Principal Reduction Program

Summary Guidelines

KEEP YOUR HOME CALIFORNIA℠

1. Program Overview

The Principal Reduction Program ("PRP") is one of CalHFA MAC's federally-funded programs developed with a goal to provide capital to homeowners who have suffered an eligible hardship in order to reduce the outstanding principal balances of qualifying properties with negative equity and/or unaffordable first mortgage payments.

PRP will provide monies to reduce the principal balance of the first mortgage in connection with a loan recast, modification or a stand-alone curtailment, each with the purpose of establishing an appropriate level of affordability and/or debt for eligible homeowners with qualifying properties.

2. Program Goals

The PRP will reduce the principal balance of first mortgages in cooperation with participating servicers in connection with a loan recast, modification, or a stand-alone curtailment, to help qualifying homeowners stay in their homes.

PRP will help homeowners stay in their homes by ensuring they have an affordable first mortgage payment and an appropriate level of mortgage debt after they receive PRP assistance in accordance with program guidelines.

3. Target Population/ Areas

PRP is designed to target low-to-moderate income homeowners and address the needs of a homeowner's specific situation in lieu of targeting certain regions or counties.

4. Program Allocation
(Excluding Administrative Expenses)

$912,598,913.11

5. Borrower Eligibility Criteria

- Homeowner qualifies as low-to-moderate income based on per-household income thresholds set forth in the county in which the homeowner resides. Income thresholds are as posted on the Keep Your Home California website.
- Homeowner completes and signs a Hardship Affidavit / 3rd Party Authorization to document the reason for hardship.
- Homeowners who have recently encountered a financial hardship due to their military service are eligible.
- Homeowner has adequate income to sustain post-assistance mortgage payments.

- Homeowner's pre-assistance, total monthly first-lien mortgage payment PITI (principal, interest, taxes and insurance, as applicable) including any escrowed homeowner's association dues or assessments, is greater than 38% of the gross household income excluding temporary income (e.g., unemployment or short-term disability benefits) and/or a homeowner's pre-assistance LTV ratio is greater than 100%.
- Homeowner's post-assistance, total monthly first-lien mortgage payment PITI (principal, interest, taxes and insurance, as applicable) including any escrowed homeowner's association dues or assessments, must meet CalHFA MAC's definition of an "Affordable Payment," which means that the homeowner's monthly first-lien mortgage payment is no greater than 38% of the gross household income excluding temporary income (e.g., unemployment or short-term disability benefits). On a case-by-case basis, CalHFA MAC reserves the right to review and approve investor program guidelines that utilize post-assistance affordable monthly first-lien mortgage definitions greater than 38%.
- Delinquent homeowners with a pre-assistance LTV of greater than 100% but less than 120% that have a pre-assistance Affordable Payment must be able to demonstrate that an eligible hardship caused their payment to be temporarily unaffordable (e.g., reduction of income or increase in unavoidable expenses as per program guidelines).
- Homeowner agrees to provide all necessary documentation to satisfy program guidelines within the timeframes established by CalHFA MAC.
- First Lien mortgage loan must be delinquent or meet the CalHFA MAC definition of imminent default as substantiated by homeowner's hardship documentation. General program eligibility is determined by CalHFA MAC based on information received from the homeowner. Program-specific eligibility is determined by CalHFA MAC on a first-come/first-approved basis until program funds and funding reserves have been exhausted. Loan servicer will implement the HHF program based on participation agreement terms and conditions.

6. Property/Loan Eligibility Criteria

- Current, unpaid principal balance ("UPB") (includes the interest-bearing unpaid principal balance and any existing non-interest bearing forbearance balance) of the first-lien mortgage loan is not greater than $729,750.

- The property securing the first-lien mortgage loan must not be abandoned, vacant or condemned.
- The applicant must own and occupy the single family, 1-4 unit home (an attached or detached house or a condominium unit) located in California and it must be their primary residence. Mobile homes are eligible if they are permanently affixed to the real property that is secured by the first lien.
- A pre-assistance loan-to-value ("LTV") ratio of 120% or greater is considered a hardship indicative of imminent default.
- If a qualifying, first-lien mortgage loan is delinquent, the servicer must utilize the PRP monies to bring the first-lien mortgage loan current before applying PRP monies to the homeowner's principal balance.
- The servicer will reduce the qualifying principal balance in conjunction with a loan recast or loan modification in the amount needed (up to the maximum per household assistance) to help the homeowner establish an appropriate level of affordability and mortgage debt per CalHFA MAC guidelines. Such loan recasts or modifications must meet the CalHFA MAC modification and program guidelines.
- Servicer may apply PRP monies as a stand-alone curtailment to reduce the homeowner's UPB in order to help the homeowner establish an appropriate level of mortgage debt as determined by CalHFA MAC only when all five of the following conditions exist:
    - Loan restricts a loan recast or modification,
    - Pre-assistance LTV ratio is 120% or greater,
    - Such homeowner must not have assets (excluding retirement assets) equal to or greater than the amount of PRP assistance,
    - Pre-assistance mortgage payment meets CalHFA MAC's definition of an Affordable Payment, and
    - Post-assistance LTV ratio is greater than 100%.
- Loans in foreclosure may be eligible.

7. Program Exclusions

- Homeowner is in "active" bankruptcy. Homeowners who have previously filed bankruptcy are eligible for consideration only with proof of court order "Dismissal" or "Discharge".
- Homeowner fails to satisfy lender underwriting guidelines.
- Homeowner's post-assistance LTV ratio is greater than 140% or less than 100%. Post-assistance LTV ratio may be less than 100% only if it is necessary in order to provide the homeowner an Affordable Payment.

- Homeowner's pre-assistance total monthly first-lien mortgage payment PITI (principal, interest, taxes and insurance, as applicable) and any escrowed homeowner's association dues or assessments, as applicable, calculated on the "UPB", is less than 25% of the homeowner's gross monthly household income, excluding temporary income (e.g., unemployment and short-term disability benefits), as determined by CalHFA MAC at the time of a homeowner's application for assistance.
- Homeowner's post-assistance total monthly first-lien mortgage payment PITI (principal, interest, taxes and insurance, as applicable) and any escrowed homeowner's association dues or assessments, as applicable, is less than 25% of the homeowner's gross monthly household income, excluding temporary income (e.g., unemployment and short-term disability benefits), or greater than CalHFA MAC's definition of an Affordable Payment.
- Property is subject to a first priority lien securing a Home Equity Line of Credit ("HELOC").

8. Structure of Assistance

In the event that the homeowner's post-assistance LTV is less than 100%, CalHFA MAC will structure the assistance as a non-recourse, non-interest bearing subordinate loan in favor of the Eligible Entity (CalHFA MAC) secured by a junior lien recorded against the property in the amount of the HHF assistance. At the conclusion of (30) thirty years, the subordinate loan will be released. Loan funds will only be repaid to Eligible Entity (CalHFA MAC) in the event of a sale or a refinance that includes cash out and there are equity proceeds available prior to forgiveness.

In the event that CalHFA MAC receives less than 100% match in funds by the lender/servicer and the homeowner's post-assistance LTV is 100% or greater, CalHFA MAC will structure the assistance as a non-recourse, non-interest bearing subordinate loan in favor of the Eligible Entity (CalHFA MAC) secured by a junior lien recorded against the property in the amount of the HHF assistance. At the conclusion of (5) five years, the subordinate loan will be released. Loan funds will only be repaid to Eligible Entity (CalHFA MAC) in the event of a sale or a refinance that includes cash out and there are equity proceeds available prior to forgiveness.

In the event that CalHFA MAC receives a 100% or greater match in funds by the lender/servicer and the homeowner's post-assistance LTV is 100% or greater, then CalHFA MAC will not structure the assistance as a loan.

Recovered funds will be recycled in order to provide additional program assistance until December 31, 2017, at which time any recovered or unused funds will be returned to Treasury.

9. Per Household Assistance

Up to $100,000 per household (average funding has been $68,000), less program monies previously received under other HHF programs.

10. Duration of Assistance

In most cases, assistance will be available to households on a one-time only basis; provided, however, that CalHFA MAC reserves the right to provide additional PRP benefits (not exceed the maximum program assistance amount per household) to previous PRP recipients if the homeowner has suffered a subsequent, qualifying hardship.

11. Estimated Number of Participating Households

Approximately 13,400. This figure is based on loans with unpaid principal balances ranging from $200,000 to $400,000, with an average funding of $68,000.

12. Program Inception/ Duration

The statewide launch of PRP was February 7, 2011 and it will continue until December 31, 2017 or until funding is fully reserved, whichever occurs first.

13. Program Interactions with Other HFA Programs

Other HFA program benefits may be available to the homeowner provided the HHF program maximum benefit cap of $100,000 has not been exceeded. The homeowner is required to apply separately for each HFA program.

14. Program Interactions with HAMP

PRP may work in conjunction with a HAMP modification to help eligible homeowners achieve desired income ratios, payment affordability and establish an appropriate level of mortgage debt. PRP may be used to reduce or eliminate an existing non-interest bearing forbearance balance from a previous HAMP loan modification as described in the MHA Handbook, Principal Curtailments Following Modification section. PRP may also be combined or used in conjunction with the HAMP Principal Reduction Alternative (PRA). PRP funds are not eligible in any combination to qualify for HAMP PRA investor incentive compensation.

15. Program Leverage with Other Financial Resources

CalHFA MAC will require that the servicer waive all accrued and unpaid late charges and NSF fees at the time the modification agreement is completed. CalHFA MAC will require the servicer to waive any associated recast or modification fee.