evaluating the borrower's employment and income stability, credit history, and ability to repay the loan. Lenders submit requests for loan guarantees to the agency and Rural Development field staff is responsible for reviewing the loan application for completeness and determining that the loan is for an eligible purpose. Upon receipt of the guarantee, originating lenders may service the guaranteed loan or sell it on the secondary market.</p> <p>The GLP is for borrowers with low to moderate income, and it has several other eligibility requirements. Lenders must ensure the borrower's income is below published limits that are based upon the household's size and location. Borrowers may not own another home in the local commuting area, must demonstrate that they have stable and dependable income, and be unable to obtain credit elsewhere.</p> <p>Rural Development can guarantee loans used to purchase new or existing dwellings. The loans typically have 30-year fixed rate mortgages for</p>

<p><b>Program Description</b> <i>continued</i></p>	<p>up to 102 percent of a home's appraised value. Congress has increased funding for the GLP in the last few years from over \$4 billion in fiscal year (FY) 2008 to \$24 billion in FY2011.</p> <p><b>Governance</b></p> <p>RHS is responsible for providing guidance on program activity and for performing compliance reviews of lenders approved to participate in the program nationwide. Rural Development's State and field officials approve loan guarantees submitted by lenders and perform compliance reviews of lenders approved to participate in only their State. Lender compliance reviews are performed on a 2- or 5-year cycle depending on a lender's loan volume.</p> <p>Rural Development's State and field offices are subject to internal reviews at least once every five years to determine if officials are properly approving loan guarantees. State and field office personnel are responsible for ensuring program requirements are met at the local level prior to approving the loan guarantee. They have regular contact and interaction with the lenders.</p> <p>Rural Development officials also approve lenders to participate in the GLP, and an approved lender is required to maintain a file for each borrower. The file must include all the supporting documentation that the lender used to determine the borrower's eligibility. Lenders are required to submit monthly reports identifying each borrower with a loan that is more than 30 days delinquent. Lenders must also submit quarterly reports on the status of all guaranteed loans.</p> <p>When a borrower defaults on a loan, lenders must follow specific requirements established by RHS and submit a loss claim within 30 days of liquidation. The agency is required to perform an audit of the loan to determine why the loan failed and whether any reason exists for reducing or denying the loss claim. The agency may reduce or deny the loan claim if there is a direct connection between the lender's actions and the loss on the loan.</p>
<p><b>FY2010 Total GLP Loans (\$\$)</b></p>	<p>FY2010 guaranteed loans totaled \$16.6 million.</p>

### SINGLE FAMILY HOUSING DIRECT LOAN PROGRAM (DLP)

<b>Legal Authority</b>	The Housing Act of 1949, Section 502, as amended by 42 U.S.C. § 1471. The Code of Federal Regulations covers the DLP at Title 7 Part 3550.
<b>Clientele</b>	The DLP is designed to benefit participants who live in designated rural areas, do not have adequate housing, can meet strict income limitations, and are unable to obtain credit from other sources.
<b>Program Description</b>	<p>The DLP's basic objective is to assist eligible households in obtaining adequate but modest, decent, safe, and sanitary dwellings in rural areas.</p> <p>Rural Development underwrites loans for eligible borrowers. The agency's staff is responsible for both underwriting and servicing the loans. To participate in the DLP, eligible borrowers must have very low or low incomes. These borrowers must be without adequate housing but be able to afford the loan payments, which are typically no more than 24 percent of an applicant's income. In addition, Rural Development can subsidize the mortgage interest to improve borrower's ability to repay the loan. Applicants must be unable to obtain credit elsewhere and have reasonable credit histories. Funding for this program was over \$1.1 billion in fiscal year (FY) 2008, but it has decreased to \$650 million in FY2011.</p> <p>Borrowers can use DLP loans to build, repair, renovate, purchase, and prepare sites, including providing water and sewage facilities. Loan terms are for 30 years for manufactured homes, 33 years for regular housing, and up to 38 years for those borrowers with incomes below 60 percent of area median income who cannot afford 33 year terms. The promissory note interest rate is based on the Government's cost of money. However, that interest rate is reduced by payment assistance subsidy. To be acceptable for the program the property to be purchased must be considered modest for the area, not have a market value in excess of the applicable area loan limit, and not include certain prohibited features such as an in-ground swimming pool.</p> <p><b>Governance</b></p> <p>The servicing of existing loans is the responsibility of Rural Development's Centralized Servicing Center (CSC). The CSC receives and processes DLP mortgage payments, and distributes real estate taxes and hazard insurance payments from escrow accounts to municipalities and insurance companies. The CSC also performs annual evaluations of borrower income to determine if the borrower qualifies for continued</p>

<b>Program Description</b> <i>continued</i>	<p>payment assistance, and whether the borrower is eligible to refinance to private sources of credit. Special servicing actions such as work out agreements, moratoriums, foreclosure, and property acquisition are also the responsibility of the CSC. The CSC investigates cases of unauthorized assistance and executes the appropriate action based on its investigation.</p> <p>Rural Development field offices manage real estate owned (REO) custodial property. Field offices are required to inspect such properties to determine what steps are needed to ensure the security of the property and to maintain its value. Those offices then classify the property as program or non-program and evaluate the need for repairs. They are required to offer REO and custodial property at the best possible price and to give preference to buyers eligible for both the GLP and DLP.</p>
<b>FY2010 Total DLP Loans (\$\$)</b>	FY2010 direct loans totaled \$2.6 million.

## USDA's Oversight of Housing Programs

### Federal Supervision and Regulation

The USDA-OIG was legislatively established by Congress under the Inspector General Act of 1978, as amended. USDA-OIG's audits focus on the following goals: safety, security, and public health; integrity of benefits; management improvement initiatives; and stewardship over natural resources. In addition to program audits, USDA-OIG conducts annual financial statement audits of Rural Development. The U.S. Government Accountability Office also performs audits of USDA at the request of Congress.

### State Supervision and Regulation

Not applicable

### Private Oversight

Not applicable

### External Audit Requirements

Not applicable



# **VA Single Family Mortgage Programs and Related Activities**

VA Home Loan Program

**Agency Name**

U.S. Department of Veterans Affairs (VA)

**Administering Agency**

Veterans Benefits Administration

**VA HOME LOAN PROGRAM**

<b>Legal Authority</b>	38 U.S.C. § 3701 et seq.; VA Home Loan Program regulations are listed under The Code of Federal Regulations, Title 38, Part 36, Subpart B, which can also be found electronically at: <a href="http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&amp;tpl=/ecfrbrowse/Title38/38cfr36_main_02.tpl">http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&amp;tpl=/ecfrbrowse/Title38/38cfr36_main_02.tpl</a> .
<b>Clientele</b>	The program's intent has evolved from its original conception for transition assistance for World War II Veterans into the premise that housing assistance is justified for any period of active service, not just wartime service, because service removes the Veteran from civilian life. In addition, Congress has recognized that the VA housing benefit provides incentive value for the volunteer military. For these reasons, the program has been made permanent, and benefits have been extended to qualifying members still on active duty, to members serving in the Selected Reserve, to certain surviving spouses, and to Native American Veterans who wish to reside on Federal Trust land.
<b>Program Description</b>	<p>The VA Home Loan Program was one of the major innovations of the original Servicemen's Readjustment Act of 1944, Public Law 78-346, 38 U.S.C. § 3701 et seq. The first legal framework was set forth in Title III of that Act. The VA Home Loan Program was originally conceived as a program to diminish to the greatest possible extent the economic and sociological problems of post war readjustments of millions of men and women then serving in the Armed Forces. Throughout the next 60 plus years, Congress expanded the program, added features, and sought to maximize the program's appeal and utility to Veterans. The initial short-term or one-time benefit program was expanded until it has become a permanent benefit that can be used multiple times over the servicemen's lifetime. Public Law 102-547 authorized a pilot program to provide VA direct loans to Native American Veterans choosing to live on Federal Trust lands and Public Law 109-233 made this program permanent.*</p> <p>As an alternative to foreclosure, pursuant to 38 U.S.C. § 3732, VA may acquire (refund) VA-guaranteed loans in cases where the loan holder is no longer willing to extend further forbearance to the Veteran borrower. If</p>

**Program Description**  
*continued*

VA determines that home retention is possible and all other loss mitigation efforts have been exhausted, VA may acquire (refund) the loan and set affordable payments for the Veteran borrower.

Properties that secured VA-guaranteed loans that terminated through foreclosure or a deed-in-lieu of foreclosure can usually be transferred to VA. These acquired properties can be sold directly to buyers. Pursuant to 38 U.S.C. § 3733, VA may make loans to facilitate the sale of properties acquired by VA.

The VA Home Loan Program offers certain advantages to facilitate home ownership for Veterans, active duty personnel, certain surviving spouses, and reservists, including the following:

- No down payment (unless the purchase price is more than the reasonable value of the property)
- Buyer informed of reasonable value of the property and that it meets minimum property requirements
- Negotiable interest rate
- Ability to finance the VA funding fee
- Reduced funding fees with a down payment of at least 5%
- Exemption of funding fee for Veterans receiving VA compensation
- Closing costs are comparable with other financing types (and may be lower)
- No mortgage insurance premiums
- An assumable mortgage
- Right to prepay without penalty
- Fixed Rate Mortgages (FRMs), Adjustable Rate Mortgages (ARMs), Hybrid Adjustable Rate Mortgages (HARMs), Graduated Payment Mortgages (GPMs), or Growing Equity Mortgages (GEMs) available
- Specially Adapted Housing (SAH) direct loans available to severely disabled Veterans (although rare partly due to a loan cap of \$33,000)
- Streamlined refinance available for Interest Rate Reduction Refinance Loans
- VA loss mitigation assistance to Veteran borrowers in default due to temporary financial difficulty

VA does not directly loan money to Veterans (except in the case of Native American Veterans desiring to live on Federal Trust lands); instead, it provides a partial guaranty to the lender against loss if Veteran borrowers fail to repay the loan. The maximum guaranty is 25% of the property's

**Program Description**  
*continued*

county loan limit, with loan limits varying based on median prices in the property's county. A down payment is generally not required if the purchase price is equal to or less than the reasonable value of the property. Effective loan limits depend on property location. Veterans can obtain a no down payment loan of up to \$417,000 in most counties and up to \$1,094,625 in the highest priced counties. Native American Veterans who are eligible for VA home loan benefits and whose tribal governments have signed a Memorandum of Understanding with VA may apply directly to VA for a loan if they choose to live on Federal Trust land. Native American Direct Loans (NADLs) are issued directly by VA and serviced by VA's portfolio loan servicer.

VA-guaranteed loans can be used to purchase, construct, repair, or improve a dwelling for use as a home. Homes include 1–4 unit single-family townhouses or condominium units in projects that VA has approved, as well as co-ops. Loans may also be made to refinance an existing loan on a home that the Veteran owns and occupies.

More information on the VA home loan program can be found at: <http://www.benefits.va.gov/homeloans/>.

**Governance**

Internal Controls and Risk Management in the program is generally managed by personnel through systematic oversight of program operations, field employees, and private sector partners. Primarily the work processes, policies, and procedures completed by field staff in Regional Loan Centers consist of key internal control functions as they perform oversight of program participants (e.g., lenders, servicers, and appraisers). In addition, Central Office staff performs key internal control and oversight functions. The description of field and Central Office staff members and their functions include:

- Regional Loan Center staff—conduct oversight of lenders, servicers, appraisers, and Specially Adapted Housing contractors/service providers.
- Loan Systematic Technical Accuracy Review (LoanSTAR) staff—conduct accuracy reviews for all key VA Home Loan Program functional areas (Loan Production, Loan Administration, Construction & Valuation, and Specially Adapted Housing).
- Monitoring Unit staff—conduct Lender Audits and Servicer Audits.
- Property Management Oversight Unit staff (PMOU)—conduct oversight of VA's contracted property management service provider.

<p><b>Program Description</b> <i>continued</i></p>	<ul style="list-style-type: none"> <li>• Portfolio Loan Oversight Unit staff (PLOU)—conduct oversight of VA’s contracted portfolio loan servicer.</li> <li>• Quality Assurance staff—conduct field site visit reviews of all VA Home Loan Program functional areas, as well as risk management/internal control reviews of all functional areas.</li> </ul> <p>The VA Home Loan Program has routine internal controls, policies, and procedures to manage and mitigate risks. Risk is identified, assessed, and managed by staff throughout all of the program’s business areas. Below are some examples of the management controls:</p> <ul style="list-style-type: none"> <li>• Review 10 percent random samples of all guaranteed loans;</li> <li>• Post audits of 5 percent random sample of loans selected for full review;</li> <li>• Reviews of all loans that default with 6 or fewer payments made;</li> <li>• Post audit review of 20 percent of Lenders Appraisal Processing Program (LAPP) appraisals;</li> <li>• Field review of at least 10 percent of appraisals completed by each VA fee appraiser;</li> <li>• Field reviews of at least 5 percent of each VA Staff Appraiser’s field reviews;</li> <li>• Statistical sampling and post audit review of work performed under the delegations of authority; and</li> <li>• Access to certain functions in program systems is based on users’ roles and responsibilities, which are monitored and maintained at Central Office.</li> </ul>
<p><b>FY2010 Home Loans Guaranteed (\$\$)</b></p>	<p>Total loan amount for loans guaranteed during FY2010 was \$65.1 billion.</p>

\* More information on the legislative history of the VA Home Loan Program can be found online at [www.benefits.va.gov/homeloans/docs/history.pdf](http://www.benefits.va.gov/homeloans/docs/history.pdf).

## VA’s Oversight of the Home Loan Program

### Federal Supervision and Regulation

VA-OIG’s mission is to provide policy recommendations and to conduct, supervise, and coordinate audits and investigations relating to VA programs and operations. VA is responsible for enforcing program regulations for private sector lenders, servicers, and appraisers who participate in the VA Home Loan program. Specific program regulations that VA enforces are listed under The Code of Federal Regulations, Title 38, Part 36, Subpart B, which can also be found electronically at: [http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=/ecfrbrowse/Title38/38cfr36\\_main\\_02.tpl](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=/ecfrbrowse/Title38/38cfr36_main_02.tpl).

In addition to the above regulations, staff in the PMOU and PLOU sections enforces requirements outlined in the VA portfolio loan and property management contracts.

#### State Supervision and Regulation

Not applicable

#### Private Oversight

Not applicable

#### External Audit Requirements

Independent consulting and auditing groups perform analysis of the VA Home Loan Program that result in published reports of their respective findings and recommendations.

### Functional Comparison

#### Origination

VA-guaranteed loans are made by private lenders—such as banks, savings & loans, or mortgage companies—to eligible Veterans for the purchase of a home for personal occupancy. To obtain a loan, a Veteran must apply to a lender. If the loan is approved, VA will guarantee a portion of it to the lender. This guaranty protects the lender against loss up to the amount guaranteed and allows a Veteran to obtain favorable financing terms. Staff ensures adherence to VA standards of the home loan origination process through reviews mentioned previously and by training lenders and program partners. Native American Veterans who choose to live on Federal Trust land may apply directly to VA for a loan. VA staff in the Regional Loan Centers manages the loan origination process for these loans, including the loan underwriting decision.

VA oversees the appraisal process as part of the loan origination. This is done through a rotational panel, whereby appraisers and inspectors are assigned on a rotational basis from a panel of VA approved appraisers and inspectors. This helps maintain the independence of the appraiser, while ensuring no favoritism or discrimination in the making of appraisal assignments. The borrower receives a determination of the value of the home, which is held as collateral for the loan.

Lenders require a program eligibility determination from the Veteran in order to originate a VA loan. Veterans can go to <https://www.ebenefits.va.gov/ebenefits-portal/ebenefits.portal> to determine eligibility within seconds. Lenders can also help Veterans obtain their eligibility information through VA's online Automated Certificate of Eligibility (ACE) program.

### Servicing

Private loan servicers are responsible for exploring loss mitigation options on VA-guaranteed loans, using authorities delegated by VA. VA focuses on overseeing those efforts, primarily through the VA Loan Electronic Reporting Interface (VALERI) application.

### Loss Mitigation

When a loan becomes 61 days delinquent, it is assigned to a VA Loan Technician in VALERI for oversight and review of the efforts by the servicer. VALERI identifies loans that fall outside of VA servicing requirements, as well as "flagging" loans every 90 days for Technician review. As a result of that review, the Technician may attempt to contact the Veteran directly to provide additional assistance in making arrangements with the servicer for an appropriate loss mitigation option. VA pays incentives to servicers for completing actions that result in loan reinstatement, as well as for completing alternatives to foreclosure if there is no feasible way for the Veteran to retain the home. If the Veteran has regained the ability to make regular payments but the servicer is not able to implement an affordable loss mitigation plan, VA may consider acquiring (refunding) the loan and completing a modification that will give the Veteran a fresh start with affordable payments. Acquired (refunded) loans are serviced by VA's portfolio loan servicer. Refunding is discretionary on the part of VA, and is not an entitlement of the Veteran.

### Claims on Guarantees

The processes for submitting and paying claims for loans terminated through foreclosure, deed in lieu of foreclosure, and compromise sale are very similar. VA-guaranteed loan servicers must submit terminated-loan claims to VA electronically through the Servicer Web Portal. VALERI automatically calculates the claim payment and approves claims for certification. If a claim fails the business rules in VALERI, then it is referred to VA staff to review and process manually.

## Foreclosure

VA expects loan servicers to help Veterans retain their homes whenever possible and mitigate any losses when foreclosure is unavoidable. When a delinquent loan cannot be cured through a loss mitigation option, prompt termination of the loan is in the best interest of all parties. VA delegates the management of the foreclosure process to loan servicers, while retaining a supervisory role. VA oversees the foreclosure process by reviewing all cases referred for foreclosure to determine the adequacy of servicing on the loan. VA may recommend postponing a foreclosure action if a VA technician determines that a loss mitigation option may be employed or that there is substantial equity in the property.

## Real Estate Owned (REO)

VA acquires properties as a result of foreclosures on VA-guaranteed and VA-financed loans in a similar manner as the private sector REO process. These acquired properties are marketed for sale through a property management services contract.<sup>1</sup> VA may finance the purchase of a VA-owned property with direct loan (Vendee) financing. Vendee financing offers very reasonable down payment requirements, and the interest rate is established by VA based on market conditions. As part of VA's property management services contract, the contractor is charged with underwriting and closing Vendee loans. Any prospective purchaser who requests VA financing to purchase a VA-owned property must meet the basic requirements of a VA-guaranteed loan for underwriting, although the borrower does not have to be a Veteran. Borrowers must have sufficient income to meet the loan payments, maintain the property and pay all taxes, insurance, utilities and other obligations, as well as be an acceptable credit risk. The purchaser must also have sufficient residual income, and pay a funding fee of 2.25 percent. Like acquired (refunded) loans, Vendee loans are serviced by VA's portfolio loan servicer.<sup>2</sup>

## Affordable Housing/Other Socioeconomic Goals

Not applicable

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1 More information on VA acquired properties can be found online at <http://va.equator.com>.

2 More information on Vendee financing can be found online at [www.benefits.va.gov/homeloans/docs/vendee\\_flyer\\_032009.pdf](http://www.benefits.va.gov/homeloans/docs/vendee_flyer_032009.pdf).

## **FHFA Single Family Mortgage Programs and Related Activities**

Making Home Affordable Programs

Mortgage-Backed Securities Program

Mortgage Purchasing and Retained Portfolio

Mortgage Servicing Program

Real Estate Owned Purchasing and Financing Program

Acquired Member Asset (AMA) Program

Advances, Letters of Credit, and Lines of Credit

Affordable Housing Program (AHP) and Community Investment  
Program (CIP)

Office of Finance Debt Issuance

Private-Label Mortgage Purchases Program

**Agency Name**

Federal Housing Finance Agency

**Administering Entities**

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)

**Legal Authority**

The Housing and Economic Recovery Act of 2008 (HERA, Public Law 110–289) was enacted on July 30, 2008, and amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Public Law 102–550, 12 U.S.C. § 4501 et seq.) to establish FHFA as an independent federal agency. HERA transferred the safety and soundness supervisory and oversight responsibilities over Fannie Mae and Freddie Mac (collectively, the Enterprises) from the Office of Federal Housing Enterprise Oversight (OFHEO), which was located within the U.S. Department of Housing and Urban Development (HUD) to FHFA. HERA also transferred responsibility to establish, monitor, and enforce the Enterprises' affordable housing goals from HUD to FHFA.

HERA expanded the U.S. Department of the Treasury (Treasury)'s authority to provide financial support to the Enterprises, and in September 2008, Treasury entered into Senior Preferred Stock Purchase Agreements (PSPAs) with the Enterprises. The PSPAs provide that, upon determination by FHFA that an Enterprise's liabilities exceed its assets, Treasury will contribute cash capital in an amount equal to the difference and in return will receive preferred shares. Under the PSPAs, Treasury is obligated to provide up to \$200 billion through 2012, and as of June 30, 2011, Treasury had invested a total of \$162.4 billion in the Enterprises.

The Emergency Economic Stabilization Act of 2008 (EESA), enacted on October 3, 2008, requires FHFA to implement a plan to maximize assistance to homeowners and to use its authority to encourage servicers of Fannie Mae and Freddie Mac mortgages to take advantage of federal programs to minimize foreclosures. In addition, EESA requires FHFA to coordinate with Treasury concerning homeowner assistance plans and to submit monthly reports to Congress detailing such efforts' progress.

## MAKING HOME AFFORDABLE PROGRAMS

<p><b>Program-Specific Legal Authority</b></p>	<p>On February 18, 2009, pursuant to its EESA authorities (Public Law 110–343, § 109), Treasury announced the Homeowner Affordability and Stability Plan (later referred to as the Making Home Affordable Program or MHA). MHA is comprised of several programs, the largest of which is the HAMP loan modification program. HAMP, along with other programs that focus on helping homeowners, is discussed below.</p>
<p><b>Clientele</b></p>	<p>Programs such as HAMP benefit borrowers faced with financial hardship by offering a means of foreclosure prevention by expanding eligibility to borrowers who are delinquent, as well as to borrowers whose default is imminent. In addition, programs such as the Home Affordable Refinance Program (HARP) assist borrowers who are current on their mortgage loans but whose homes have lost value.</p>
<p><b>Program Description</b></p>	<p><b>Home Affordable Modification Program (HAMP)</b></p> <p>Under HAMP, the Enterprises offer certain delinquent borrowers the opportunity to restructure their loans, so long as the Enterprises own them. Treasury plans to use up to \$50 billion in TARP funds via HAMP to (1) modify the first-lien mortgages of homeowners in danger of foreclosure, (2) encourage the modification of mortgages in areas experiencing serious declines in property values, (3) reduce or pay off second-lien mortgages for homeowners with loans modified under HAMP, (4) arrange deeds-in-lieu or short sales as alternatives to foreclosure; and (5) provide incentive payments to encourage refinancing under the HOPE for Homeowners program.*</p> <p>Under HAMP, participating loan servicers receive TARP-funded financial incentives to identify and communicate with delinquent borrowers who meet the program’s guidelines.** To reduce these borrowers’ mortgage payments, servicers may modify their loans by lowering the interest rates, extending the amortization periods, or forbearing principal. The Enterprises’ mortgage servicers are responsible for contacting eligible borrowers and arranging loan modifications with them.</p> <p>As participants in HAMP, borrowers who are in default, at risk of imminent default, or in foreclosure may qualify to have their loans modified to a more affordable monthly payment targeted at 31 percent of their monthly gross income. The 31 percent income guidelines apply to the primary (first) mortgage. Modification programs can include</p>

**Program Description***continued*

either a reduction in the loan interest rate, which can be reduced as low as 2 percent, extension of the repayment period to up to 40 years, deferred mortgage payments or even partial forgiveness of the principal balance. The borrower's eligibility to participate in HAMP is based on meeting specific criteria outlined by the program. These criteria relate to whether:

- The borrower is delinquent on the mortgage or faces the risks of defaulting shortly;
- The property is occupied as the borrower's primary residence;
- The mortgage was written on or before January 1, 2009;
- The principal balance on the loan is less than \$729,750; and
- If a borrower's mortgage has been modified previously, the borrower may still qualify so long as he/she has not previously entered into a Trial Period Plan under HAMP.

In addition, the home must be a one unit property and there must be affirmation of financial hardship for the borrower.

Eligible borrowers must first complete a Trial Period Plan—a 90-day trial modification period—before receiving a permanent modification. During the trial period, borrowers must make all of their modified payments in full and on time in order to be eligible for conversion to a permanent modification. Borrowers seeking a HAMP loan modification work directly with their loan servicers but can also seek the assistance of a housing counselor at any point during the application process. Housing counselors can help borrowers determine whether they may be eligible for HAMP and answer questions about the program.

In March 2009, Treasury estimated that HAMP could help 3 to 4 million borrowers. However, through February 2010, including both the portion funded by TARP and the portion funded by Fannie Mae and Freddie Mac, about 1.1 million borrowers had begun trial modifications, of which (1) about 800,000 were in active trial modifications, and (2) fewer than 200,000 permanent modifications had been made. As of early March 2010, the TARP-funded portion of HAMP had 113 participating servicers, and about \$36.9 billion in TARP funds had been allocated to these servicers. A typical TARP-funded modification could result in a monthly mortgage payment reduction of approximately \$520. HAMP expires December 31, 2012.

**Program Description**  
*continued*

On February 18, 2009, Treasury entered into Financial Agency Agreements (FAAs) with the Enterprises, giving them a central role in executing and administering many of Treasury's MHA-related objectives. Fannie Mae acts as the program administrator for all mortgage servicers, lenders, and financial institutions that participate in HAMP. Fannie Mae's specific responsibilities include: implementing program policies and guidelines; serving as record keeper for executed modifications and program administration; and coordinating with Treasury and other parties on developments aimed at achieving programmatic goals. Additionally, Fannie Mae provides information and resources to servicers to assist them in implementing the program and helping distressed borrowers. To fulfill its role as program administrator, Fannie Mae has established a Program Management Office and dedicated other resources to the support of the program.

Freddie Mac is responsible for ensuring that all financial institutions that participate in HAMP comply with their obligations under the HAMP Servicer Participation Agreements. Freddie Mac's specific compliance activities include reviewing the effectiveness of servicers' recruitment of eligible borrowers for HAMP and ensuring that servicers do not improperly deny eligible borrowers the opportunity to participate in the programs. In addition, Treasury requested that Freddie Mac develop a "second look" process, pursuant to which it audits a sample of HAMP modification requests to assess the quality of servicer decisions. Freddie Mac has established a separate division to conduct its compliance activities.

Supplemental programs to HAMP include the Home Affordable Unemployment Program (UP) and the Second Lien Modification Program (2MP). UP provides servicers with the flexibility to assist borrowers whose hardship is related to unemployment. Specifically, UP requires servicers to grant qualified unemployed borrowers a forbearance period during which a borrower's monthly mortgage payment may be reduced or suspended prior to considering such borrowers for HAMP. If a borrower's first mortgage was permanently modified under HAMP and there is a second mortgage on the same property, the borrower may be eligible for a modification or principal reduction on the second mortgage under 2MP. This program is designed to work in tandem with HAMP to provide a comprehensive solution for homeowners with second mortgages to increase long-term affordability and sustainability. If the

**Program Description**  
*continued*

servicer of the second mortgage is participating in HAMP, it will automatically evaluate the borrower for a second lien modification.

**Home Affordable Foreclosure Alternatives (HAFA)**

HAFA is designed to reach borrowers either in default or at imminent risk of default, who are eligible for but unsuccessful under the HAMP. HAFA streamlines and standardizes industry practices for short sales and deeds-in-lieu (DILs) to provide eligible borrowers with an alternative to foreclosure. With a short sale, the borrower obtains the servicer's permission to list and sell the property even if the sale may be less than the total amount due on the mortgage loan. The mortgage lienholder determines in advance the minimum acceptable net proceeds it will accept as a short payoff in full satisfaction of the total amount due on the first mortgage loan. With a DIL, the borrower voluntarily transfers the property's ownership to the lienholder or its designee in full satisfaction of the mortgage loan's total amount due.

HAFA was announced in March 2009 and had disbursed \$9.5 million out of \$4.1 billion allocated to the program by the end of December 2010. Borrowers are eligible for relocation assistance of \$3,000 and servicers receive a \$1,500 incentive for completing a short sale or DIL. HAFA expires on December 31, 2012.

**Home Affordable Refinance Program (HARP)\*\*\***

HARP expands access to refinancing for families whose homes have lost value and whose mortgage payments can be reduced at today's low interest rates. It helps to address the problems faced by homeowners who made what seemed like conservative financial decisions three, four or five years ago, but who have found themselves unable to benefit from the low interest rates available today because the value of their homes has sunk below that of their existing mortgages (i.e., they are "underwater").

HARP allows homeowners with mortgages owned or guaranteed by Fannie Mae or Freddie Mac to refinance into loans with more favorable terms even if they owe more than 80% of the value of their homes. Generally, borrowers who owe more than 80% of the value of their homes have difficulty refinancing and therefore cannot take advantage of lower interest rates. By allowing borrowers who owe more than 80% of the value of their homes to refinance their mortgages, the plan is meant to help qualified borrowers lower their monthly mortgage payments to

**Program Description***continued*

a more affordable level. Originally, qualified borrowers were eligible to refinance under this program if they owed up to 105% of the value of their homes. On July 1, 2009, the Obama Administration expanded the program to include borrowers who owe up to 125% of the value of their homes.

In addition to having a mortgage owned or guaranteed by Fannie Mae or Freddie Mac, a borrower must have a mortgage on a single-family home, live in the home as his or her primary residence, and be current on the mortgage payments in order to be eligible for this program. Rather than targeting homeowners who are behind on their mortgage payments, this piece of the MHA plan targets homeowners who have kept up with their payments but have lost equity in their homes due to falling home prices.

On October 24, 2011, the FHFA, with the Enterprises, announced a series of changes to HARP in an effort to attract more eligible borrowers who can benefit from refinancing their home mortgage. The program enhancements were developed at FHFA's direction with input from lenders, mortgage insurers and other industry participants.

The new program enhancements address several other key aspects of HARP including:

- Eliminating certain risk-based fees for borrowers who refinance into shorter-term mortgages and lowering fees for other borrowers;
- Removing the current 125 percent LTV ceiling for fixed-rate mortgages backed by the Enterprises;
- Waiving certain representations and warranties that lenders commit to in making loans owned or guaranteed by the Enterprises;
- Eliminating the need for a new property appraisal where there is a reliable automated valuation model estimate provided by the Enterprises; and
- Extending the end date for HARP until December 31, 2013, for loans originally sold to the Enterprises on or before May 31, 2009.

An important element of these changes is the encouragement, through elimination of certain risk-based fees, for borrowers to utilize HARP to refinance into shorter-term mortgages. Borrowers who owe more on their house than the house is worth will be able to reduce the balance owed much faster if they take advantage of today's low interest rates by shortening the term of their mortgage.

<b>FY2010 Total HAMP, HAFA, and HARP Loans (\$\$)</b>	As of December 31, 2010, Fannie Mae and Freddie Mac HAMP modifications totaled approximately 320,000 loans valued at approximately \$66.7 million and HARP refinances totaled about 432,000 loans. + HAFA was announced in March 2009 and had disbursed \$9.5 million out of \$4.1 billion allocated to the program for refinancing by the end of December 2010. ++
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\* Administered by the Federal Housing Administration. Online at [www.gao.gov/new.items/d10556t.pdf](http://www.gao.gov/new.items/d10556t.pdf).

\*\* Servicers, for example, may receive \$1,000 for each completed modification, an additional \$500 if the modification is for a borrower who is not yet delinquent, and an additional \$1,000 if the modified loan performs well.

\*\*\* TARP funds are not used to refinance mortgages under HARP. Instead, Fannie Mae or Freddie Mac, as the owner or guarantor of the loan, purchased or guaranteed the refinanced mortgages. Online at [www.gao.gov/new.items/d11653.pdf](http://www.gao.gov/new.items/d11653.pdf).

+ Value of HARP loans not available for FY2010.

++ Represents aggregated HAFA data for FY2010.

### MORTGAGE-BACKED SECURITIES PROGRAM

<b>Program-Specific Legal Authority</b>	TARP sought to provide liquidity, stability, and affordability to the U.S. housing and mortgage markets by giving the U.S. Treasury purchasing power to buy up mortgage-backed securities (MBS) from institutions across the country. See Public Law 110–343, § 101.
<b>Clientele</b>	MBS benefit investors, to whom Freddie Mac and Fannie Mae guarantee a timely payment of principal and interest. This guarantee is not backed by the full faith and credit of the U.S. government. Examples of investors include corporations, commercial banks, life insurance companies, pension funds, trust funds, charitable endowments, and individual investors.
<b>Program Description</b>	<p>MBS represent an ownership interest in mortgage loans made by financial institutions to finance the borrower’s purchase of a home or other real estate. Mortgage securities are established when mortgage loans are packaged and pooled by issuers or servicers for sale to investors. As the underlying mortgage loans are paid off by the homeowners, the investors receive payments of interest and principal.</p> <p><b>Types of MBS</b></p> <p>The most basic MBS, known as “pass-throughs,” are a direct ownership interest in a pool of mortgage loans. These MBS may be pooled again to</p>

<p><b>Program Description</b> <i>continued</i></p>	<p>create collateral for a more complex type of mortgage security known as a Collateralized Mortgage Obligation (CMO) or a Real Estate Mortgage Investment Conduit (REMIC).</p> <p>PASS-THROUGH</p> <p>In pass-through MBS, an issuer or servicer collects monthly payments from homeowners whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments which represent both interest and repayment of principal. Most pass-through MBS are issued or guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac and have an AAA credit rating. However given the recent down-grading of Fannie Mae and Freddie Mac’s credit rating, pass-throughs issued or guaranteed by Fannie Mae or Freddie Mac are sure to have an AA+ credit rating. All other pass-throughs not issued or guaranteed by Ginnie Mae, Freddie Mac or Fannie Mae are issued privately and may carry an AAA or AA credit rating. Pass-throughs generally present secured principal and interest payments, however the cash flow amounts may vary monthly depending on the actual prepayment rate on the underlying mortgage loan.</p> <p>COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs)</p> <p>The CMO is a multiclass bond backed by a pool of mortgage pass-throughs or mortgage loans. CMOs may be collateralized by: (1) Ginnie Mae, Fannie Mae or Freddie Mac pass-throughs, (2) unsecuritized mortgage loans insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs, (3) unsecuritized conventional mortgages, or (4) any combination of programs aforementioned. In a CMO, an issuer distributes cash from underlying collateral amongst a series of classes called “tranches.” As the mortgage loan payments are collected, the CMO issuer first pays the coupon rate of interest to the bondholders in each tranche. All scheduled and unscheduled principal payments go to investors in the first tranches. Investors in the later tranches do not start receiving payments until investors in prior tranches are paid off.</p>
<p><b>FY2010 Total MBS (\$\$)</b></p>	<p>During FY2010 Fannie Mae and Freddie Mac issued approximately \$1 trillion in MBS.</p>

## MORTGAGE PURCHASING AND RETAINED PORTFOLIO

<b>Clientele</b>	The mortgage purchasing activities of Fannie Mae and Freddie Mac provide stability and liquidity to the mortgage lending market for lenders, homeowners, and investors.
<b>Program Description</b>	<p>Fannie Mae and Freddie Mac are the dominant players in the residential mortgage market, with a market share of more than 90% in terms of purchasing and insuring mortgage losses.</p> <p>Fannie Mae and Freddie Mac accomplish their government mandated roles through their activities in the secondary mortgage market. They purchase mortgages that meet certain standards from banks and other originators, pool those loans into mortgage-based securities (MBS) that they guarantee against losses from defaults on the underlying mortgages, and sell the securities to investors—a process referred to as securitization. In addition, they buy mortgages and MBS (both from each other and those issued by private companies) to hold in their portfolios. They fund those portfolio holdings by issuing debt obligations, known as agency securities, which are sold to investors.</p> <p>The secondary mortgage market is the market for the sale of securities or bonds collateralized by the value of mortgage loans. The mortgage lender, commercial banks, or specialized firm will group together many loans and sell grouped loans as securities called collateralized mortgage obligations (CMO). The risk of the individual loans is reduced by that aggregation process. These securities are collateralized debt obligations (CDO), also known as mortgage-backed securities. The CMOs are sometimes further grouped in other CDOs. Mortgage delinquencies, defaults, and decreased real estate values can make these CDOs difficult to evaluate.</p> <p>The term “retained portfolio” generally refers to the sum of the whole mortgages plus MBS that Fannie Mae and Freddie Mac each hold. When they retain mortgages or issue guaranteed MBS, Fannie Mae and Freddie Mac assume the credit risk associated with the mortgages. Unlike providing credit guarantees, the retained portfolio imposes interest rate and prepayment risks on Fannie Mae and Freddie Mac. They mitigate these risks with derivative financial instruments. Their revenues differ</p>

**Program Description**  
*continued*

across the basic two activities, securitization and retained portfolio. Fannie Mae and Freddie Mac receive a guarantee fee for the mortgages that they securitize and earn the differential of the yields on their retained portfolio above those of their own liabilities.

At the end of September 2010, Fannie Mae and Freddie Mac had a total of \$1.6 trillion of outstanding debt—which (together with equity) financed the more than \$1.5 trillion of mortgages, agency MBS, and private-label MBS including multi-family, sub-prime, and Alternate-A\* in their portfolios. In all, \$3.9 trillion of MBS guaranteed by the two entities were outstanding at the end of September. Their assets and obligations also include financial contracts entered into to reduce interest rate and prepayment risk.

**Risks**

There are four (4) types of risk associated with Fannie Mae's and Freddie Mac's mortgage purchasing and securitization business: credit risk, interest rate risk, market risk, and management risk.

**CREDIT RISK**

Credit risk arises from mortgage default. In general, it reflects both the profitability that the borrower will default as well as the losses incurred upon default (i.e., the "loss severity" rate).

**INTEREST RATE RISK**

Interest rate risk arises from the change in interest rates. Since mortgages are fully prepayable, declining rates will cause the security to prepay at a faster rate, forcing the investor to reinvest the proceeds at a lower rate. Rising rates will have the opposite effect.

**MARKET RISK**

Market risk arises from external events that affect their major lines of business, for example, a decline in market demand that reduces the value of their portfolio holdings. Since securities have to be "marked-to-market" on a regular basis, any change in their market value will have an immediate impact on the Government Sponsored Enterprises (GSEs)' balance sheet.

<p><b>Program Description</b> <i>continued</i></p>	<p>MANAGEMENT RISK</p> <p>Management (or operational risk) stems from operational breakdowns, or errors, that can affect a company's earnings.</p> <p>While Fannie Mae and Freddie Mac are susceptible to management risk, the risks associated with the guarantee and investment sides of their two business lines are distinctly different.</p> <p>The guarantee (or securitization) side of their business primarily exposes the companies to credit risk, i.e., the risk that the loans will default. Since the MBS are sold into the capital market, the security's investors—as opposed to the GSEs—assume the “interest rate” risk. To manage their credit risk, the GSEs establish underwriting guidelines for the loans they are willing to buy, and conduct ongoing quality control reviews to ensure that lenders are following the established guidelines. Loans that fail to meet established guidelines are subject to repurchase.</p> <p>In contrast, the investment side of the business primarily exposes the GSEs to interest rate risk. Interest rate risk is managed through a variety of means, for example, by matching the maturity of the debt with the projected life of the loans or by purchasing an interest-rate hedge. Traditionally, most of the GSEs' mortgages holdings have consisted of their own securities (or other forms of guaranteed MBS.) As a result, their investment portfolios did not expose them to additional credit risk. However, this has changed in recent years, since both agencies invested heavily in private-label MBS and other types of asset-backed securities (ABS).</p>
<p><b>FY2010 Retained Portfolio (\$\$)</b></p>	<p>For FY2010 Fannie Mae and Freddie Mac's retained portfolios totaled \$789 billion and \$697 billion, respectively.</p>

\* An Alternate-A (Alt-A) mortgage is considered riskier than prime mortgages and less risky than sub-prime loans. As such, Alt-A interest rates, which are determined by credit risk, therefore tend to be between those of prime and sub-prime home loans. Typically Alt-A mortgages are characterized by borrowers with less than full documentation, lower credit scores, higher loan-to-values, and more investment properties.

## MORTGAGE SERVICING PROGRAM

<b>Clientele</b>	Mortgage servicers include banking institutions (such as national banks, state-chartered banks, etc.) and non-banking institutions.
<b>Program Description</b>	<p><b>Overview of Mortgage Servicing</b></p> <p>Freddie Mac and Fannie Mae operate in the secondary mortgage market. Rather than lending money directly to borrowers to finance the purchases of their homes, the Enterprises buy mortgage loans from lenders who originate them. The Enterprises either hold the loans in their portfolios, or securitize and sell them in the secondary market with a guarantee from the Enterprises. By purchasing loans from lenders in the primary market, the Enterprises are supporting their goals of facilitating a stable and liquid mortgage market. Lenders use the funds received from the Enterprises to provide additional loans to borrowers.</p> <p>When the Enterprises purchase loans from lenders in the primary market, the Enterprises enter into contracts with mortgage servicing companies to manage the day-to-day maintenance of the mortgage loans.* Servicers include banking institutions (such as national banks, state-chartered banks, etc.) and non-banking institutions. In accordance with the terms and conditions of their contracts and the Enterprises' servicing guidelines, the mortgage servicers perform a variety of duties, including:</p> <ul style="list-style-type: none"> <li>• Collecting mortgage payments and processing late payments</li> <li>• Sending monthly statements to borrowers</li> <li>• Maintaining escrow accounts to pay property taxes and hazard insurance</li> <li>• Forwarding payments to mortgage owners, and</li> <li>• Handling default proceedings and foreclosures.</li> </ul> <p>The servicing contracts also require servicers to proactively contact borrowers at risk of default, assess whether default is reasonably foreseeable, and, if so, apply loss mitigation strategies designed to achieve sustainable mortgage obligations. Both Enterprises have developed servicing guidelines that their mortgage servicers must adhere to, and these guidelines are incorporated in the servicing contracts.** In some instances, lenders service the loans that they originate.*** Other lenders do not service their originating loans because they do not have the capacity and resources, or they simply do not have an interest in doing</p>

**Program Description**  
*continued*

so.+ When lenders do not service their own originating loans, the Enterprises will contract with other institutions to service the loans. Institutions selling and/or servicing loans for the Enterprises fall into one of the following three categories: (1) sellers only, (2) servicers only, or (3) sellers/servicers.

Mortgage servicers are typically compensated based on a percentage of the unpaid principal balance of the mortgage loans. As of March 2011, Fannie Mae had 2,843 mortgage servicers and a mortgage servicing portfolio size of \$2.8 trillion. The market share of Fannie Mae's four largest mortgage servicers (Bank of America, Wells Fargo, JPMorgan Chase, and Citigroup) was 61 percent, or 1.7 trillion of 2.8 trillion. In comparison, Freddie Mac had approximately 1,467 mortgage servicers and Freddie Mac's mortgage servicing portfolio was \$1.79 trillion for the same time period. The market share of the four largest mortgage servicers (Wells Fargo, Bank of America, JPMorgan Chase, and Citigroup) was 61 percent, or \$1.08 trillion of \$1.79 trillion.++

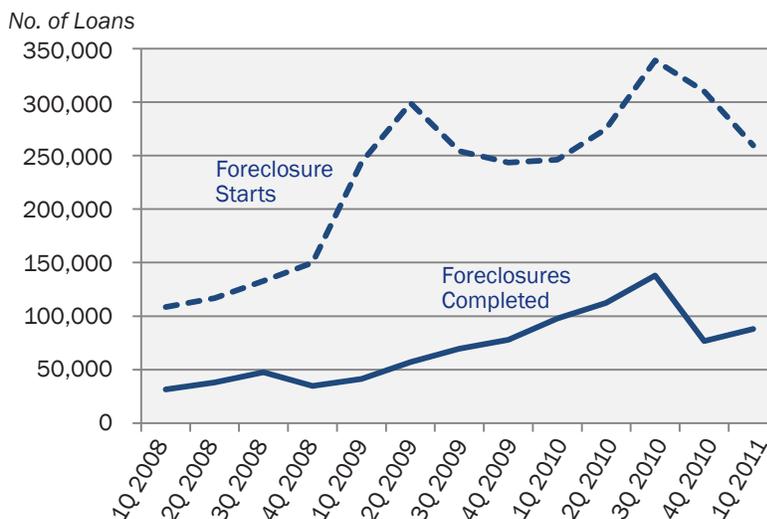
Given the number of servicers, the Enterprises do not review loan files for each and every mortgage they guarantee or purchase. Instead, the Enterprises rely on a representation and warranty (rep and warrant) model under which the loan originator and loan servicer commit that the loan origination and servicing complies with the Enterprises' seller/servicer guides. If the Enterprises subsequently discover that contractual standards were not followed, the Enterprises have certain contractual remedies to mitigate credit losses. These contractual remedies include requiring the seller/servicer to repurchase the loan at its current unpaid principal balance or make the Enterprises whole for any credit losses realized with respect to the loan.

**Impact of Foreclosures on Mortgage Servicing**

In 2008, the current housing market began to collapse as the rise in unemployment and the decline in house prices left many homeowners unable to make their mortgages payments or refinance their payments. The substantial increase in the number of borrowers in default (i.e., delinquent on their loans) forced mortgage servicers to perform more work than they were accustomed to in the past, which consequently increased their operating expenses without a corresponding increase in their servicing fees. In August 2010, allegations began to surface that foreclosure attorneys (hired by the mortgage servicers) were falsifying

**Program Description***continued*

documents to expedite foreclosures in an effort to reduce their workload and expenses. As shown below, the foreclosure rate substantially increased from 1Q 2008 to 3Q 2010.

**Foreclosure Rates for Fannie Mae and Freddie Mac+++**

In response to the allegations, a number of mortgage servicers conducted reviews of their foreclosure processes. The mortgage servicers identified deficiencies with their internal procedures for executing documents required to be submitted in judicial foreclosures. The deficiencies relate to the practice of having a small number of employees sign a large number of legal documents (such as affidavits) that were submitted to courts and other public authorities to execute foreclosures (called robo-signing). This practice has generated significant concerns as to whether the employees had personal knowledge of the facts necessary to legally foreclose on properties as stated in the affidavits and whether legal documents were properly notarized.

**FY2010 Total Portfolio Size**

As of December 31, 2010, Fannie Mae and Freddie Mac's single family loans totaled approximately \$2.8 trillion and \$1.8 trillion, respectively.

\* Mortgage servicing companies are also called mortgage servicers or mortgage servicing contractors.

\*\* The servicing guidelines are in the Enterprises' seller/servicer guides.

\*\*\* These lenders are called sellers/servicers.

+ These lenders are called sellers.

++ During a recent FHFA-OIG audit, the Enterprises provided a list of their servicers along with their portfolio size. Some servicers have multiple servicing locations. The number of servicers actually represents the number of servicer locations.

+++ FHFA, *Foreclosure Prevention & Refinance Report*, First Quarter 2011, page 14.

## REAL ESTATE OWNED PURCHASING AND FINANCING PROGRAM

<b>Clientele</b>	Fannie Mae's HomePath Program and Freddie Mac's HomeSteps Program allow homebuyers and investors the opportunity to purchase Fannie Mae or Freddie Mac real estate owned (REO) properties.*																													
<b>Program Description</b>	<p>Rapidly rising levels of serious delinquencies and defaults, further aggravated by high levels of unemployment and severe declines in home prices, resulted in high levels of REO on Fannie Mae's and Freddie Mac's books. The following table represents the balances of REO at the end of the first and second quarters in 2011.</p> <p><b>REO Inventories</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th colspan="2">Fannie Mae</th> <th colspan="2">Freddie Mac</th> </tr> <tr> <th style="text-align: center;"><i>Quarter End Date</i></th> <th style="text-align: center;"><i>Number of Properties</i></th> <th style="text-align: center;"><i>Book Value (in billions)</i></th> <th style="text-align: center;"><i>Number of Properties</i></th> <th style="text-align: center;"><i>Book Value (in billions)</i></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">03/31/2011</td> <td style="text-align: center;">153,224</td> <td style="text-align: center;">\$14.1</td> <td style="text-align: center;">65,159</td> <td style="text-align: center;">\$6.2</td> </tr> <tr> <td style="text-align: center;">06/30/2011</td> <td style="text-align: center;">135,719</td> <td style="text-align: center;">\$12.5</td> <td style="text-align: center;">60,599</td> <td style="text-align: center;">\$5.8</td> </tr> <tr> <td style="text-align: center;">Total Change in REO</td> <td style="text-align: center;">(17,505)</td> <td style="text-align: center;">(\$1.6)</td> <td style="text-align: center;">(4,560)</td> <td style="text-align: center;">(\$0.4)</td> </tr> </tbody> </table> <p>The Fannie Mae HomePath and Freddie Mac HomeSteps programs were established in an effort to sell REO properties to potential homebuyers and investors. A description of the two programs is discussed below.</p> <p><b>Fannie Mae HomePath Program</b></p> <p>Fannie Mae established the HomePath Program to sell Fannie Mae-owned properties in a timely manner in order to minimize the impact of foreclosure properties on the neighborhoods. Although Fannie Mae may make some repairs to the properties to increase their marketability, the properties are usually sold "as is".</p> <p>Fannie Mae offers a "First Look" marketing period. During this period, potential buyers such as owner occupants, nonprofit organizations, and public entities submit offers and purchase properties without competition from investors. The "First Look" period is usually the first 15 days a property is listed on the HomePath website. Homebuyers can also search for available REO properties on the HomePath database. Fannie Mae also offers two financing options for qualifying HomePath properties: the HomePath Mortgage and the HomePath Renovation Mortgage. These two programs provide the following features:</p>						Fannie Mae		Freddie Mac		<i>Quarter End Date</i>	<i>Number of Properties</i>	<i>Book Value (in billions)</i>	<i>Number of Properties</i>	<i>Book Value (in billions)</i>	03/31/2011	153,224	\$14.1	65,159	\$6.2	06/30/2011	135,719	\$12.5	60,599	\$5.8	Total Change in REO	(17,505)	(\$1.6)	(4,560)	(\$0.4)
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<p><b>Program Description</b> <i>continued</i></p>	<ul style="list-style-type: none"> <li>• Low down payment (at least 3 percent) which can be funded by personal savings; a gift; a grant; or a loan from a nonprofit organization, state/local government, or employer,</li> <li>• Flexible mortgage terms (fixed-rate, adjustable-rate, or interest-only),</li> <li>• A more relaxed credit rating policy, and</li> <li>• No mortgage insurance.</li> </ul> <p>In addition, through the HomePath Renovation Program the home buyer may obtain financing to fund both home purchases and light to moderate renovations; the renovation amount is based on the appraisal “as completed” value. Fannie Mae is offering a HomePath Buyer Incentive from June 14, 2011, through October 31, 2011, in which Fannie Mae will offer buyers up to 3.5% in closing cost assistance.</p> <p><b>Freddie Mac HomeSteps Program</b></p> <p>Freddie Mac established the HomeSteps Program to sell Freddie Mac REO properties at market prices which also offered a “First Look” initiative; this initiative allowed homebuyers and select nonprofit organizations an exclusive opportunity to purchase HomeSteps homes prior to competition from investors. Freddie Mac also offered financing assistance through their HomeSteps SmartBuy Program for qualifying homes and borrowers. The HomeSteps SmartBuy features included:</p> <ul style="list-style-type: none"> <li>• 2-Year HomeProtect Limited Home Warranty</li> <li>• Up to 30% savings on new appliances</li> </ul> <p>The program’s closing cost offer of 3.5% expired on September 30, 2011.</p>
<p><b>FY2010 Total REO Properties and Book Values (\$\$)</b></p>	<p>As of December 31, 2010, Fannie Mae and Freddie Mac REO inventories totaled 162,489 properties valued at \$15 billion and 72,079 properties valued at \$7 billion, respectively.</p>

\* Real estate owned or REO is a class of property owned by a lender, typically a bank, government agency, or government loan insurer, after an unsuccessful sale at a foreclosure auction.

## FHFA’s Oversight of Fannie Mae and Freddie Mac Programs

### Federal Supervision and Regulation

FHFA is responsible for supervision and regulation of the Enterprises. FHFA’s Division of Enterprise Regulation (DER) is responsible for the supervision of the Enterprises—Fannie Mae and Freddie Mac—to ensure their safe and sound operation. Consistent with FHFA’s strategic and performance goals, DER:

- Provides management oversight, direction, and support for all examination activity involving the Enterprises, the development of supervision findings, and preparation of the annual reports of examination.
- Provides support and advice to the FHFA Director and other senior executives on significant and emerging supervisory issues, development of FHFA policy, and internal FHFA management activities.
- Monitors and assesses the financial condition and performance of the Enterprises and their compliance with regulations through annual on-site examinations and periodic visitations.

HERA, which amended the Inspector General Act, established the Federal Housing Finance Agency Office of Inspector General (FHFA-OIG) to promote the economy, efficiency, and effectiveness of the FHFA; prevent and detect fraud, waste, and abuse in FHFA programs; and seek sanctions and prosecutions against those responsible for such fraud, waste, and abuse.

As conservator, FHFA provides oversight to the Enterprises ensuring that they operate in a safe and sound manner, including maintaining adequate capital and internal controls and ensuring that their operations and activities foster liquid, efficient, competitive, and resilient national housing finance markets. On November 24, 2008, FHFA clarified its role as conservator by identifying the activities of the Enterprises that require FHFA approval. In that regard, FHFA advised that its approval was required for, among other things:

- Actions involving capital stock, dividends, the Preferred Stock Purchase Agreements (PSPAs), an increase in risk limits, material changes in accounting policy, and reasonably foreseeable material increases in operational risk; and
- Actions that, in the reasonable business judgment of the Board at the time that the action is taken, are likely to cause significant reputational risk.

In July 2009, FHFA further clarified its role by issuing a regulation requiring FHFA's pre-approval of all new products offered by the Enterprises and activities in which they seek to engage.

In its oversight role, FHFA also issued the Servicing Alignment Initiative on April 28, 2011, requiring the Enterprises to align their guidelines for servicing delinquent mortgages they own or guarantee. The updated framework established uniform servicing requirements as well as monetary incentives for servicers that performed well and penalties for those that did not. Specifically, the directive required Fannie Mae and Freddie Mac to align in four key areas: (1) borrower contact, (2) delinquency management practices, (3) loan modifications and foreclosure alternatives, and (4) foreclosure timelines. Additionally, new monetary incentives and penalties were introduced to reinforce effective servicer execution in these areas. Fannie Mae and Freddie Mac require servicers to initiate contact as early as the third day following a missed payment. Servicers must make frequent efforts to establish a meaningful dialogue with the borrower to help the servicer understand the borrower's circumstances and intentions and to inform and educate the borrowers of their options. Servicers utilized the same Borrower Solicitation Package (BOS)<sup>3</sup> for both Fannie Mae and Freddie Mac loans to collect all information necessary to expeditiously consider the best alternative for a borrower's circumstance. This approach was intended to allow servicers to more quickly determine modification eligibility—either for the Making Home Affordable Program or for a Fannie Mae or Freddie Mac loan modification, or for another foreclosure alternative, such as a short sale or deed-in-lieu of foreclosure. In addition, the newly aligned policies were intended to minimize taxpayer losses by ensuring that Enterprise loans were serviced efficiently and fairly. The effective date of the directive was October 1, 2011.

In addition, financial institutions are subject to the regulation and supervision of the federal banking regulators such as the Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and the Board of Governors of the Federal Reserve System (Federal Reserve).

## State Supervision and Regulation

State-chartered banks who often serve as mortgage servicers are subject to the regulation and supervision of the state regulatory agency of the state in which they were chartered.

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<sup>3</sup> Treasury sends the Enterprises a BOS letter when a new or modified business need arises. The BOS letter identifies: (1) the program outcome that Treasury seeks to achieve, along with related high-level business requirements; and (2) the information that each Enterprise is required to include in the Project Authorization Package.

## Private Oversight

Private credit rating agencies review Fannie Mae's and Freddie Mac's credit and assign ratings.

## External Audit Requirements

Independent accounting firms perform annual financial statement audits and quarterly reviews of Fannie Mae and Freddie Mac. In addition, the U.S. Government Accountability Office performs audits of FHFA/Enterprises at the request of Congress.



## Agency Name

Federal Housing Finance Agency

## Administering Entities

Federal Home Loan Banks (FHLBs)

## Legal Authority

The Federal Home Loan Bank System (System) was created in 1932 by the Federal Home Loan Bank Act (Bank Act) to restore confidence in the nation's financial institutions and to improve the supply of funds to local lenders to finance loans for home purchases. The System's creation came in response to the Great Depression, which had undermined confidence in the U.S. banking and financial system and had created the need for assurance that funding would be available for home financing. The System comprises 12 Federal Home Loan Banks (FHLBs) with about 8,000 member financial institutions, and the Office of Finance (OF).<sup>4</sup> The 12 FHLBs are each structured as cooperatives owned and governed by their member financial institutions, which today include commercial banks, thrifts, credit unions, and insurance companies.

The Housing and Economic Recovery Act of 2008 (HERA, Public Law 110–289) was enacted on July 30, 2008, and amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Public Law 102–550, 12 U.S.C. § 4501 et seq.) to establish FHFA as an independent agency of the federal government. HERA transferred the safety and soundness supervisory and oversight

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<sup>4</sup> The Office of Finance issues debt on behalf of the 12 FHLBs.

responsibilities over the 12 FHLBs from the Office of Federal Housing Enterprise Oversight and the Federal Housing Finance Board (Finance Board) to FHFA. The Federal Home Loan Bank System Modernization Act of 1999 (Public Law 106–102) amended the Federal Home Loan Bank Act (Pub. 72–304, 12 U.S.C. § 1421 et seq.) to authorize the FHLBs to accept additional types of collateral as security for advances and create a new capital structure for the Bank System, among other things. FHFA is responsible for ensuring that the FHLBs operate in a safe and sound manner, are adequately capitalized, have access to capital markets, and meet their housing finance mission.

### ACQUIRED MEMBER ASSET (AMA) PROGRAM

<b>Program-Specific Legal Authority</b>	In July 2000, the Finance Board issued a final rule codifying the FHLBs' authority to hold AMA, which are whole loans and certain interest in whole loans that may be acquired from or through FHLB members or certain housing associates (such as state housing finance agencies). 12 CFR Part 955 sets forth the authority and requirements under which FHLBs acquire mortgage assets from member institutions.
<b>Clientele</b>	Each FHLB is a cooperative and its member institutions include thrifts, commercial banks, credit unions, and insurance companies. The AMA Program provides an alternative for funding mortgages other than through the existing secondary market. An FHLB member or associate can use its eligible assets to access liquidity for additional mission-related lending.
<b>Program Description</b>	<p>The purpose of the 12 FHLBs is to support residential mortgage lending and community investment at the local level. This is accomplished by providing primary mortgage liquidity (direct loans, more commonly referred to as "advances") to member financial institutions. The FHLBs' advances provide funding for member institutions that originate and hold mortgages on their books. The AMA Program, however, helps increase mission-related assets on FHLB balance sheets and replaces arbitrage investments by allowing an FHLB to purchase qualifying residential mortgage loans from members and hold the loans on its own balance sheets.</p> <p>The AMA Program was established to help fulfill the FHLBs' housing finance mission. The Finance Board authorized two AMA programs: the Mortgage Partnership Finance (MPF) Program and the Mortgage Purchase Program (MPP). In December 1996, the Finance Board adopted Resolution Number 1996–111, approving a proposal by</p>

**Program Description**  
*continued*

the FHLB of Chicago to establish a pilot program called “Mortgage Partnership Finance” under which the Bank would fund single-family mortgage loans originated by participating member institutions. Three years later, the Finance Board broadened the FHLBs’ authority and authorized all 12 FHLBs to establish and operate single family member mortgage asset programs—MPF or substantially similar programs. Then in July 2000, the Finance Board issued a regulation establishing new requirements and codifying many of the parameters for AMA programs previously set forth by resolution. Specifically, the regulation establishes a three-pronged test for determining which assets qualify as AMA and sets forth credit risk-sharing, reporting, and risk-based capital requirements.

The Office of Finance is the FHLB System’s centralized debt issuance facility. In addition to issuing and servicing all of the debt, the Office also prepares the combined FHLB financial statements, selects/evaluates underwriters, and develops/maintains the infrastructure needed to meet the Bank System’s goals.

Mortgage loans must meet the following three requirements to qualify as eligible for purchase as Acquired Member Assets: (1) the loans must be whole loans or certain interests in whole loans eligible to secure advances and must not exceed the conforming loan limits that apply to the Enterprises; (2) the AMAs must be originated (if a loan) or issued (if a bond) by, through, or on behalf of an FHLB member institution or housing associate or affiliate; or held by an FHLB member or housing associate for a “valid business purpose” before acquisition by the FHLB; and (3) AMAs must meet the specified credit-risk sharing requirements.

The AMA programs offer a structure in which the risk of loss associated with mortgage loans is shared with the participating financial institution while allowing FHLBs to diversify their assets beyond their traditional member advance lending. Participating institutions retain most of the credit risk by providing credit enhancements on the loans sold to the FHLBs. In turn, the FHLBs pay the institutions a fee for providing the credit enhancements. According to the FHLB Office of Finance, because there are no guarantee fees to pay, lenders are able to price more competitively, bringing down the cost of homeownership. The FHLBs manage the interest rate, prepayment, and liquidity risks associated with the AMAs. The FHLBs are exposed to any credit risk that exceeds the

**Program Description***continued*

amount of the credit enhancement provided by the members and to the risk that the participating institutions themselves may default on their credit enhancement or servicing obligations.

As of March 31, 2011, the FHLBs' combined mortgage assets totaled \$59 billion, about 7 percent of the System's total assets. According to the combined financial statement, as of December 31, 2010, the FHLBs of Atlanta, Chicago, Dallas, San Francisco, and Seattle no longer purchase either MPP or MPF loans except for immaterial amounts of MPF loans to support affordable housing; however, each of these FHLBs planned to support its existing portfolio of mortgage loans. In its report to Congress, FHFA stated, "While credit risk has not, to date, been a problem for the FHLBs under the Acquired Member Asset program, managing interest rate and prepayment risk has created difficulties for some FHLBs. The loans purchased under the Acquired Member Asset programs have been long-term, fixed-rate mortgages. Properly matching these assets with appropriate liabilities can be difficult given the propensity for the loans to prepay when interest rates fall."\*\*

The FHLBs require financial institutions participating in the AMA Program to meet requirements set forth in their AMA agreement with the FHLBs and all applicable guides as well as be in compliance with all applicable federal, state, and local laws and regulations. A participating institution is required to maintain a quality control program for mortgages it originates and services under the MPF Program to maintain its eligibility. The quality control program's goals are to monitor, audit, and evaluate originations' investment quality. The quality control system must ensure that the mortgages conform to the MPF Program policies, are of a quality acceptable to the FHLB as well as other institutional investors, comply with insurer and guarantor requirements, and meet the MPF Program's specific requirements. Similarly, under the MPP Guide for FHLB of Indianapolis, the participating institution must have a quality assurance program that allows the member and the FHLB to determine whether the member's mortgage loan origination, underwriting, closing, delivery, and servicing procedures meet all of the FHLB's requirements. The participating institution must submit quality assurance reports to the FHLB.

The MPF Origination Guide specifies that the FHLBs reserve the right to conduct a quality control review of any mortgage funded under the

<b>Program Description</b> <i>continued</i>	MPF Program. The MPP Guide for FHLB of Indianapolis specifies that the FHLB may contract with an independent quality control contractor to perform quality assurance reviews of the participating institution's mortgage sales to the FHLB and of the institution's mortgage operations.
<b>FY2010 Total Acquired Loans (\$\$)</b>	Mortgage loans under this program totaled approximately \$62 billion as of December 31, 2010.

\* Prior to the introduction of the MPF Program and MPP, lenders had two choices when making conventional, fixed-rate mortgage loans: Hold the mortgage loans in their own portfolio; or sell the mortgages directly or through a conduit to a secondary market agency that charges lenders guarantee fees.

\*\* Federal Housing Finance Agency, *Securitization of Mortgage Loans by the Federal Home Loan Bank System*, July 30, 2009, available at [www.fhfa.gov/webfiles/14699/](http://www.fhfa.gov/webfiles/14699/).

### ADVANCES, LETTERS OF CREDIT, AND LINES OF CREDIT

<b>Clientele</b>	Commercial banks, savings institutions, credit unions, insurance companies, and community development financial institutions (CDFIs).
<b>Program Description</b>	The FHLBs provide a readily available, low-cost source of funds to support housing finance and member liquidity. The FHLBs are member-owned cooperatives. Only members own the capital stock in each FHLB, and only members can borrow from an FHLB. Membership is limited to regulated depository institutions (banks, thrifts, and credit unions), insurance companies, and CDFIs engaged in residential housing finance. As of June 30, 2011, total membership was 7,795, comprised of 5,424 commercial banks, 1,067 savings institutions, 1,063 credit unions, 234 insurance companies, and 7 CDFIs. Each FHLB conducts the majority of its credit and mortgage program businesses exclusively with its members or eligible housing associates. The FHLBs offer credit and credit-related products, including loans (advances),* letters of credit, and lines of credit to their members and eligible housing associates. All advances must be fully collateralized by mortgages and other eligible collateral pledged by the borrowing member or housing associates. Advances are the largest category of FHLB assets. By providing advances and other credit-related products to Member Banks, FHLBs increase the availability of credit for residential mortgages.

<p><b>Program Description</b> <i>continued</i></p>	<p>A key objective of FHFA is to return the focus of FHLB operations to providing advances to member institutions and to establish stability at each FHLB to permit repurchases and redemptions of member stock at par. FHFA expects advances to represent an increasing share of total FHLB assets over time. FHFA also expects the FHLBs to achieve and maintain a market value of equity equal to or greater than the par value of their capital stock. In recent years, FHLB investment portfolios had grown beyond levels needed for liquidity and mission achievement at some FHLBs. In some cases, interest rate exposures and credit risk rose significantly. Several FHLBs experienced sharp declines in net asset values, which in turn led to restrictions on dividend payments, stock repurchases, and stock redemptions. Some of those restrictions have been voluntary, while others have stemmed directly from supervisory action. But, in either case, the restrictions disrupt the normal operations of the FHLBs and affect the value proposition of membership.</p> <p>Against this backdrop, FHFA expects all the FHLBs to review, rethink, and reformulate their business strategies with an increased emphasis on mission achievement and a focus on the traditional business of making advances to member institutions, while de-emphasizing investment portfolios not needed to support core activities.**</p>
<p><b>FY2010 Total Advances, Letters of Credit, and Lines of Credit (\$)</b></p>	<p>As of December 31, 2010, advances totaled about \$479 billion and remained the largest FHLB balance sheet item. In addition, the FHLBs had \$4.3 billion of commitments to extend advances and unused lines of credit, and \$63.1 billion in standby letters of credit.***</p>

\* Advances are defined as a collateralized loan made by an FHLB to a member bank to fund lending activities and to maintain liquidity for the member's operations. The Federal Home Loan Bank Act requires all advances to be collateralized and limits collateral to U.S. Department of the Treasury and agency securities, deposits in an FHLB, residential mortgage loans, and other real estate-related collateral.

\*\* FHFA's 2010 Performance and Accountability Report (PAR).

\*\*\* A standby letter of credit is an obligation of the FHLB to make payment to a third party if a member or housing associate does not perform its underlying obligation to that third party.

## AFFORDABLE HOUSING PROGRAM (AHP) AND COMMUNITY INVESTMENT PROGRAM (CIP)

<b>Program-Specific Legal Authority</b>	The FHLB System's public policy mission was expanded to include affordable housing and community development lending through the passage of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) (Public Law 101-73), which established the Affordable Housing Program (AHP) and the Community Investment Program (CIP) for the FHLBs to provide funding for members in support of community and economic development activities.
<b>Clientele</b>	FHLBs provide member banks low cost funding to finance housing for low income groups such as seniors, persons with disabilities, homeless families and individuals, first-time homeowners, and others with limited resources.
<b>Program Description</b>	<p>There are two key FHLB housing programs which provide members with grants and other low-cost funds to finance housing. First, the AHP is a subsidy program that provides grants and interest-rates subsidies on loans to members. Secondly, the CIP is a lending program in which member banks and thrifts borrow advances (loans) at a discounted rate of interest or obtain AAA-rated letters of credit from the FHLBs. Funds from both of these programs can be used for the purchase, construction or rehabilitation of very low- to moderate-income owner-occupied or rental housing.</p> <p><b>Affordable Housing Program</b></p> <p>The AHP is one of the largest private sources of grant funds for affordable housing in the United States. It is funded with 10% of the FHLBs' net income each year. The AHP allows for funds to be used in combination with other programs and funding sources, like the Low-Income Housing Tax Credit. These projects serve a wide range of needs. Many are designed for seniors, persons with disabilities, homeless families and individuals, first-time homeowners and others with limited resources. More than 726,000 housing units have been built using AHP funds, including 457,000 units for very low-income residents. AHP subsidizes the cost of owner-occupied housing for individuals and families with incomes at or below 80 percent of the area median incomes.</p> <p>The FHLB System is the largest single funding provider to Habitat for Humanity.</p>

**Program Description**  
*continued*

This competitive grant program is the largest source of private sector grants for housing and community development in the country. Member banks partner with developers and community organizations seeking to build and renovate housing for low- to moderate-income households. Through these partnerships, the System has distributed about \$3.7 billion in AHP money since 1990. To ensure that AHP-funded projects reflect local housing needs, each FHLB is advised by a 15-member Affordable Housing Advisory Council for guidance on regional housing and community development issues. AHP is a flexible program that uses funds in combination with other programs and funding sources, like Low-Income Housing Tax Credits and Community Development Block Grants.

Under the competitive program, System members submit applications on behalf of one or more sponsors of eligible housing projects. Projects must meet certain eligibility requirements and score successfully in order to obtain funding under the AHP competitive application program. AHP funds are also awarded through the homeownership set-aside program. Under this program, an FHLB may set aside up to the greater of \$4.5 million or 35 percent of its AHP funds each year to assist low and moderate income households purchase homes, provided that at least one-third of the Bank's set-aside allocation is made available to assist first-time homebuyers. Members obtain the AHP set-aside funds from the FHLB and then use them as grants to eligible households. Set-aside funds may be used for down payment, closing cost, counseling or rehabilitation assistance in connection with the household's purchase or rehabilitation of an owner-occupied unit. Each Bank sets its own maximum grant amount, which may not exceed \$15,000 per household. All 12 of the FHLBs have AHP homeownership set-aside programs.

**Community Investment Program (CIP)**

Each FHLB also operates a CIP that offers below market-rate loans to members for long-term financing for housing and economic development that benefits low- and moderate-income families and neighborhoods. CIP has lent \$56 billion for a variety of projects, resulting in the creation of 700,000 housing units and 105,000 jobs. Several FHLBs have created other voluntary programs for affordable housing, small business lending, foreclosure prevention, and financial literacy.

<p><b>Program Description</b> <i>continued</i></p>	<p>CIP for housing provides funding in the form of advances to members with a discounted interest rate. An advance under CIP is offered to a member at the FHLB's cost of funds plus reasonable administrative costs. Members use CIP advances to fund the purchase, construction, rehabilitation, refinancing or predevelopment financing of owner-occupied and rental housing for households with incomes at or below 115% of the area median income. Members may use the proceeds of CIP funding to finance housing directly by making or purchasing mortgages or indirectly by purchasing eligible mortgage securities, mortgage-revenue bonds and low-income housing tax credits or by lending to other lenders to make eligible loans. The FHLBs discount the interest rates on CIP advances and may require the member to pass through this discount to its own borrowers.</p>
<p><b>FY2010 Total AHP and CIP Funds (\$\$)</b></p>	<p>From 1990 through December 31, 2010, the FHLBs awarded approximately \$4.3 billion in AHP subsidies to facilitate development of affordable housing projects designed to create over 740,000 housing units for very low-, low-, and moderate-income families.* As of December 31, 2010, FHLB CIP advances for housing totaled about \$6 billion.</p>

\* Represents aggregated totals from inception through 2010.

### OFFICE OF FINANCE DEBT ISSUANCE

<p><b>Clientele</b></p>	<p>FHLBs</p>
<p><b>Program Description</b></p>	<p>The Office of Finance (OF) is the FHLBs' centralized debt facility. Its primary function is to issue and service all debt securities (also known as consolidated obligations or COs)* for the FHLBs, while obtaining the most cost-effective terms possible given current market conditions. Related activities include the compilation and publication of the combined financial statements, analysis and joint development of new funding opportunities, and educational outreach to inform investors and other interested parties about FHLB debt products. The OF also provides the FHLBs with credit and general capital market information/data and manages the relationship with the credit rating agencies.</p> <p><b>Debt Securities</b></p> <p>The FHLBs raise funds for member lending, mortgage programs, and other balance sheet needs through the daily sale of debt securities in the global capital markets. FHLB debt issuance volume generally rises and falls in proportion to member loan demand, but overall, is one of the</p>

**Program Description***continued*

largest and most frequent debt issuers in the world. Funds raised through the sale of bonds and discount notes typically carry a lower interest rate than FHLB members could obtain on their own and enable member financial institutions to provide lower-cost mortgage credit to homebuyers and housing agencies. The Office of Finance coordinates debt issuance for the FHLBs and acts as the fiscal agent. Buyers of debt securities issued by the FHLBs represent the entire spectrum of domestic and international fixed-income investors.

**Investor Suitability**

COs only should be sold to investors who have the knowledge and experience to evaluate the risks and benefits of the investment. Standards of this type are commonly referred to as “suitability standards.” When COs are sold by dealers, as is the case with most of all COs issued through the OF, it is the dealer’s responsibility to sell them to suitable customers, that is, customers sufficiently sophisticated to fully understand the risks associated with the security purchased. The OF’s Selling Group agreement contractually obligates dealers to sell COs only to suitable investors and provides the OF access to dealer records to review sales for suitability. The OF maintains a compliance program to monitor this requirement as the OF and FHLBs could face legal and reputation risk if an underwriter sells a CO to an unsuitable investor.

**Servicing Consolidated Obligations**

At any one time, the OF may have more than 10,000 separate bond issues outstanding. These create many thousand servicing events each year, including the payment of regular interest, the payment of principal, bond calls, and other servicing events such as the adjustment of the rate on floating-rate bonds and the adjustment of the coupon payments on the more complex bond structures. All bonds need to be entered into the Federal Reserve System’s book entry system. The FHLBs need to remit payments through the OF each day for the principal and interest due that day.

**FY2010 Total Debt Securities (\$\$)**

During 2010 the FHLBs maintained continual access to funding and adapted their debt issuance to meet the needs of market participants. Total consolidated obligations outstanding as of December 31, 2010, totaled about \$800 billion, a decline of about \$134 billion from the previous year.

\* Obligations of the FHLBs are not obligations of the United States and are not guaranteed by either the United States or any government agency.

## FHFA's Oversight of FHLB Programs

### Federal Supervision and Regulation

FHFA is responsible for supervision and regulation of the 12 FHLBs. The Division of Federal Home Loan Bank Regulation (DBR) is responsible for the supervision of the FHLBs and OF to ensure their safe and sound operation. Consistent with FHFA's strategic and performance goals, DBR:

- Provides management oversight, direction and support for all examination activity involving the FHLBs, the development of supervision findings, and preparation of the annual reports of examination.
- Provides support on significant and emerging supervisory issues, development of FHFA policy, and internal FHFA management activities.
- Monitors and assesses the financial condition and performance of the FHLBs and OF and their compliance with regulations through annual on-site examinations, periodic visitations, and ongoing off-site monitoring and analysis.

DBR conducts AHP on-site examinations and visitations of each FHLB annually to ensure compliance with AHP regulations and evaluate the effectiveness of each FHLB's program.

### State Supervision and Regulation

A State regulates FHLB member institutions chartered under State law, such as commercial banks, thrifts, credit unions, and insurance companies. The State is responsible for licensing and supervising these businesses to ensure compliance with the State's laws and regulations, which may include on-site examinations and off-site monitoring. The State also investigates consumer complaints regarding the financial institutions regulated by the State. The State's activities may also uncover evidence related to potential violations of federal law.

### Private Oversight

Private credit rating agencies review and rate the 12 FHLBs' creditworthiness. These ratings are based upon multiple qualitative and quantitative assessments, including but not limited to the likelihood of an FHLB's default.

## External Audit Requirements

Each FHLB is subject to review by its internal and independent external auditors. External registered public accounting firms audit the annual financial statements of each FHLB and the annual combined financial statements of the FHLBs prepared by the Office of Finance. In addition, each FHLB is a separate Securities and Exchange Commission (SEC) registrant subject to Sarbanes-Oxley. Each FHLB files financial reports with the SEC containing information related to its financial condition and results of operations. The U.S. Government Accountability Office also performs audits at the request of Congress. The Comptroller General of the United States has the authority under the Federal Home Loan Bank Act to audit the FHLBs and to decide the extent to which they effectively fulfill the purposes of the Act.



### Agency Name

Federal Housing Finance Agency

### Administering Entities

Fannie Mae, Freddie Mac, and the Federal Home Loan Banks

## PRIVATE-LABEL MORTGAGE PURCHASES PROGRAM

<p><b>Legal Authority</b></p>	<p>The Federal Home Loan Bank System (System) was created in 1932 by the Federal Home Loan Bank Act (Bank Act) (Public Law 72–304) to restore confidence in the nation’s financial institutions and to improve the supply of funds to local lenders to finance loans for home purchases. The System’s creation came in response to the Great Depression, which had undermined confidence in the U.S. banking and financial system and had created the need for assurance that funding would be available for home financing. The System comprises 12 Federal Home Loan Banks (FHLBs) with more than 8,000 member financial institutions (Member Banks), and the Office of Finance.* The 12 FHLBs are each structured as cooperatives owned and governed by the Member Banks, which today include commercial banks, thrifts, credit unions, and insurance companies. FHFA placed a moratorium on purchases of private-label MBS in 2008. Accordingly, the GSEs have not purchased private-label or commercial MBS since.</p>
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<p><b>Legal Authority</b> <i>continued</i></p>	<p>The Housing and Economic Recovery Act of 2008 (HERA, Public Law 110–289) was enacted on July 30, 2008, and amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Public Law 102–550, 12 U.S.C. § 4501 et seq.) to establish FHFA as an independent agency of the federal government. HERA transferred the safety and soundness supervisory and oversight responsibilities over Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System (collectively, the GSEs) from the Office of Federal Housing Enterprise Oversight (and the Federal Housing Finance Board) to FHFA. HERA also transferred responsibility to establish, monitor, and enforce the affordable housing goals for the Enterprises from the Department of Housing and Urban Development (HUD) to FHFA.</p>
<p><b>Clientele</b></p>	<p>In the past, the GSEs purchased private-label MBS for their investment portfolios. In certain cases, private-label MBS purchases also helped Fannie Mae and Freddie Mac attain compliance with their affordable housing mandates.</p>
<p><b>Program Description</b></p>	<p>Starting in 2001 for Freddie Mac and 2002 for Fannie Mae, the GSEs—particularly Freddie Mac—became buyers in this market. The GSEs purchased 10.5% of the private-issued subprime MBS in 2001. The share peaked at 40% in 2004 and then fell back to 28% in 2008. The share for Alt-A MBS was always lower.</p> <p>These investments were profitable at first, but as delinquencies increased in 2007 and 2008, both Enterprises began to take significant losses on their private-label MBS. FHFA noted in its <i>Report to Congress 2009</i>:</p> <p style="padding-left: 40px;">A key factor leading up to conservatorship was the Enterprises’ investments in [private-label MBS]. Declines in the market value of these investments along with subsequent impairments drove losses and reductions in net worth throughout 2008. Investments in private-label MBS were primarily responsible for eliminating Freddie Mac’s pre-conservatorship net worth of \$27 billion and played a significant role in the initial draws under the Preferred Stock Purchase Agreements. Given that Fannie Mae had less than half the amount of private-label MBS as Freddie Mac, the overall impact was similar but less severe.</p>

<b>Program Description</b> <i>continued</i>	<p>Private-label MBS holdings have also presented significant issues for the Federal Home Loan Banks, according to the same document:</p> <p>At [six of the twelve] FHLBs, the principal supervisory issue is [private-label MBS]. Half the FHLBs incurred credit-related impairment charges of more than \$200 million on private-label MBS in 2009. Four FHLBs have negative accumulated other comprehensive income, mostly reflecting noncredit impairment on private-label MBS, in excess of their retained earnings.</p>
<b>FY2010 Total Private-Label MBS (\$\$)</b>	<p>As of December 31, 2010, the FHLBs, Fannie Mae, and Freddie Mac collectively had recognized \$29 billion in credit other-than-temporary impairment on portfolios of private-label MBS totaling \$238 billion in amortized cost.</p>

\*The Office of Finance issues debt on behalf of the 12 FHLBs.

### **FHFA's Oversight of the Private-Label Mortgage Purchases Program**

See page 89 for FHFA's Oversight of Fannie Mae and Freddie Mac Programs and page 102 for FHFA's Oversight of FHLB Programs.

## Additional Program Information

## Acronyms and Abbreviations

2MP	Second Lien Modification Program
ABS	Asset-Backed Securities
ACE	Automated Certificate of Eligibility
AHP	Affordable Housing Program
AMA	Acquired Member Asset
AMI	Area Median Income
ARM	Adjustable Rate Mortgage
Bank Act	Federal Home Loan Bank Act
BOS	Borrower Solicitation Package
CDBG	Community Development Block Grant
CDO	Collateralized Debt Obligation
CIP	Community Investment Program
CMO	Collateralized Mortgage Obligation
CO	Consolidated Obligation
CSC	Centralized Servicing Center
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DIL	Deed-in-Lieu of Foreclosure
DLP	Direct Loan Program
DRGR	Disaster Recovery Grant Reporting
DTI	Debt-to-Income Ratio
EEM	Energy Efficient Mortgage
EESA	Emergency Economic Stabilization Act of 2008
FAA	Financial Agency Agreement
FDIC	Federal Deposit Insurance Corporation
FDT	Financial Data Template
Federal Reserve	Board of Governors of the Federal Reserve System

FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHFA-OIG	Federal Housing Finance Agency Office of Inspector General
FHFB	Federal Housing Finance Board (Finance Board)
FHLB	Federal Home Loan Bank
Freddie Mac	Federal Home Loan Mortgage Corporation
FICO <sup>1</sup>	Financing Corporation
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act of 1989
Fannie Mae	Federal National Mortgage Association
FRM	Fixed Rate Mortgage
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GEM	Growing Equity Mortgage
GLP	Guaranteed Loan Program
Ginnie Mae	Government National Mortgage Association
GPM	Graduated Payment Mortgage
GSE	Government Sponsored Enterprise
H4H	HOPE for Homeowners
HAFA	Home Affordable Foreclosure Alternatives Program
HAMP	Home Affordable Modification Program
HARM	Hybrid Adjustable Rate Mortgage
HARP	Home Affordable Refinance Program

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1 While “FICO” is also a commonly used acronym for credit scores derived from a model created by the Fair Isaac Corporation, this is not the context in which the acronym is used herein. The Compendium’s use of “FICO” refers solely to the Financing Corporation, a mixed-ownership government corporation established in 1987 to function as a financing vehicle for the Federal Savings & Loan Insurance Corporation (FSLIC). FICO’s authority to issue new debt terminated four years later, pursuant to the Resolution Trust Corporation Refinancing, Restructuring and Improvement Act of 1991.

HECM	Home Equity Conversion Mortgage Program
HERA	Housing and Economic Recovery Act of 2008
HOC	Homeownership Center
HUD	U.S. Department of Housing and Urban Development
HUD-OIG	U.S. Department of Housing and Urban Development Office of Inspector General
LAPP	Lender Appraisal Processing Program
LASS	Lender Assessment Subsystem
LoanSTAR	Loan Systematic Technical Accuracy Review
MBS	Mortgage-Backed Securities
MHA	Making Home Affordable Program
MIP	Mortgage Insurance Premium
ML	Mortgagee Letter
MPF	Mortgage Partnership Finance
MPP	Mortgage Purchase Program
NADL	Native American Direct Loan
NSP 1	Neighborhood Stabilization Program 1
NSP 2	Neighborhood Stabilization Program 2
NSP 3	Neighborhood Stabilization Program 3
NSP-TA	Neighborhood Stabilization Program—Technical Assistance
OAE	Office of Audits and Evaluations
OCC	Office of the Comptroller of the Currency
OF	Office of Finance for the Federal Home Loan Banks
OFHEO	Office of Federal Housing Enterprise Oversight
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OREO	Other Real Estate Owned
PIH	Public and Indian Housing

PLOU	Portfolio Loan Oversight Unit
PMOU	Property Management Oversight Unit
PSPA	Senior Preferred Stock Purchase Agreement
Recovery Act	American Recovery and Reinvestment Act of 2009 (ARRA)
REFCORP	Resolution Funding Corporation
REMIC	Real Estate Mortgage Investment Conduit
REO	Real Estate Owned
RHS	Rural Housing Service
SAH	Specially Adapted Housing
SAS	Statement on Auditing Standards
SEC	Securities and Exchange Commission
System	Federal Home Loan Bank System
TARP	Troubled Asset Relief Program
The Board	Mortgagee Review Board (MRB)
Treasury	U.S. Department of the Treasury
UP	Home Affordable Unemployment Program
USDA	U.S. Department of Agriculture
USDA-OIG	U.S. Department of Agriculture Office of Inspector General
VA	U.S. Department of Veterans Affairs
VA-OIG	U.S. Department of Veterans Affairs Office of Inspector General
VALERI	VA Loan Electronic Reporting Interface

## Glossary

The technical terms below are used in one or more of the housing program descriptions.

**Acquired (Refunded) Loan**—A loss mitigation option in which VA purchases the loan from the private lender and sets affordable payments for the Veteran, allowing the Veteran to retain his or her home. Acquired (Refunded) loans are serviced by VA’s portfolio loan servicer.

**Affordable Housing**—Affordable housing refers to housing, either for purchase or for rent, that is affordable to people with low to moderate incomes. Such housing may be provided or supported by government or by the private sector. HUD and others define affordability in terms of the proportion of household income that goes toward housing. HUD defines low and moderate income as a certain percentage of the area’s median income. Affordable housing projects serve a wide range of neighborhood needs. Many are designed for seniors, the disabled, homeless families, first-time homeowners, and others with limited resources.

**Claims**—A request or demand for payment on a guaranteed loan by the loan holder due to default by the borrower. The guarantor will generally issue the payment to the loan servicer who will be responsible for forwarding the funds to the loan holder in accordance with its servicing agreement.

**Debt**—A specific sum of money due by agreement or otherwise.<sup>1</sup> Obligations can be incurred by households (consumer debt) or corporations (corporate debt). Corporate debt can also refer to securities issued by corporation, each an individual obligation owed by the corporation to the investor.

**Deed-in-lieu (DIL)**—A voluntary transfer of property from the borrower to the loan holder for a release of all obligations under the mortgage.

**Foreclosure**—Process by which a mortgage’s holder seizes the property of a homeowner who has not made interest and/or principal payments on time as stipulated in the mortgage contract.<sup>2</sup> Foreclosure laws vary according to each state’s statutes on the topic. Generally, foreclosures are either judicial (i.e.,

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1 Black’s Law Dictionary 330 (7th ed. 2000)

2 Campbell R. Harvey’s Hypertextual Finance Glossary (2011), online at [www.duke.edu/~charvey/Classes/wpg/bfglosf.htm](http://www.duke.edu/~charvey/Classes/wpg/bfglosf.htm). Last viewed on August 30, 2011.

conducted primarily through court proceedings) or non-judicial (i.e., conducted largely outside of the state's judicial system).

**Guarantee**—An agreement to repay a loan or ensure performance. It may be limited in time and amount.<sup>3</sup> With respect to mortgage-backed securities, a guarantee takes the form of assurance of timely principal and interest payments to security holders.<sup>4</sup>

**Insurance**—Indemnification one obtains against loss from a specific hazard or peril.<sup>5</sup> Mortgage insurance is one such example. A federal agency may insure private lenders against the risk that a particular borrower will default on his or her mortgage. By offering to insure the borrower's mortgage, the federal agency reduces the risks those private lenders might incur, and thereby encourages those lenders to extend credit to borrowers who might not otherwise qualify for mortgages in the private market.

**Lender Appraisal Processing Program (LAPP)**—A program which allows VA-authorized lenders to receive appraisal reports directly from appraisers and process them without direct VA involvement, enabling lenders to speed up the time involved with closing a loan.

**Loss Mitigation**—Steps taken by the mortgage lenders to avoid the need to foreclose upon properties subject to a mortgage upon which the borrower is at risk of going into default. Such steps may benefit both the lender and the borrower. Examples of loss mitigation activities include, but are not limited to, loan modifications<sup>6</sup> and short sales.<sup>7</sup>

**Native American Direct Loan (NADL)**—A loan product offered by VA to Native American Veterans choosing to use their VA home benefit on Federal Trust Lands. NADLs are utilized to purchase, build, or improve a home located on

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3 Glossary of Project Finance Terms and Acronyms (2004), online at [www.people.hbs.edu/besty/projfinportal/glossary.htm#Top](http://www.people.hbs.edu/besty/projfinportal/glossary.htm#Top). Last viewed on August 30, 2011.

4 Online at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/buying/glossary](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/buying/glossary). Last viewed on August 30, 2011.

5 Institute of Financial Education, *Glossary of Financial Services Terminology* 40 (1990).

6 A loan modification alters the original loan's terms to make it comparatively easier for the borrower to pay back what is owed. A loan modification may extend the period of time in which the borrower must repay the amounts due, or reduce those amounts, or take some other step to make the obligation less burdensome on the borrower.

7 A short sale means that the lender accepts less than what is owed on the property as full repayment of the loan.

Federal Trust land whose sovereign governments have signed a Memorandum of Understanding with VA. VA staff in the Regional Loan Centers manages the loan origination process for these loans. NADLs are serviced by VA's portfolio loan servicer.

**Origination**—The making of a loan, collateralized by specified real property, which obligates the borrower to series of predetermined payments.

**REO**—Real Estate Owned. This refers to a class of real property owned by the lender. The term REO is derived from the General Accepted Accounting Principles (GAAP) category, “—Other Real Estate Owned (OREO)”. Under GAAP, REO properties are booked as non-performing assets, due to the lender's lack of recourse against the borrower. The lender may acquire the property through a forcible repossession or foreclosure, or by the borrower's voluntary award, such as a deed-in-lieu of foreclosure.<sup>8</sup>

**Servicing**—This term applies to certain activities undertaken in connection with loans. Servicing a mortgage loan means to take those steps that are necessary to maintain the loan from when it is made until when the last payment is received, at which point the mortgage instrument is cancelled. Servicing steps are varied, and may include billing the borrower, collecting mortgage payments, and escrowing real estate tax and fire and casualty insurance payments.<sup>9</sup>

**VA Fee Appraiser**—An appraiser selected to be on VA's panel of approved appraisers. Appraisers are assigned on a rotational basis from the panel to provide appraisals for a fee. The term 'fee' is used to denote that these appraisers are independent contractors and are not VA employees.

**VA Portfolio Loans**—The entire pool of direct loans that VA owns, which includes Acquired (Refunded) loans, Native American Direct Loans, and Vendee Loans. These loans are serviced by VA's portfolio loan servicer.

**Vendee Loan**—A loan product offered by VA to help finance the purchase of VA REO Properties. Vendee loans are owned by VA, underwritten by VA's property management service provider, and serviced by VA's portfolio loan servicer.

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8 Managing Your Credit Union's OREO Property: Guidance and Best Practices (2010), Washington State Department of Financial Institutions, online at [www.dfi.wa.gov/cu/pdf/oreo-best-practices.pdf](http://www.dfi.wa.gov/cu/pdf/oreo-best-practices.pdf). Last viewed on August 31, 2011.

9 Institute of Financial Education, Glossary of Financial Services Terminology 46 (1990).

### Table of Program Comparisons

The programs and activities described herein include several of the same functions or purposes. Those functions or purposes supported most frequently are listed in the table below and are defined in the glossary beginning on page 111.

	Origination	Servicing	Claims	Affordable Housing	REO	Loss Mitigation	Foreclosure	Insurance	Guarantees	Debt
<b>HUD</b>										
One- to Four-Family Home Mortgage Insurance	•	•	•	•						
Single Family Property Disposition Program		•		•	•					
Mortgage Insurance for Disaster Victims	•	•	•	•						
Rehabilitation Loan Insurance	•		•	•	•					
Adjustable Rate Mortgages (ARMs)	•		•	•						
Energy Efficient Mortgage Insurance	•	•		•						
Good Neighbor Next Door	•	•		•	•					
Graduated Payment Mortgage	•	•	•	•						
FHA-Home Affordable Modification Program (HAMP)		•	•	•	•	•				
Loss Mitigation		•	•	•		•				
Manufactured Homes Loan Insurance (Title I)	•	•	•	•						
Property Improvement Loan Insurance (Title I)	•	•	•	•						
Home Equity Conversion Mortgage	•	•	•	•						
HOPE for Homeowners		•		•		•				
Insured Mortgages on Hawaiian Home Lands	•	•	•	•						
FHA Insured Mortgages on Indian Land	•	•	•	•						
Neighborhood Stabilization Program I				•	•		•			

	Origination	Servicing	Claims	Affordable Housing	R/E/O	Loss Mitigation	Foreclosure	Insurance	Guarantees	Debt
Neighborhood Stabilization Program II				•	•		•			
Neighborhood Stabilization Program III				•	•		•			
Emergency Homeowners' Loan Program		•		•				•		
<b>USDA</b>										
Single Family Housing Guaranteed Loan Program (GLP)				•				•	•	
Single Family Housing Direct Loan Program (DLP)	•	•		•	•		•			
<b>VA</b>										
VA Home Loan Program	•	•	•		•	•	•		•	
<b>FHFA</b>										
Acquired Member Asset Program		•		•		•				
Affordable Housing Program (AHP) and Community Investment Program (CIP)		•		•		•				
FHLB Advances, Letter of Credit & Lines of Credit	•	•	•	•	•	•	•	•	•	
FHLB Office of Finance—Debt Insurance		•								•
MHA Program		•		•		•				
MBS		•				•		•	•	
Mortgage Purchasing and Retained Portfolio				•						
Mortgage Servicing		•		•		•				
Private-Label Mortgage Purchases				•						
Real Estate Owned Purchase and Financing Programs	•	•		•	•		•			



## **Federal Housing Inspectors General Contact Information**



## U.S. Department of Housing and Urban Development Office of Inspector General

Address 451 7th Street SW  
Washington, DC 20410

Main Phone 1.202.708.0430

Hotline Phone 1.800.347.3735

Website [www.hudoig.gov](http://www.hudoig.gov)

• • •



## U.S. Department of Agriculture Office of Inspector General

Address Room 117–W Jamie Whitten Building  
1400 Independence Avenue SW  
Washington, DC 20250

Main Phone 1.202.720.8001

Hotline Phone 1.800.424.9121 or  
1.202.690.1622

Website [www.usda.gov/oig/index.htm](http://www.usda.gov/oig/index.htm)



## U.S. Department of Veterans Affairs Office of Inspector General

Address 801 I Street, NW  
Washington, DC 20001

Send letters and correspondence to:

810 Vermont Ave NW  
Washington, DC 20420

Main Phone 1.202.461.4720

Hotline Phone 1.800.488.8244

Website [www.va.gov/oig](http://www.va.gov/oig)

• • •



## Federal Housing Finance Agency Office of Inspector General

Address 1625 Eye Street NW  
Washington, DC 20006

Main Phone 1.202.408.2544

Hotline Phone 1.800.793.7724

Website [www.fhfaig.gov](http://www.fhfaig.gov)

## HOTLINE Numbers

U.S. Department of Housing and Urban Development Office of Inspector General  
1.800.347.3735

U.S. Department of Agriculture Office of Inspector General  
1.800.424.9121 or 1.202.690.1622

U.S. Department of Veterans Affairs Office of Inspector General  
1.800.488.8244

Federal Housing Finance Agency Office of Inspector General  
1.800.793.7724