The Protective Insurance Payments Demonstration

Volume II - Final Report

HUD-002274

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U.S. Department of Housing and Urban Development
Office of Policy Development and Research

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Volume Two

Final Report

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VOLUME II - FINAL REPORT

The Protective Insurance Payments Demonstration

A Temporary Mortgage Assistance Program

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By

BE&C ENGINEERS, INC. · A Boeing Subsidiary

and

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For

U.S. Department of Housing and Urban Development

The Office of Policy Development and Research

Contract H-2504

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APPENDICES

ABBREVIATIONS AND ACRONYMS

BCR	Benefit/Cost Ratio
D&D	Default and Delinquency
ECOA	Equal Credit Opportunity Act
EHRA	Emergency Homeowners Relief Act
E.O.	Equal Opportunity
F/C	Foreclose
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FmHA	Farmers Home Administration
FNMA	Federal National Mortgage Association
F.O.	Field Office
FSLIC	Federal Savings and Loan Insurance Corporation
GNMA	Government National Mortgage Association
GTR	Government Technical Representative
HUD	Department of Housing and Urban Development
MBA	Mortgage Bankers Association
MIP	Mortgage Insurance Premium
OFA	Office of Finance and Accounting
OLM	Office of Loan Management
OMB	Office of Management and Budgets
OMI	Office of Management Information
PD&R	Policy Development and Research
P&I	Principal and Interest
PIP	Protective Insurance Payments
PITI	Principal, Interest, Taxes and Insurance
s.d.	Standard Deviation
SMSA	Standard Metropolitan Statistical Area
TMAP	Temporary Mortgage Assistance Payments
VA	Veterans Administration
W.U.	Work Unit
76-9	Home Mortgage Assignment Program

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1.0 INTRODUCTION

HUD does not have a program for assisting otherwise sound mortgagors who face the loss of their homes due to economic stress or other reasons beyond their control, other than encouraging mortgagees to forbear exercising their right to foreclose the loan through work-out arrangements until the period of adversity has passed, or accepting assignment of the insured mortgage. Each of these two alternatives has major inadequacies:

1. The rapid catch-up schedule usual in most forbearance programs commonly results in secondary failure. If a distressed homeowner has been unable to make his or her mortgage payments and is consequently three or more payments in arrears, the mortgage company typically will seek arrangements under which the homeowner agrees to make one and one-half or two payments a month. Not surprisingly, the homeowner who previously could not make the regular monthly payments soon finds that the catch-up payments are beyond his or her financial capabilities and a second default occurs, generally resulting in either a distressed sale (if there is an equity buildup in the home) or foreclosure.

2. The acceptance of assignment of the insured mortgage by HUD is not only extremely costly to the Government ($74 million for some 3,800 assignments in FY1979), but it also puts HUD in danger of becoming a major mortgage servicer in the country, a role HUD does not desire and for which it is not equipped.

Based on the above situation, and after review of alternative possibilities, the Protective Insurance Payments (PIP) program was designed by the Contractor team (under HUD contract H-2270) as a cost-effective delivery system for providing assistance to such deserving mortgagors. After such design, a demonstration of the PIP program was subsequently approved under HUD contract H-2504. Based on its experience in the course of the demonstration, the Contractor team developed a program for national implementation using the tested delivery system inherent in the PIP program as a means of assisting mortgagors who met the eligibility criteria of the Home Mortgage Assignment program. This integration of the PIP delivery system with the existing intake procedures of the Assignment program should permit HUD, at substantially reduced cost and without entering the mortgage servicing business, to meet its statutory mandate to assist mortgagors who are in default for reasons beyond their control, and, specifically, to implement the Temporary Mortgage Assistance Payments (TMAP) provisions of the Housing and Community Development Act of 1980 which was enacted October 8, 1980.

Chapters 3.0 through 5.0 of this final report under HUD contract H-2504 summarize the design of the PIP program, its implementation, and the results of the demonstration. In summary, the PIP program provided that, for mortgagors who were three full monthly payments in arrears and who met the program eligibility criteria discussed in chapter 3.0, HUD would make monthly mortgage payments (in part or in whole, depending on the ability of the mortgagor to make partial payments). The period of time for which payments would be made was subject to periodic review and a maximum benefit amount equivalent to nine monthly mortgage payments on the HUD-insured first mortgage. The funds advanced by HUD in the form of monthly mortgage payments to the mortgagee were evidenced by a note payable to HUD and secured by a junior lien on the mortgaged property. When the mortgagor was capable of resuming the full mortgage payment obligation, repayment of the PIP advances was scheduled (i.e., recast) over a period of time determined by the mortgagor's ability to pay. At the same time, the balance due under the HUD-insured first mortgage (including the payments in arrears) was recast to provide for repayment over the remaining term of the first mortgage. The mortgagor was then expected to make a new single monthly payment incorporating both the recast first mortgage and the amount required to amortize the PIP advances as recast. Servicing during the benefit and repayment periods remained with the original mortgage servicer.

The effectiveness of the PIP program as a means of delivering assistance to mortgagors does not depend on the use of any particular set of eligibility criteria. Although narrow eligibility criteria were employed in the PIP demonstration (closely paralleling the criteria established in the Emergency Homeowners' Relief Act of 1975--inability to meet mortgage payments by reason of involuntary unemployment or underemployment), the PIP program can effectively utilize the intake criteria and acceptance/rejection review method of the current Assignment program.

Implementation of the PIP program as a national program (to be known as the Temporary Mortgage Assistance Payments (TMAP) Program) can now be accomplished as a result of the amendment of the National Housing Act (effective October 8, 1980) to permit use of the HUD insurance funds for loans or advances for the benefit of the mortgagor and to protect the insurance funds. Chapters 6.0 and 7.0 of this Report summarize the implementation--and special areas of consideration in connection with such implementation--of a national TMAP program.

2.0 HISTORICAL CONTEXT

2.1 NATIONAL HOUSING POLICY

HUD has a legal obligation to follow the national housing policies set forth in applicable Federal legislation, including, in particular, 42 U.S.C. §1441 and 12 U.S.C. §1701t (Section 2 of the Housing and Urban Development Act of 1968). References: Commonwealth of Pennsylvania v. Lynn, 501 F.2d 818 (D.C.Cir. 1974); Brown v. Lynn, 385 F.Supp. 986 (N.D.Ill. 1974). In general, such obligation is to formulate and carry out a program reasonably calculated to provide a decent home and a suitable living environment for every American family.

Such obligation is limited by the authority granted to HUD under applicable Federal legislation. (As a practical matter, the performance of such obligation is also limited by the appropriations provided to HUD for such purposes.) Such obligation is tempered by HUD's obligation to protect its interest in insured mortgages, that is, to protect the Government from loss. See United States v. Neustadt, 281 F.2d 596, 600 (4th Cir. 1960). It is further tempered by the policy, affirmed in the Housing and Urban Development Act of 1968, that HUD should make the fullest practicable utilization of private enterprise (Section 2 of the 1968 Act, 12 U.S.C. §1701t).

To the extent reasonably consistent with the aforementioned policies and otherwise reasonable and appropriate, HUD does have a more particular obligation to effect such alternative forbearance, recasting, or other policies and procedures of similar effect as may be within its authority--if its policies and procedures are resulting in avoidable, unwarranted defaults and foreclosures or, in any event, if reasonable and appropriate alternative policies and procedures are available which might, in the future, avert unnecessary defaults and foreclosures.

Over the past three years, stimulated at least in part both by litigation (e.g., Brown v. Lynn) and Congressional action (Emergency Homeowners' Relief Act), HUD has made extensive efforts to improve the quality and extent of mortgage servicing and in particular has addressed the problem of providing relief to "deserving mortgagors" who face the loss of their homes due to circumstances beyond their control.

2.2 MORTGAGE SERVICING PRACTICES

Initially in HM Mortgagee Letter 75-10 and subsequently in the promulgation of new regulations (24 C.F.R. Part 203, Subpart C) and handbooks (4191.1 Rev.) for servicing, HUD moved from the posture of relying upon the "acceptable practices" of "prudent lending institutions" to establishing specific requirements for responsible mortgage servicing (area office or toll-free telephone, limitation on late charges, acceptance of partial payments, and contact with mortgagor) before commencement of foreclosure actions. (For a more detailed analysis of these practices, see the final report submitted to HUD on April 26, 1976, by Dennis Eisen & Associates under contract No. H-2270, entitled "Cost/Benefit Analysis of Alternative Mortgage Servicing Procedures (Initial Effort)".)

Nonetheless, these improved servicing requirements did not directly respond to the problem of providing relief to mortgagors in default due to economic stress or other reasons beyond their control.

2.3 EMERGENCY HOMEOWNERS' RELIEF ACT (EHRA)

In enacting this legislation in 1975 (89 Stat. 249; 12 U.S. Code 2701), Congress reflected its concern that the severe recession and attendant acceleration in unemployment and underemployment, would jeopardize the capacity of many homeowners to continue their mortgage payments, "leading to the possibility of widespread mortgage foreclosures and distress sale of homes" (Sec. 102(a)(2)).

EHRA* provided standby authority to the Secretary of HUD to implement a program of emergency loans and advances (made by the mortgagee and insured by the Secretary) and emergency repayable mortgage relief payments (made by the Secretary out of a relief fund established for this purpose) to homeowners (mortgagors) where:

1. The mortgagee had indicated its intention to foreclose

2. Foreclosure was probable

3. The mortgagor had incurred a substantial reduction in income as a result of involuntary unemployment or underemployment due to adverse economic conditions and was financially unable to make full mortgage payments

4. There was a reasonable prospect that the mortgagor would be able to make the adjustments necessary for a full resumption of mortgage payments

5. The property was the mortgagor's principal residence

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* As originally enacted, EHRA provided that no relief was to be granted under EHRA after June 30, 1976. This was later amended to extend the expiration date of the Act to September 30, 1977.

Assistance under the Act was to be available for all mortgagors, whether or not insured under a Government insurance program (such as HUD or VA) or privately insured.

Basic limits on the assistance were:

1. A maximum monthly payment of $250

2. A maximum period of 12 months (extendable for another 12 months)

3. A maximum period for deferral of commencement of repayment until one year after the last disbursement of loan/advance or relief payment (or the such longer period as the Secretary deemed appropriate)

4. Provision for such security for repayment (including a lien on the mortgaged property) as the Secretary deemed appropriate

On August 29, 1975, HUD announced that it had constructed a nationwide composite index of delinquencies of 60 days or more for mortgage loans on one-to-four-family dwellings and that 1.1 percent of such loans were then delinquent. It also announced (and included in the Regulations promulgated under EHRA) that if such composite rate of delinquencies should reach 1.2 percent, HUD, after consultation with other Federal agencies that regulate institutions making home mortgage loans, would make a finding and determination as to whether EHRA should be implemented at that time; in the meantime, however, HUD would not implement EHRA (HUD Release No.75-344, August 29, 1975; Reg. §2700.10). Since the composite rate of delinquency never reached 1.2 percent, EHRA was never implemented.

2.4 PIP DEMONSTRATION PROGRAM

Concurrently with the Congressional consideration of emergency relief for homeowners, the Office of Policy Development and Research recognizing the significantly increasing rate of mortgage defaults in soft job markets and the potentially devastating impact on individual homeowners, local real estate markets, and the HUD insurance funds, solicited responses to Request for Proposal No. H-2270 (issued April 1, 1975), which was designed to:

1. Secure a cost/benefit analysis of alternative mortgage servicing and forbearance procedures currently employed by mortgagees and mortgage servicers

2. Develop a demonstration design for an alternative approach for assisting mortgagors who, by reason of unemployment or underemployment, would otherwise face the loss of their homes through foreclosure or forced sale under existing mortgage servicing practices and procedures

In the course of the investigation into then-current mortgage servicing and forbearance procedures, the contractor's basic findings were as follows:

1. Forbearance policies were not designed to accommodate the mortgagor who (a) did not have an excellent past payment record, (b) could not make substantial partial payments during an extended period of unemployment, and/or (c) had less than an excellent prospect of achieving full reinstatement within a one-year period following default.

2. Neither the then-current changes in servicing requirements (HM Mortgagee Letter 75-10) nor more supervision of mortgagees by HUD would significantly diminish the number of mortgagors who, principally because of unemployment or underemployment (whether or not during a period of significant national, regional or area-wide unemployment) would likely face foreclosure or forced sale.

3. Among a number of alternatives to foreclosure considered in the investigation (including assignment, assignment and reassignment, refinancing, recasting, insured secondary financing, and partial insurance payments, as well as both voluntary and special forbearance), the PIP program was recommended for the following reasons:

    a. Potential for a continuing (rather than a temporary or emergency) program

    b. Less costly to HUD in dollars and personnel requirements

    c. Prospects for favorable acceptance by the mortgage banking community because continuity of cash flow was assured

    d. Adaptability to the Emergency Homeowners' Relief Act

    e. Retention of mortgage in private sector

Significantly, in Committee for Full Employment v. Hills, 70 FRD 678 (U.S.D.C., E.D.Pa., 1976), in which plaintiffs unsuccessfully sought a mandatory injunction ordering the Secretary to implement the Emergency Homeowners' Relief Act on a regional basis, evidence submitted by the plaintiff included reference to a statement by Representative Thomas Ashley, cosponsor of the Act, in his letter of September 19, 1975, to then Secretary Hills questioning what "would preclude the Department from initiating . . . [the Act] . . . on an *ad hoc* basis where jobless rates are today demonstrably far in excess of the national average?"

The PIP program was subsequently approved for demonstration under contract H-2504.

2.5 HOME MORTGAGE ASSIGNMENT PROGRAM

At the same time that the PIP Demonstration Program was being developed at the request of the Office of Policy Development and Research, but completely independently of such development, the current assignment program was developed and instituted, principally as a result of a public interest lawsuit in Chicago that sought to hold then Secretary Hills in contempt (Ferrell v. Hills, Case No. 73 C 334, U.S.D.C., N.D.Ill., July 29, 1976). (This case was later redesignated Ferrell v. Harris and Ferrell v. Landrieu to reflect the names of each subsequent Secretary of HUD, but it is referred to in this Report as the Ferrell case.) In his Order Approving Settlement and Dismissal, Judge Will approved, as fair and reasonable, the Stipulation, filed July 2, 1976, incorporated in the Order by reference and dismissed the action without prejudice.

As a direct result of the settlement, the Secretary issued HM Mortgagee Letter 76-9 and Notice HM 76-43, each dated May 17, 1976, incorporating "the Department's revised policy regarding acceptance of assignments of insured mortgage in default . . . ."

Assignment itself was not a new procedure. It has been authorized under Section 230 of the National Housing Act since 1959 (Section 114(a), Housing Act of 1959 Public Law 86-372). Although the law provided no specific test or qualification for assignment (other than stating "the Secretary, in his discretion and for the purpose of avoiding foreclosure of the mortgage . . . may acquire the loan and security therefore"), the Regulations in effect since 1964 has provided that the "Commissioner may approve . . . assignment . . . if he finds that the default was due to circumstances beyond the mortgagor's control" (24 C.F.R. §203.350).

The settlement embodied in the Stipulation expressly incorporated HM Mortgagee Letter 76-9 and Notice HM 76-43 by reference and attachment, and provided that "HUD will take appropriate measures, within its regulatory authority, to require HUD-approved mortgagees to process, request and execute assignments to avoid foreclosure ... and HUD will process and act upon requests for assignment, and thereafter service said mortgages substantially in accordance with [76-9 and 76-43]" (as amended by the Stipulation to provide, as one test for mortgage payments during reinstatement, the unpaid principal balance plus arrearages recast over the mortgage term, extended for up to 10 years if the mortgage were at least 10 years old).

Subsequent to the Ferrell settlement, HUD adopted the basic assignment procedure in its Regulations (24 C.F.R. §203.650 et seq). The original Assignment procedures, as set forth in HM 76-43, HM 76-91, and HM 76-99, were modified in January, 1979 and are reflected in HUD Handbook 4191.2, Administration of the Home Mortgage Assignment Program. The principal changes incorporated in the Handbook were as follows:

1. Field offices were given the authority to waive both the requirement that the mortgaged property be the principal residence of the mortgagor and the requirement that the mortgagor not own other property subject to an FHA-insured or Secretary-held mortgage.

2. When evaluating a mortgagor's ability to pay the mortgage in full or when structuring payment plans on mortgages accepted for assignment, the field office was given authority to extend the mortgage term by up to 10 years, regardless of the age of the mortgage, whereas previous instructions restricted such extensions to mortgages that were at least 10 years old.

3. Field offices were required to file monthly reports summarizing the assignment cases during the preceding month.

4. Field offices were required to take positive action to involve HUD-approved housing counseling agencies in the Assignment program.

However, there have been and continue to be allegations and threats of renewed litigation on the part of the litigants (generally operating under the title "Single Family Task Force") who declare that HUD has failed to take action demonstrating that the assignment program is being administered in accordance with the Ferrell settlement. As a result of such allegations, an amendment to the settlement was entered into on August 2, 1979 (and approved by the Court on November 18, 1979). The amended settlement included the following requirements:

1. HUD agreed to reconsider all assignment requests made by homeowners between May 17, 1976 and January 31, 1979 and rejected by HUD. If HUD found that the requests had been improperly denied, HUD was to restore the homeowner's home or to substitute a comparable home from HUD's inventory.* This requirement was implemented in Mortgagee Letter 79-27 issued October 1, 1979.

2. HUD agreed to comply with the provisions of its Handbook 4191.2 entitled "Administration of the Home Mortgage Assignment Program," which had been issued January 1, 1979.

3. The Assignment program, as outlined in Handbook 4191.2, is to remain in effect and under the Court's supervision for five years, until August 2, 1984.

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* Cases processed by the San Francisco and St. Louis HUD area offices were exempted since these offices were found to have been properly administering the proposal.

4. After August 2, 1984, HUD agreed to operate either "the present assignment program or an equivalent substitute to permit mortgagors in default on their mortgages to avoid foreclosure and to retain their homes during periods of temporary financial distress."

5. HUD agreed to review and, if appropriate, restructure payment plans of assigned mortgages to insure that they are reasonable. At the homeowner's request, HUD will also review existing payment plans on any mortgage which was returned to a lender for further servicing before January 31, 1979.

In addition, as a result of the amended settlement, and with respect to the ongoing assignment program, HUD has proposed amendments to its Regulations that would eliminate the necessity for mortgagees to determine whether or not a mortgagor meets the criteria for HUD's accepting an assignment of the mortgage. Under the proposed Regulations, mortgagees would, in every case, provide HUD with an opportunity to determine whether or not to accept assignment of the mortgage prior to initiating any acting required by law to foreclose the mortgage.

3.0 DEMONSTRATION PROGRAM DESIGN

3.1 ORIGINAL DESIGN

3.1.1 Introduction

The PIP Demonstration Program was as experimental program designed to test the proposition that interim monthly mortgage payments made by HUD to mortgagees on behalf of certain homeowners would permit those homeowners continued occupancy in their homes, thus reducing the number of foreclosures or assignments and the consequent drain on HUD personnel and the mortgage insurance funds. In addition, the resulting retention of the mortgage servicing in the private sector would further reduce the drain on HUD personnel. A brief summary of the mechanics of the field demonstration is set forth in the remaining paragraphs of this introduction.

After a 3-month period of forbearance by the mortgagees, HUD made monthly mortgage payments for eligible mortgagors for a period of up to 12 months (HUD's payment being sufficient to fully pay the monthly payment when combined with the partial payments to be made by the mortgagor). To be eligible, families must have sustained a substantial reduction in gross family income due to occupationally related causes or illness, and must have had a reasonable prospect of attaining substantial restoration of regular income levels during the period of assistance payments. The funds advanced by HUD were secured by a second mortgage on the property and were repayable with interest within the remaining term of the insured first mortgage. Servicing of the insured first mortgage, both during and after the period of assistance payments, remained with the private mortgage servicer. The HUD-held second mortgage was serviced by the same mortgage servicer, thus allowing the mortgagor to make single payments covering both the first and second mortgages.

The PIP program was tested in Philadelphia, Atlanta, and (to some extent) Los Angeles. Because it was an experimental program, the criteria used to select mortgagors for participation and the system used for making the selection were designed to best serve the data-collection and -analysis processes.

The PIP program selected deserving mortgagors on very narrow criteria and provided them with assistance in order to test the delivery system and determine the effectiveness of a program of temporary mortgage payments as a tool to assist in avoiding foreclosure. The narrow selection criteria were used to ensure a proper statistical background for both experimental and control groups participating in the demonstration and to minimize the influence of any extraneous variables that might tend to distort the results of the experiment and thus lead to inaccurate cost-benefit analysis.

The purpose of this chapter is to document the major methodological steps of the PIP Demonstration Program including population universe, city selection, sampling design, and eligibility criteria.

3.1.2 Population Universe

As of March 31, 1976, just prior to the commencement of the PIP demonstration in May 1976, HUD's Office of Loan Management estimated that 103,000 single-family, HUD-insured homes were in default throughout the country. Of this total, 61,000 were insured under Section 203(b) of the National Housing Act and an additional 20,000 were insured under Section 221(d)(2) of the Act. At the time these two unsubsidized home ownership programs accounted for approximately 80 percent of all HUD-insured mortgage defaults and therefore were selected as the two sections of the National Housing Act that would constitute the most global population of mortgagors to be considered for program participation.

A study by the Federal National Mortgage Association of 6075 foreclosures in HUD-insured single-family programs conducted during the second quarter of 1975 revealed that, of all specific reasons for default, income curtailment due to unemployment or underemployment accounted for 10.3 percent of mortgage failures. As shown in figure 3.0-1, income curtailment due to unemployment amounted to 11.6 percent among Section 203(b) homeowners and 9.0 percent among Section 221(d)(2) homeowners, representing at that time the fastest growing component of all mortgage failures, from 6.1 and 5.0 percent, respectively, just one year earlier.

Approximately 50 percent of all mortgage failures were labeled as being due to "excess obligations," a catch-all phrase embracing such matters as inability to manage money and unanticipated expenses. Because of the inexactitude of this particular category, it was initially decided to limit the population universe of HUD-insured mortgagors to those families who had sustained significant reduction in gross family income due to unemployment or underemployment. Shortly after commencement of the intake phase of the demonstration, the universe was expanded slightly to include those families who had suffered income curtailment due to illness.

In summary, the population universe considered for the PIP demonstration consisted of single-family homeowners with mortgages insured under Section 203(b) or 221(d)(2), in default, who had experienced a substantial reduction in gross family income due to unemployment or underemployment or illness and who had a reasonable prospect of restoration to regular income levels.

The population for the PIP demonstration was to be limited to mortgagors in a restricted number of metropolitan areas. The next step in the methodology was city selection.

Primary Reason for Defaults: Based upon the 6,275 Cases of Foreclosure, Deeds in Lieu, and Assignments from the Files of FNMA, 2nd Quarter, 1974

					NUMBER OF CASES			
	Entire Portfolio		Section 203		Section 221		Section 235	
Reason	No.	%	No.	%	No.	%	No.	%
Death	82	1.31	19	1.17	11	.94	29	1.14
Illness (mtgr.)	117	1.86	36	2.22	20	1.71	46	1.81
Illness (family)	82	1.31	26	1.61	14	1.28	33	1.30
Marital	337	5.38	101	6.24	62	5.31	119	4.68
Abandonment	861	13.72	159	9.82	49	4.20	607	23.86
Income Curtailment	351	5.60	99	6.11	58	4.97	147	5.78
Excess Obligations	3,050	48.60	816	50.40	637	54.54	1,156	45.44
Transfer	19	0.29	3	0.19	2	0.17	10	0.39
Property Condition	51	0.82	7	0.43	7	0.60	23	0.90
Inability to Sell	126	2.01	41	2.53	18	1.54	47	1.85
Military	3	0.04	1	0.06	1	0.09	1	0.04
Other	1,196	19.06	311	19.21	289	24.74	326	12.81
Totals	6,275	100.00	1,619	100.00	1,168	100.00	2,544	100.00

Primary Reason for Default: Based upon the 6,075 Cases of Foreclosure, Deeds in Lieu, and Assignments from the files of FNMA, 2nd Quarter, 1975.

					NUMBER OF CASES			
	Entire Portfolio		Section 203		Section 221		Section 235	
Reason	No.	%	No.	%	No.	%	No.	%
Death	64	1.05	16	1.21	6	0.50	26	1.52
Illness (mtgr.)	90	1.48	27	2.05	13	1.08	18	1.05
Illness (family)	58	.94	15	1.14	8	0.66	16	0.94
Marital	350	5.76	90	6.83	59	4.81	77	4.50
Abandonment	552	9.09	96	7.28	49	4.06	240	14.03
Income Curtailment	623	10.26	153	11.61	109	8.96	182	10.64
Excess Obligations	3,197	52.63	711	53.95	686	56.72	874	51.08
Transfer	23	0.38	4	0.30	2	0.17	11	0.64
Property Condition	41	0.67	13	0.99	13	1.08	14	0.82
Inability to Sell	131	2.16	21	1.59	18	1.41	47	2.75
Military	12	0.20	-0-	-0-	1	0.08	4	0.23
Other	934	15.38	172	13.05	242	20.07	202	11.81
Totals	6,075	100.00	1,318	100.00	1,206	100.00	1,711	100.00

Figure 3.0-1.--Primary Reasons for Default: FNMA Experience, 1974-1975

3.1.3 City Selection

As a result of a previous study (HUD contract H-2270), it was determined that selection of the participating cities should be based on the following criteria:

1. Each site would be restricted to the central city within a standard metropolitan statistical area (SMSA) of at least 500,000 population.

2. The city should have a local HUD area office.

3. The city should contain a minimum of 1,000 Section 221(d)(2)-insured homes in default.

4. The 30 largest servicers should control at least 40 percent of the unsubsidized HUD-insured mortgage market, and substantially all of the servicers should be willing to cooperate with and participate in the program demonstration.

5. The city should be experiencing a current level of unemployment equal to or higher than the national average.

6. The city must be served by one or more HUD-approved active delinquency and default counseling agencies willing to participate in the program, with full capability of counseling Section 203(b) and 221(d)(2) homeowners in mortgage distress.

7. In the event of foreclosure, the governing laws and customary practices should permit reasonably prompt foreclosure action.

A list of candidate sites was drawn up and is presented in figure 3.0-2. The 17 cities in the list are rank-ordered by the number of Section 203(b) homes in default as of September 30, 1975. Although each of the cities in the list contained a minimum of 1000 Section 203(b) homes in default as of that date, the cities of Phoenix, Atlanta, Los Angeles, Seattle, Philadelphia, and Newark were selected as the most likely candidates for the demonstration. Field visits determined that the three best cities in which to conduct the PIP demonstration, taking into account the nature of the mortgage servicing industry peculiar to those cities, were Atlanta, Philadelphia, and Los Angeles. While it might have been desirable to include more than three cities in the demonstration, each additional city would have greatly increased the cost of administering the demonstration.

For reasons described under DESIGN MODIFICATIONS Section 3.2 of this report, Los Angeles was dropped without replacement in August 1977, approximately 4 months into the intake phase of the demonstration.

	203(b) In Default 9/30/75	221(d)(2) In Default 9/30/75	Total 203(b) +221(d)(2)	9/75 Unemploy-ment Rate SMSA(%)	9/75 Unemploy-ment Rate Statewide (%)	No. of City HUD Approved D&D Agencies 5/15/75	No. of Area HUD Approved D&D Agencies 5/15/75
New York, N.Y.	6,773	451	7,224	11.7	10.2	1	1
Chicago, Ill	3,141	493	3,934	.9.3	8.7	3	7
Indianapolis, Ind.	3,024	253	3,277	6.8	7.5	2	7
Phoenix, Ariz.	2,281	355	2,636	10.9	10.1	2	4
Detroit, Mich.	2,236	3,325	5,561	12.9	12.1	5	14
Atlanta, Ga.	2,214	562	2,776	9.3	9.0	3	13
San Juan, P.R.	2,140	24	2,164	13.8	18.9	1	1
San Francisco, Ca.	2,035	544	2,579	9.7	9.3	0	10
Los Angeles, Ca.	1,815	1,815	3,649	10.0	9.3	8	11
Seattle, Wa.	1,689	730	2,419	9.3	9.0	1	3
Cleveland, Ohio	1,640	309	1,949	7.5	7.9	2	7
Philadelphia, Pa.	1,451	1,959	3,410	10.2	8.5	2	5
Dallas, Tex.	1,425	293	1,718	5.6	6.1	2	2
Minneapolis, Minn.	1,220	66	1,286	6.1	4.8	4	6
Buffalo, N.Y.	1,219	71	1,290	12.7	10.2	1	10
Tampa, Fla.	1,102	205	1,307	12.7	12.6	2	5
Newark, N.J.	1,099	299	1,398	10.8	10.1	3	16

Notes: (1) All unemployment rates are not seasonally adjusted.

(2) The number of city D&D agencies is included in area totals. (There may be D&D agencies in area totals which are also in the associated SMSA.)

Figure 3.0-2.— Default and Unemployment Rates: 9/30/75

3.1.4 Sampling Design

3.1.4.1 Experimental and Control Groups

Within each of the three selected cities, mortgagors in default who were eligible for participation in the PIP demonstration were to be assigned to various experimental and control groups. While it would have been desirable to select matched pairs and arbitrarily assign individuals to each group or randomly assign half to the experimental groups and half to the control groups, administrative requirements, legal considerations, and public policy all recommended against such an approach. The offering of special benefits to some individuals while simultaneously denying them to others appeared to risk possible legal liability and invite adverse public reception. Rather, once the funds for PIP payments were available in a particular city, it appeared necessary to assign those funds to each eligible mortgagor in default until the available funds were exhausted, then utilize those mortgagors immediately thereafter as a control group.

The experimental groups were to be offered PIP payments to prevent foreclosure, forced sale, or assignment of their mortgage. The control groups were brought into the demonstration and tracked, but without being offered PIP payments.

In its initial conception, the PIP demonstration was to have two separate experimental groups and two separate control groups within each city. The first experimental group was to be offered both PIP payments and default and delinquency (D&D) counseling, on a regular monthly basis, both during the period of assistance payments and for a period of time subsequent to the restoration of income. The second such experimental group was to be offered PIP payments alone, without any D&D counseling. Similarly, the first of the two control groups was to have been given no PIP payments, but have the same D&D counseling services as the first of the two experimental groups. The second of the two control groups was to be offered neither PIP payments nor D&D counseling.

The Field Research Plan for the PIP demonstration (previously filed with HUD by the contractor) called for a total of 40 mortgagors in each of the four treatment groups in each city. The design layout as originally conceived is presented in figure 3.0-3.

Treatment Group

Group No.	1	2	3	4
PIP	Yes	Yes	No	No
Counseling	Yes	No	Yes	No
Group Type	Experimental	Experimental	Control	Control
City	No. of Participants			
Philadelphia	40	40	40	40
Atlanta	40	40	40	40
Los Angeles	40	40	40	40
Total	120	120	120	120

Total Experimental Group	240
Total Control Group	240
Total	480

Figure 3.0-3.—Experimental and Control Group Divisions: Original Design

As will be discussed in Section 3.2, DESIGN MODIFICATIONS, treatment of groups 2 and 3 had to be dropped from the demonstration for a variety of technical reasons.

3.1.4.2 Frequency Matching

In order to best control the extraneous factors that could jeopardize the objectivity of the results, it was decided to match the various treatment groups in each of the participating cities on the basis of seven variables:

(1) section of the National Housing Act under which the mortgage is insured, (2) race or ethnic minority of the principal mortgagor, (3) age bracket of the principal mortgagor, (4) sex of the principal mortgagor, (5) age bracket of the mortgage itself, (6) income bracket of the mortgagor, and (7) location. By matching all individuals in this manner, any differences in results that appeared between groups could rightly be attributed as not due to the above variables.

Within each city, however, there were to be no more than 40 individuals per group, so applying the matching process on an individual-by-individual basis would have been too cumbersome a process. It was considered preferable to allocate the appropriate number of individuals to each treatment group, filling each such group before starting the next, maintaining identical distributions by mortgage type, race, age and sex of the head of household, mortgage age, and mortgagor income among all groups within a given city. Thus, the distribution of each variable was the same among each group, even though individuals were not paired on all variables. This method is known as matching by frequency distribution. The groups were comparable for the selected criteria, even though given individuals might have had no exact counterpart. While the design did not fully satisfy the independence assumption, it appears to have been the most efficient procedure for this particular research endeavor.

As it turned out, the frequency matching between treatment groups was accomplished very readily, and the resulting distributions and results are presented in Section 5.2.2, Demographic Profile of Participants.

3.1.4.3 Statistical Analysis

Because the sample selection was stratified among cities, the overall experiment can be regarded as a two-way, cross-classification, systemized block design. The primary factor was that of treatment group (either experimental or control), and the secondary factor was that of location (Philadelphia, Atlanta). The mortgagors assigned to the primary treatment groups were not selected on a random basis. Their assignment was, however, controlled by the systematic placement procedure described in detail in the Field Research Plan. It is important to note that there was absolutely no self-selection allowed into the demonstration on the part of any mortgagor.

The statistical technique originally intended for analysis of the ultimate results of the demonstration was two-way analysis of variance over the corresponding 3 x 4 cells of the initial design, each such cell containing the 40 or so independent observations proposed. Because of the reduction in the number of treatment groups from four to two and the number of cities from three to two, an alternative statistical technique was used. This consisted of algebraically combining the outcomes across cities and utilizing a simple test for differences in proportions between experimental and control groups.

That is, let:

P_e = proportion of successes in the experimental group,

P_c = proportion of successes in the control group,

N = sample size (both groups having the same size and in fact being matched samples), and

P = $P_e - P_c$, the difference in proportions between the experimental and control groups.

The standard deviation of the observed differences between the two treatment groups is given by:

$$s.d. = \sqrt{\frac{P_e(1-P_e)+P_c(1-P_c)}{N}}$$

Because of the nature of the demonstration, we assume that on an a priori basis, P is going to be positive, so that the underlying statistical criteria that are to be invoked should be based on a one-tailed test. With this assumption, we find that:

1. If $\Delta P/s.d. \geq 1.645$, we can be 95 percent certain that the difference in success rates between the experimental and control groups cannot be due to chance.

2. If $\Delta P/s.d. \geq 1.28$, we can be 90 percent certain that the difference in success rates between the experimental and control groups cannot be due to chance.

3. If $\Delta P/s.d. \geq 1.04$, we can be 85 percent certain that the difference in success rates between the experimental and control groups cannot be due to chance. This is the lowest confidence level we shall deem acceptable for statistical inferences.

The principal dependent variable will be the proportion of mortgagors current in their mortgage payments as of the cut-off date of the demonstration. Because of the presence of other governmental programs that mortgagors in the control group may have applied for and received, the operational definition of "currency" is a complex one. As discussed in detail in the Field Research Plan, the solution to this problem resides in the construction of an index that will give an ordinal measure of each mortgagor's outcome at the time the demonstration is concluded, as follows:

0 = fully current or normal sale
1 = 1 month late
2 = 2 months late
3 = 3 months late
4 = more than 4 months late
5 = assignment proceedings instituted
6 = assignment to HUD
7 = foreclosure proceedings instituted
8 = foreclosure or distress sale

Thus, at the conclusion of the observation period, each participant in the demonstration is assigned a numerical factor between 0 and 8 in accordance with the above scale. The numbers so assigned are summed for all mortgagors in the experimental group and for all those in the control group. The one-tailed difference in means test is then applied to determine whether a significant difference in outcome was experienced by the members of the experimental and the control group.

3.1.5 Eligibility Criteria

Commencing with the start-up of the intake phase of the demonstration and for each month thereafter, a master list of defaulting mortgagors was compiled from among the files of the participating mortgage servicers of all single-family unsubsidized HUD-insured mortgagors who had missed their second consecutive mortgage payment.

The only defaulting mortgagors that the servicers were requested to screen out from among this set were those who (1) were owners of other that strictly single-family (one-unit) residences, (2) were known to have second liens on their property, and (3) lived elsewhere than in the mortgaged property.

The Mortgagor Application Form (included in Appendix A of this Report), after being completed in a face-to-face interview with the contractor's representative, supplied the necessary information against which the basic mortgagor eligibility criteria were applied. Because of the time lapse from receipt of the mortgagor's names to the scheduling of the interview, those mortgagors who had not cured their delinquency or made partial payments were by then in default by at least 31 days (i.e., missing three full mortgage payments).

The full list of eligibility criteria, as originally developed, and the reasons for including each criterion, were as follows:

3.1.5.1 Mortgage and Property

1. Mortgagor in default 31 days (three missed payments)--It was thought that this was an appropriate time to commence assistance based upon

discussions with lenders and servicers and the fact that they used this same guideline for determining when to consider commencement of foreclosure.

2. Insured under section 203(b) or section 221(d)(2) (and not under section 223(e))--As indicated above, at the time the demonstration program was being designed, mortgages insured under these two sections of the National Housing Act accounted for approximately 80 percent of all HUD-insured mortgage defaults. Because of the additional risk factors involved, the limited number of mortgages insured under Section 223(e) (relating to properties in older declining urban areas) were eliminated from the demonstration.

3. Single family dwelling--For greater uniformity in mortgage amount and housing expenses, the demonstration was limited to structures containing only one living unit.

4. Principal residence of mortgagor--Since the purpose of the program was to help mortgagors who might otherwise lose their homes, this criterion was though to be consistent with that purpose.

5. No second mortgages or other encumbrances--This criterion was used to ensure that HUD would hold a second mortgage on the property if it was decided to market the mortgages resulting from the program.

6. Fee owner of property--This criterion was used to simplify the mechanics of the program since, for example, the inclusion of mortgagors who held their property under a contract for deed would require the consent of the seller.

7. Property located in one of the SMSAs in which the demonstration is being conducted--This criterion was necessary to ensure that the mortgagor would have access to the HUD office and the D&D counseling agency.

8. No bankruptcy or other insolvency action--This criterion was intended to eliminate those mortgagors who would have very little chance of being assisted by this program.

3.1.5.2 Circumstances

1. Substantial curtailment of gross family income such that mortgagor is unable to pay the monthly installments (PITI) on the first mortgage with 30 percent of the gross family income--This test was developed as a measure of when assistance was needed, and the 30 percent figure was based on the 25 percent general rule of thumb in this area increased slightly to permit assistance in slightly less serious cases.

2. Curtailment is occupationally related--This criterion helped make the demographics more uniform between the experimental and control groups.

3.1.5.3 Assets

Net liquid assets must be no more than $5,000--If the mortgagor had a large amount of available liquid assets, he (or she) should be able to use his (or her) own liquid assets to pay the mortgage payment; the $5,000 figure was selected more or less arbitrarily as a measure of need.

3.1.5.4 Risks

1. Mortgagor must have been continuously employed for at least 1 year prior to the income curtailment--The program was intended to assist mortgagors who, with their regular employment, could normally make their mortgage payments but who were currently unable to do so because of temporary unemployment or underemployment. (Requiring 1 year of continuous employment helped ensure that the mortgagor was employable and presumably was only temporarily unemployed or underemployed.)

2. During the 24-month period preceding the payment of the first PIP payment, there must have been at least one period of 12 consecutive months during which all payments (except one) due on the first mortgage were paid no later than 1 month after their due date--This was intended as a test to ensure that chronic delinquents were not being assisted by the program, which was designed to assist a temporary need to be remedied after a given period of time.

3. Upon recasting of the PIP mortgage (assuming that the maximum amount of PIP payments were made), the aggregate mortgage payments (PITI) due under the first mortgage and the PIP mortgage will not exceed approximately 30 percent of the gross family income that existed prior to the income curtailment--This was intended to make sure that after the PIP advances and recasting of the PIP mortgage and first mortgage, the amount of the mortgage payments due would not be so great as to likely cause another failure after the re-employment of the mortgagor.

4. Upon recasting, the aggregate mortgage payments (as described above) plus the remaining recurring obligations of the mortgagor will not exceed the gross family income of the mortgagor expected after restoration of income (assumed to be 75 percent of the level of income before curtailment)--This was intended as another test to ensure that, after recasting, based upon the income expected after re-employment, the mortgagor would be able to make mortgage payments and pay other recurring obligations.

As will be described in Section 3.2, certain modifications to the eligibility criteria were made subsequent to the start-up of the intake phase of the demonstration.

3.2 DESIGN MODIFICATIONS

3.2.1 Causes of Modification

It is virtually impossible to anticipate every contingency that might occur in the conduct of social science experiments such as the PIP Demonstration Program.

At the time the preliminary research for the PIP demonstration was being conducted under its predecessor contract (H-2270) during the spring of 1975, unemployment in the country was approximately 9 percent; and according to the detailed records kept by FNMA, the default rate due to unemployment was twice its usual level. Indeed, it was because of these circumstances that the research for the PIP program was initiated. The cities of Atlanta, Philadelphia and Los Angeles were seen to be among the hardest hit areas of the country: in May 1975 unemployment in these three cities was 8.8, 8.6 and 9.7 percent, respectively. It was for this reason, among others, that these three cities were subsequently selected as the demonstration sites. However, by the time the intake phase of the demonstration commenced in the spring of 1977, the nation's unemployment situation had undergone a rapid improvement, dropping to 6.9 percent by April of that year. Unemployment in Atlanta, Philadelphia, and Los Angeles fell to 5.9, 7.7, and 7.4 percent, respectively.

It must also be borne in mind that unemployment rates as quoted above refer to the general labor force. Among male heads of household, 25-54 years of age, the national unemployment rate fell from 5.1 to 3.9 percent, a relative decrease of 24 percent, in the two-year period from May 1975 to April 1977. Among all workers covered by unemployment insurance, the national unemployment rate fell from 6.3 to 3.4 percent during the same two-year interval, a relative decrease of 46 percent. Although no unemployment statistics are kept on homeowners, it is felt that the above two measures, when used together, were an indicator of what was happening with respect to unemployment among the nation's homeowners.

The net result of this improving economic climate was to cause the qualification rate of mortgagors to drop so low that there was no way of adhering to the original planned intake rate. Three months into the intake phase of the demonstration, by the end of June 1978, 11 participants had been enrolled in Atlanta, 20 in Philadelphia, and only 6 in Los Angeles. As a result, it became necessary to modify certain aspects of the original Field Research Plan. The full set of modifications incorporated into the demonstration are documented in the 27-page revision to the Field Research Plan, dated August 1977 (previously filed with HUD). The remainder of this chapter presents some of the salient features of the modifications that directly affected the methodology involved.

3.2.2 Criteria Refinement

The following aspects of the mortgagor criteria were expanded and refined to increaase the intake rate of mortgagors enrolling in the experiment:

3.2.2.1 Illness

The criterion for involuntary unemployment or underemployment was expanded to include those mortgagors, or members of the mortgagor's immediate household, who were unable to work fulltime in their occupations due to medical reasons that would, in the opinion of their attending physicians, be alleviated by the date of the last PIP payment.

3.2.2.2 Financially Unable

The criterion requiring that the mortgagor be financially unable to pay the full monthly installments on the insured first mortgage with 30 percent of the gross family income was expanded to being financially "unable to pay the monthly installments and the remainder of [the mortgagor's] housing expenses (including, but not limited to, utilities, maintenance and repair costs) with 30% of [the] mortgagor's income."

3.2.2.3 Recast Payments

The criterion requiring that the monthly installments due on the first mortgage and the PIP mortgage after recast be no more than 30 percent of the mortgagor's income before curtailment was changed to 35 percent of such income.

3.2.2.4 Delinquency Status

The criterion requiring that the mortgagor be no more than 3 months delinquent at the time of enrollment in the PIP program was expanded to allow the enrollment of those mortgagors not in process of foreclosure who were no more than 6 months delinquent and who were not being considered by HUD for assignment. The first PIP payment was increased, if necessary, so that the mortgagor would be 3 months delinquent after that payment.

3.2.3 Focused Comparative Analysis

The original Field Research Plan called for a total of 480 mortgagors to be enrolled in the demonstration: 40 in each of the three cities receiving PIP payments and counseling, 40 receiving PIP payments alone, 40 receiving counseling alone, and a final group of 40 receiving neither PIP payments nor counseling. Because the length of time to achieve such enrollment would have become inordinately long considering the economic climate in 1977, the following steps were taken so as to preserve the integrity of the principal experimental and control groups and to ensure that the time of intake did not become a seriously uncontrolled variable:

1. The intake of mortgagors in Los Angeles was stopped as of July 1977.

2. Mortgagor enrollment continued in group 1 (receiving PIP payments and counseling) of the experiment in Atlanta and Philadelphia through September 1977.

3. Mortgagors qualifying for the demonstration in these two cities after September 1977 were immediately placed in group 4 (receiving neither PIP payments nor counseling).

4. No mortgagors, anywhere, were offered PIP payments alone or counseling alone.

From a research perspective, the consequences of these actions were as follows:

1. The six mortgagors in Los Angeles who were receiving PIP payments and counseling were not paired with control group counterparts and therefore did not contribute to the statistical analysis portion of the experiment. However, this group served to (1) form a basis for measuring the probable costs of administering the PIP program in California, (2) identify certain of the potential problems inherent in the legal and administrative documents and procedures in that state, (3) test the mortgage modification methodology (i.e., recasting) in that state, and (4) familiarize the local office and several of the largest servicers in that area with how the PIP program would operate in California.

2. Based on the number of mortgagors enrolled in the demonstration and placed within group 1 by September 30, 1977, the actual sample size schematic was as shown in figure 3.0-4.

Treatment Group

Group No.	1	4
PIP	Yes	No
Counseling	Yes	No
Philadelphia	29	29
Atlanta	17	17
Total	46	46

Figure 3.0-4.--Experimental and Control Group Divisions: Final Results

Although the number of participating mortgagors appears to have been low relative to the original sample design, it was entirely possible for statistically significant differences to occur, depending on the magnitude of the observed differences between the performance of the experimental and control groups. Indeed, with sufficient difference between the scores of the experimental and control groups, statistically significant differences within individual cities could have been forthcoming, even with the low number of participants.

To illustrate what is meant we first note that, according to data published by the MBA (Mortgage Delinquency Reports, 1st quarter 1977), the percentage of foreclosures occuring among HUD-insured unsubsidized mortgages delinquent by three or more payments was about 35 percent. With this value as the control group failure rate, we can utilize the basic one-tailed testing criteria to produce the following table (figure 3.0-5) of sample sizes required to establish statistically significant differences for a control group failure rate of 35 percent.*

Experimental Failure Rate	Confidence Level for Various Sample Sizes		
	95%	90%	85%
30%	474	287	189
25%	112	68	43
20%	47	28	18
15%	24	15	9
10%	14	8	5

Figure 3.0-5.—Control Group Failure Rate: 35%

What the above matrix of sample sizes reveals is that if the 46 mortgagors in the control group were, in fact, to experience a failure rate of 35 percent and the corresponding 46 mortgagors in the experimental groups a failure rate of 20 percent, then, according to the middle row in the table, we would be just about 95 percent confident that a statistically significant difference existed between the two treatment groups. If these same two hypothetical failure rates had been observed in Philadelphia, with its sample size of 29, then—again according to the middle row—we would be just about 90 percent confident that a statistically significant difference existed independently in that city. Similarly, if the same failure rates had been observed in Atlanta, with its sample size of 17, we would be just about 85 percent confident that a statistically significant difference existed independently in that city.

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* The table in figure 3.0-5 differs from the corresponding one in the Field Research Plan in that the former is predicated on a one-tail test of significant difference, the latter (as is customary in sample design) on a two-tail test.

We point out in passing that it is entirely possible (and even probable) for statistically significant differences to be established on an overall basis, with similar results being independently established at only a limited number of constituent sites and sometimes at none at all.

4.0 DEMONSTRATION PROGRAM--IMPLEMENTATION

4.1 FIELD IMPLEMENTATION

4.1.1 HUD Area Offices

Meetings were held with HUD area office personnel in each of the three cities selected for the demonstration. The purpose of the visits was to set up working arrangements for the contractor's representatives and, since the program was HUD-sponsored, to get the local offices involved to the extent practicable.

HUD area offices were requested to provide the contractor's representatives with desk and file space, telephones, and access to an area in which personal interviews could be conducted in private.

Each HUD area office was requested to provide an individual who would interface with the program and be responsible for signing the necessary letters of introduction, acceptance, and rejection to the mortgagors who might possibly participate in the demonstration program, as well as certain of the legal documents that had to be signed on behalf of HUD. The identification of an alternate individual was also requested. These individuals would also assist the contractor's representatives, to the extent possible upon request of the representatives, in resolving problems that might delay the program.

In Atlanta, the contractor and its team met with William Hartman, Area Director; Ernest Metzler, Deputy Director; Francis Reardon, Director, Housing Management Division; Clyde Barron, Housing Counselor; Sally McCormick, Loan Assistant; and Anthony Thomas, E.O. Specialist. The Area Director and his staff were very interested in the demonstration but were concerned about the amount of time their office could spend on the program. After further discussion, the area office agreed to provide the necessary assistance.

In Philadelphia, the contractor team met with Paul Caine, Area Director; Frank Poshywak and Lynn Holzman, staff members; and Rachael Anuthuat, Regional Representative and Economist. The Philadelphia office was very cooperative and agreed to provide the necessary assistance. Mr. Caine stated that they had a very good industry relationship and held monthly meetings with the mortgage banking industry.

In Los Angeles, the team met with Roland Camfield, Area Director, and staff members Paul Kaup, Helen Kressman, and Eve Duff. The Los Angeles office also had good cooperation with the mortgage banking industry. The office was very enthusiastic about participating and saw no problem in providing the necessary assistance.

During these visits, the consultant team also researched the files in the area offices to determine the reasons for default among mortgagors. The results of the sample searches indicated that the experimental cells could be filled using income curtailment as the basic criterion.

4.1.2 Mortgage Servicers

In each of the demonstration cities contact was made with the leading mortgage servicing companies on the basis of 203(b) and 221(d)(2) delinquency volume. A presentation describing the background of the program, the program objectives, and the cooperation needed from them to make the program successful was delivered. A letter of intent to participate in the program as described in the presentation was solicited.

Figures 4.0-1, 4.0-2, and 4.0-3 set forth the principal mortgage servicers in Los Angeles, Atlanta, and Philadelphia, arranged in declining order based on Section 203(b) and 221(d)(2) 90-day delinquencies, and indicate by asterisks the 23 servicers visited by the consultant team.

In general, the larger mortgage servicers were cooperative and willing to participate. The smaller servicers, although they considered the program worthwhile, were more cautious about cooperation because they saw a lot of paperwork and extra time required for the one or two mortgagors they were likely to have in the program.

One of the concerns expressed by the servicers was the fact that the mortgagors selected for participation might owe several late charges in addition to the three monthly payments, and they were unwilling to forbear with respect to those late charges as well as the mortgage payments. Therefore, the program design was altered to provide that the first PIP payment would include all late charges due.

The servicers in Los Angeles also pointed out the problem with mortgages in GNMA pools where the servicer was required to pay (pass through) the payments even if not paid. They indicated that such mortgages probably would not be included in the demonstration because the servicers would not want to pay these payments with their own funds while waiting for repayment over the remaining term of the first mortgage, after recast. (This problem would be eliminated in a national TMAP program because, as explained in section 6.0 of this report, there would be no forbearance by the investor.)

MORTGAGE SERVICERS IN LOS ANGELES RANK-ORDERED BY UNSUBSIDIZED, HUD-INSURED 90-DAY DELINQUENCIES, MAY 31, 1976

Rank	Name	203 +221	Cumulative
1	Advance Mortgage Corporation	187	187
2	*Colonial Mtg. Service	179	366
3	*The Kissell Company	178	544
4	*Bowest Mortgage Corporation	126	670
5	California FS&L	118	788
6	*Lomas & Nettleton	91	879
7	*Security Pacific	91	970
8	*The Colwell Company	79	1,049
9	Guild Mortgage Company	70	1,119
10	Downey S&L	67	1,186
11	Investors Mortgage Service	60	1,246
12	Western Pacific Fin Corp	56	1,302
13	Bank of Finance	51	1,353
14	California Mortgage Services	48	1,401
15	First Fidelity Mortgage	48	1,449
16	Mechanics National Mortgage	40	1,489
17	Home S&L	39	1,528
18	Community Funding Corporation	36	1,564
19	Coast FS&L	35	1,599
20	Bank of America NT&SA	33	1,632
21	Home Federal S&L	33	1,665
22	Lowell Smith Inc.	33	1,698
23	Western Mortgage Company	32	1,730
Total (118)			2,375

All figures represent section 203(b) + 221(d)2 mortgagors 90 days or more delinquent; that is, one day short of missing at least their fourth consecutive payment.

Figure 4.0-1.—Mortgage Services in Los Angeles

MORTGAGE SERVICERS IN ATLANTA RANK-ORDERED BY
UNSUBSIDIZED, HUD-INSURED 90-DAY DELINQUENCIES, MAY 31, 1976

Rank	Name	203 +221	Cumulative
1	*Advance Mortgage Corporation	64	64
2	*Bowest Mortgage Corporation	49	113
3	*Thorpe and Brooks	36	149
4	*The Kissell Company	33	182
5	*Fickling and Walker	32	214
6	*Allstate Enterprises	31	245
7	Guild Mortgage Company	27	272
8	Pennamco, Inc.	27	299
9	Collateral Investment Company	25	324
10	*Colonial Mortgage Service Company	25	349
11	National Home Accept. Corp.	25	374
12	Southeastern Mortgage	22	396
13	The Colwell Company	21	417
14	*Pine State	20	437
15	Mortgage Association, Inc.	18	455
16	Embry Mortgage Corporation	17	472
17	Baker Mortgage Company	15	487
18	*Mortgage Securities, Inc.	15	502
19	Thomas and Hill	14	516
20	Phyps Harrington	13	529
21	J. I. Kislak Mortgage	10	539
Total (84)			764

All figures represent section 203(b) + 221(d)2 mortgagors 90 days or more delinquent; that is, one day short of missing at least their fourth consecutive payment.

Figure 4.0-2.—Mortgage Services in Atlanta

MORTGAGE SERVICERS IN PHILADELPHIA RANK-ORDERED BY UNSUBSIDIZED, HUD-INSURED 90-DAY DELINQUENCIES, MAY 31, 1976

Rank	Name	203 +221	Cumulative
1	*Fidelity Bank Mortgage Company	516	516
2	*Lomas and Nettleton	289	805
3	*Bogley, Inc.	283	1,088
4	*Industrial Valley Company	252	1,340
5	*Colonial Mortgage Service	119	1,459
6	Boulevard Mortgage Company	86	1,545
7	Del Valley Mortgage	79	1,624
8	Pennamco	68	1,692
9	*First Pa. Bank	64	1,756
10	*Kirk Mortgage Company	40	1,796
11	*Western Savings Fund	37	1,833
12	Banker's Bonding Mortgage	34	1,867
13	Metro Federal S&L	34	1,901
14	Advance Mortgage Corporation	29	1,930
15	First Mortgage Service Company	29	1,959
16	Beneficial Mutual Savings	23	1,982
17	Philadelphia Savings Fund	22	2,004
18	Mid-City Federal Savings & Loan	19	2,023
19	The Lincoln Savings Bank	19	2,042
20	A. Lincoln Federal Savings & Loan	17	2,059
21	E. Girard Savings & Loan	17	2,076
22	First Federal Savings & Loan	17	2,093
23	National Home Accept. Corp.	17	2,110
Total (82)			2,346

All figures represent section 203(b) + 221(d)2 mortgagors 90 days or more delinquent; that is, one day short of missing at least their fourth consecutive payment.

Figure 4.0-3.--Mortgage Services in Philadelphia

The servicers who ended up participating in the demonstration in each city were as follows:

ATLANTA

Colonial Mortgage Service Company
Citizens & Southern Financial Corporation
The Kissell Company
Fickling & Walker, Inc.
Allstate Enterprises Mortgage Corp.

LOS ANGELES

Colonial Mortgage Service Company
The Kissell Company

PHILADELPHIA

Colonial Mortgage Service Company
Lomas & Nettleton Company
Industrial Valley Bank
VNB (Virginia National Bank) Mortgage Corp.
Fidelity Bond & Mortgage Company

4.1.3 Counseling Agencies

The consultant team met with counseling agencies in each city to acquaint them with the demonstration and solicit proposals for subcontracts to provide the counseling required. The consultant team was looking for economic counselors who were familiar with the Section 203(b) and 221(d)(2) homeowners, knowledgeable regarding Government programs, and familiar with the area and the social and economic problems of the people.

Each of the agencies visited received a review of the program and was given a request for proposal to participate in the demonstration by providing counseling to certain defaulting mortgagors. The request for proposal outlined the requirements and qualifications of the agencies as well as the cost data requirement. Since the counseling agencies were to be paid based on an hourly rate, the cost data was used to estimate the cost for the total counseling effort.

In Atlanta the team met with Consumer Credit Counseling Service of Greater Atlanta; the Atlanta Urban League, Inc.; and Economic Opportunity Atlanta, Inc. The Consumer Credit Counseling agency was very enthusiastic about the program. It advertised by television, radio, newspaper, and billboards, and it possessed the facilities and economic counselors required for the demonstration. The Atlanta Urban League was involved in many city-sponsored housing programs, had a multiracial staff with good relationships with the general public, and qualified to participate in the demonstration. The Economic Opportunity agency had the greatest number of offices in the Atlanta area. However, the agency had one distinct drawback. It lacked economic counselors, and this factor weighed heavily against its participation.

In Philadelphia the consultant team visited with the Urban League Housing Information Center and the Philadelphia Housing Development Corporation. Both agencies were very active in pre- and post-purchase counseling and both had large facilities and referrals at their disposal, multiracial clients, and experienced multiracial economic counselors. These two agencies were ideally suited to participate in the demonstration program.

In Los Angeles, the consultant team met with the Community Services Organization, the Department of Community Development, County of Los Angeles, Community Housing Services, and Consumer Credit Counselors of Los Angeles. Protestant Community Services of Southern California, Inc. was contacted at a later date by telephone at the request of the HUD area counselor, Richard Mackey. The Community Services Organization dealt strictly with the Spanish-speaking community, and the counselors were essentially people who had been in the same position as their clients. The Department of Community Development appeared to be a well-run agency with multiracial economic counselors; however, the agency was funded by the county and had to cut through red tape to take on independent work. The Community Housing Services agency had only one economic counselor and restricted its services to the Pasadena community. The Consumer Credit Counselors agency was similar to the Consumer Credit agency in Atlanta. The agency advertised through the media, had economic counselors with good credentials, and had the facilities and referral agencies to draw upon. The Protestant Community Services agency also had the multiracial economic counselors required. This agency had the facilities and referrals necessary and was highly recommended by the HUD area office.

All the counseling agencies visited by the consultant team were HUD-approved agencies with the exception of Consumer Credit Counselors of Los Angeles. This agency subsequently applied for HUD approval at the request of the HUD area office.

Based on these meetings and the content of their proposals, the contractor selected the following agencies for participation in the program:

ATLANTA

The Atlanta Urban League, Inc.
Consumer Credit Counseling Service
of Greater Atlanta

PHILADELPHIA

Philadelphia Housing Development Corporation

LOS ANGELES

People Coordinated Services of
Southern California, Inc.
(formerly Protestant Community
Services of Southern California, Inc.)
Consumer Credit Counselors of Los Angeles

4.1.4 Training and Working Arrangements

4.1.4.1 Mortgage Servicers

Primary mortgage servicers in the cities selected for demonstration of the program received a descriptive memorandum explaining the program, the nature and extent of the addressees' expected participation, and what was hoped to be accomplished. Following final city selection and selection of the primary mortgage servicers, the contractor provided more detailed memoranda, program guidelines, and legal documents to such servicers. The contractor then contacted an officer of each of the selected mortgage servicers in person and answered any questions concerning the conduct of the program. The contractor then invited both the primary mortgage servicers and other substantial mortgage servicers in each demonstration city to send a representative to a seminar conducted in that city to receive detailed instructions concerning the requirements of the program and the responsibilities of the servicers in connection with their participation in the program and to receive all necessary instructional materials. (A copy of the presentation made at these seminars is included in Appendix B.) Other mortgage servicers received such memoranda and instructions (in written form) at the time of their prospective participation in the program. There was no formal contract with the servicers for their participation in the program.

4.1.4.2 Mortgagees

Mortgagees were also furnished with descriptive memoranda explaining the PIP demonstration program, the ultimate program that might result from the demonstration, and how the demonstration program functioned. These were provided to the mortgagees through the mortgage servicers.

4.1.4.3 Delinquency and Default Counseling Agencies

It was necessary to provide the counseling agencies with detailed instructions concerning the PIP program in general and their roles and responsibilities in the program in particular. This was accomplished during a seminar conducted by the contractor, at which the necessary instructional materials were distributed to participants. (The instructions for the counseling agencies are included in Appendix C, and a copy of the presentation at these seminars is included in Appendix B.)

4.1.4.4 HUD Area Office Staff

Each HUD area office was asked to send representatives to the seminar conducted for the counseling agencies and mortgage servicers in their city. The information made available at the seminar covered the instructional requirements of the involved HUD area office personnel.

4.1.5 Mortgagor Selection

In each city, the contractor's representative arranged with the participating mortgage servicers to review the files of potential participants in the servicers' offices. Prior to each visit, the servicer was requested to pull the files on all section 203(b) and 221(d)(2) mortgagors who had missed their second payment as a result of income curtailment or for other indeterminable reasons. The contractor's representative then visited the servicer's office and reviewed the files against the participation criteria. If a particular mortgagor appeared to qualify, the contractor's representative gathered relevant data on the mortgagor from the file by completing the Mortgage Servicer Data Form (included in Appendix A).

The contractor's representative then prepared a letter of introduction (on Form LT-1, a copy of which is included in Appendix D with all of the other form letters, which are referred to herein as Form LT-___) addressed to the potential participant and delivered it to the HUD employee who was to interface with the Contractor's representative.* The contractor's representative was responsible to confirm that the letter was signed and mailed no later than two days after its presentation to the HUD employee. The letter introduced the program and the contractor's representative and requested that the mortgagor call the contractor's representative to make an appointment to visit him at the HUD office to determine if the mortgagor qualified for the program.**

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* For the purposes of the demonstration program, the contractor and its representative served in place of HUD and its employees and carried out actions and made payments (such as the PIP payments) in behalf of HUD.

** After the commencement of the demonstration, when the contractor's representatives were having difficulties getting mortgagors to make this appointment, Form LT-1 was modified to begin with a statement that HUD had been informed that the mortgagor was in default. This letter, as modified, proved to be a good collection tool, as many mortgagors immediately brought their mortgages current upon receipt of the letter.

The contractor's representative contacted the potential mortgagor participant approximately 3 days (but no longer than 5 days) after the introductory letter was mailed to set up an interview. The representative first attempted contact with the mortgagor by telephone; if this was not possible, the representative contacted the mortgagor at his (or her) home, or sent letters to the mortgagor asking him (or her) to contact the representative at his office within 2 days after receiving the letter. The representative allowed no more than 8 calendar days for the mortgagor to respond. This response time was such that the mortgagor could be enrolled and participating in the program before he (or she) became 4 months behind in his (or her) payments.

The contractor's representative arranged, when possible, for the interview to take place in the HUD office. If the mortgagor could not come to that office, the representative arranged for the interview at the mortgagor's home.

When the mortgagor arrived for the interview, the contractor's representative presented a brief explanation of that portion of the demonstration for which the mortgagor was being interviewed. In addition, the representative explained to the mortgagor that certain information would be required to determine if he (or she) qualified for the demonstration program.

The contractor's representative used the Mortgagor Application Form (included in Appendix A) to gather the necessary information. Before beginning to ask the questions on the application, the contractor's representative read the Privacy Act statement to the mortgagor and explained the intent of that act to make sure the mortgagor fully understood the meaning and purpose of the statement. The mortgagor then signed one copy of the statement to evidence receipt.*

After completion of the interview, the mortgagor was told that he (or she) would hear from HUD within a few days regarding further participation in the demonstration program. The contractor's representative would then review the information collected and apply the eligibility criteria (by following the procedures set forth in the Instructions Handbook, pages 1-4; the Handbook is included in Appendix E) to determine whether the mortgagor qualified for participation.

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* When originally designed, the Mortgagor Application Form also contained a procedure for giving the mortgagor a written notice required by the Equal Credit Opportunity Act. However, when that Act was amended effective March 23, 1977, this notice was no longer required. Instead a notice had to be given to rejected mortgagors; this was done as explained below.

If the mortgagor did not qualify for the program, the contractor's representative sent a rejection letter (Form LT-2) to the mortgagor accompanied by a Statement of Credit Denial (Form LD-0*) giving the notices required by the federal Equal Credit Opportunity Act and Fair Credit Reporting Act. (Instructions for completing this statement are on pages 5-7 of the Instruction Handbook.)

If the mortgagor qualified for participation in the program, he was sent another letter (Form LT-3) together with a blank copy of the Protective Insurance Payments Agreement (Form LD-1) and Program Guidelines (Form LD-2). (The Protective Insurance Payments (PIP) Agreement was the basic contract among the mortgagor, servicer, mortgagee and HUD. Its provisions are explained in detail in section 4.2. This letter informed the mortgagor of his provisional qualification for assistance and requested that he call the contractor's representative to make an appointment at the HUD area office to complete the details for his inclusion in the program. If the mortgagor was unemployed for medical reasons, he (or she) was also sent a letter (Form LT-3A) for signature by his (or her) doctor to certify information concerning the illness. The mortgagor was told (in Form LT-3) that this visit required the presence of all mortgagors (if more than one) and the spouse of the mortgagor.

The PIP Agreement was to set forth the amount of the partial payment to be made by the mortgagor. Therefore, before completion of the PIP Agreement, the Contractor's representative had to determine the amount of the partial payment to be made by the mortgagor and insert it in the Agreement. The partial payment was to be the lesser of (1) the total sum of the escrow (impounds) obligations required to be paid monthly under the HUD-insured first mortgage or (2) 30 percent of the mortgagor's gross family income. Under special circumstances, the partial payment could be set at an amount below the lesser of these two amounts.

When the mortgagor came to the HUD office, the mortgagor(s) and spouse(s) were asked to sign the PIP Agreement, a note (Form LD-3) evidencing the mortgagor's obligation to repay to HUD the PIP advances, and a mortgage (Form LD-4) granting HUD a mortgage on the mortgagor's home to secure repayment of the note. (For convenience in this report, the note and mortgage are referred to as the "PIP Note" and "PIP Mortgage" and the loan evidenced and secured thereby as the "PIP Loan".)** The mortgagor was told that after the mortgagee

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* This is one of the legal documents used in the PIP demonstration. Copies of these documents are included in Appendix F and are referred to in this Report as LD-__.

** This complicated procedure and the multiple visits of the mortgagor would be greatly simplified in a national PIP program (to be known as TMAP) because there would be no PIP Agreement and no modification of the HUD-insured first mortgage. (See section 6.0 of this report for a discussion of the simplified procedure that could be followed in a national TMAP program.)

and servicer had agreed to the PIP Agreement, the mortgagor would be contacted to finalize his participation in the program.

The contractor's representative then submitted the PIP Agreement to the individual designated to sign on behalf of HUD, with the Agreement being accompanied by a letter (Form LD-1A) assuring the HUD employee that the form of PIP Agreement had been approved by the GTR and completed in conformance with the program requirements and procedures. Next, the PIP Agreement was submitted to the servicer (using Form letter LT-4) for signature by the servicer and the mortgagee. The Truth-in-Lending Disclosure Statement (Form LD-6) to be given to the mortgagor in connection with the HUD-insured first mortgage (for the reasons explained in section 4.2 of this report) was also submitted to the servicer for review and completion of any missing information.

If either the servicer or the mortgagee refused to sign the PIP Agreement, the mortgagor was notified (using Form letter LT-2) and sent the required legal rejection notice (Form LD-0).

If the mortgagor qualified for participation in the program but could not participate because the mortgagor, the mortgagee, or the servicer refused to sign the PIP Agreement, the mortgagor's file was retained for use in the control group.

After the PIP Agreement was signed by all four parties, the mortgagor was again requested by letter (Form LT-5) to meet with the contractor's representative to begin participation in the program. This meeting did not require the presence of the mortgagor's spouse, since the legal documents had already been signed. At this meeting, the following matters were accomplished:

1. The mortgagor received a fully executed copy of the PIP Agreement and signed a statement to acknowledge receipt. The mortgagor was also given photocopies of the signed PIP Note and PIP Mortgage.

2. The mortgagor was given the Truth-in-Lending Disclosure Statement relating to the PIP Loan (Form LD-5), the Truth-in-Lending Disclosure Statement relating to the HUD-insured first mortgage (Form LD-6), and the Truth-in-Lending Rescission Notice (Form LD-7) relating to the PIP Loan. The mortgagor was asked to sign each of these documents to acknowledge receipt. (The reasons for the use of these documents and an explanation of their contents is described in section 4.2 of this report.)

3. The mortgagor was also given one Protective Insurance Payments Mortgagor's Certificate (Form LD-8) (the Certificate) to be used to make the partial payment to the servicer. Each month, the mortgagor was to sign a Certificate and forward it to the servicer with his partial payment. The Certificate enabled the servicer to identify the proper loan transaction to which the payment applied. The Certificate also served as a certification by the mortgagor that he

(or she) still met the eligibility criteria to participate in the program. Finally, the Certificate was used to give the contractor information about the mortgagor's total current monthly income thus enabling the contractor's representative to determine whether there should be a change in the partial payment and also to determine whether the mortgagor's income had been restored. If the mortgagor's income had been restored, the contractor's representative would set in motion the procedure which would result in the modification of the PIP Mortgage and HUD-insured first mortgage. The contractor's representative assisted the mortgagor in completing this first Certificate and instructed him (or her) as to its use. If it turned out that, based upon the completion of this first monthly Certificate, the mortgagor was no longer eligible to participate in the PIP Demonstration Program, the contractor's representative retained the Certificate and the mortgagor was then notified by letter of the termination of his participation in the program (accompanied by the Statement of Credit Denial described above).

4. The contractor's representative also gave the mortgagor a letter (Form LT-6) explaining the mortgagor's responsibility to see a counselor.

5. Under the PIP Mortgage, the mortgagor was required to have the hazard insurance policy on his home endorsed to show HUD as an additional insured party. Therefore, at the time of this visit, the mortgagor was requested to contact his insurance agent and make sure that HUD was named as an additional insured and that evidence of that was forwarded to the contractor's representative.

After this visit of the mortgagor was completed, the contractor's representative sent a letter to the servicer (Form LT-7), forwarding the original executed PIP Mortgage and PIP Note and requesting that the PIP Mortgage be recorded and the original documents returned to the contractor's representative. This letter was also accompanied by one Master Certificate form for the mortgagor, which the servicer could use to obtain one partial payment from the Contractor if the mortgagor failed to make a partial payment.

4.1.6 Referral to Counseling Agency

At this time, the contractor's representative contacted the appropriate counseling agency by letter (Form LT-8) informing the agency of the name and address of the mortgagor and indicating that counseling for such mortgagor was to begin.

The counseling agencies had previously been given a supply of Certificates so that at the time of the monthly counseling visit the counselor could assist the mortgagor in completing the Certificate and could also remind the mortgagor to forward the Certificate to the servicer with the partial payment.

The contractor's representative maintained periodic contact with the counseling agencies in order to assess the conduct of the agencies. The representative reported his observations in monthly reports to the program manager.

The contractor's representative also received a copy of the counseling agencies' monthly reports containing a summary of the mortgagors counselled. The summary was cross-checked against the vouchers received from the servicers and any deviations were investigated immediately with the counseling agencies.

4.1.7 Vouchering System

As soon as a mortgagor had been enrolled in the program in the manner described above, the contractor's representative determined the amount of the first PIP payment to be made to the servicer on behalf of the mortgagor. The amount of that payment was determined as:

1. The total monthly payment due under the HUD-insured first mortgage (including escrows or impounds, and the MIP payment), plus

2. The amount of late charges due to the servicer, plus

3. The additional amount (if any) necessary to cause the mortgagor to be exactly 3 months delinquent after the first PIP payment (if, for example, the mortgagor was 6 months delinquent immediately prior to the first PIP payment, this last portion of the first PIP payment was equal to three monthly installments under the HUD-insured first mortgage to bring the delinquency from 6 months to 3 months), minus

4. The partial payment to be made by the mortgagor.

As originally designed, it was intended that the PIP payment would be sent to the servicer on receipt by the contractor of the completed and signed Certificate from the servicer. However, because it became apparent that this procedure would result in the servicer receiving a late payment, the program was modified to provide for the PIP payment to be mailed by the contractor as soon as the contractor was notified that the counseling session had taken place so that the PIP payment would be received by the servicer on the first day of the month. The servicer was still expected to forward the Certificate, and no additional PIP payments would be forthcoming until the Certificate relating to the last PIP payment was received.

If the mortgagor did not make a partial payment by the 15th day of a month, the servicer was to send the contractor the Master Certificate supplied to it. At that time the contractor would make the partial payment to the servicer (in addition to the PIP payment already made) so that the servicer would receive the entire monthly payment due. The contractor's representative would then determine why the mortgagor failed to make the partial payment, and if the contractor's representative was not satisfied that the missing partial payment would at the very latest accompany next month's partial payment, the mortgagor would be terminated from the PIP program using the procedure described in section 4.1.8 below.

If at any time during the continuation of the PIP payments, either the mortgagor or the counseling agency recommended that the partial payment be modified, the contractor's representative considered the request and took appropriate action.

The contractor's representative maintained a log of all mortgagors' partial payments and Certificates. The log was cross-checked monthly against the Certificates received from the mortgage servicers. The log also showed any changes in partial payments and the reasons for such changes. The log was kept up-to-date, and copies were made available to the program manager upon request.

4.1.8 Monitoring During PIP Payments

The contractor's representative had to monitor the mortgagor during the continuation of the PIP payments to determine when the PIP payments were to terminate, i.e., when one of the following occurred:

1. The mortgagor failed to make the partial monthly payment required to be made and follow-up by the Contractor's representative did not satisfy him that the next partial payment would be made.

2. The information shown in the monthly Certificate indicated that the mortgagor no longer qualified for participation in the program for one or more of the following reasons:

   a. The mortgaged property was no longer owned in fee simple by the mortgagor.

   b. It was determined that the mortgaged property was subject to a second mortgage or other encumbrance prior to the PIP Mortgage.

   c. The mortgagor's inability to pay the monthly payment on the HUD-insured first mortgage no longer resulted from the involuntary unemployment, underemployment or illness of the mortgagor or a member of the mortgagor's immediate household.

   d. The liquid assets of the mortgagor had increased so that they were in excess of the $5000.

   e. A bankruptcy or other insolvency proceeding has been instituted.

f. The mortgagor vacated or abandoned the mortgaged property.

g. The maximum amount of PIP payments to be made by the contractor pursuant to the PIP Agreement had been made.

3. The information in the monthly Certificate indicated that the gross family income of the mortgagor had increased to an amount equal to or greater than 75 percent of such income immediately preceding the curtailment of income so that the PIP Mortgage and HUD-insured first mortgage were to be recast (modified).

If the PIP payments were to be terminated for any reason other than the restoration of the mortgagor's income, a Statement of Credit Termination (Form LD-8A) was completed by the contractor's representative to comply with the federal Equal Credit Opportunity Act and Fair Credit Reporting Act. This statement was then forwarded to the mortgagor with a letter (Form LT-12) notifying the mortgagor that his or her participation in the program was being terminated. At the same time, letters (Forms LT-13 and LT-14, respectively) were sent to the servicer and counseling agency informing them of the mortgagor's termination.

4.1.9 <u>Recasting</u>

If the contractor's representative determined that the PIP payments were to terminate because of the restoration of the mortgagor's family income (in the amount described above), the process of recasting or modifying the PIP Mortgage and the HUD-insured first mortgage was begun.

The first step in this process was for the contractor's representative to complete the Mortgage Modification Data Form (included in Appendix A) to obtain the information needed to accomplish the computer recast of both mortgages. (Instructions to the contractor's representative to complete this form were included in the Instruction Handbook, pages 31 through 34.)

The completed Mortgage Modification Data Form was then submitted to the servicer with a forwarding letter (Form LT-15) for review. Once the form was approved by the servicer (and signed to evidence that approval), it was then forwarded to the office where the new amortization tables for the recast PIP Mortgage and HUD-insured first mortgage were to be prepared. The amortization tables for both mortgages were prepared using the RECAST computer program prepared by the contractor (a copy of which is included in Appendix G).

Even though the decision had been made to recast, the next PIP payment was still made to give the mortgagor an additional period of time to get back on his feet after the restoration of income. The final PIP payment could be larger than the previous PIP payments if the lender had advanced funds due to an escrow deficiency and the servicer required the advance to be repaid in a lump sum rather than by increasing future escrow payments.*

After the amortization tables for both recast loans were received by the contractor's representative, a letter was sent to the mortgagor (Form LT-16) asking him (or her) to come to the HUD office to sign the documents necessary to modify both loans. This letter requested the presence of all mortgagors (if more than one) and spouse(s) since the legal documents had to be signed by each of these individuals.

At the time of this visit, the mortgagor signed the Modification of Mortgage (Form LD-9) recasting or modifying the HUD-insured first mortgage, and the Modification of PIP Mortgage (Form LD-10) recasting or modifying the PIP Mortgage.

At that time, the contractor's representative forwarded the Modification of Mortgage (Form LD-9) to the servicer with a letter (Form LT-17) requesting that the mortgagee's signature be obtained. At the same time, a form of letter (Form LD-14) from the servicer to the mortgagor (explaining the new payment obligations after recasting) was sent to the servicer for review and signature by the servicer and return to the contractor's representative. (This letter would be given to the mortgagor on his final visit to the contractor's representative.) At the same time, the servicer was sent a copy of the amortization tables for each of the modified loans setting forth the servicing fee breakdown on each payment on each loan.

At the same time, the contractor's representative submitted the Modification of PIP Mortgage (Form LD-12) to the HUD employee who was to sign on behalf of HUD, forwarding the document with Form LD-1A as was done with the PIP Agreement when it was signed on behalf of HUD.

After these documents were signed by the mortgagee and HUD, another letter (Form LT-18) was sent to the mortgagor requesting that he (or she) return to the HUD office to complete the procedure of modifying both mortgage loans. This letter explained that only one of the mortgagors was required for this visit.

At this last visit of the mortgagor, the following matters were accomplished:

1. One fully executed copy of the Modification of Mortgage and Modification of PIP Mortgage were given to the mortgagor.

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* During the demonstraton program, no servicers required such lump sum catch-up of escrow deficiencies; therefore, the final PIP payment was the same as the previous PIP payments.

2. The mortgagor was also given new Truth-in-Lending Disclosure Statements (Forms LD-11 and LD-12) relating to the modified PIP loan and HUD-insured first mortgage. The mortgagor was also given another Truth-in-Lending Rescission Notice relating to the modified HUD-insured first mortgage. (The reason for each of these documents is explained in detail in section 4.2 below.)

3. Finally, the mortgagor was given the letter from the servicer (Form LD-14) explaining the new monthly payment to be made under the modified mortgages. The mortgagor was also given copies of the amortization tables for the two modified mortgages.

After this visit was completed, the Modification of Mortgage and Modification of PIP Mortgage were forwarded to the servicer by a letter (Form LT-19) requesting that the servicer record these documents and return the Modification of PIP Mortgage to the contractor's representative. This letter also alerted the servicer that the modifications had been completed and that the mortgage payment (to repay both the modified PIP Mortgage and HUD-insured first mortgage) should be received directly by the servicer from the mortgagor.

In addition, a letter (Form LT-20) was sent to the counseling agency to instruct them to terminate counseling for the mortgagor.

4.1.10 Post-Recast Monitoring

After the recasting of the mortgages was completed, the contractor's representative monitored the progress of the mortgagor for a minimum period of 1 year by making periodic contact with the servicer.

4.1.11 Repayment of PIP Loans

At the time a mortgagor who had signed a PIP Note desired to pay off, in advance, all amounts due under the note (usually because of the sale of his or her home), the contractor's representative first computed the payment required from the mortgagor. If the PIP loan had not been recast, this amount was the aggregate amount of the PIP payments plus interest on that aggregate amount, at the interest rate specified in the PIP Note, with interest from the date of the last PIP payment* to the date that the note is to be paid. If the PIP Loan had already been recast, the unpaid principal amount after any particular payment date shown on the amortization table was the amount necessary to prepay the loan on such date, and for a prepayment between payment dates of a recast loan, interest from the last payment date was added to such unpaid principal amount at the rate of interest specified in the note for the appropriate number of days.

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* Although the PIP Note provides for interest from the date of each PIP advance, because of the problem of compounding interest (explained in section 4.2 of this report), interest was only charged from the date of the last PIP payment.

In addition to computing the amount necessary for repayment, it was also necessary to physically release the PIP Mortgage of record. The procedures for releasing the PIP Mortgage were different in each state.

1. In Georgia, a statement was typed onto the original PIP Mortgage indicating that the debt had been paid in full, the statement was then signed on behalf of HUD and the original PIP Mortgage, with the additional signature, was then delivered to the mortgagor (or to the title company if it was handling the transaction) upon receipt of the payment computed as indicated above. At the same time, the original PIP Note was delivered to the mortgagor or title company and marked "PAID" across its face. The actual release was then accomplished by displaying these original documents to the same office where the PIP Mortgage was recorded and the recording office then made the appropriate entries in its records to release the PIP Mortgage of record.

2. In California, HUD executed the Request for Full Reconveyance appearing at the end of the PIP Mortgage (Form LD-4). Then the original PIP Mortgage and the original PIP Note were delivered to the mortgagor or title company and the PIP Mortgage, with the executed Request for Full Reconveyance, could then be used to release the PIP Mortgage of Record.

3. In Pennsylvania, upon a repayment, HUD executed a document entitled Mortgage Satisfaction Piece. Then the original PIP Mortgage, the original PIP Note, and the executed Mortgage Satisfaction Piece were delivered to the mortgagor or title company and, upon recording of the Mortgage Satisfaction Piece, the PIP Mortgage was effectively released of record.

4.1.12 Maintenance of Records

The contractor's representative maintained secured files on each mortgagor on whom data was gathered. The files were divided into two groups, the experimental group and the control group.

The contractor's representative submitted to the program manager monthly reports containing the following information:

1. A brief narrative on the activities during the month

2. Action items to be resolved and recommended solutions

3. Disposition of problems in the field

4. Observation of the conduct of the counseling agencies

5. Observation of the conduct of the mortgage servicers

6. Summary of the PIP payments and partial payments made during the month

7. Billing for part-time help (if required)

4.2 LEGAL AND ADMINISTRATIVE DOCUMENTS

4.2.1 Preparation of Documents

In preparing the legal documents necessary to conduct the PIP demonstration program, the following steps were taken:

1. The documents were prepared by the lawyers who were members of the contracting team. The documents were reviewed for compliance with all applicable laws, including the federal Truth-in-Lending Act (and Regulation Z), Equal Credit Opportunity Act, Fair Credit Reporting Act, and Privacy Act of 1974.

2. The documents were also reviewed for compliance with state and local laws by local counsel in each of the three demonstration cities.

3. In order to aid acceptance of the documents by the participating servicers and lenders, the drafts of the legal documents were submitted for prior review and comments to GNMA and FNMA representatives and certain other major lenders and servicers, and their comments and suggestions were reflected in the final documents.

4. The basic legal documents were also submitted for approval to the office of the General Counsel of HUD, and the final documents reflected the comments of that office.

5. In addition, the data collection documents were submitted to the Office of Management and Budget (OMB) for approval, as required by the Federal Reports Act, and for confirmation that the documents complied with the Privacy Act of 1974.

6. In addition to making appropriate provisions in the legal documents to comply with the Privacy Act, pursuant to Section 552a(o) of the Privacy Act, HUD is required to provide adequate advance notice to Congress and to OMB of any proposal to establish a "system of records." As a result, the contractor prepared and submitted to its GTR a Privacy Act System Notice for this purpose. However, the contractor was informed that HUD had determined that it was not necessary for it to submit such a notice with respect to the records kept in connection with the PIP demonstration program.

4.2.2 Initial Decision on Mortgagor Eligibility

The first step in implementing the program was to find mortgagors who qualified under the program criteria. This was effected by use of the

Mortgage Servicer Data Form and the Mortgagor Application Form, the use of these documents having been explained in section 4.1 of this report. Both of these documents were approved in final form by OMB.

One of the requirements of the Privacy Act of 1974 is that any Federal agency (including HUD) must inform each individual whom it asks to supply information (1) the authority that authorized the agency to solicit the information, (2) whether disclosure by the individual is mandatory or voluntary, (3) the principal purpose for which the information is intended to be used, (4) the routine uses that may be made of the information, and (5) the consequences of not providing the information (5 U.S.C. §552a(e)(3)). Therefore, at the time of the initial interview with the mortgagor, and before completing the Application, the mortgagor was given a Privacy Act Statement in compliance with these requirements of the Privacy Act.

Prior to its amendment effective March 23, 1977, the federal Equal Credit Opportunity Act (ECOA) required that any credit application contain a specified notice indicating that discrimination on certain factors was prohibited by the Act. Therefore, when the Mortgagor Application Form was initially prepared, it included the required notice. As a result of the amendment of ECOA, a specified notice was only required if a mortgagor was denied credit; therefore, the applicable ECOA notice was not given to every mortgagor but only to those denied credit. ECOA requires that this specified notice be given to each mortgagor to whom credit has been denied and that it be given within 30 days after the completed credit application was received, i.e., in the case of the PIP demonstration, within 30 days after the interview. In addition to the specified notice, the notification of denial must also contain a statement of the specific reasons for the action taken. Moreover, pursuant to the federal Fair Credit Reporting Act, the disclosure to the mortgagor must also include a statement as to whether or not information from outside sources was used in making the decision and, if information from an outside source was used, the disclosure must also contain certain information regarding that source. In order to comply with all of these provisions of ECOA and the Fair Credit Reporting Act, a Statement of Credit Denial (Form LD-0) was prepared and used in the program.

4.2.3 Preliminary Legal Document Execution

Prior to the commencement of PIP payments, the following legal documents were used*:

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* As will be explained in greater detail in section 6.0, if the PIP Demonstration Program is implemented as a national TMAP program, and if the program does not provide for modification of the first mortgage, it will not be necessary to use all of these documents but only necessary to use the PIP Note, PIP Mortgage, Disclosure Statement (HUD), and the Rescission Notice (HUD).

Protective Insurance Payments Agreement (Form LD-1) (PIP Agreement)

Protective Insurance Payments Demonstration Program Guidelines (Form LD-2) (Guidelines)

Promissory Note (Form LD-3) (PIP Note)

Mortgage/Deed of Trust (Form LD-4) (PIP Mortgage)

Disclosure Statement (HUD) (Form LD-5)

Disclosure Statement (First Mortgage) (Form LD-5)

Rescission Notice (HUD) (Form LD-6)

The actual use of these legal documents was explained in section 4.1. The following discussion will include a summary of some of the important provisions of the documents and an explanation as to why they were included.

4.2.3.1 PIP Agreement

The PIP Agreement was a four-party agreement among the mortgagor, the mortgagee (under the HUD-insured first mortgage), the servicer, and HUD. (As is explained in section 6.0, there will be no need for this agreement in a national TMAP program.) The representations and agreements of each party included the following.

4.2.3.1.1 Mortgagor--The mortgagor represents and agrees as follows:

1. The mortgagor represents that he (or she) is the owner of the property encumbered by the HUD-insured first mortgage (for convenience sometimes referred to as the "first mortgage") and that he (or she) does not own other real property subject to a mortgage insured under the National Housing Act.

2. The mortgagor represents that the default was caused by circumstances beyond his (or her) control and that he (or she) presently does not have the financial ability to make full payment of the monthly installments due under the first mortgage.

3. The mortgagor agrees to attend a monthly conference with a housing counselor designated by the contractor (for HUD).

4. The mortgagor agrees to pay to the mortgagee, through the servicer, a specified amount as a partial monthly payment on the first mortgage and agrees that each month with the partial payment he (or she) will sign and submit to the servicer a Certificate (Form LD-8) concerning continued eligibility for the program.

5. The mortgagor agrees to repay the aggregate amount of PIP payments advanced by HUD in payment of the first mortgage in accordance with the PIP Note and PIP Mortgage.

6. The mortgagor agrees that if there is a substantial restoration of his (or her) income (as defined in the Guidelines described below) prior to the last PIP payment, he (or she) will execute the appropriate documents to modify the first mortgage and PIP Mortgage.

4.2.3.1.2 Mortgagee--The mortgagee represents and agrees as follows:

1. The mortgagee represents that it is the owner and holder of the first mortgage.

2. The mortgagee agrees that as long as the future monthly payments on the first mortgage are paid by the mortgagor and/or by HUD, the obligation of the mortgagor to pay the three monthly payments that are past due at the time of the execution of the PIP Agreement will be suspended for a period of up to 12 months.

3. The mortgagee agrees to execute the appropriate documents to cause a modification of the monthly installments payable under the first mortgage in the event that, under the Guidelines, the first mortgage is to be modified at the conclusion of the PIP payments.

4. The mortgagee agrees that the servicer will be entitled to receive his normal servicing fee with respect to the payments made on the first mortgage (PIP payments plus partial payments by the mortgagor).

5. The mortgagee agrees that if it effects a transfer of the servicing of the first mortgage, it will also cause the servicer to which the servicing of the first mortgage is transferred to assume the obligations to service the PIP loan.

6. The mortgagee authorizes the servicer to service the PIP Loan in accordance with the PIP Agreement and the Guidelines.

4.2.3.1.3 Servicer--The servicer agrees as follows:

1. The servicer agrees to service the PIP Loan and the first mortgage in accordance with the PIP Agreement and in accordance with the applicable regulations which apply to the servicing of the first mortgage.

2. The servicer agrees that by the 15th day of each calendar month, it will furnish the contractor (acting as HUD's agent) with the monthly Certificate provided to the servicer by the mortgagor or, upon failure of the mortgagor to deliver the Certificate, the servicer will notify the contractor of such failure by sending the master Certificate supplied to the servicer for this purpose. The servicer also agrees to notify the contractor of any increase in the monthly installment payable under the first mortgage on or before the 15th day of the month preceding the first month in which the increased installment is payable.

4.2.3.1.4 HUD--HUD agrees as follows:

1. Subject to the continued eligibility of the mortgagor for participation in the program, HUD (acting through the contractor as its agent) agrees to make the PIP payments. The PIP Agreement specifies the maximum aggregate amount of PIP payments (nine times the total monthly payment on the first mortgage, including principal, interest, and required escrows or impounds) to be made and the maximum period (12 months) over which the PIP payments are to be made.

2. HUD agrees that, with the first PIP payment, it will also pay all amounts due on the first mortgage over and above the sum of three monthly installments that are to remain past due on the first mortgage.

3. HUD agrees that if the terms of the first mortgage and PIP Mortgage are modified concurrently with the payment of the last PIP payment, HUD will also pay a specified amount in connection with any deficit in the mortgagor's escrow account.

4. HUD agrees that if the mortgagor fails to make a partial payment that he or she has agreed to make, HUD will make such partial payment to the servicer, after which HUD may, at its option, terminate further PIP payments.

5. HUD agrees to notify the servicer of each increase or decrease in the partial payment to be made by the mortgagor and to notify the servicer at such time as HUD determines that the mortgagor is no longer eligible for participation in the program.

6. HUD agrees to execute the appropriate documents to effect a modification of the PIP Mortgage upon satisfaction of the conditions to such modification.

7. HUD agrees to reimburse the servicer for actual amounts charged for recording fees incurred in connection with the recording of the PIP Mortgage or the recording of any modification of the first mortgage or PIP Mortgage.

8. HUD agrees that the servicer shall be entitled to receive as compensation for its servicing of the PIP Mortgage 3/8ths of 1 percent per annum on the unpaid principal amount of the PIP Mortgage. (As discussed in section 6.0, it is recommended that a national TMAP program include a larger servicing fee and that the fee be a set monthly amount rather than a percentage of the loan.)

9. HUD agrees that if the PIP payments are to be terminated and the PIP Mortgage is not to be modified, the PIP Agreement shall be treated as a "Special Forbearance" agreement for the purposes of HUD regulations. As a result, upon receipt of an insurance claim by the mortgagee, it will be entitled to collect as a part of its claim all unpaid mortgage interest during the forbearance.

4.2.3.2 Guidelines

The Guidelines set forth the rules for running the demonstration program. In a national TMAP program, these Guidelines would be set forth in the HUD Regulations or in HUD Handbooks containing procedures for the program.

The most important provisions of the Guidelines were as follows:

1. The Guidelines set forth in detail the eligibility criteria for participation in the program (Section 3) and the criteria for determining whether a mortgagor must be terminated from the program during the continuance of the PIP payments (Section 4).

2. The Guidelines also set forth (in Section 5) the obligations of the mortgagor with respect to (1) monthly meetings with the housing counselor, (2) partial payments on the HUD-insured first mortgage, (3) delivery of the monthly Certificate to the servicer with the partial payments, (4) repayment of the PIP Loan either at the time of the termination of the PIP Agreement without modification of the PIP Mortgage or in accordance with the modified PIP Mortgage, and (5) repayment of the HUD-insured first mortgage as modified.

3. The Guidelines also set forth (in Section 6) the obligations of the servicer to service the PIP Mortgage including the obligations (1) to record the PIP Mortgage, (2) to accept PIP payments from HUD and partial payments from the mortgagor, (3) to receive the monthly Certificates from the mortgagor and deliver them to the Contractor, (4) to take the necessary steps in connection with the modification of the PIP Mortgage and HUD-insured first mortgage, (5) to receive and apply payments on the HUD-insured first mortgage and PIP mortgage after recasting, and (6) to take certain actions in connection with the mortgaged property and insurance on the property.

4. The Guidelines provided (in Section 6.10) that in January of each year the servicer was to submit to the contractor an annual accounting for each PIP Mortgage which it serviced during the preceding calendar year and remit at that time the aggregate amount paid to it on behalf of HUD (less the servicing fees that the servicer was authorized to retain). This requirement of an annual accounting and payment was provided to alleviate the burden on the servicers from monthly accounting with respect to such small amounts. As is discussed in Section 6.0 of this report regarding the national implementation of a TMAP program, it appears now that the servicers would rather handle the accounting in the same way that they handle accounting on other mortgages, i.e., by a monthly accounting unless the amount to be remitted had not reached a certain minimum level.

5. The Guidelines also set forth the details in connection with the modification of the PIP Mortgage and HUD-insured first mortgage and described the obligations of the parties in connection with such modifications (Section 7).

6. Finally, the Guidelines set forth (in Section 8) the details in connection with the PIP payments to be made by the contractor on behalf of HUD.

4.2.3.3 PIP Note

At the time of the initial visit of the mortgagor to the HUD office, in addition to signing the PIP Agreement, the mortgagor was required to sign a Note (the "PIP Note"), pursuant to which he (or she) agreed to pay to HUD a principal amount equal to the maximum aggregate amount of PIP payments that HUD is obligated to make on behalf of the mortgagor. Since the actual amount to be advanced by means of PIP payments could not be known at the time of the execution of the note, the note had to be in this form (similar to a note executed in connection with a construction loan). If the PIP loan was recast, the actual principal amount due from the mortgagor was set forth in the modification document. The use of this type of note was cleared as valid by local counsel in each of the three states in which the demonstration was conducted.

The PIP Note also provided that it was payable on demand and that if no demand was made, it was payable on the due date of the last installment under the HUD-insured first mortgage. If the PIP Loan was not recast, HUD would thus have the right to demand payment. Again, if the PIP Loan was recast, the modification documents would provide for the scheduled installments under the recast loan.

For the purposes of the PIP Demonstration Program, it was decided that each PIP Note would bear interest at the same interest rate as the mortgagor's HUD-insured first mortgage. In order to build into the program a simulated mortgage insurance premium, an additional one-half of 1 percent interest was added. The sum of these two amounts was the interest rate that was used unless it was determined that such interest rate was higher than the highest lawful rate permitted in the state in which the demonstration was being conducted. (As noted in Section 6.0, the legislation providing for national implementation of the PIP program contains a provision overriding state usury statutes.) On advice of local counsel in each state, the maximum interest rate that could be used for purposes of the demonstration was 10 percent in California, 6 percent in Georgia, and a floating rate in Pennsylvania, as set each month by the Pennsylvania Department of Banking.

Because there are problems in various states with compounding interest (see Section 6.0, NATIONAL IMPLEMENTATION), it was decided that no interest would begin to accrue on the PIP Note until the date of the last PIP payment. Thus, if the PIP Mortgage were modified, the unpaid balance to be repaid to HUD would not include interest, but interest would begin to accrue only after modification. The fact that the PIP Note provides for interest from the date of each advance but no interest is charged until the date of the last advance was cleared as legally permissible by local counsel in each state.

4.2.3.4 PIP Mortgage

At the same time the mortgagor signed the PIP Agreement and PIP Note, he also signed a mortgage (the "PIP Mortgage") granting HUD a mortgage on his home.

A separate document was prepared for use in each of the three demonstration states and designated a Deed of Trust in California, a Security Deed in Georgia, and a Mortgage in Pennsylvania.

In the PIP Agreement the mortgagor represents that the mortgage being granted to HUD by means of the PIP Mortgage is a second mortgage on his property subordinate only to the HUD-insured first mortgage. However, it was decided that, for purposes of the demonstration program, there would be no independent title check as to the accuracy of the mortgagor's representation. (See Section 5.0 of this report regarding the results of a subsequent random title sampling of the PIP Mortgages.)

In each case, the form of mortgage designed was basically similar to the FHA-approved form of mortgage with modifications deemed necessary to accommodate the PIP demonstration program and modifications suggested by local counsel. Generally, the modifications necessary to the FHA-approved form of mortgage were required because the PIP mortgage was a second mortgage and not a first mortgage; and, for a national TMAP program, similar modifications would have to be made in the PIP Mortgage in each state.

Under Georgia law, if a mortgage is given in connection with a promissory note that is to be due in more than 3 years (as would be the case with the PIP Note), an intangible tax is required to be paid at the time of the recording of the mortgage (Ga. Code Ann. §92.163 through §92.166). The amount of the tax is at the rate of $1.50 for each $500 or fraction thereof of the face amount of the Note secured by the instrument. If the tax is not paid, it is deemed that the mortgage does not constitute legal notice to anyone.

Also under Georgia law, the mortgage must set forth in words and figures the correct amount of the Note secured by the instrument and the dates on which the Note falls due. These provisions were complied with in the PIP Mortgage used in Georgia.

A clause (normally referred to as a "due-on-sale" clause) was include in each PIP Mortgage, providing that the sale of the mortgagor's home was an event of default causing the entire amount secured by the PIP Mortgage to become due and permitting HUD to exercise its rights upon default under the PIP Mortgage. Since the purpose of the PIP demonstration was to assist mortgagors in keeping their home, it was decided that if a mortgagor voluntarily sold his home, the PIP Loan should be repaid because the assistance to the selling mortgagor would then be complete. Local counsel gave the following views on the legality of this clause:

1. California: Local counsel indicated that the inclusion of this clause in the PIP Mortgage by itself caused no problem but that under the case law in California, the exercise of the clause could, depending upon the circumstances at that time, cause the lender to be liable to the mortgagor for any damages incurred as a result of the exercise of the clause, and therefore cautioned against the exercise of the clause without, at the time, a review of the applicable law and circumstances.

2. Georgia: Local counsel in Georgia indicated that, although the question was far from clear, such a clause could very well be held to be illegal and therefore cautioned that we include a severability clause in the Mortgage to make sure that if it was held to be illegal, it would not cause any problems with the remainder of the document. Such a severability clause was included. (With respect to this due-on-sale clause, as well as the general acceleration clause contained in the PIP Mortgage giving HUD the right to accelerate on other defaults, local counsel in Georgia pointed out that although they could give no definitive answer on this, it appeared from then-recent cases in Georgia that an acceleration clause in a mortgage would not be enforceable unless, at the time of acceleration, the borrower received actual notice of the exercise of this option by the lender.)

3. Pennsylvania: Local counsel in Pennsylvania indicated that there was no specific law in Pennsylvania on the legality of such a clause but that in their opinion, based on review of laws of other states, Pennsylvania courts would hold that such a clause was legal and enforceable.

Local counsel in Georgia indicated that with respect to the PIP Mortgage (and any other documents to be recorded), there were special requirements regarding the manner of execution and execution by a witness. These provisions were complied with in the documents to be recorded in Georgia.

4.2.3.5 Disclosure Statement (HUD)

At the time of the execution of the PIP Note, since the PIP Loan was a loan upon which a finance charge could be imposed, it was required that certain disclosures regarding the PIP Loan be given to the Mortgagor to comply with the Federal Truth-in-Lending Act and Regulation Z (and in the case of Georgia, with applicable State laws).

Because the PIP Loan transaction also involved the agreement of the parties to modify the loan under certain circumstances, although not free from doubt it was concluded that the required Truth-in-Lending disclosure had to describe not only the initial demand loan made by HUD but also the terms of the PIP Loan if recast. This conclusion was based upon the following provisions of Regulation Z:

1. Section 226.8(j) provides that the refinancing (recast of the PIP Loan) of an existing extension of credit is a new transaction subject to the disclosure requirements.

2. Section 226.8(a) provides that the disclosures with respect to that new transaction must be given before it is consummated.

3. Section 226.2(kk) provides that a transaction is consummated at the time a contractual relationship is created (i.e., at the time of the execution of the PIP Agreement).

Therefore, the initial Disclosure Statement also gave disclosures on the recast loan based on the assumptions that (1) the maximum loan that HUD is committed to make would in fact be made, (2) the loan would be made by means of 12 monthly PIP payments, and (3) the loan would be modified in accordance with the PIP Agreement so that it was to be repaid in monthly installments over the maximum term of repayment permitted under the PIP Agreement.

A Disclosure Statement complying with Truth-in-Lending was sufficient disclosure to comply with the laws of each State except for Georgia. With respect to Georgia, the Secondary Security Deed Act (Ga. Code Ann. §57-201 et seq.) required that HUD sign the Disclosure Statement and that certain descriptive terms be added explaining the meaning of terms such as "finance charge." These changes were made in the Disclosure Statement used in Georgia.

With respect to the Disclosure Statement used in California (as well as the remainder of the California documents), although there are certain provisions in California law requiring, under specified conditions, that certain documents be written in the Spanish language, it was determined that none of those provisions applied to the PIP Demonstration Program.

4.2.3.6 Disclosure Statement (First Mortgage)

At the time the mortgagee of the HUD-insured first mortgage agreed to modify that mortgage (upon the occurrence of certain circumstances and the satisfaction of certain conditions), that agreement appears to require Truth-in-Lending disclosures for the same reasons that the Disclosure Statement given in connection with the PIP Loan required disclosures regarding the PIP Loan after modification. Therefore, in connection with the consummation of the PIP Agreement, a Disclosure Statement was also given with respect to the HUD-insured first mortgage relating to the commitment to modify the first mortgage. The disclosurees were calculated based on the assumptions that the modification would be effective 11 months after the PIP Agreement became effective and that there would be no advances by the mortgagee for escrow deficiencies between the date of the Disclosure Statement and the date of the modification.

4.2.3.7 Rescission Notice

Under the Truth-in-Lending Act and Regulation Z, it was also necessary to give the mortgagor a Rescission Notice at the time of the consummation of the PIP Agreement giving him the right to rescind the loan transaction within 3 business days of consummation. This is required because HUD is making a loan secured by a mortgage on the mortgagor's home, and the exemption in Truth-in-Lending for first mortgages was not applicable.

4.2.4 <u>Modification of PIP Mortgage and HUD-Insured First Mortgage</u>

If the PIP payments were to terminate because of the substantial restoration of the mortgagor's income, the process of recasting or modifying the HUD-insured first mortgage and the PIP Mortgage was then undertaken. The legal documents that were prepared and used in connection with the recast process were as follows*:

Modification of First Mortgage (Form LD-9)

Modification of PIP Mortgage (Form LD-10)

Disclosure Statement (HUD) (Form LD-11)

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* As will be explained in more detail in Section 6.0 of this report, if the PIP Demonstration Program is implemented as a national TMAP program, and if the program provides that the HUD-insured first mortgage will not be recast, it will not be necessary to use all of these documents but only the Modification of PIP Mortgage and the Disclosure Statement in connection with that modification.

Disclosure Statement (First Mortgage) (Form LD-12)

Rescission Notice (First Mortgage) (LD-13)

The actual use of these legal documents was explained in Section 4.1 of this report. The following discussion will include a summary of some of the important provisions of the documents and an explanation as to why those provisions were included.

4.2.4.1 Modification of First Mortgage

The purpose of this document was to provide for the modified payments that would be due under the HUD-insured first mortgage as a result of the recasting of the principal balance remaining unpaid at the time of modification, including accrued and unpaid interest, over the remaining term of the first mortgage. (If the HUD-insured first mortgage is not to be recast in the national TMAP program, there will be no need for this document in that program.)

The modification document also provides that nothing else in the first mortgage document is to be modified with the exception of the modification in the monthly payment as specified.

Local counsel in the three demonstration cities were asked whether the priority of the HUD-insured first mortgage would be disturbed by the recording of the Modification. Their opinions were as follows:

1. California: California counsel indicated that the priority of the first mortgage should date from the recording of the first mortgage even though the amount due at the time of the modification of the first mortgage might exceed the original principal amount of the first mortgage at the time of inception.

2. Georgia: Georgia counsel indicated that the priority should also date from the recording of the first mortgage.

3. Pennsylvania: Pennsylvania counsel's opinion was that the priority of all amounts due under the modified first mortgage should date from the date of the recording of the first mortgage with the possible exception of the interest on the three monthly payments that remained delinquent until the modification of the first mortgage. They indicated that it was possible that the priority of such interest would date only from the recording of the Modification of First Mortgage and also (although this was not their opinion) the possibility that a court could hold that, since a portion of the payment stream had priority from the date of the modification, the entire amount secured by the first mortgage would have priority from that date.

With respect to the first mortgage, a question arose as to whether there would be any adverse ramifications if the maximum legal rate of interest had decreased by the time the first mortgage was modified.* Local counsel in Georgia and California indicated that even if the legal rate of interest were lower at the time of modification of the first mortgage, the modified first mortgage could still bear interest at the rate originally used in the first mortgage assuming it was legal at that time. Pennsylvania counsel gave the same view with respect to all amounts due under the modified first mortgage with the possible exception of the interest on the unpaid installments included in the new principal amount of the modified first mortgage; with respect to such interest, they believed that there was a question as to whether the legal rate of interest in effect at the time of the Modification of First Mortgage would apply.

4.2.4.2 Modification of PIP Mortgage

The purpose of this document was to set forth the payment terms to repay the PIP Loan in accordance with the recasting of that loan. (The description of recasting in section 5.2.3 of this report describes the method of recasting and the determination of the term of repayment of the modified PIP Loan.)

It was the uniform opinion of all local counsel that the date of priority for the PIP Mortgage would be the date of the recording of the original PIP Mortgage.

With respect to prepayments under the PIP Mortgage (or PIP Note), Georgia counsel advised that since the PIP Mortgage was subject to the Secondary Security Deed Act, it would be necessary to provide that unearned interest upon any prepayment would be computed and refunded in accordance with the Standard Rule of 78.

Each of the local counsel gave the opinion that, even if the legal rate of interest were lower at the time of the modification of the PIP Mortgage, there was no problem in recasting the PIP Mortgage based upon the maximum legal rate of interest in effect at the time of the signing of the original PIP Note.

4.2.4.3 Disclosure Statement

As explained in section 4.2.1, the modification of the PIP loan is treated as a refinancing under Truth-in-Lending and therefore requires another Disclosure Statement. The original Disclosure Statement was based upon certain assumptions in connection with the modification and, since the actual modification was different than those assumptions, a new disclosure was required.

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* If the HUD-insured first mortgage is not to be modified in a national TMAP program, this question would not be relevant to such a national TMAP program.

The Disclosure Statement gives the normal Truth-in-Lending disclosures for the modified loan. As was the case with the original Disclosure Statement, the Disclosure Statement used in Georgia differs slightly from the other Disclosure Statements, containing certain descriptions of the amounts disclosed as finance charge, etc., and also requiring the signature of HUD as required by Georgia law.

4.2.4.4 Disclosure Statement (First Mortgage)

Because the HUD-insured first mortgage was being modified, that is also a refinancing under Truth-in-Lending, and the actual disclosures (as opposed to the estimated disclosures given in the initial disclosure statement) must be given. Therefore, this Disclosure Statement included the normal Truth-in-Lending disclosures for this refinancing. Only one form was needed, since the special Georgia requirements apply only to second mortgages.

4.2.4.5 Rescission Notice (First Mortgage)

The only exemption from giving a rescission notice in connection with a loan secured by a mortgage on the borrower's residence is if the mortgage is a first lien against the dwelling made for the purpose of financing the acquisition of that dwelling. Very arguably, since this modificatin of the HUD-insured first mortgage is a new loan transaction for the purposes of Truth-in-Lending, it is not to finance the acquisition of the dwelling but only to finance (or refinance) the delinquent payments and interest applicable thereto. Therefore, in connection with the demonstration program, the position was taken that a rescission notice should be given in connection with the Modification of First Mortgage. The only effect, if the mortgagor decided to rescind, would be that the first mortgage would not be modified.

4.3 GOVERNMENT/INDUSTRY PANEL

4.3.1 Purpose

As part of the requirements of the PIP Demonstration Program, the contractor was directed to establish a panel composed of representative experts concerned with the problems of delinquency and default in HUD-insured single-family homes to:

1. Review the policies and procedures for the demonstration program as developed by the contractor during the initial phase of work, including recommendations for possible modifications during the program of implementation that might improve the viability of the demonstration program and/or the statistical validity of the results obtained.

2. Provide a liaison with significant representatives of the mortgage banking industry and counseling agencies in order to ensure a high degree of cooperation and implementation of the demonstration program.

3. Review the results of the demonstration program in the context of its potential applicability on a national basis, including its potential expansion to other HUD-insured mortgages as well as to the private sector of the market.

4.3.2 Initial Panel Meeting

The initial meeting of the panel took place on October 7, 1976, in Washington, D.C., at L'Enfant Plaza with the following members in attendance:

Industry Members

David DeWilde, GNMA
Michael K. Stamper, GNMA
Thomas Gale, National Urban League
Russell Clifton, FNMA
Everett Matson, Lomas & Nettleton
Edward Sensor, Bank of America
Charles Stocker, National Federation of Housing Counselors
James L. Sublett, Ohio Teachers Retirement System
Peter M. Williams, Mortgage Bankers Association

Government (HUD) Members

John Howley, Deputy Assistant Secretary for Housing
Dr. Richard J. Devine
Sybil M. Phillips
Julius M. Williams

A large part of the meeting was used to describe the demonstration program to the panel members and to answer questions from the panel members regarding various aspects of the program. In addition, various policy matters relating to nationwide implementation of the program were discussed, including:

1. Whether the aggregate indebtedness evidenced by the HUD-insured first mortgage and the PIP Mortgage should be allowed to exceed the total value of the property

2. Whether the PIP advances should be allowed to continue beyond 12 months, either as a matter of policy or under extenuating circumstances

3. The relationship between a national PIP program and the Home Mortgage Assignment Program, i.e., whether a loan would automatically be assigned to HUD if it was not modified under a national PIP program

4. Whether arrangements should be made to visit the mortgagor at some location other than the HUD area office.

5. Whether the individuals administering a national PIP program should encourage mortgagors to seek legal counsel prior to making their decision to enroll in the program.

4.3.3 Second panel Meeting

The next meeting of the panel took place on April 21, 1977, in Washington D.C., at the Channel Inn Hotel, with the following members in attendance:

Industry Members

Everett Matson, Lomas & Nettleton
James L. Sublett, Ohio Teachers Retirement System
R. William Sharry, Massachusetts Purchasing Group
Peter M. Williams, Mortgager Bankers Association
Fred W. Mowatt, FNMA
Charles Stocker, National Federation of Housing Counselors
John H. Dalton, GNMA
Michael K. Stamper, GNMA
Carol Borchardt, FNMA
David Hooper, FNMA

Government (HUD) Members

Dr. Donna E. Shalala, Assistant Secretary for Policy Development and Research
Dr. Raymond J. Struyk, Deputy Assistant Secretary for Policy Development and Research
Dr. Louise R. White
Julius M. Williams
Russell H. Dawson
Sybil M. Phillips
Dennis Manning

Much of the discussion at the panel meeting related to an explanation of various portions of the demonstration program, including the various legal and administrative documents used in implementing the program. These documents, which had been forwarded to the panel members prior to the meeting, stimulated questions and discussion. In addition, the following policy matters, which would affect any national implementation of the demonstration program, were also discussed:

1. Whether a mortgagor who had once received PIP benefits could again receive the benefits at a later date. Even though this was not feasible for the demonstration program because of the length of the contract and the necessity to report on the demonstration, this would be a possibility under a national program.

2. The relationship between a national PIP program and the Home Mortgage Assignment Program. It was indicated that the demonstration program was being kept completely independent of the assignment program but that a national program would obviously have to be related to it in some way.

3. The problems that would be created if the sum of the indebtedness due under the HUD-insured first mortgage and the PIP Mortgage were to exceed the value of the home.

5.0 DEMONSTRATION PROGRAM--RESULTS

5.1 INTRODUCTION

The general conclusion of the contractor with respect to the PIP Demonstration Program is that the delivery system used in the demonstration (once the eligible mortgagors are selected) is a practicable and workable system. As indicated in Section 3.1 of this report, the intake criteria used for the demonstration were consciously narrow for the purpose of testing the delivery system and to permit a better statistical assessment of the results. Therefore, as indicated in Section 6.0, it is our recommendation that when the PIP program is implemented as a national TMAP program, the intake criteria be modified. However, subject to the minor modifications to the delivery system discussed below, it is our recommendation that the delivery system be used to provide the benefits to mortgagors.

Section 5.2 begins with a summary of the basic results of the demonstration, including a statistical summary of the results, a demographic profile of the participants in the experimental and control groups, a description of the PIP Loans which were recast, and a discussion of the possible disposition of the PIP Loans. Section 5.3 will then summarize the reaction to the demonstration of the key participants: counseling agencies, servicers, the HUD area office personnel, FNMA, and GNMA.

5.2 BASIC RESULTS

5.2.1 Statistical Summary

5.2.1.1 General

This section of the report examines the status of the 92 mortgagors participating in the demonstration as of the close-out date of the data collection effort. The date selected for determination of the final status was September 20, 1979, with actual inquiries being made of the mortgage servicers during the first week of October 1979.

The selection of the 20th day of the month for the observation day was predicated on the fact that many HUD-insured mortgagors are aware that mortgage payments received by the 16th incur no late penalty and therefore time their regular mortgage payment to arrive just before that date. In practice, many mortgage servicers will accept mortgage payments without late charges if received by the 17th of the month. To allow time for recording payments received by the 17th, 3 additional days were permitted.

The first week of October 1979 was determined to be the latest time in which field data could be collected and yet permit adequate time for the analysis of results and drafting of the final report. As the last mortgage recasting took place in November 1978, this meant a minimum tracking time of eleven months subsequent to mortgage recasting for any of the PIP mortgagors. In most cases, of course, this post-recast monitoring period was well over 1 year. For the control group, the close-out date of September 20, 1979, resulted in an observation period of about 1.5 years subsequent to program enrollment.

The results of the demonstration will be discussed by first presenting the descriptive statistics of the final status outcomes, followed by a one-way analysis of variance of the mean outcome scores. The last part of this section will analyze the difference in performance between groups by examining differences in certain specific attributes, and explaining the use of regressions to predict success/failure probabilities.

5.2.1.2 Descriptive Statistics

Figure 5.0-1 presents the distribution of the final mortgagor status as aggregated into ten possible outcome categories.

	Philadelphia		Atlanta		Total	
Status	Exp.	Cntrl.	Exp.	Cntrl.	Exp.	Cntrl.
Current	11	8	4	3	15	11
Normal sale	1	2	1	1	2	3
20 days late	7	10	5	2	12	12
Owing 2-3 payments	3	4	2	1	5	5
F/C recommended	2	0	0	0	2	0
Assign. pending	0	0	1	0	1	0
Assign completed	0	0	0	0	0	0
F/C pending	3	3	0	1	3	4
F/C completed	1	2	3	7	4	9
Distress sale	1	0	1	2	2	2
Totals	29	29	17	17	46	46

Figure 5.0-1.--Mortgagor Status, September 20, 1979.

As seen in the first line of the table, there were 15 mortgagors current in the experimental group in Philadelphia and Atlanta versus only 11 in the control group. The number of normal (not distress) sales was almost the same between the two groups (2 experimental, 3 control). As is noted, there were exactly 12 mortgagors 20 days late in both the experimental and control groups and exactly 5 mortgagors in default (that is, owing between 2 and 3 payments but not yet in, or recommended for, foreclosure) in both the experimental and control groups. Foreclosure was recommended for two cases in the experimental group, and assignment was pending in the case of one mortgagor who had previously received PIP assistance. Foreclosure was in process or completed for seven mortgagors in the experimental group versus 13 in the control group. Finally, there were two distress sales (defined as a sale occurring with foreclosure imminent or proceedings instituted) noted in both the experimental and control groups.

To put this in a different perspective, the ten outcome categories were consolidated into two types of status outcomes (figures 5.0-2 and 5.0-3) in two different ways.

Status	Philadelphia Exp.	Philadelphia Cntrl.	Atlanta Exp.	Atlanta Cntrl.	Total Exp.	Total Cntrl.
Nontroubled	19	20	10	6	29	26
Troubled	10	9	7	11	17	20
Total	29	29	17	17	46	46

Figure 5.0-2.--Troubled Mortgage Status, September 20, 1979

Status	Philadelphia Exp.	Philadelphia Cntrl.	Atlanta Exp.	Atlanta Cntrl.	Total Exp.	Total Cntrl.
Nonclaim	23	24	13	9	36	33
Claim	6	5	4	8	10	13
Total	29	29	17	17	46	46

Figure 5.0-3.--Potential Insurance Claim Status, September 20, 1979

In the first method (shown in figure 5.0-2), the mortgages were divided into those for which the mortgagor was obviously facing no great difficulties in meeting his or her mortgage obligations versus those encountering such difficulties. The former class is labeled "nontroubled" and is composed of the first three of the ten mortgage outcome categories appearing in figure 5.0-1. The latter class is labeled "troubled" and is composed of the remaining seven categories. Overall, three more troubled mortgages existed in the control group than in the experimental group (20 versus 17).

The second way of consolidating the 10 outcome categories (figure 5.0-3) was by classifying the mortgages by the likelihood of their resulting in an insurance claim to HUD because of either foreclosure or assignment. Only a small percentage of mortgages in default ever result in such claims, and upon examination of the 10 mortgages owing two or three payments, it was decided that none of these was in sufficient trouble to warrant a prediction of foreclosure as the most likely outcome. Therefore, in figure 5.0-3, the mortgages most likely to result in an insurance claim were those in which foreclosure or assignment was recommended, pending, or completed. As is observed, there were overall three more mortgages (13 versus 10) likely to result in an insurance claim in the control group than in the experimental group.

5.2.1.3 Elementary Analysis

An analysis of variance on the two-by-two contingency table in either figure 5.0-2 or 5.0-3 is equivalent to a simple difference of proportions test between two populations. For figure 5.0-2, the "success" rate in the experimental group is 29/46, or 0.630; for the control group it is 26/46, or 0.565. The standard deviation of the differential distribution for equal population groups is given by:

$$\text{s.d.} = \sqrt{\frac{p(1-p) + q(1-q)}{n}} = \sqrt{\frac{0.630(1-0.630) + 0.565(1-0.565)}{46}} = 0.102$$

The z score is therefore given by

$$z = \frac{p-q}{\text{s.d.}} = \frac{0.630 - 0.565}{.102} = 0.637$$

Similarly, for figure 5.0-3, with $p=36/46 = 0.783$ and $q=33/46 = 0.717$, we have

$$\text{s.d.} = \sqrt{\frac{0.783(1-0.783) + 0.717(1-0.717)}{46}} = 0.090$$

and

$$z = \frac{0.783 - 0.717}{0.090} = 0.733$$

In both cases the z score is far too low to conclude that any statistically significant differences exist between the experimental and control groups. On the other hand, if we regard Atlanta alone, a different story emerges: From figure 5.0-2, $p = 10/17 = 0.588$ and $q = 6/17 = 0.353$, so that:

$$\text{s.d.} = \sqrt{\frac{0.588(1-0.588) + 0.353(1-0.353)}{17}} = 0.166$$

and

$$z = \frac{0.588 - 0.353}{0.166} = 1.416$$

The above z score indicates a statistically significant difference between the experimental and control groups in Atlanta, based upon a one-tailed test, at a confidence level of 92.1 percent.

From figure 5.0-3, $p = 13/17 = 0.765$ and $z = 9/17 = 0.529$, so that:

$$s.d. = \sqrt{\frac{0.765(1-0.765) + 0.529(1-0.529)}{17}} = 0.159$$

and

$$z = \frac{0.765 - 0.529}{0.159} = 1.484$$

The above z score indicates a statistically significant difference between experimental and control groups in Atlanta, based upon a one-tailed test, at a confidence level of 93.1 percent.

5.2.1.4 Weighted Outcomes

As described in the original Field Research Plan, however, the comparison between experimental and control groups was not to be done by classification into "successes" and "failures," but rather by use of interval scores. The interval scores assigned to the various outcomes by the Field Research Plan were as shown in figure 5.0-4.

Outcome	Score
Current	0
Normal sale	0
One month late	1
Two months late	2
Three months late	3
Four or more months late	4
Assignment pending	5
Assignment completed	6
Foreclosure pending	7
Foreclosure completed	8
Distress sale	8

Figure 5.0-4.--Original Interval Scores

By using interval scores, appropriate weight is given to outcomes which are neither outright successes nor total failures. Importantly, the actual weights (scores) assigned to each of the various outcomes had to be chosen *a priori*, so as not to have biased the resultant overall score towards one end of the spectrum or the other. That is, if after the fact one assigned a value of 1,000,000 to foreclosures completed and small values to the other outcomes, this would be tantamount to comparing the number of foreclosures completed between groups as the ultimate figure of merit, a procedure that would have singled out in this case the four foreclosures completed in the experimental group versus the nine in the control group.

The interval scores cannot be changed once they are selected and the associated outcomes on the experimental and control mortgagors are collected and recorded. On the other hand, it was found in the field that both of the two mortgages that were 4 or more months delinquent were recommended for foreclosure and are so reported in 5.0-1. For completeness, therefore, we rewrite the interval score table in the form shown in figure 5.0-5.

Outcome	Score
Current	0
Normal sale	0
One month late	1
Two months late	2
Three or more months late	3
Recommended for foreclosure	4
Assignment pending	5
Assignment completed	6
Foreclosure pending	7
Foreclosure completed	8
Distress sale	8

Figure 5.0-5.--Interval Scores

With the use of the above weighted scores, the outcomes shown in figure 5.0-1 become as shown in figure 5.0-6.

	Philadelphia		Atlanta		Total	
Status	Exp.	Cntrl.	Exp.	Cntrl.	Exp.	Cntrl.
Total Score	59	55	47	83	106	138
Mean	2.035	1.897	2.765	4.882	2.304	3.000
Variance	7.53	7.02	10.57	14.11	8.572	11.511
Std. deviation	2.745	2.650	3.756	2.745	2.928	3.393
N	29	29	17	17	46	46

Figure 5.0-6.--Weighted Outcomes, September 20, 1979

To determine whether there are any statistically significant differences between the weighted outcome scores of the overall experimental and control groups, a simple t-test on the difference of their means is utilized. If σ_e and σ_c denote the standard deviations of the experimental and control groups, respectively, then the standard deviation of their differences, in the case of equal-sized groups, is given by:

$$\sigma = \sqrt{\frac{\sigma_e^2 + \sigma_c^2}{N}} = \sqrt{\frac{8.572 + 11.511}{46}} = 0.661$$

If μ_e and μ_c denote the mean scores of the experimental and control groups, respectively, the z-score of the resultant differential distribution is calculated as:

$$z = \frac{|\mu_e - \mu_c|}{\sigma} = \frac{3.000 - 2.304}{.661} = 1.053$$

The above value of the z-score implies a statistically significant difference between the mean weighted outcome scores of the overall experimental and control groups, assuming a one-tailed test, at a confidence level of 85.4 percent. Although this confidence level is not as high as the usual level of 90 or 95 percent that is ordinarily desired in social science experiments, the confidence level of 85.4 percent barely meets the minimal level of 85 percent that was specified in the Field Research Plan and methodology section of this report for which inferential results would be drawn.

However, the fact that a statistically significant difference has been established at only an 85 percent level of confidence (as opposed to the usual minimum level of 90 or 95 percent demanded) carries with it a special burden: to establish that at least some of the affected constituent sites produced statistically significant differences at levels of confidence of 90 percent or higher. Unless this requirement could be fulfilled, many social scientists would not accept the statistical validity of the results inferred from the experiment. It is for this reason that we must now repeat the procedures for the City of Atlanta to see whether the same results can be established there with a substantially higher level of statistical confidence.

In Atlanta, the same calculation is performed for the z-score as was done for the overall experiment:

$$\sigma = \sqrt{\frac{\sigma_e^2 + \sigma_c^2}{N}} = \sqrt{\frac{10.57 + 14.11}{17}} = 1.20$$

And therefore the z-score is given by:

$$z = \frac{|\mu_e - \mu_c|}{\sigma} = \frac{4.882 - 2.765}{1.20} = 1.76$$

The above value of the z-score implies a statistically significant difference between the mean weighted outcome scores of the experimental and control groups, again assuming a one-tailed test, at a confidence level of 96.1 percent. The reasons for this will be seen in figures 5.0-1, 5.0-2, or 5.0-3. From figure 5.0-2, it can be observed that the number of troubled mortgagors in the control group in Atlanta is more than 50 percent greater than in the experimental group; and from figure 5.0-3, note that the number of mortgages most likely to result in an insurance claim is twice as high in the control as in the experimental group.

As a result of the more than 95 percent level of confidence observed in Atlanta, the aggregate results established at the 85 percent level of confidence should not be dismissed as being too low a level of statistical confidence.

5.2.1.5 Regression Analysis

As one part of the analysis, an attempt was made to construct a linear regression model to help explain the outcome scores in terms of certain inherent characteristics of the participating mortgagors. So many demographic and financial variables were captured in the data bases on the mortgagors in the demonstration that the first problem was to decide which of them should be selected for inclusion as the independent variables.

To assist in this task, all 92 participating mortgagors were subdivided into the same two groups as was done for the construction of figure 5.0-2--nontroubled versus troubled mortgages--and then the mean values of each variable in the data base were computed for each of the two groups. When this was done, five variables stood out at having significant differences in means between the two groups, as shown in figure 5.0-7.

Variable	Nontroubled Mtgs	Troubled Mtgs
Year of purchase	1970.0	1972.5
Purchase price	$13,762	$16,917
Estimated value	$18,170	$20,751
Monthly income (application)	$ 524	$ 424
Amount of recent, large expense	$ 231	$ 354
Monthly income (prior)	$ 1,153	$ 1,115
Monthly housing expenses	$ 282	$ 297
Monthly total expenses	$ 434	$ 468

Figure 5.0-7.--Mean Values, Selected Variables

To show how closely the above two groups were matched, monthly income prior to default, monthly housing expenses, and monthly total (housing plus regular indebtedness) expenses are also shown in the table.

The primary explanatory variable that can often spell the difference between success and failure is the level of gross family income upon gainful reemployment. However, this variable was unknown for all members of the control group and for those experimental group mortgagors who did not participate in a mortgage recast. Because of this, it was decided to include monthly income prior to default as a surrogate for gross family income upon restoration. In all, nine independent variables were selected for the regression, as defined below in figure 5.0-8.

No.	Variable	Description
X_1	GROUP	1=experimental, 2=control
X_2	CITY	1=Atlanta, 2=Philadelphia
X_3	TENURE	1979 less year of purchase
X_4	EQUITY	Estimated value less purchase price
X_5	INCOME 1	Monthly income at application
X_6	INCOME 2	Monthly income prior to application
X_7	HOUEXP	Monthly housing expenses
X_8	TOTEXP	Total monthly expenses
X_9	LARGEXP	Recent large expenses

Figure 5.0-8.--Independent Regression Variables

The dependent variable, y, to be explained in terms of the above nine variables was the outcome interval score itself, which ranged from 0 to 8, as indicated in figure 5.0-5. The functional form of the relationship sought is given by:

$$y = a_o + \sum_{i=1}^{9} a_i x_i = a_o + a_1 x_1 + a_2 x_2 + \ldots + a_9 x_9$$

and the coefficients as determined from a least-squares fit are presented below, along with their standard error and t-test ratios. The overall coefficient of determination, R^2, is only 0.201, showing that most of the variance resides in variables not included in the regression, and most likely not included in the data base either. (See figure 5.0-9.)

Variable, x_i	Coefficient, a_i	Std. Error	t-Ratio
0 ----	7.32111	2.16405	3.38305
1 GROUP	0.728769	0.625213	1.16563
2 CITY	-1.09807	0.805798	-1.36270
3 TENURE	-0.277484	0.123255	-2.25130
4 EQUITY	7.22873×10^{-5}	9.74121×10^{-5}	0.742077
5 INCOME 1	-2.07163×10^{-4}	1.16353×10^{-3}	-1.37773
6 INCOME 2	-8.07053×10^{-4}	1.16353×10^{-3}	-0.693624
7 HOUEXP	-2.33914×10^{-4}	2.56964×10^{-3}	0.354928
8 TOTEXP	9.12037×10^{-4}	2.56964×10^{-3}	0.354928
9 LARGEXP	5.03513×10^{-4}	5.04721×10^{-4}	0.997606

Figure 5.0-9.--Regression Coefficients

It is observed from figure 5.0-9 that the coefficients for GROUP, CITY, TENURE, and INCOME 1, in particular, all have the proper algebraic sign; that is, the outcome score is that much higher on average for the control mortgagors (GROUP = 2), for instance, than for the experimental mortgagors (GROUP = 1). The only coefficient that appears to have statistical significance (wherein the t-ratio is on the order of magnitude of about 2 or greater) is the one for tenure. It can be concluded from this fact that there is a definite inverse relationship between the length of homeownership and outcome score; that is, the longer the mortgagor has resided in his or her home, the greater the chances of ultimate success in the PIP program.

5.2.1.6 Success Among the Recast

The maximum potential dollar benefit available to any experimental mortgagor was the equivalent of nine monthly mortgage payments. If at the end of the benefit period the mortgagor had not yet been gainfully reemployed, the PIP advances automatically ceased and the status of the mortgagor with respect to the outstanding delinquency on the first mortgage reverted to whatever it had been just prior to acceptance into the demonstration. In addition, of course, the mortgagor also had a second lien on his or her property amounting to up to 9 months of mortgage payments.

At the time the PIP demonstration was being designed, in early 1976, the average duration of unemployment, nationwide, was between 4 and 5 months, slightly longer for blacks than whites. Among the previously employed (i.e., no new job entrants), almost all active job seekers were finding employment within a period approximately twice as long. It was on this basis, therefore, that the total of nine full monthly mortgage payments was planned as the maximum PIP benefits available for any participating mortgagor.

Unfortunately, design parameters predicated on the most recent nationwide data in 1976 did not hold in the case of 46 specific families almost 2 years later. As a result, in only 15 cases did the mortgagors involved find gainful re-employment prior to the expiration of their benefit period, thereby permitting an appropriate repayment schedule set up for the PIP advances made.

Among the subset of 15 "recast" mortgages, the following distribution of outcomes (fig. 5.0-10) existed as of September 20, 1979:

	Philadelphia	Atlanta	Total
Current	5	3	8
20 Days Late	2	1	3
Owing 2-3 Payments	2	2	4
Over 3 Payments Delinquent	0	0	0
Totals	9	6	15

Figure 5.0-10.--Recast Mortgagor Status, September 20, 1979

As figure 5.0-10 indicates, there were no mortgagors with mortgages recast who were more than 3 months delinquent, certainly none in any state of foreclosure or assignment. If we were to compute the weighted outcome score for these 15 mortgagors using the interval scores of figure 5.0-5, we would find an average score of 0.778 in Philadelphia, 1.0 in Atlanta, and 0.867 overall, compared to 2.304 for all 46 mortgagors in the experimental group and 3.0 for all 46 mortgagors in the control group.

Because of the remarkably high success rate among the recast mortgagors, the biggest shortcoming of the PIP demonstration appeared to be that the benefit period selected was too short to permit more than a small percentage of the participating mortgagors to recover full health or obtain gainful re-employment. This contrasts with the current Home Mortgage Assignment Program, where the initial benefit period of 18 months of payment forbearance can, with cause, be extended up to 36 months, as has been the case more often than not.

An immediate question that arises is whether the profile of the 15 mortgagors with recast mortgages is different in any significant way from that of the other participants in the demonstration. To this end, the table below (fig. 5.0-11) has been prepared, comparing certain demographic features of the recast mortgagors with those of the "nontroubled" group, the "troubled" group, and finally with all participating mortgagors.

Variable	Recast Mtgrs.	Nontroubled	Troubled	All Mtgrs.
Number	15	55	37	92
Year of move	1971.9	1970.0	1972.5	1971.0
Purchase price	$18,033	$13,762	$16,917	$15,030
Estimated value	$22,367	$18,170	$20,751	$19,208
Appreciation	$ 4,334	$ 4,408	$ 3,834	$ 4,178
Monthly income (application)	$ 505	$ 524	$ 424	$ 484
Amount of recent, large expense	$ 306	$ 231	$ 354	$ 280
Monthly income (prior)	$ 1,152	$ 1,153	$ 1,115	$ 1,137
Monthly housing expenses	$ 334	$ 282	$ 297	$ 288
Monthly total expenses	$ 486	$ 434	$ 468	$ 448
Years at last job	3.0	3.1	2.9	3.0
Months unemployed	7.7	10.8	8.0	9.7
Family size	4.0	4.1	4.3	4.2

Figure 5.0-11.--Mean Values, Selected Variables

In comparing the first column of figure 5.0-11 against the others, it is observed that the recast mortgagors are found in slightly more expensive homes than the other mortgagors (although the average appreciation is not greater). On the basis of family size, income, job stability, and most other demographic attributes, there appear to be no significant differences.

5.2.1.7 Conclusion

Utilizing a weighted point system for scoring the various outcomes associated with the PIP demonstration, a statistical difference in overall outcome is observed to exist between the 46 experimental mortgagors receiving PIP assistance and counseling and their corresponding control population receiving neither. This difference was especially pronounced in Atlanta, where twice as many (eight versus four) mortgages were expected to result in insurance claims in the control group as in the experimental group.

The differences observed between the experimental and control groups probably would have been much greater had the benefit period not been limited to the equivalent of 9 months of financial assistance. As a result of this limitation, only 15 of the 46 PIP mortgagors could be given the opportunity to have their mortgage indebtedness recast according to ability to repay. The success rate among the 15 recast mortgagors was very good, with only four mortgagors more than 20 days late at the conclusion of the demonstration and none worse than three payments delinquent.

5.2.2 Demographic Profile of Participants

5.2.2.1 Introduction and Summary

The typical family included in the PIP demonstration in Atlanta or Philadelphia was black, with about four family members, and a head of household most likely 35 to 49 years of age. Most heads of household were high school graduates and blue collar workers with an average gross family income of $1,138 per month ($13,656 per year) during 1976, when times were good. The head of household was female in 30 percent of the cases.

In Atlanta, the mortgagor was most likely found in a home insured under Section 203(b) and worth about $26,000 in mid-1977. In Philadelphia, it was more likely a rowhouse insured under Section 221(d)(2) and worth about $15,000 in mid-1977.

Because of the narrow entrance criteria adopted, employment-related income reduction was almost always the sole reason for the mortgagor's intake into the program. The principal family wage earner was typically not receiving unemployment insurance benefits, but between part-time employment, underemployment, earnings by other family members, and gradual comsumption of savings, actual default on the HUD-insured mortgage did not occur until 6 months to 1 year after the commencement of the unemployment or under-employment.

As a result of the sudden break in employment, gross family income of the typical mortgagor suffered an average reduction of almost 50 percent in Atlanta an close to 60 percent in Philadelphia, in the one-year interval 1976-1977. Because of the nature of the mortgagor's occupation, lack of promotional opportunities, and relatively low salary progression, gross family income was observed to have grown at a median rate of only 4.5 percent per year between the time the home was acquired and just before the mortrgagor's economic difficulties began in 1976. Indeed, the chances were one in four that the mortgagor's gross family income actually declined during that initial period of homeownership. These families were 60 percent likely not to have kept up with the then general inflation rate of 6 percent per year.

At the same time the mortgagor's income was increasing at less than the general inflation rate, the mortgagor's housing expenses were increasing at a median rate of almost 10 percent per year, while total fixed payments (the sum of housing expenses and other recurring charges) were increasing at almost 12 percent per year. In fact, the chances were one in five that the mortgagor's total fixed payments were increasing faster than 20 percent per year, and greater than one in three that they were increasing faster than 15 percent per year.

In addition to this, there was also a 30 percent chance that the mortgagor had experienced a large unanticipated bill (medical, dental, funeral, etc.) just prior to default.

The typical mortgagor involved in the PIP demonstration did not consider abandoning his or her home because of the substantial equity accumulated in the home through inflation, amortization, and initial equity (down payment). Since acquiring the home in 1973 (Atlanta) or 1970 (Philadelphia), the mortgagor's initial investment had grown to an approximate equity of $6,500 in Atlanta and to slightly more than $5,700 in Philadelphia.

Although the above characterization of a PIP-assisted mortgagor may not generalize to a nationwide program with expanded eligibility criteria--especially under a future set of uncertain economic, business, and housing market conditions--the demographic profile described above is certainly representative of the typical HUD-insured mortgagor then in default in those two cities who satisfied the eligibility criteria developed for the PIP demonstration.

We make this latter assertion because of (1) the representative set of mortgage servicers who cooperated with HUD and the contractor in making the demonstration work, (2) the fact that in no way did (or could) mortgagors enter the demonstration through self-selection, and (3) the fact that very few of the mortgagors who qualified for PIP assistance subsequently removed themselves from the program. Consequently there is every reason to believe that the above profile would fit when applied to SMSA's whose general characteristics are similar to those of Atlanta or Philadelphia at the time of the demonstration, i.e., large urban population centers with significant minority representation and a higher-than-average unemployment rate.

5.2.2.2 General Characteristics

This part of the report presents a demographic profile of the types of mortgagors who particpated in the PIP demonstration. There were 92 families enrolled in the demonstration in Philadelphia and Atlanta during the eight-month period commencing March 1977 and ending in October. The first 46 such families to be enrolled were placed within the experimental group and given assistance both in the form of PIP advances and default and delinquency counseling. These 46 familes were then matched with another set of 46 families by utilizing frequency matching techniques based on seven independent variables. This second set of 46 families formed the control group, which received neither PIP advances nor counseling.

The seven variables selected for frequency matching were: (1) location, (2) section of the National Housing Act, (3) race, (4) age of the head of household, (5) sex of the head of household, (6) age of the mortgage, and (7) gross family income. In addition to these seven variables, over 100 variables describing the characteristics of the family, property, mortgage, income, expenses, and debts were derived from the basic questionnaire, keypunched, and consolidated to form the overall computerized data base. This section presents the general characteristics of the 92 families and compares some of their salient features with those known for the nationwide population of HUD-insured mortgagors. Subsection 5.2.2.3, below, explores the particular income and expense histories of the participating families in greater depth, utilizing data obtained from the original application for home mortgage insurance.

	Atlanta		Philadelphia		Total	
	Exper.	Control	Exper.	Control	Exper.	Control
No. of mortgagors	17	17	29	29	46	46
Section 203(b)	14	13	13	15	27	28
Section 221(d)(2)	3	4	16	14	19	18
White	1	1	1	5	2	6
Black	16	16	28	24	44	40
Mtgr age: 18-34	5	5	12	9	17	14
35-49	10	10	14	17	24	27
50+	2	2	3	3	5	5
Male head	12	10	22	21	34	31
Female head	5	7	7	8	12	15
Mtg. age 1-3	9	8	4	5	13	13
4-7	6	7	15	10	21	17
7+	2	2	10	14	12	16
Move-in date	1972.9	1973.4	1970.1	1969.2	1971.1	1970.8
Average income	$1093	$1105	$1164	$1159	$1138	$1139
Median income	1039	1025	1070	1040	1056	1037
Highest income	$2000	$2180	$2106	$2200	$2106	$2200
Lowest income	600	600	630	640	600	600

Figure 5.0-12.-- Frequency Distribution for Matched Variables

5.2.2.2.1 Matched Variables--The distributions for the seven variables used for frequency matching are shown in figure 5.0-12. Although all of the distributional splits between the various values of the variables are approximately the same for the experimental and control groups, only occasionally are they identical. The reason for this approximate rather than identical matching is simply one of time and resources: Perfectly matched distributions between experimental and control groups would have required the qualification of a far greater number of delinquent mortgagors than could possibly have been achieved in the limited intake period prescribed.

To illustrate: In a typical month the folders on approximately 2,000 to 3,000 mortgagors who were 60 days delinquent were reviewed to determine potential eligibility. After eliminating those mortgagors insured under other than Sections 203(b) and 221(d)(2), or whose homes were outside the Philadelphia and Atlanta SMSA's, or whose mortgages were less than 1 year old, or whose payment records prior to the current delinquency were considered unacceptable, a total of about 200 to 300 mortgagors would typically remain. Letters sent to this set of mortgagors would result in about 20 to 30 interviews, from which perhaps a dozen candidates would fully pass all necessary entrance criteria. Given a 6-month (later extended to an 8-month) period to enroll all candidate mortgagors, the frequency matches achieved are considered very acceptable.

1. Location. Of the 46 families in each of the experimental and control groups, 17 were in Atlanta and 29 in Philadelphia. Although the original intent was to have an approximately equal number of families enrolled in each city, several factors dictated against this. In the first place Philadelphia has a greater number of HUD-insured mortgages. Furthermore, the number of HUD-insured mortgages in default as a percentage of the total number of mortgages was 2.2 percent in Pennsylvania versus only 1.23 percent for Georgia*. However, as mortgagors were matched within rather than across cities, this 17-versus-29 split does not affect the overall outcome of the demonstration.

2. Section of the Act. Approximately 80 percent of the mortgagors in Atlanta were insured under Section 203(b), with only a few families insured under Section 221(d)(2). In Philadelphia, approximately half of all families were insured under Section 203(b), the other half under Section 221(d)(2). In both instances, these proportions are in keeping with the ratios of Section 203(b) and 221(d)(2) mortgages that default each year in those two cities. During 1977, there were 774 Section 203(b) versus 227 Section 221(d)(2) insurance claims paid in Georgia. In Pennsylvania during 1977, there were only 435 Section 203(b) versus 669 Section 221(d)(2) insurance claims paid.** As it turns out, the impact of Section 203(b) versus Section 221(d)(2) housing is quite minimal for the reason that, at the given low levels of purchase price involved, there is little difference in initial equity requirements between these two sections of the Act.***

3. Race. The mortgagors in the demonstration were virtually all black, only two families in the experimental groups being white. The matching between experimental and control groups was achieved perfectly in Atlanta and almost so in Philadelphia.

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* 1977 HUD Statistical Yearbook, Table 24, page 123.

** Ibid., Table 23, page 120.

*** As of the moment, Section 203(b) and Section 221(d)(2) permit equity requirements of as low as 3% up to the first $25,000 of value. It is only after that threshhold that the down payment requirements of these two Sections begin to diverge.

To put this racial distribution in perspective, let us first consider the distribution of race among the nationwide population of HUD-insured mortgagors. Nationwide, blacks comprise approximately 11.2 percent of all households with single-family HUD-insured mortgages in force.* In the central city within SMSA's, this rises to 21.5 percent.** Furthermore, blacks comprised only 13.9 percent of all mortgagors who purchased existing homes insured under Sections 203(b) in 1977 and ony 4.4 percent of all mortgagors who purchased new homes insured under Section 203(b) in 1977.*** Therefore, the high proportion of blacks in the PIP demonstration probably reflects the high proportion of blacks among defaulting mortgagors in HUD-insured single-family housing in Philadelphia and Atlanta. However, only substantial additional research could reveal whether blacks were over- or under-represented in the PIP demonstration aimed at employment related defaults.

Few reliable statistics broken out by race are available relative to default rates among HUD-insured mortgagors. For example, a review of literature on the causes and incidence of mortgage foreclosure**** revealed in one study of 6,675 FHA mortgages (Von Furstenberg, 1975) in the Pittsburgh area that "while neighborhoods with high concentrations of black residents tend to have higher than normal delinquency rate, neighborhoods with a rapidly increasing percentage of blacks tend to have a lower than normal delinquency rate. The reason for the difference is that the blacks who first move into white central city neighborhoods tend to have higher and more stable incomes."***** Implicit in this conclusion is that the relationship between race and default is to a large extent a by-product of the level and stability of income of mortgagors.

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* According to the latest census figures available, among all HUD-insured one-unit single-family homes, 3,423,000 families were white, 439,000 were black, 49,000 were of other races, and 85,000 were not reported (Vol. 5, Residential Finance, 1970 Census of Housing, page 77).

** Ibid, page 166.

*** 1977 HUD Statistical Yearbook, Tables 37-38, pages 158-161.

**** See, for example, "The Incidence of Home Mortgage Foreclosure. A Review of the Literature", Martin Gellen, National Housing Law Project, Institute of Urban and Regional Development, University of California, Berkeley, July, 1977.

***** Ibid, page 37

4. Mortgagor Age. As the age of the head of household is a continuous variable, a frequency distribution was created by dividing mortgagor age into three categories: (1) mortgagors under 35; (2) mortgagors between 35 and 49; and (3) mortgagors 50 years of age and over. As shown in figure 5.0-12, a perfect match in mortgagor age was achieved in Atlanta between the experimental and control group, and a fairly close match was achieved in Philadelphia.

   Most mortgagors involved in the demonstration were in the 35 to 49 year-old bracket, not the 18 to 35 group as might have been expected from the fact that in 1976 the median age of male heads of households acquiring new or existing homes with mortgages insured under Section 203(b) was slightly less than 29 years.* This is due in part to the fact that the average home in the demonstration was purchased at the beginning of 1973 in Atlanta and in late 1969 in Philadelphia. (See paragraph 6 below for a more detailed discussion of mortgage age.)

5. Sex of Household Head. The fifth variable on which a frequency match was made between experimental and control groups was the sex of the head of household. As seen in figure 5.0-12, approximately 29.3 percent of the households in the demonstration were headed by females. By contrast, single females (including the never-married, widows, divorcees, and the legally separated) comprised only 4.3 percent of the purchasers of Section 203(b) homes in 1976.** This difference of 25 percent can be explained by the death of the spouse or dissolution of marriage subsequent to home purchase, as well as by a higher-than-average acquisition rate of housing by female heads of households. (According to the latest figures available from the Bureau of the Census, among all one-unit single-family properties with HUD-insured mortgages, approximately 10 percent were female-headed.*** Among one-unit single-family properties with HUD-insured mortgages with black owners, approximately 18.5 percent were female-headed.****)

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* 1977 HUD Statistical Yearbook, Table 29, page 135 (data for 1977 is not available).

** 1977 HUD Statistical Yearbook, Table 28, page 133 (data for 1977 is not available).

*** Vol. 5, Residential Finance, 1970 Census of Housing, Table 2a, page 77.

**** Ibid, page 369.

6. Mortgage Age. Like mortgagor age, this variable is a continuous one. Frequency distribution was constructed by dividing the spectrum involved into three categories: (1) mortgages greater than one but less than 4 years, (2) mortgages at least 4 years old but less than 7 years, and (3) mortgages 7 years of age and older. As seen in figure 5.0-12, the match is almost perfect for Atlanta and fairly good for Philadelphia. To get a clearer picture of how old these mortgages actually were, the move-in dates for each family was converted to a Julian date (e.g., January 1, 1970, is 1970.0, July 1, 1970, is 1970.5, etc.), and the mean value was calculated for each experimental and control group. The mean move-in dates were 1972.9 and 1973.4 for the experimental and control groups, respectively, in Atlanta and 1970.1 and 1969.2 for the experimental and control groups, resepctively, in Philadelphia. The roughly 3-year difference in average mortgage age between Atlanta and Philadelphia is most likely due to the difference in the operative housing markets in the two cities. Although there was a minimum requirement of 1-year tenure in the property, the average mortgage age was significantly greater than usually experienced among defaulting HUD-insured loans. The most likely reason or this was that the eligibility criteria for acceptance into the demonstration ruled out many cases, such as money mismanagement and willful disregard of financial obligations, which are responsible for the high volume of insurance claims in the early years of homeownership.

7. Gross Family Income. The final and perhaps most important variable used in matching experimental and control groups was that of gross family income. Because of the small number of available mortgagors in the potential control group with which to perform the matching process, pairwise matching between mortgagors in the experimental and control groups was not feasible. After much consideration the experimental and control groups in the two cities were matched on the basis of four statistics: (1) average income, (2) median income, (3) highest income, and (4) lowest income. As shown in figure 5.0-12, the experimental and control groups in each city were matched very closely on each of these four statistics.

   The incomes involved in the above matching process were neither the gross family income at the time of enrollment nor the gross family income at the time of purchase. Rather, they were the response to Question 13a of the Mortgagor Application Form, "What was your gross family income previously?" (This refers to the time just prior to the employment-related reduction in income (or illness or disability in a few cases) that precipitated the current default.)

5.2.2.2.2 Other Attributes--The variables described so far comprised the seven factors used to match the experimental and control groups. This subsection continues the description of mortgagors participating in the demonstration by presenting some of the other more important attributes collected as part of the Mortgagor Application Form.

1. Housing Values. The first two lines of figure 5.0-13 show the average value of the various homes involved in the demonstration, both at the time they were acquired and at the time the mortgagors were enrolled in the experimental or control groups.

The average purchase price of the homes involved in Atlanta was approximately $22,000 and in Philadelphia about $11,000. It is known that the single-family housing market in Atlanta is considerably higher than in Philadelphia. Note that within each city, the average purchase prices for the experimental and control groups are almost identical. This phenomenon is a consequence of the fact that the average incomes of the two groups were made to match, and that gross family income is an extremely accurate measure of housing values within a given housing market.

In only one or two instances did the mortgagor believe his or her property value to be less than it was at time of purchase. This fact, coupled with current nationwide inflationary forces in housing, accounts for the significantly increased value perceived by the mortgagors involved.

To obtain a lower bound to the estimate of homeowner equity, one can subtract purchase price from current value; however, this overlooks the initial equity in the form of down payment and subsequent equity due to amortization of the mortgage. In the case of the mortgagors participating in the experimental groups, the mortgage servicers were asked to provide the loan balance as of the time of default. The average values were $20,090 in Atlanta and $8,921 in Philadelphia. Subtraction from the current values yields estimates of current equity of $6,504 and $5,734, respectively. This overall average equity of $6,018 explains in part why the mortgagors involved were amenable to accepting temporary assistance in the form of PIP advances.

	Atlanta		Philadelphia		Total	
	Exper.	Control	Exper.	Control	Exper.	Control
No. of mortgagors	17	17	29	29	46	46
Purchase price	$22,218	$21,597	$10,903	$11,098	$15,085	$14,978
Current value*	26,594	25,812	14,655	15,562	19,067	19,350
Mortgage balance	$20,090	-	$ 8,921	-	$13,049	-
Equity in home	6,504	-	5,734	-	6,018	-
Family size	3.8	4.4	4.0	4.6	3.9	4.5
Education**	4.4	4.1	3.8	3.7	4.0	3.8
Household heads underemployed	9	12	9	5	18	17
Household heads unemployed	6	1	19	22	25	23
Months unemployed	5.4	7.7	13.8	9.2	10.7	8.7
Number not receiving unempl. benefits	17	16	25	26	42	42
Number with large, unexpected bills	4	3	11	9	15	12
Duration in PIP program (months)	8.9	-	10.3	-	9.8	-

* As estimated by mortgagor (in 1977) based on mortgagor's knowledge of comparable neighborhood sales

** 3--some high school
4--high school degree
5--some college
6--college degree

Figure 5.0-13.--Other Demographic Characteristics

2. Family Characteristics. It has already been mentioned that close to 30 percent of the families participating in the demonstration were female-headed. As for the size of the families participating, we note that the average ranged from 3.8 family members in the Atlanta experimental group to 4.6 family members in the Philadelphia control group. Among all 46 families receiving PIP, average family size was 3.9 members, and among all 46 families not receiving PIP, average family size was 4.5 members. The difference, in all probability, was due purely to statistical chance.

   In regard to level of education, the classification scheme selected (wherein 3 = some high school, 4 = high school, 5 = some college, 6 =college degree) reveals that a slightly greater percentage of the mortgagors in Atlanta completed high school than did those in Philadelphia. Like family size, the difference observed between any two groups were too small to be statistically significant.

   The occupations of the 92 heads of households could be classified as blue collar in the great majority of cases, with only a few cases of white collar workers. The occupational listings in the Philadelphia experimental group were self-employed contractor, salesman (2), welder, laborer (5), secretary (2), medical technician, die setter, truck driver (2), meat cutter, dispatcher, psychological aide, chemical mixer, machinist (2), trimmer, porter, operator, maintenance man, parking lot attendant, barber, tax examiner, and stationary engineer. In Atlanta, the experimental group was composed of an insurance investigator, teacher (2), nurse, domestic, postal worker, laborer (2) air-traffic controller, printer, truck driver, clerk (2) counselor (2) carpenter, and motor pool manager.

3. Cause of Default. During the initial weeks of the PIP demonstration, the only acceptable reason for mortgage default was underemployment or unemployment of a principal wage earner (though not necessarily the head of household). Later, the eligibility criteria was expanded to include families experiencing illness or temporary disability of a principal wage earner. Notwithstanding the expansion of the criteria, almost all mortgagors accepted into the program experienced either underemployment or unemployment.

   In view of the fact that the overwhelming preponderance of default instances were employment-related, it is surprising that extremely few families were receiving unemployment insurance benefits. In Atlanta, no families in the experimental group were receiving unemployment benefits, and only one family was receiving such benefits in the control group. In Philadelphia, just four families in the experimental group and three families in the control group were receiving unemployment benefits. The balance of the mortgagors included in the demonstration indicated that they were ineligible for unemployment insurance.*

The average number of months in which the given family member had been out of work (or underemployed) at the time of enrollment in Atlanta was 5.4 months for the experimental group and 7.7 months for the control group. In Philadelphia, these figures were 13.8 and 9.2 months, respectively. The differences in length of time out of work between experimental and control groups in any city can be explained in part by the fact that the intake of these two groups was done sequentially, each such group reflecting the particular attributes of the fluctuating employment market in each city. The difference between the length of time out of work in Atlanta versus Philadelphia is statistically significant and represents the much greater unemployment rate experienced in Philadelphia during 1976 and 1977 than was experienced in Atlanta during the same period. In April 1976, the unemployment rate** in Atlanta was 7.7 percent, while in Philadelphia it was 8.5 percent. By April 1977, the unemployment rate in Atlanta had fallen to 5.9 percent, a relative decrease of 23.4 percent. By April 1977, the unemployment in Philadelphia had dropped to 7.7 percent, a relative decrease of only 9.4 percent. The data on a metropolitan basis is not broken out by race and sex but on the basis of national samples. Unemployment is known to be substantially higher for blacks.

We would expect to see the higher unemployment rate in Philadelphia reflected in longer periods of time in which to regain employment, and this is indeed confirmed in a greater number of months during which PIP advances were required: 10.3 months average in Philadelphia and 8.9 months average in Atlanta.

As a final note on cause of default, 15 mortgagors in the experimental groups and 12 in the control groups experienced large unanticipated demands on their incomes just prior to default. Whatever available assets these 27 mortgagors may have had to help cushion the loss of employment likely were substantially depleted by the occurrence of these additional burdens.

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* It is speculated that this result was due to the fact that, for those families that did receive unemployment benefits, the total income from such benefits plus part-time earnings plus income received by other family members meant that there was not a sufficient reduction in gross family income for such individuals to have qualified for admission to the PIP program.

** Unemployment figures are taken from "State and Area Unemployment, April 1977," as released June 13, 1977 by the Bureau of Labor Statistics.

4. Income Reduction. Of the 92 families participating in the demonstration, in only four cases did total gross family income fall to zero upon loss of employment. As noted in figure 5.0-14, the 92 families had less than half of the income flow during default that they had been receiving just prior to the time that their financial difficulties began. These ratios were 45.8 percent for the 46 families in the experimental group and 43.1 percent for the 46 families in the control group, a remarkably close match. The fact that these reductions in income were greater in Philadelphia than in Atlanta is most likely explained by the tighter employment market in Philadelphia, which would have reduced opportunities for backup or part-time employment more sharply than in Atlanta.

	Atlanta		Philadelphia		Total	
	Exper.	Control	Exper.	Control	Exper.	Control
No. of mortgagors	17	17	29	29	46	46
Current income	$ 604	$ 522	$ 472	$ 473	$ 521	$ 491
Previous income	1,093	1,105	1,164	1,159	1,138	1,139
Reduction in previous income	44.7%	52.8%	59.5%	59.2%	54.2%	56.9%
Current housing expenses (PITI+U+M)	$ 317	$ 301	$ 275	$ 277	$ 291	$ 286
One year before	283	284	233	259	251	268
Recurring expenses (other than housing)	$ 183	$ 221	$ 160	$ 142	$ 169	$ 171
One year before	194	176	151	186	167	182
Total recurring expenses	$ 500	$ 522	$ 435	$ 419	$ 460	$ 457
One year before:	477	460	384	445	418	450

Figure 5.0-14.--Income/Expense Characteristics

5. Expense Increase. The final categories of general characteristics (figure 5.0-14) are the levels of housing expenses, recurring expenses, and total recurring expenses (the sum of the former two) experienced by the participating PIP mortgagors. As is readily

observed, there was a remarkable similarity between experimental and control groups in the amount of housing expenses (principal, interest, taxes, insurance, utilities, and maintenance) that were incurred each month to support the properties. The reason for this is that the housing values between both groups in each city were virtually identical, on average, and for the most part debt service, escrows, and utilities and maintenance are fairly well related to housing values in a given location. There was much greater irregularity observed in the case of recurring expenses, as such expenses have nothing to do with housing or housing values and are greatly influenced by individual lifestyles.

What is perhaps far more relevant to this study is the extent to which gross family income and total recurring charges had changed since the families originally purchased their homes. This is discussed next.

5.2.2.3 Income and Expense Histories

5.2.2.3.1 General Considerations--To shed more light on why the 92 mortgagors participating in the demonstration defaulted on their mortgage payments, an effort was made to track a history of the income and expenses experienced by these mortgagors since acquiring their present homes. The questionnaire filled out at the time the participants were enrolled in the demonstration requested this information at only two points in time: upon entering the program and just before their present troubles began.

To add a third data point in time to their financial history, a list containing the 92 12-digit FHA case numbers was prepared and submitted to the Insured Mortgage Division within the Office of Finance and Accounting, with the request for as many of the original application forms for mortgage insurance as could be found. A total of 77 files containing hard-copy material were located and forwarded for examination. Of these, six files did not contain the basic application form itself, and in three other instances, the application form did not contain the requested information. In all, 68 usuable forms were utilized, each containing a profile of the mortgagor's income and prospective housing expenses at the time such mortgagor's present home was acquired. Of these 68 cases, 38 were members of the experimental group receiving PIP advances and counseling, and 30 were members of the control group. As members of the experimental and control groups were so closely matched to begin with, especially as far as income was concerned, for the purpose of establishing their backgrounds the groups have been merged for the discussion that follows.

5.2.2.3.2 Basic Expense Ratios--The basic application form that a prospective mortgagor is required to complete is FHA Form 2900. This form has been revised several times, but since about 1968 it requests the mortgagor to list gross family income; recurring obligations (other than housing); and prospective housing expenses including debt service (principal and interest), escrows (real estate taxes, hazard insurance, and mortgage insurance premiums), and utilities and maintenance. From each FHA Form 2900 the three variables--gross family income, total housing expense, and total fixed payment (the sum of total housing expense and other recurring charges)--were extracted and recorded.

For any one of the 68 mortgagors, it was then an easy matter to note the change in these three variables between the time he or she applied for a mortgage and just before the current difficulties commenced, as well as the time, approximately 3 months after default, when the mortgagor enrolled in the PIP demonstration. What was not so easy was to put the results into an appropriate format so that a unified picture emerged. The reason for this difficulty was that the time interval between origination and PIP enrollment varied greatly among the mortgagors, some of them having owned their homes for over a decade, others for only slightly more than a year. To place the results on an equal footing among mortgagors, the following two ratios were computed at each of the three data time points involved: (1) the ratio of total housing expenses to gross family income and (2) the ratio of total fixed payments to gross family income. The average value for each of these two ratios was computed (appropriately weighted according to the amount of income involved) for the 68 mortgagors, and the results are shown in figure 5.0-15.

	At Origination	Before Default	At Default
Total Housing Expenses	20.5%	25.3%	58.5%
Total Fixed Payments	29.4%	39.6%	91.9%

Figure 5.0-15.--Fixed Payments Proportionate to Gross Family Income: 68 Mortgagors

Figure 5.0-15 reveals that at the time of mortgage origination, the 68 mortgagors involved had to commit about 21 percent of their gross family income to housing expenses and approximately 30 percent to total fixed payments (including housing expenses). These figures appear quite conservative compared to nationwide averages of the percentage of income that incoming mortgagors were spending for housing and total fixed payments. From the 1977 HUD Statistical Yearbook, the following (figure 5.0-16) characteristics of mortgagors obtaining Section 203(b) loans in 1977 on existing* one-family homes (Table 36, page 154) have been extracted:

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* Virtually all of the housing involved in the demonstration involved existing structures.

	At Origination
Total Housing Expenses	29.2%
Total Fixed Payments	40.5%

Figure 5.0-16.--Fixed Payments Proportionate to Gross Family Income (Income Range $500-$900 per month): Nationwide Averages

The gross family income for the 68 mortgagors at the time of mortgagor origination averaged $868 per month. The large difference between the percentages shown in figures 5.0-15 and 5.0-16 can be attributed to the fact that these 68 mortgages were able to get substantially lower interest rates and cheaper housing during the previous decade than mortgagors were obtaining during 1977 (when the average FHA mortgage interest rate was 8 to 8 1/2 percent).

The principal thrust of figure 5.0-15, however, is the extent to which the ratios involved increased through the intervening years between origination and the time even before the present financial difficulties began for these 68 mortgagors. Between changing gross family incomes and rising expenses, by the time just prior to the catastrophic moment of job loss, total housing expenses were consuming more than 25 percent of gross family income (up from 20.5 percent), and total fixed payments were consuming slightly less than 40 percent (up from 29.4 percent). Subsequent to job loss and/or illness of the principal wage earner in the family, these ratios exploded: Total housing expenses accounted for almost 59 percent of the then-reduced level of gross family income, and total fixed payments accounted for 92 percent. This last figure alone is as good a measure as any in explaining the financial pressure upon the families involved: With only 8 percent of gross family income left to pay income and social security taxes on what was coming in* and also to purchase food, clothing, medicine, transportation, etc., it is obvious that something had to give, and give quickly.

5.2.2.3.3 Descriptive Analysis--To study the exact nature of the mechanisms at work in these 68 case histories, one can compute the average rate of growth (or contraction) that would have carried the mortgagor's income from the year of origination to the time just prior to default. The general formula used for doing this is the compound interest formula, with the "interest" rate as the unknown variable. Thus, with an income at origination of $800, and an income of $1,000 just prior to default 4 years later, the rate of growth of

* Among all 92 families involved in the PIP demonstration only in eight cases were unemployment insurance or other tax-exempt third-party benefits being received.

income is 5.74 percent per year compounded; that is, $1,000 = $800 x $(1.0574)^4$. Conversely, with an income of $1,000 at origination and one of $800 exactly 4 years later, the rate of growth is -5.43 percent per year compounded; that is, $800 = $1,000 x $(0.9457)^4$.

When this procedure was applied to the income and expenses of the 68 mortgagors, the descriptive statistics set forth in figures 5.0-17, -18, and -19 (see page 90) were obtained on the time rates of change.

5.2.2.3.4 Comparative Analysis and Summary--Although the above distributions were calculated on the basis of the 68 mortgages whose (usable) FHA Forms 2900 could be located, there is every reason to believe that they are representative of the entire 92 mortgagors in the demonstration. To show why this is so, the percentages in the rightmost two columns of figure 5.0-15 were calcuated for all 92 mortgagors and are presented below (figure 5.0-20) together with the corresponding data from figure 5.0-15.

	Before Default		At Default	
	68 Mtgs	92 Mtgs	68 Mtgs	92 Mtgs
Total Housing Expenses	25.3%	25.3%	58.5%	59.6%
Total Fixed Payments	39.6%	39.4%	91.9%	92.7%

Figure 5.0-20.--Fixed Payments Proportionate to Gross Family Income: 92 Mortgagors

Adopting 6 percent as a benchmark rate of inflation,* it can be seen (figure 5.0-17) that approximately 60 percent of the candidate mortgagors passing the criteria for intake into the PIP progam had gross family incomes that did not keep up with inflation through their years of tenure. (This is not to imply that the hourly wage rates of the mortgagors involved did not keep up with inflation; they may have done so in many, perhaps most, cases. But for one reason or another--through loss of overtime or secondary employment, or by curtailment of employment by another family member--gross family income did not keep up with inflation for most of the mortgagors even before the specific events occurred that caused them to default.) In contrast, figure 5.0-18 also shows that about 80 percent of the candidate mortgagors passing the PIP criteria experienced a growth rate in total housing expenses greater than that of inflation, the median growth rate in such housing expenses being 9.7 percent per year, compounded. Furthermore, as figure 5.0-19 shows, about 74 percent of the candidate mortgagors passing the

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* The consumer price index rose from 116.30 at the close of 1970 to 181.50 at the close of 1976, an increase of about 6.5 percent per year during the time frame concerned.

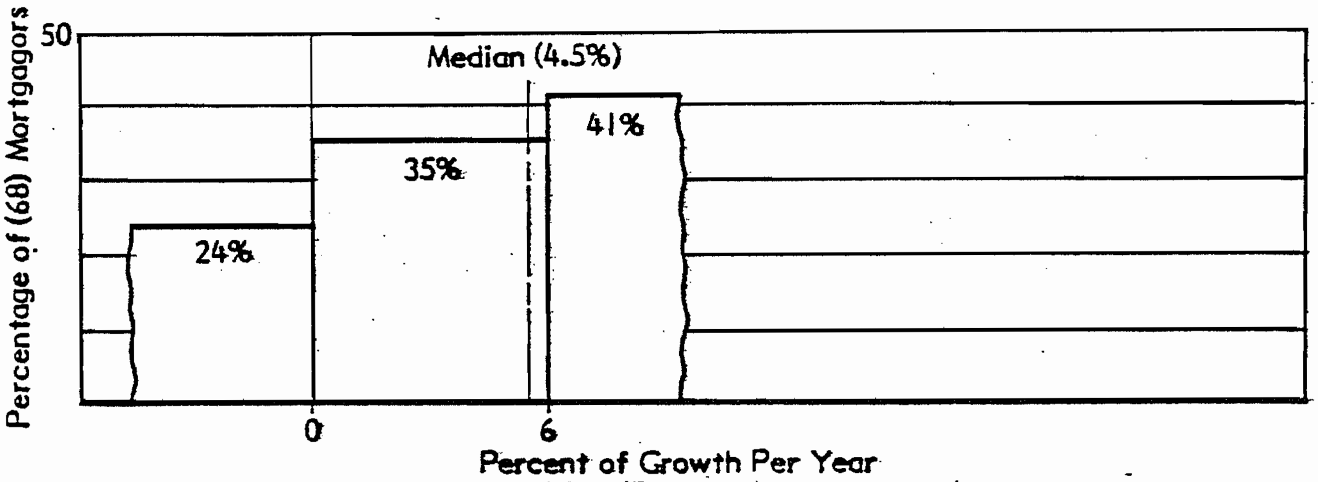

Figure 5.0-17 Distribution of Annual Growth Rates in Gross Family Income

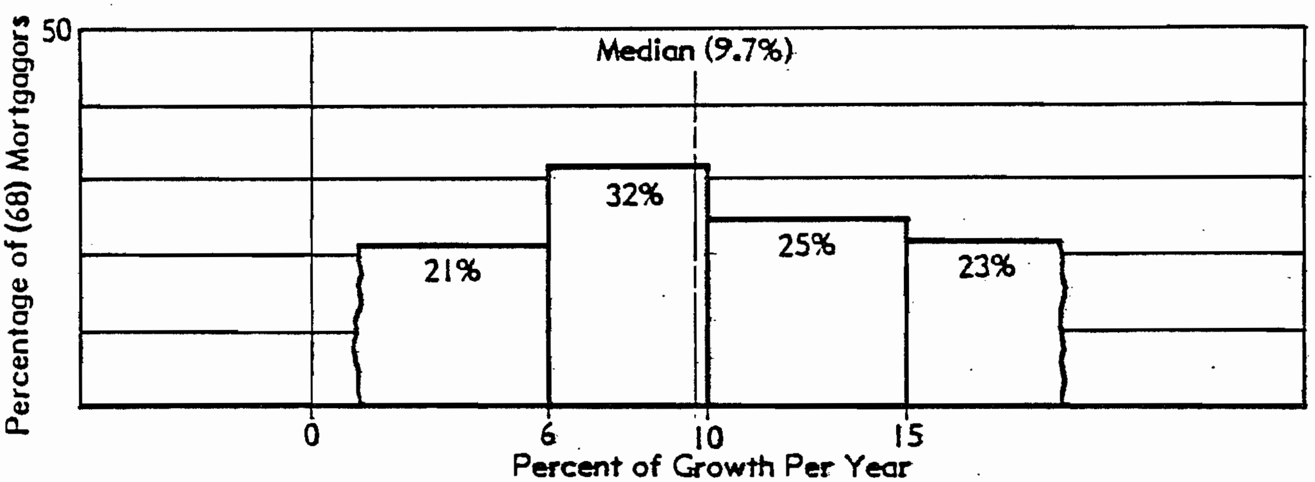

Figure 5.0-18 Distribution of Annual Growth Rates in Housing Expenses.

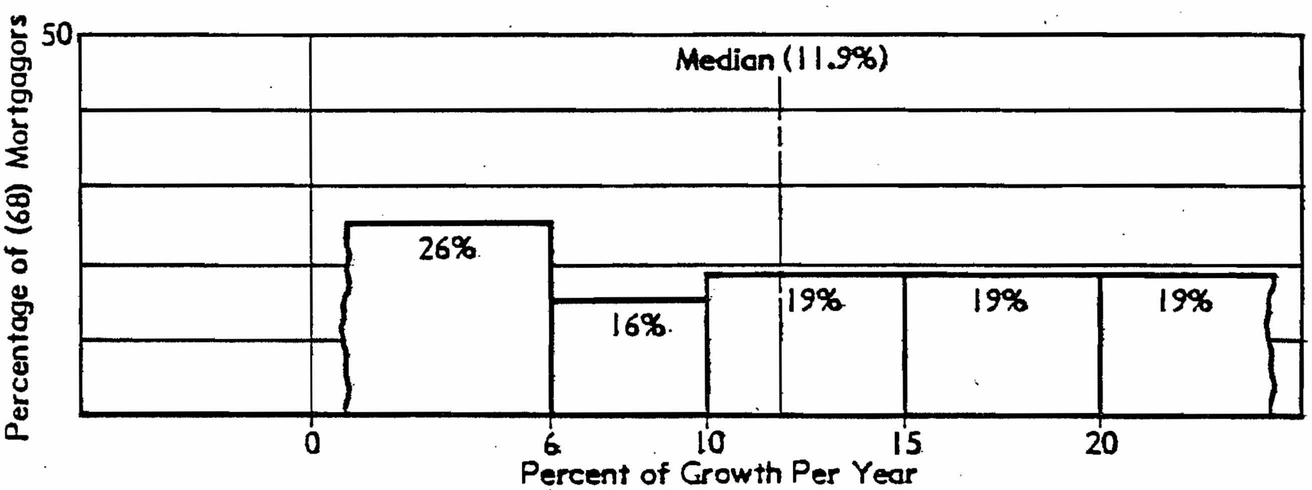

Figure 5.0-19 Distribution of Annual Growth Rates in Fixed Payments.

PIP criteria experienced a growth rate in total fixed payments greater than that of inflation, the median growth rate in such expenses being 11.9 percent per year, compounded.

These shrinking incomes and expanding expenses were not the immediate cause of the defaults that ultimately occurred among the demonstration population. The immediate causes were the further reductions in usable income through economic contraction, illness, or temporary disability, that overtook the families involved and rendered them incapable of meeting their mortgage obligations. However, in a very real sense, shrinking incomes and expanding expenses did set the stage for subsequent default; or, at the very least, these were exacerbating factors contributing to the default.

5.2.3 Repayment Period of Recast PIP Loans

Of the 46 mortgagors in the experimental group, 15 eventually had their PIP advances set up and cast in the form of a level-payment second mortgage utilizing the RECAST Computer Program. As described in our interim report, "RECAST Program Documentation," January 1978 (Exhibit B), the second mortgage term selected was the shortest one for which the total combined mortgage payments (on the HUD-insured first mortgage and the PIP Mortgage)--including principal, interest, taxes, and hazard and mortgage insurance--did not exceed 30 percent of the gross family income of the mortgagor upon re-establishment of income flow. In no event, however, did the RECAST program permit the term of the second mortgage to be less than 5 years (or the remaining term of the first mortgage if less than 5 years). The maximum term of the second mortgage permitted by the RECAST program was that of the remaining term of the first mortgage.

In 14 of the 15 cases recast, as it turned out, the mortgage term selected by the RECAST program was the minimum permitted: 60 months. In the one remaining case, the mortgage term selected was the length remaining on the first mortgage: 295 months. Expressed in other terms, this result states that in 14 out of 15 cases, the use of a 5-year second mortgage term did not cause the combined total of principal, interest, taxes, and insurance to exceed 30 percent of gross family income. Indeed, the average ratio of mortgage payments to gross family income among the 14 mortgagors involved was only 19 percent.

Although the term of the recast PIP mortgages was short, as shown in figure 5.0-21, the additional mortgage obligation created as a result was not very substantial:

	Total Monthly Payment on HUD-Insured First Mortgage Prior to Recast	Combined Monthly Payment on Recast HUD-Insured First Mortgage and Recast PIP Mortgage
Mortgagor 1	$272.72	$305.29
Mortgagor 2	397.18	469.18
Mortgagor 3	147.06	174.61
Mortgagor 4	207.86	216.59
Mortgagor 5	206.28	223.30
Mortgagor 6	145.73	163.77
Mortgagor 7	359.82	378.25
Mortgagor 8	120.72	125.72
Mortgagor 9	142.91	159.32
Mortgagor 10	142.79	160.05
Mortgagor 11	109.74	127.43
Mortgagor 12	159.96	187.38
Mortgagor 13	123.60	149.23
Mortgagor 14	143.83	165.21
Mortgagor 15	109.64	129.97

Figure 5.0-21.--Total Monthly Mortgage Payments for 15 Mortgagors whose Mortgages were Recast

It would be proper to conclude from this that the same result would hold true in a national TMAP program. Because of the fact that the maximum amount advanced in the PIP demonstration was the equivalent of nine monthly payments on the first mortgage, the amount of the second mortgage was only one-fourth as great as it might have been under a full-scale program in which as many as 36 months of forbearance were potentially available. For example, assume a mortgagor family under the circumstances shown in figure 5.0-22.

	Equivalent of 9 Months of PIP Payments	Equivalent of 36 Months of TMAP Payments
Total monthly payment (including escrows) under first mortgage	\$550.00	\$550.00
Gross monthly family income after restoration	\$2,300.00	\$2,300.00
Aggregate PIP (TMAP) payments	9 x \$400.00 = \$3,600.00	36 x \$400.00 = \$14,400.00
Monthly payment on recast PIP Mortgage (5-year term; 10% interest)	\$76.49	\$305.96

Figure 5.0-22.--Hypothetical Payment Comparison for a Typical Mortgagor

If this family participated in the PIP demonstration, the ratio of the mortgage payments on the HUD-insured first mortgage and the recast PIP Mortgage (i.e., \$550.00 plus \$76.49 = \$626.49) to gross family income after restoration (i.e., \$2,300.00) would be approximately 27 percent. If the same family participated in the national TMAP program and received TMAP benefits for 36 months, the ratio would become approximately 37 percent (i.e., \$550.00 plus \$305.96 divided by \$2,300.00). Therefore, to bring the ratio to 30 percent would require the TMAP mortgage to be recast over approximately 20 years, with the resulting monthly payment due under the recast TMAP mortgage becoming \$138.96, so that the ratio would become approximately 30 percent (i.e., \$550.00 plus \$138.96 divided by \$2,300.00).

Consequently, we would expect far fewer second mortgages to be cast as five-year, level-payment loans under a national TMAP program with a 36-month benefit period.

5.2.4 Disposition of PIP Loans

As a result of the PIP demonstration, HUD made 52 loans to mortgagors. (This included six loans in Los Angeles.) As of the date of this report, 47 of those loans are outstanding, five having been repaid upon the sale of the mortgagor's home. Figure 5.0-23 sets forth some of the characteristics of these 47 outstanding loans.

City	No. of Outstanding Loans	Average Original Principal Amount	Range of Original Principal Amounts	No. of Loans Recast	Average Interest Rate*
Atlanta	16	$1,427.80	Low-$ 577.28 High-$3,197.40	6	6%
Los Angeles	3	$1,655.67	Low-$1,247.84 High-$2,066.33	0	10%
Philadelphia	28	$ 851.13	Low-$ 283.05 High-$1,488.52	8	7.9%
Aggregate	47	$1,098.80	Low-$ 283.05 High-$3,197.40	14	7.3%

* Weighted average using original principal amounts

Figure 5.0-23.--Characteristics of Outstanding PIP Loans

The design of the PIP Demonstration Program was intended to result in HUD obtaining a valid second mortgage on the mortgagor's property, subordinate only to the lien of the HUD-insured first mortgage. We did not obtain title reports to verify the secondary position of HUD or title insurance to insure such position. Instead, for the purposes of the demonstration, the statements by the mortgagors that the lien would constitute a valid second lien were accepted. Although a title search has not been made of all 48 outstanding loans to determine whether HUD, in fact, does have a valid second lien, a sample search was made on 14 of the loans (randomly selected) with the results shown in figure 5.0-24.

Result	No. of Cases	Percentage of Cases Sampled
Valid second mortgage	8	57.2%
Valid mortgage but lower priority than second	3	21.4%
No valid mortgage	3	21.4%
	14	100.0%

Figure 5.0-24.--Sample of Title Search on 14 PIP Loans

If it is deemed important in a national TMAP program for HUD to have a valid second mortgage, it would be necessary to utilize a title report and/or title insurance. At a relatively modest cost (approximately $50 to $75 per case), a title report could be obtained to verify ownership of the property by the mortgagor to confirm that HUD would have a lien upon recordation of the mortgage, even if second lien status was not required or obtained.

Based upon discussions with representatives of GNMA and FNMA and upon the expertise of the contractor's team, it is our opinion that the 48 loans presently held by HUD are not marketable in the secondary market at more than 50 percent of the outstanding principal balance.

5.3 FIELD REPORTS AND DEBRIEFINGS

5.3.1 Counseling Agencies

5.3.1.1 Evaluation by Counselors

Field reports on the counseling component of the demonstration were prepared through extensive interviews with the counselors. These debriefings were structured to produce information on the content of each counseling session with program participants. Through these interviews the role of counseling can be assessed in terms of approaches to counseling and the breadth of services offered. To complement the specific and client-oriented debriefings, general questions were asked to take advantage of the counselors' experience with the design and format of the counseling component of the demonstration. This section will first review the counselors' broad perceptions of the counseling program and then discuss approaches to counseling.

The counselors had a dual role in the demonstration. Their first role, which can be defined as program administration, included such tasks as monitoring mortgagors' eligibility and explaining program operations to mortgagors. Tools for accomplishing these tasks were provided to counselors during seminars held prior to implementation of the demonstration. However, the program was designed to leave actual techniques and the conceptual framework for counseling up to the counselors.

5.3.1.1.1 Design Effectiveness--When asked about the effectiveness of this design and whether any changes in format or content were needed, participating counselors responded as follows:

1. "I would not recommend any changes in the counseling format of PIP. I would like to see the content of the counseling sessions left up to the individual counseling agencies."

   Prior to making the above statement this counselor said that the sessions were structured to elicit information necessary for the counselor to implement actions on behalf of the client and to enable the client to air his or her problems so that a thorough knowledge of the case could be acquired.

2. Another counselor found the design for implementing the counseling component of the program effective and remarked:

   > "A relatively uncomplicated question and answer period to determine what actually caused the families' monetary loss.... This gave the clients an opportunity to vent their remarks or dislikes about what happened to them and opened up many fields of investigation as to what could be done to prevent this from re-occuring."

3. The counselor for the Philadelphia demonstration made the following remarks on the counseling format:

   > "I think the effectiveness of the PIP program is not in the counseling per se, but in the combination of counseling and the PIP advances; the way the PIP program was designed to alleviate the financial pressures on the mortgagor."

   This counselor described her agency's counseling methodology as comprehensive and multifaceted and defined the role of counseling under PIP as:

   > "Not only giving the client counseling but also monitoring to find out if he's following through on the suggestions or on the resources we are offering."

   This counselor found a role for the counselor within the design of the program to "make sure that these PIP participants made the partial payments on a timely basis."

5.3.1.1.2 Assessment of Mandatory Counseling--The PIP demonstration design gave the counselors an opportunity to experience and observe counseling operations in a mandatory mode. Specifically, the program participants had to attend monthly counseling in order to receive the monthly partial payment assistance. Field reports on this aspect of the program produced distinctly different counselor responses:

1. "I think, personally, that it is a good idea to have mandatory D&D counseling. Mortgagors in default have generally not had the advantage of pre-ownership counseling. I think that it [mandatory counseling] would be a good time to get them to understand their responsibility to the mortgagee. We also should strongly discourage a mortgagor from abandoning the property.... If it [counseling] were made mandatory you would force them to at least get a little bit more information than would be available otherwise. Information that could possibly assist them in maintaining their home. We would force them to come to at least the first session and find out what the counseling agencies are trying to do on behalf of them."

2. "Being mandatory turns a lot of people off. If you tell a person that he must do this or he must do that, especially if he has a problem already, he feels a little inhibited about doing it. Even if you made it mandatory, there is no guarantee that this client wants to keep the house. He can come to counseling, and not actually be receptive, take the PIP money and then say the heck with it. What I'm saying is that he could come to counseling, get a free ride with PIP money, and then after the PIP program is finished or even thirty days before it's finished, find a new place to go, because he decided he didn't want the house anyway."

The field reports on the merits of mandatory counseling and the effectiveness of the design for implementing the counseling should be considered in light of the counseling-delivery strategies and emphasis of the counselors.

Those counselors who felt that mandatory counseling was not a good idea (such as the counselor who made the second statement quoted above) emphasized budget counseling - since cooperation of the mortgagor is a prerequisite for effective budget counseling, it is understandable why such counselors are concerned with not "turning off" the mortgagors.

Those counselors who felt that mandatory counseling would enable the mortgagor to learn what counseling could offer (such as the counselor quoted first above) saw counseling in an advocacy and active liaison role in the delivery of other social services. Thus, a mandatory counseling system would likely result in mortgagors learning of social services or foreclosure avoidance options and techniques. This high level of active intervention, emphasizing multi-disciplinary guidance and coaching, requires more candidness than cooperation. This approach is more flexible than budget counseling and does not necessarily require the mortgagors living within a prescribed budget to recognize the benefit of counseling.

5.3.1.1.3 Client Characteristics--The foregoing conclusions are supported by the responses of two categories of counselors to the following question: What are the characteristics of the client who is most willing to accept or likely to profit from counseling?

1. A counselor who emphasized budget counseling replied:

   "The one who profits most from counseling is the one who needs reinforcement as opposed to direction."

2. The counselors who saw merit in mandatory counseling said:

   a. "The counseling session was a definite learning process in terms of making people aware of community resources available when they get into a tight situation.... The predominant characteristic found in the client who would most likely accept or prosper from counseling is the person's ability to understand the difficult situation that they are in..., the ability to understand their particular situation and take it seriously...."

   b. "[Client who were most willing to accept or likely to profit from counseling are those who are] sophisticated enough to let the counselor be aware of the problem and not hold back anything because any problem can get in the way of your performance, be it marital, environmental, or whatever. It can get in the way of your meeting your responsibility."

5.3.1.2 Content of Counseling Sessions

With the contrast in counseling approaches described above as a backdrop, we now turn to the field review of the content of the counseling sessions based on sessions held with 39 of the 46 participants. Four of these 39 participants had no more than a single counseling session. The remaining 35 participants experienced an average of 8.3 sessions, or a total of 290 reported counseling sessions.

In general, the description of the actual content of each counseling session revealed that the major substance of the PIP counseling effort was devoted to three topics:

1. The PIP program, paperwork, and requirements

2. Budget counseling

3. Income/employment problems

The 290 counseling sessions were reviewed in order to ascertain the variety of services offered or topics discussed. As indicated in figure 5.0-25, these ranged from technical details of the PIP program to economic and emotional problems of the clients.

Nature of Service Offered	Clients Receiving Services
PIP program information and problem resolution	35 (all)
Budget and money management	21
Employment and jobs	21
Energy/fuel allowance	13
Referral to social service agency	8
Health	5
Family counseling referral	5

Figure 5.0-25.--Breakdown of PIP Clients by Types of Service Received

All of the 35 participants received counseling support with regard to the PIP program itself. The nature of the program required continuing and relatively intensive personal intervention on the part of a person trained in the details of the PIP program. In addition to the actual continuing administration of the program for the participating mortgagor, a number of misunderstandings arose among the mortgage servicers, who were required to make some adjustments in normal servicing routines to accommodate the PIP participants. The counselors helped to resolve some of these difficulties.

The next most common theme that emerged in the counseling sessions was budget counseling. The program participants, as mentioned earlier, had suffered substantial reductions of income and had to scale down their living expenses accordingly. The counselors helped the mortgagors to plan a budget for use of limited resources, set priorities on their spending, and curtail unnecessary expenditures. The reports on budget counseling provide a picture of normal housing counseling.

Employment problems dominated most of the sessions, which was not surprising in that employment problems were identified as the cause of the mortgage default for all 35 of the subject cases. For many of the individual mortgagors, counseling sessions were repeatedly devoted to recitations of the counselees' difficulties in obtaining employment. In most of these sessions the counselor listened and offered sympathetic support and encouragement. In a few cases, referrals were made successfully to other agencies for assistance.

A number of other counseling topics were covered. In Philadelphia, where heating costs were high, the costs of energy and fuel were discussed. The counselors were knowledgable about fuel assistance plans and encouraged eligible participants to apply. Other participants were referred to a variety of agencies for other services: food stamps, unemployment benefits, health services, and family counseling. The counselors were effective in making referrals for energy assistance, food stamps, or unemployment benefits. It appears from the interviews that referrals for health benefits or family counseling were less effective.

In general, clients attended regular monthly counseling sessions that lasted 45 minutes to an hour. As indicated in figure 5.0-26, since most participants were in the program for nine months, they received at least eight counseling sessions. Only seven of the 35 clients included in this analysis received less than seven sessions. This regularity and intensity is unusual for housing counseling, most of which is voluntary; clients normally come to discuss fairly specific housing problems and attend one or more sessions during a relatively short period of time. The median number of sessions attended by the PIP clients was nine. (See figure 5.0-26.)

Number of Sessions	Number of Participants
12	3
11	2
10	4
9	9
8	5
7	5
6	3
5	2
4	2
Total participants	35
Total sessions	290
Mean	8.3
Median	9

Figure 5.0-26.—Breakdown of PIP Counseling Sessions and Attendance

5.3.1.3 Problem Resolution

In an attempt to assist clients with the problems posed in these counseling sessions, the counselors were highly sensitive to increasing the clients' abilities to take responsibility for solving their own problems. Interference or advocacy on the part of the counselor was a secondary technique. The basic policy of the counselors, after attending to the administrative details of income verification and regular payments, was sympathetic support:

> "I think they knew that there was no way we could get them out of financial trouble. We cannot find jobs for them, they have to do it on their own. We were only there to help guide them in that direction. In most instances that direction was started prior to counseling, but we still provided additional input and reinforcement."

For clients faced with specific problems, such as how to pay a utility bill, the counselor had information on community resources and could make suggestions for using them. Other clients needed direct referral to specific people and agencies. Finally, and only rarely, the counselor would intervene and advocate directly for the client. Such advocacy was generally seen as a last resort, such as when a mistake had been made by the food stamp agency in the determination of the eligibility of the client.

It is not easy to determine which problem resolutions are attributable to the counseling intervention. When a specific suggestion or referral by the counselor was followed by the solution of a problem, counseling was given credit in this analysis for the resolution. The counselors were better equipped to provide assistance with some kinds of problems than others. They were particularly helpful with those problems related to the PIP program, which was indeed one of their major functions. The number and kinds of problems resolved are shown in figure 5.0-27.

Nature of Problem Resolved	Clients
PIP problem resolution	15
Community resource utilized	15
Budgeting/money management	8
Employment	5

NOTE: These problems were brought up and at least partially resolved in the course of 290 reported counseling sessions.

Figure 5.0-27.--Problem Resolutions Attributed to PIP Counseling

The PIP program was quite complex. It required a legal, contractual agreement among HUD, the mortgage lender, the mortgage servicer, and the mortgagor. There was a considerable degree of interaction among the participants. The level of reduced payments during a period of reduced income sometimes had to be recomputed. In some cases the mortgage servicers had to modify their customary forbearance servicing practices. Incorrect notices were sent out, penalties were erroneously assessed, and payments improperly reported or recorded. New decisions had to be made, at times with no precedent. Consequently, there were elements of uncertainty that required a high degree of interaction. In this process, the counselors played a major administrative role. They had to (1) obtain income information from the clients, (2) track the regularity of the reduced mortgage payments, (3) answer client questions about the program, and (4) provide information on computation of reduced payments and recasting of mortgages. The counselors became quite expert in these areas of the program and were able to interpret them to the clients.

The counselors were well versed with regard to selected resources available in the community. Assistance usually came in the form of suggestions, sometimes by referral, with name and phone number of a specific person to contact. Infrequently, assistance was given by direct intervention. The interviews do not account for how, after sympathetic listening by the counselor, the client was able to sort out his/her thoughts so as to find his/her own solution to the problem.

All 35 PIP clients had employment-related problems in the beginning as a cause of mortgage default. In spite of the pervasiveness of the problem, only a few of the clients solved any of their employment-related problems with assistance attributable to the housing counselor. The Urban League housing counselor was able to refer clients to the Urban League employment counselor. It would seem advantageous in a program such as this to have the PIP housing counselor closely affiliated with job development skills. In general, housing counselors are not trained for employment counseling, and very little assistance with employment problems was offered.

Underlying many of the counseling sessions were unresolved family or emotional problems. Counseling for such problems is clearly beyond the scope of these counselors. There were no resolutions in the field of marital problems, which at times contributed in a major way to the housing problems. In several cases, the counselor suggested that the client seek marital counseling, but there was resistance reported to such suggestions.

5.3.1.4 Satisfaction with Counseling

From the interviews with the counselors, there emerges a rather positive picture of the counseling services they provided. The counselors themselves felt that the counseling was useful in four primary ways: (1) to provide the opportunity for the clients to fully realize the particular responsibilities of homeownership, (2) to break a pattern of behavior that could result in a similar default in the future, (3) to provide information on other resources in the community, and (4) to be a good listener to whom the client could vent his or her problems.

During the debriefings, the counselors were also asked several questions as to the degree of cooperation received from the clients. As shown in figure 5.0-28, 27 of the 35 clients were reported to be cooperative.

Client cooperative, as reported by counselor	27 out of 35
Client reported to be candid	26 out of 35
Communication good, as reported by counselor	25 out of 35
Client willing to accept public services referred by counselor	22 out of 35
Client requested extra counseling session	13 out of 35

Figure 5.0-28.--Acceptance of Counseling Assistance

The counselors were also asked to describe the candor of the clients in disclosing information. The communication was described as candid in the case of 26 out of 35 clients. To the degree that candor was perceived by the counselor, there is an indication that the clients were not resistant to the counselor. Communication at the first session was further described as good for 25 of the 35 clients. Similarly, a record was kept of the attendance of the clients. Most of the clients kept their monthly appointments with regularity. (Monthly attendance was a condition precedent to continued receipt of PIP payment assistance.) About one-quarter of the 35 cases broke their appointments with some frequency or failed to show up during some months.

The PIP clients were not interviewed by the contractor to ascertain their perceived satisfaction with the counseling serviced offered. The only additional measure of their acceptance of the counseling services is the degree to which they asked for counseling over and above the monthly sessions required to maintain their standing in the PIP program. It was reported that 13 of the 35 cases received extra counseling support in addition to those regular monthly meetings. A few of these additional sessions were conducted by telephone. Approximately two-thirds of the clients did not request additional counseling.

Overall, the candor, communication, and cooperation reported by the counselors reflected a measure of general acceptance by at least three-quarters of the clients. For some of the clients, extra counseling was requested and appeared to fulfill a considerable need. For others, the first one or two counseling sessions appeared to be helpful, but the remainder of the sessions were less productive, except for necessary monitoring tasks.

5.3.1.5 Conclusions

The reports provided by the housing counselors on the counseling sessions held with 35 PIP participants indicate that the counselors provided substantial administrative support in the month-to-month operation of the PIP demonstration project as well as assistance to the mortgagors in making regular payments, living up to their responsibilities as homeowners, and taking advantage of social assistance programs or community resources for which they qualified.

The services in support of the PIP program included monthly review of income and regularity of mortgage payments. In addition, counselors were always there to answer questions from the participants about the PIP program or to straighten out problems that seemed to arise frequently with the mortgage servicers. They provided the interactive link between the program and the participants essential for the administration of changes to full monthly payments from the reduced payment plan prior to the recasting of the mortgages.

The counselors provided normal D&D counseling, including budget counseling, referrals to community services, and general sympathetic support. In the counseling process, the counselors assisted a number of their clients toward the solution of specific problems. These services are judged to be worthy.

Finally, the counseling agency was available for follow-up assistance following the end of the PIP payments and the resumption of regular mortgage payments. In several cases, after the end of the PIP benefits, counselors, when contacted, provided assistance to clients with regard to continuing problems relating to their mortgages. This assistance included further clarification of problems of communication with the mortgage servicers or the setting up of extended forbearance programs.

The major shortcoming of the counseling program was the failure to effectively address employment problems. Most of the clients had employment problems, and these were discussed in a majority of the reported counseling sessions. Yet very little was accomplished with respect to these employment problems, and there is little evidence that the housing counseling contributed to their solution. The counseling was not geared to address the employment problems, which for this select group was the cause of the mortgage default. Indeed, the counselors were not trained to provide employment counseling.

For about one-fifth of the participants, there was some resentment or resistance directed toward the mandatory counseling. While most of the clients accepted the requirement of monthly attendance, the resentment harbored by a few clients raises questions concerning the usefulness of continued mandatory counseling. The positive results of counseling appeared to diminish after the early sessions.

5.3.1.6 Recommendations

1. Counseling is a useful supportive element in the operation of a temporary mortgage assistance program and is recommended.

2. Mandatory monthly counseling for all program participants from start to completion of program appears to be unwarranted. Mandatory counseling appears most useful during the first three months. After that period, voluntary counseling similar to other D&D counseling appears advisable. Some counseling is perhaps desirable at the time of program termination or recasting of mortgage and could be recommended for that time.

5.3.2 Mortgage Servicers

Mortgage servicer involvement in the PIP demonstration was most intense during the period beginning with participant enrollment and extending through the period when partial payments were received from participating mortgagors. With this in mind, it was determined that the optimum time to conduct mortgage servicer debriefings was subsequent to enrollment and after several months of servicer interaction with the mortgagor to ensure that a representative history of partial payment receipts was available to scrutinize and discuss. Thus, the debriefings were conducted in February, 1978, 9 months after the first mortgagor enrollment and 2 months after the last.

When asked to assess the potential effectiveness of PIP or a PIP-type program, the servicers generally agreed that the program was an effective tool when dealing with mortgage situations that were not otherwise covered. The servicers also felt that the PIP program could be effective as a national (TMAP) program and that, should it be made available, the current assignment program would probably be redundant.

In virtually all cases, the servicers indicated that there would be no need for additional facilities or equipment to conduct a national TMAP program but that an increase in personnel would be necessary. (In fact, most of the servicers volunteered that their departments were currently understaffed and that they needed additional help with or without TMAP.)

5.3.2.1 Proposed Modifications

The servicers had a number of suggestions for modifying the PIP Demonstration Program if it were to be implemented nationally:

1. The qualifying criteria should be carefully defined to ensure uniformity of application.

2. Veterans Administration, conventional, and HUD-insured loans could be included.

3. Persons who become delinquent for medical reasons should be permitted to participate.

4. Marital difficulties should be considered as a qualifying criterion on a case-by-case basis.

5.3.2.2 Administration of National TMAP Program

The servicers gave varied responses when asked who should administer a national TMAP program:

1. The majority of those interviewed felt that the mortgage servicers could adequately administer the program and were the best qualified to do so; however, a few of those interviewed felt that the mortgage servicer would be biased because of previous servicing experience.

2. There was a unanimity among those interviewed that, although HUD was the logical entity to administer the program, HUD's offices were not properly staffed to give a prompt and timely answer to the qualifying criteria and, as a result, a national TMAP program administered by HUD would become bogged down, as was the case in the Assignment program.

3. The consideration for counseling agencies to administer the program came from geographical areas where counseling agencies were quite strong, but the general feeling was that the quality of counseling agencies was not sufficiently uniform to allow then to be effective entities for the administration of a national program.

5.3.2.3 General Evaluation of TMAP

Comments regarding the practicality of a national TMAP program run by servicers and funded by the Government, as well as one funded from an actuarially sound private insurance fund, were more uniform. The general consensus of those interviewed was that the mortgage servicers could run such a national program and that it should be funded by the Government. Discussion relative to a sound private insurance fund was very limited, as few of those interviewed had had any experience with such a program. However, those that were familiar with such private funding felt that the premiums would be very high and that the percentage of voluntary participation would be very low. Their experience indicated that only 15 to 20 percent were buying the health and accident insurance for mortgage payments and that the premiums varied from $15 to $20 per loan per month.

It was unanimously believed that the servicing fee for the PIP (or TMAP) Mortgage should be on a per-loan basis rather than on a percentage-of-loan amount. Frequent reference to the Section 235 loan servicing fee was made in the discussion; however, it was felt that even that fee ($3.50 per month) was low and that a more appropriate fee would be $5.00 per month.

A final inquiry concerned delays experienced in getting investor approval to forbear on PIP loans. The servicers commented that they had not experienced long delays except in a few cases where they were dealing with lending institutions that normally took longer to arrive at decisions regarding forbearance. (It was pointed out to the servicers that a national TMAP program could be operated without lender consent if the forbearance element was eliminated; the initial payment under the national TMAP program could include the payment of the delinquent amount outstanding at the time of entry into the program.) In most cases, they had excluded from the demonstration any loans in a GNMA pool, and most of them were using only FNMA loans, as FNMA had given them blanket approval for participation.

After the formal debriefings in February 1978, verbal exchanges between the mortgage servicers and the contractor's representative continued during the period of mortgagor partial payments and in some cases extended beyond the recast of the mortgage. Comments of substance were reported to the program manager. In general, the attitudes derived from the formal debriefings and these informal exchanges were quite favorable: The servicers felt that a national TMAP program would be well received by most lenders.

The first indication of negative feedback by the servicers regarding the demonstration came second-hand a year or so later at FNMA debriefings in Washington, D.C., as described below. FNMA reported that some servicers had complained about excessive paperwork requirements necessary to satisfy PIP regulations. While it might have been desirable to follow up on these reports of servicer dissatisfactions, contractual constraints, both in terms of available time and dollars, negated that possibility. Moreover, the program design modification for the national TMAP program (noted above) would automatically reduce such paperwork by eliminating both investor review and concurrence regarding individual mortgagor participation and recast of the existing first mortgage.

5.3.3 HUD Area Offices

In addition to the debriefing of the counseling agencies and mortgage servicers, debriefings of the HUD area offices were also undertaken in February 1978. The same six questions were posed to the individuals interviewed at each HUD Area Office and the answers to these questions (designated (A) for Atlanta, (P) for Philadelphia, and (L) for Los Angeles) are set forth below.

Question: What is your assessment of the potential effectiveness of a PIP-type program?

Answer: (A) The criteria for mortgagor qualification is much too strict; consequently, not nearly enough people are effected. (As explained above, the criteria were intentionally narrow for the purposes of the demonstration.)

(P) A PIP-type program is an effective tool in reducing the deleterious impact of high unemployment on HUD-insured mortgages.

(L) The PIP program, as we know it here in L.A., started from a year to a year and a half too late. We see no need for PIP at this time.

Question: If a program such as PIP became a national program, what do you visualize as the effect on the Assignment program? Can or should the two programs coexist?

Answer: (A) I can see no need for both. It would be much too confusing; as a matter of fact, I would be totally opposed to having both programs operational.

(P) PIP and the Assignment program can work in conjunction with one another. This can be accomplished by HUD channeling the cases to either PIP or Assignment, based upon the nature of the delinquency and the corresponding remedies defined under each program. However, it probably is more feasible to retain the Assignment criteria and use PIP as the vehicle for preventing foreclosure.

(L) Again we see no need for PIP. PIP could be of local value in a time of crisis such as extensive layoffs in the aerospace industry.

Question: If your office were to run a PIP program, what additional resources would you need? People, budget, facilities, equipment?

Answer: (A) We couldn't do it with existing resources. We would need additional personnel more than anything.

(P) Additional staffing would be required if HUD were to administer PIP. Information on the level of additional resources needed to run PIP cannot be provided at this time.

(L) We would most likely have a need for additional personnel. No other resources can be foreseen at this time.

Question: If PIP were to become a national program, what program changes would you like made prior to its implementation?

Answer:

(A) Again, we would need more resources. Also, the program should be geared to help more people! There are three types that should be helped: (1) those with homeownership desire, (2) those with homeownership potential, and (3) those who are unable to earn enough to fulfill dreams for living. An example of the latter might be a school teacher with six kids. This person would be a deserving individual to receive help in fulfilling desires for a better life style.

(P) If PIP were implemented nationally, the primary change should be the broadening of the criteria.

(L) Some changes would have to be made to increase the numbers of those eligible.

Question: Should the PIP criteria for participation be changed? How?

Answer:

(A) The question is: Are we looking to achieve an improved system? Or are we trying to help people? Let's concern ourselves with making a more human program and a less mechanical one! Let's make the program more flexible. That's the trouble with 76-9, its criteria are too strict! We are better off with the old assignment program; it's more flexible. Perhaps we shouldn't have any criteria and should base our decisions on a more human approach to the individual mortgagor's problem. At least expand the criteria to include marital problems and illness; also more time should be allowed to cure.

(P) Unemployment is a major problem in the Philadelphia area, but the program would help even more homeowners if other major reasons for delinquency were included. Marital separation is a major cause for delinquency that should be reviewed as a criterion for consideration for PIP. Although illness is often claimed by mortgagors as a reason for delinquency, it is very difficult to verify. Consequently, it is not recommended that the criteria be expanded to include delinquencies caused by illness.

(L) Most of our problems, other than the hard-core unemployed, deal with marital difficulties, over-indebtedness, and those who just plain had too low an income to be homeowners in the first place. Of these, those with marital problems could be considered. If the indebtedness can be related to a specific one-time problem, it might be considered also!

Question: If PIP should become a national program, who should administer it? HUD? Mortgage Servicers? Counseling Agencies?

Answer: (A) I don't feel the counseling agencies should do the job. The important thing, though, is not the agency but the individual. Social science people should not handle this program. The people should have a more technical background, maybe in economics. Perhaps a recent college graduate could be set up in one of the existing agencies and operate the program more or less independently. It probably would be best if that individual were headquartered in HUD or under a separate third-party organization.

(P) If the program became national and was to be implemented in the near future, HUD should administer it. The length of time HUD normally takes to implement a program can be reduced when an edict is issued from headquarters. This specific mandate, in addition to national training in concept as well as administration of PIP, would produce a consistency in the PIP program far greater than that is found in the Assignment program.

Mortgage servicers could administer the program but are not presently equipped to handle it. They lack the consistency needed in such a program. However, this consistency could be provided by proper national training in PIP concept and administration. Also, a reasonable financial incentive must be provided before servicers would run the program. Although the quality and concern of employees of the various servicers vary, they are, as a whole, very perceptive at screening mortgagors for forbearance programs.

Again, the differences found in the quality and priorities of the various counseling agencies would not provide the consistency necessary for a national PIP program. There is a concern about whether the counseling agencies have the staff to handle this type of program. There is also concern over whether the counseling agencies would be too liberal in screening mortgagors.

(L) Definitely no on counseling agencies! The mortgage servicers and HUD should work together jointly. The groundwork could be done by the servicers while the mechanics were accomplished by HUD.

Question: Do you have any general comments?

Answer:

(A) The failure rate in Atlanta is very low. We just won't foreclose on anyone as long as they are trying. We won't foreclose on anyone until after 3 years, and that's the way PIP should be: 3 years of PIP before foreclosure.

(P) The month of February produced 65 requests for assignment compared to 35 the preceding month. There has been an 8 percent acceptance rate. About half of the Philadelphia area assignment cases default.

(L) In L.A., we deal a lot with hard-core poverty unemployed. Most of the homes financed are older and have built-in maintenance problems. Much of the problem can be traced to very loose underwriting procedures. Also, few cases ever get to foreclosure, as the servicer usually can work the problems out. As of now we are buying very marginal homes on the assignment program. About 80 cases a month now come in, and about one of those would fit PIP, by present criteria.

5.3.4 FNMA and GNMA

In February 1980, members of the contractor's team met with officials of FNMA (both in Washington, D.C., and in Philadelphia) and officials of GNMA (in Washington, D.C.) and conducted debriefing interviews. Many of the comments from FNMA and GNMA related not to the PIP demonstration but to the establishment of a national TMAP program. Those comments will be included in this section as an appropriate introduction to the next chapter of this report on a national TMAP program.

In general, officials of both FNMA and GNMA felt that a national TMAP program, using the eligibility criteria of the present assignment program with the delivery system tested in the PIP demonstration, would be a workable program. The principal objection to the PIP demonstration by FNMA, as to workability, related to excessive paperwork. FNMA believed that, if the paperwork were reduced in a national TMAP program, the program would be workable.

Although with the reduction of paperwork, FNMA officials thought that a national TMAP program would be workable, officials of FNMA in Washington questioned whether the PIP demonstration results would prove that PIP benefits would reduce the secondary failure rate among mortgagors. They believed that the preliminary results they saw in the FNMA mortgagors who participated in the PIP demonstration did not show a very high success rate.* The statistical results set forth above (section 5.2 of this report) should convince them of the advantage of the PIP advances.

Both FNMA and GNMA officials felt that the servicing fee used in the PIP demonstration would not be sufficient for a national TMAP program, in light of the small loans that would be created. GNMA officials suggested that a $5.00 per month servicing fee would be a minimum. They explained that the GNMA Mobile Home program had become a very positive program when they allowed the servicing fees to seek a higher level and indicated that at the present time the servicing fees on that program amounted to approximately 3 percent of the loan balances, with loans averaging between $10,000 and $15,000. Both FNMA and GNMA officials suggested that the remittance of servicing fees should probably be established on a monthly basis, but with a provision that no remittance would be required until a certain minimum amount had been collected. There was also a suggestion by GNMA officials that an added inducement would be to permit the servicers to maintain the payments on the TMAP Loan in an interest-bearing account prior to remittance.

Both GNMA and FNMA officials felt that the interest rate on the TMAP Loans should not necessarily be set at the same level as the interest rate on the HUD-insured first mortgage but should be set at some current rate (such as the FNMA auction or the current FHA rate).

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* FNMA officials in Washington also questioned the use of the assignment eligibility criterion which, they indicated, required ignoring the past payment record and thus permitted assistance to "chronic delinquents." The guidelines for the Assignment program do provide that "[t]he current default is the only one to be considered in determining whether the mortgagor is in default due to circumstances beyond his or her control [and that] [i]f the record indicates that the present default was caused by some circumstance beyond the mortgagor's control, regardless of past history, this criterion is satisfied." HUD Handbook 4191.2, page 2-4. However, the guidelines also provide that the fact that the account was already delinquent when the qualifying circumstance first appeared must be taken into consideration, and judgment must be exercised to determine whether that delinquency or the current circumstance is the result of the current default. Similarly, the guidelines require judgement to be exercised when an account has been chronically in default in the past. The guidelines do provide, however, that "[g]enerally, if the account was current for two or more months immediately preceding the present default, the default should be considered to be a new one."

Officials of both FNMA and GNMA thought that if a national TMAP program were introduced, it could also be expanded to cover Veterans Administration, Farmers Home Administration, and conventional mortgages. They further indicated that, if they deemed the national program workable, they would cooperate in the adoption of the necessary legislation.

Finally, both GNMA and FNMA officials expressed their opinion that the loans held by HUD as a result of the PIP demonstration would not be marketable unless they were HUD-insured. Similarly, with respect to the loans created from a national TMAP program, HUD insurance would be required if they were to be marketed. Obviously, everything is for sale at some price, but they felt that FHA insurance was necessary for any type of practical marketing program. (FNMA officials indicated that the yield currently (in February 1980) required to market second mortgages in connection with rehabilitation loans was approximately 17.8 percent.) To the extent that the loans were insured by HUD, there would certainly be no need for title insurance, and these officials recommended that the program include a title report to ensure only that a valid mortgage was created. In addition, GNMA officials indicated that possibly GNMA could set up a trust for HUD as a central location for remittance of funds by the servicers, thus easing the servicing problem if the loans were marketed to numerous investors.

6.0 NATIONAL IMPLEMENTATION

6.1 INTRODUCTION

The foregoing sections of this report outlined the design and demonstration of the PIP program. It is submitted that the demonstration indicated that the PIP program was a workable system and an effective means of accomplishing its goal: a program of temporary mortgage assistance payments to assist mortgagors who are temporarily unable to make the payments on their HUD-insured first mortgages.

Effective October 8, 1980, the National Housing Act was amended to authorize HUD to implement a national program of "temporary mortgage assistance payments" (TMAP). A copy of the amendments (which are referred to in this report as the "TMAP Legislation") is included in Appendix H of this report. In essence, the TMAP Legislation authorizes the PIP program utilizing the broader-based eligibility criteria of the current Assignment program. The purpose of this section is to set forth the contractor's description and evaluation of a national TMAP program that could be implemented under the TMAP Legislation. We will include a comparison of the proposed TMAP program and the PIP Demonstration Program and also point out the changes to documents and procedures developed to implement the PIP demonstration that would be necessary if they were to be used to implement such a national TMAP program.

6.2 CRITERIA FOR MORTGAGOR QUALIFICATION

6.2.1 Use of Assignment Program Criteria

It is proposed that the national TMAP program use substantially the same mortgagor eligibility criteria utilized presently in the current Assignment program. It is entirely possible, of course, to consider criteria different from those already in use in the Assignment program; but to do so would require renegotiation of the stipulations specified in the *Ferrell* case. Unless the present assignment criteria were followed, it is arguable that the TMAP program would not be construed as fully "equal to" to the current Assignment program. (See section 6.6 of this report for a discussion of the relationship of the *Ferrell* case to the implementation of a national TMAP program.)

6.2.1.1 Eligibility Criteria

The current eligibility for admission to the Assignment program, as promulgated in HUD Handbook 4191.2, January 9, 1979, are set forth here:

1. The mortgagee must have indicated to the mortgagor its intention to foreclose the mortgage. The following requirements should be met to satisfy this criterion:

   a. The mortgagee must be able to foreclose.

   b. The mortgagee must have decided to foreclose.

   c. The mortgagee must have notified the mortgagor of its intention to foreclose.

2. At least three full monthly payments due on the mortgage are unpaid after allowance for any partial payments that may have been accepted and not yet credited to the account.

3. The mortgaged property must be the principal residence of the mortgagor, and the mortgagor must not own other property subject to an FHA-insured or Secretary-held mortgage, unless these criteria are waived by HUD.

4. The default must have been caused by a circumstance or set of circumstances beyond the mortgagor's control that temporarily rendered the family financially unable to cure the delinquency within a reasonable time or make full mortgage payments. (This criterion is included as a requirement in the TMAP Legislation, although it would be possible for HUD to adopt a narrower criterion in the implementing Regulations.) Examples of qualifying reasons for default include, but are not limited to:

   a. Curtailment of family income, such as unemployment or underemployment; loss, reduction or delay in receipt of Federal, State, or municipal benefits or private benefit payments; loss of support payments; or other loss of income due to divorce, illness, or death

   b. Uninsured damage to the mortgage property affecting its livability and necessitating costly repairs

   c. Expenses related to death or illness in the mortgagor's household or to family members living outside the household that significantly reduces the amount of income available to meet the mortgage payment

   d. Unanticipated increase in payments to mortgage escrow to compensate for past underestimates of requirements

5. There must be a reasonable prospect that the mortgagor will be able to resume full mortgage payments after a temporary period of reduced or suspended payments, not exceeding 36 months. This criterion would of course be modified to include commencement of repayment to HUD of the TMAP Loan at the end of the benefit period. (This criterion, as so modified, is also required by the TMAP Legislation, the Legislation providing that the repayment to HUD is to commence "at a time designated by the Secretary.")

6. There must be a reasonable prospect that the mortgagor will be able to pay the first mortgage in full by its original maturity date extended, if necessary, by up to 10 years. (The TMAP Legislation contains this same criterion but provides that the mortgagor must have such prospect of repaying the first mortgage by its original maturity date or "by a later date established by the Secretary...." HUD has adopted the 10 year period in connection with the Assignment program.)

7. The mortgagor's mortgage must be a single-family mortgage insured under any section of the National Housing Act other than Section 244.*

Expansion of the national TMAP program to cover mortgages and loans insured under other sections of the National Housing Act, as well as other types of loans and mortgages, such as Veterans Administration, Farmers Home Administration, and conventional loans, is discussed in Section 7.2 of this report.

6.2.1.2 Limitations

The very much narrower criteria of the PIP Demonstration Program are set forth in section 3.0 of this report. Although these criteria are narrower than the ones authorized by the TMAP Legislation and thus technically could be implemented under that Legislation, there are several cogent and compelling reasons why the PIP demonstration criteria could not possibly be considered for nationwide implementation in lieu of or as a substantial replacement for the Assignment program criteria:

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* Section 244 of the National Housing Act permits HUD to insure any mortgage pursuant to a co-insurance contract, provided that the mortgagee assumes a percentage of any loss on the insured mortgage in direct proportion to the amount of the co-insurance. See section 7.2 of this report for a discussion of the expansion of any TMAP program to include mortgages co-insured under Section 244.

1. The set of circumstances for which mortgagors were eligible for PIP assistance was strictly limited for control purposes to unemployment, underemployment, and illness, as opposed to the much fuller list in subsection 6.2.1.1, item 4, above. Indeed, according to subsection 6.2.1.1, item 4, any cause(s) beyond the control of the mortgagor constitutes acceptable reason(s) for consideration for assignment.

2. Because of the time limits imposed upon the demonstration within which to collect the data and establish the results, the maximum number of PIP payments was limited to 9 months of full mortgage support or 12 months of 3/4 mortgage-payment support. This is a much shorter period than the 36 months of reduced or suspended mortgage payments permitted under the Assignment program and authorized by the TMAP Legislation, and one result of the demonstration was to show that this 1-year maximum benefit period is simply too short for many families.

3. The technical requirements that (1) no home improvement loans or other junior encumbrances be on the mortgaged property; (2) that duplexes, triplexes and fourplexes be ineligible; and (3) that the property be located within the jurisdiction of a HUD-approved default and delinquency counseling agency would all lead to a distinctly smaller universe of potential mortgagors than was intended by the terms of the court order that led to the Assignment program.

4. Perhaps the most restrictive eligibility criterion included in the PIP demonstration was that the mortgagor must have made mortgage payments on the HUD-insured first mortgage in at least 12 consecutive months (with a miss of one month permitted) of the 24 months preceding the current default. This was adopted for the PIP demonstration in order to virtually ensure exclusion of any "chronic" delinquents. According to HUD Handbook 4191.2, however, all that is required as a general rule is that the mortgagor's "account was current for two months immediately preceding the present default." (Section 2-1(d)(4).)

6.2.2 Assignment versus TMAP

The TMAP Legislation provides that when HUD "makes a determination that assistance [using TMAP] would be inappropriate" for a particular mortgagor, HUD shall accept assignment of the mortgage in accordance, presumably, with the current Assignment program. The Contractor suggests that one category of cases where the Assignment program would be more appropriate is where there is no reasonable prospect that the mortgagor will be able to pay the HUD-insured first mortgage by its original maturity date. Although the TMAP Legislation would permit the use of TMAP so long as there is such prospect of repayment by a date set by HUD after the scheduled maturity date, such extension would require consent by the mortgagee and the recast of the first mortgage and thus unduly complicate the TMAP program.

Thus, the Contractor is suggesting that the Assignment criterion in Subsection 6.2.1.1, item 6, above, be modified to provide, for TMAP eligibility, that there be a reasonable prospect that the mortgagor will be able to repay both the HUD-insured first mortgage and the TMAP loan by the original maturity date of the HUD-insured first mortgage, without extension. If this criterion is not met, and if the comparable Assignment program criterion is met, the mortgage should be considered for Assignment and not TMAP.*

As an example of a case where Assignment would be preferable to TMAP, consider the following:

1. The HUD-insured first mortgage had an original loan amount of $40,000 at 12 percent interest repayable over 30 years. The mortgagor defaults on his mortgage, for reasons clearly beyond his control, exactly 7 years later. The debt service (P&I) on the above is $411.45 per month. Assuming escrows (taxes, insurance, and MIP) of $150 per month, total monthly mortgage payments (PITI) are $561.45.

2. Just prior to default, gross family income was $2,300 per month; assuming all other eligibility criteria are met, the HUD loan specialist believes that it would be most realistic to: (1) reduce the mortgage payments down to the required monthly escrows of $150, (2) allow for the maximum 36 months in predicting when gross family income could be substantially restored and repayment commenced, and (3) estimate the gross family income upon substantial restoration to be the same $2,300 as it was just prior to default.

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* Another category of cases which might be considered for the Assignment program rather than the TMAP program is cases where the mortgagor is unable to grant a valid mortgage on his or her property (a requirement of the TMAP Legislation), because, for example, the spouse of the mortgagor has deserted or is otherwise not available to sign the mortgage documents. Assuming applicable law requires the signature of the unavailable spouse to grant a valid mortgage, consideration might be given to using the Assignment program in such cases rather than waiving the requirement of a valid mortgage.

3. At the time of default, the mortgage balance is down to \$38,504.45. Upon providing 36 months of debt service through the use of TMAP, the cumulative advances on the part of HUD will be 36 x \$411.45, or \$14,812.20. As a portion of each such advance will go to reduce principal, the outstanding balance on the original HUD-insured first mortgage will be down to \$37,367.20 by the end of the tenth year, and when resumed by the mortgagor at that time, the regular debt service payment of \$411.45 will serve to fully amortize the original (first) mortgage over the remaining 20 years of its life. The TMAP advances, when cast as a level-payment second mortgage over the remaining 20-year term of the first, also at 12 percent interest, will require a debt service of \$163.10 per month. Total mortgage payments upon restoration of income are thus estimated as \$411.45 plus \$163.10 plus \$150, or \$724.55 per month, an amount equal to 31.5 percent of anticipated gross family income.

It is proposed that, since the above ratio of mortgage payment to income is in excess of the 30 percent benchmark, the mortgagor should not qualify for the TMAP program. (Had the ratio been less than 30 percent, TMAP would be the more appropriate delivery vehicle, and the next step would have been to determine what repayment term--down to as low as 5 years--would have just made the total mortgage-payment-to-income ratio exactly 30 percent.)

Although in this example the 30 percent benchmark test would not be satisfied if the mortgagor were permitted to participate in the TMAP program, this benchmark test would be satisfied if the mortgage were assigned to HUD.

Thus, consider the following continuation of the above example:

1. Assuming the reduced payments continue for 36 months, HUD's forbearance consists of 36 months of simple interest on the outstanding loan balance of \$38,504.55 at default. At an interest rate of 1 percent per month, this is 36 x \$385.05, or \$13,861.80

2. Upon restoration of income, the amount of the recast mortgage is to be \$38,504.55 plus \$13,861.80, or \$52,366.35. The maximum term permitted on the recast is for the remaining term on the original first mortgage plus 10 years, so at 12 percent interest, debt service payments on a 30-year loan of \$52,366.35 comes to \$538.65 per month. With escrows of \$150, total monthly mortgage payments would be \$688.65, an amount just under 30 percent (29.94 percent, to be exact) of anticipated gross family income.

To assist the reader, the above example is summarized in figure 6.0-1.

	TMAP	Assignment
Mortgage balance at time of default	$38,504.55	$38,504.55
Mortgage balance at end of benefit period	$37,367.20	$38,504.55
Amount of benefit or forbearance	$14,812.20	$13,861.80
Total owed at income resumption*	$52,179.40	$52,366.35
Payments on the first or recast mortgage	$ 411.45	$ 538.65 (30 yrs)
Payment on the TMAP loan	$ 163.10 (20 yrs)	-0-
Escrow payments	$ 150.00	$ 150.00
Total monthly mortgage payment	$ 724.55	$ 688.65
Percentage of gross family income	31.5%	29.94%

Figure 6.0-1.—Case Study of Mortgagor

* These amounts are slightly different because the TMAP payments reduce the outstanding principal balance on the first mortgage and thus reduce the amount on which interest is accruing (it being assumed for this example that no interest is charged on the TMAP loan until recast).

This proposal for a combined TMAP/Assignment proposal is diagrammed in figure 6.0-2 and a more detailed flow diagram is included in Appendix 1 to this report.

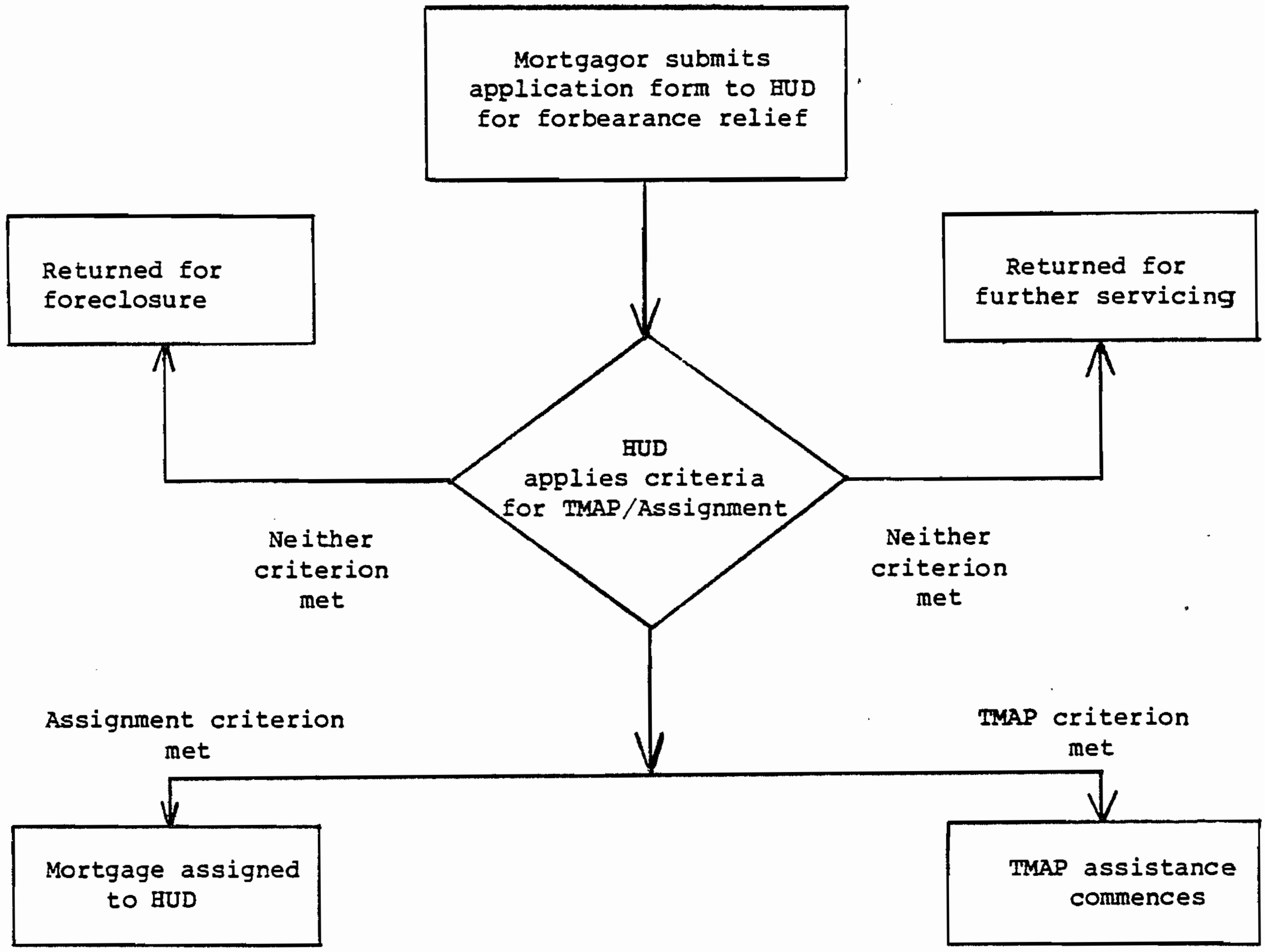

Figure 6.0-2.—Processing of TMAP/Assignment

6.3 IMPLEMENTATION

6.3.1 Field Administration

This section will describe the basic responsibilities of HUD, mortgage servicers, and counseling agencies in the administration of a national TMAP program. The administrative structure outlined below will cover key interfaces and decision-making responsibilities during intake, benefit, and post-benefit periods indicating where appropriate, the necessary and recommended modifications from the structure used in the PIP demonstration.

6.3.1.1 Intake

Since under the TMAP Legislation the national TMAP program and the Assignment program will exist side by side with basically the same qualifying eligibility criteria, the procedures presently being followed by HUD to determine which mortgagors qualify for the Assignment program will be equally applicable to determine mortgagors qualifying for TMAP assistance. For purpose of completeness, this procedure (with the modifications necessary to implement the combined TMAP/Assignment program) is summarized below.

The system is triggered when a potentially eligible mortgagor becomes 3 months delinquent and the mortgagee notifies the mortgagor of its intent to foreclose. The exact procedure to be followed (as set forth in HUD Handbook 4191.2) depends on whether HUD initially determines that the mortgagor is eligible for the program or whether HUD initially decides that the mortgagor is not eligible and then changes that determination after the required conference with the mortgagor. In any event, after following the initial procedures, a HUD loan specialist must make a determination as to whether the mortgagor qualifies for the TMAP program, the Assignment program, or neither program.

6.3.1.1.1 Available Data--Under the procedures set forth in HUD Handbook 4191.2, in making this decision HUD will have available to it at least the following data:

1. Background Data on Request for Assignment (Form HUD-92206), prepared by the mortgagee or mortgage servicer

2. Request for Assignment of Mortgage (Form HUD-92068F), prepared by the mortgagor (unless the mortgagor fails to complete this form when requested to do so by the mortgagee (or servicer)

3. A copy of the ledger record or payment record card reflecting the payment history on the account during the last 3 years (or since the indebtedness was assumed by the present mortgagor, if that date is more recent)

4. Copies of all related collection records covering the same period of time described above and documenting the efforts of the mortgagee's or servicer's staff to collect the debt and the mortgagor's reaction to those efforts

After the receipt of the above information and (if required) a conference with the mortgagor, the HUD field office must decide whether the mortgagor qualifies for the TMAP/Assignment program and, if so, which of the two programs will be offered. The data for applying the eligibility criteria described in section 6.2 of this report is available to the field office from the information described above.*

Up to this point the procedure described above is identical to the procedure presently utilized for the Assignment program as described in HUD Handbook 4191.2. The data gathered by HUD will be sufficient for implementation of the TMAP program (i.e., sufficient to permit creation of the documents for the TMAP loan to be made by HUD to the mortgagor by means of TMAP advances). These various procedures and the data collection forms used will supplant the procedures and data collection forms used in the PIP demonstration to determine the eligible mortgagors and gather the information necessary for intake of those mortgagors.

If the mortgagor is to be denied access to the TMAP program (whether or not assignment is also rejected), this constitutes a denial of credit. To comply with the federal Equal Credit Opportunity Act and Fair Credit Reporting Act, HUD must send the mortgagor a statement similar to the Statement of Credit Denial (Form LD-0) used in the PIP demonstration. (See the discussion of the requirements of these laws in section 4.2 of this report.)

6.3.1.1.2 HUD Field Office Actions--Assuming the mortgagor is to be accepted into the TMAP program rather than the Assignment program, the HUD field office staff must notify the mortgagor and servicer of the acceptance and then accomplish the following:

1. Determine, based upon the mortgagor's ability to pay and the demands of the HUD-insured first mortgage, the amount of the mortgagor's partial payment. Pursuant to HUD Handbook 4191.2, the partial payment to be made by the mortgagor during HUD's forbearance after assignment is (1) to be determined within the discretion of the HUD loan specialist, (2) not to be so great as to cause the mortgagor's total housing expenses to exceed 35 percent of his or <u>net</u> effective income, and (3) except under unusual circumstances, not to be less than the amount required for the escrow.** The TMAP Legislation

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* For suggestions regarding changes to the data collection procedures used for mortgagor selection (for the purpose of improving HUD's ability to evaluate the success of the Assignment and TMAP programs), see section 7.5 of this report.

** The guidelines developed in the PIP demonstration for the determination of the partial payments differ only slightly: The partial payment was to be the lesser of the total escrow obligations or 30 percent of the mortgagor's gross family income, with the partial payment being set at an amount below the lesser of these two amounts only under special circumstances.

provides that HUD is to set the amount of the mortgagor's payments as the amounts, if any, "which the mortgagor is capable of contributing toward the mortgage payments."

2. Determine the maximum period of TMAP assistance. Under the Assignment program, the HUD loan specialist establishes a written payment plan for the mortgagor for a period of up to 18 months, the length of the period determined by the expectation of when the cause of the default is to be cured. HUD Handbook 4191.2 also provides that, under unusual circumstances, the payment plan may, after the 18-month period, be extended for an additional period of up to 18 months. The TMAP Legislation authorizes HUD to make payments for a period up to 18 months, with an extension in HUD's discretion, for not to exceed another 18 months, and also authorizes the first TMAP payment to be sufficient to pay the amount then in default on the first mortgage. It is proposed for the national TMAP program that the same procedures as the Assignment program be used--a written payment plan should be prepared providing for TMAP assistance to continue for a period no longer than 18 months with a maximum extension for another 18 months. Because the TMAP program will be simpler to administer if it is only necessary for the mortgagor to sign a promissory note one time, it is suggested that the note used for the TMAP program (the "TMAP Note") be for a maximum amount equal to the amount necessary to cure the default on the first mortgage plus an amount equal to 36 times the total monthly payment under the HUD-insured first mortgage, and then the written payment plan be used to determine how much of the maximum loan will actually be advanced by HUD.

3. Prepare the instrument(s) required for securing the advances to be made on behalf of the mortgagor, i.e., the TMAP Note, TMAP Mortgage, Disclosure Statement and Rescission Notice. The form of these documents is described in section 6.3.2, below.

4. Determine the amount required to bring the HUD-insured first mortgage current. As has been indicated above, and as discussed in section 6.3.2 of this report, it is suggested that the HUD-insured first mortgage be brought current with the first TMAP payment. This is authorized in the TMAP Legislation, serves to simplify the program by eliminating the need for mortgagee consent, and makes the program feasible for mortgages in GNMA passthrough pools.

5. Order a title insurance report on the mortgagor's home. The TMAP Legislation requires that the TMAP Loan be secured by a mortgage on

the mortgagor's home. To ensure that HUD will obtain a valid mortgage, it is suggested that a title insurance company be utilized to issue a title report* and handle the actual recording of the TMAP Mortgage.

6. Send a letter to the mortgagor scheduling an appointment for signing legal documents, indicating that all comortgagors and the mortgagor's spouse must attend.

6.3.1.1.3 Mortgagor Actions--At this conference with the mortgagor, the following matters must be accomplished:

1. The mortgagor must execute the legal documents described above necessary to evidence the mortgagor's obligation to repay HUD for the TMAP advances and to secure such obligation with a mortgage on the mortgagor's home. The mortgagor also signs to acknowledge receipt of copies of these documents. (The reasons for the use of these documents and an explanation of their contents is described in section 6.3.2 of this report.)

2. A written payment plan providing for the amount of the partial payment by the mortgagor and the length of time for continuation of the TMAP advances must be agreed upon and executed by the mortgagor.

3. The mortgagor must be given one TMAP Certificate similar to the Certificate (Form LD-8) used in the PIP demonstration. This Certificate is used by the mortgagor to make the partial payment to the mortgage servicer. The HUD loan specialist assists the mortgagor in completing this first monthly Certificate and instructs the mortgagor to send the Certificate to the servicer, accompanied by his or her partial payment, by the first day of the following month. As was the case in the PIP demonstration, the purposes of this Certificate are to (1) accompany partial payments to the mortgage servicer, enabling the servicer to identify the proper loan transaction to which the payment applies; (2) serve as a certification by the mortgagor that he or she still meets the eligibility criteria to participate in the program, and (3) supply HUD with the information to enable HUD to determine whether there should be a change in the partial payment and also to determine whether the mortgagor's income has been restored or the other cause of the default has been cured such that it is the time to recast the TMAP Loan.

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* The title report is not title insurance. It is only an informal summary of the status of title. However, it does provide an inexpensive ($50 to $100 per search) means of obtaining current title information on the property.

4. If mandatory counseling is to be a part of the TMAP program (an issue discussed below), the mortgagor is also given a letter at this conference explaining the mortgagor's responsibility to see a counselor.

5. It is suggested that the TMAP Mortgage (like the PIP Mortgage) require that the hazard insurance policy on the mortgagor's home be endorsed to show HUD as an additional insured party. Therefore, at this conference the mortgagor must also be requested to contact his insurance agent and make sure that HUD is named as an additional insured. The HUD loan specialist should follow up to make sure this is done.

6.3.1.1.4 HUD Loan Actions--After this conference with the mortgagor, the HUD loan specialist must accomplish the following:

1. The TMAP Mortgage (accompanied by the TMAP Note) must be forwarded to the title insurance company for recording. The title company is to return the recorded TMAP Mortgage, the TMAP Note, and a title report showing the recorded TMAP Mortgage.

2. The Office of Finance and Accounting (OFA) must be informed of:

   a. The enrollment of the mortgagor into the TMAP program

   b. The amount necessary to bring the HUD-insured first mortgage current (including any late charges)

   c. The amount of the regular monthly TMAP payment (i.e., the monthly payment on the HUD-insured first mortgage including principal, interest and escrows less the partial payment to be made by the mortgagor)

   The first TMAP payment to be made by OFA will then be the sum of the amounts described in b. and c. above, and the subsequent TMAP payments, until changed, will be the amount described in c.

   The HUD loan specialist must also notify the servicer of the enrollment of the mortgagor and send the servicer one master Certificate form for the mortgagor, which the servicer can use to obtain one partial payment from HUD if the mortgagor fails to make a partial payment. This is the procedure that was used in the PIP demonstration.

6.3.1.2 Benefit Period

The benefit period begins when, on the first day of the month following the execution of the legal documents, the mortgagor forwards the Certificate and partial payment to the mortgage servicer and OFA forwards the first TMAP payment to the servicer. After the receipt of these payments, the HUD-insured first mortgage is current.

Each month the same process is followed. This is identical to the process followed monthly in the PIP demonstration. In the PIP demonstration, the mortgagor attended a monthly counseling session. This system worked well in the demonstration. The TMAP Legislation provides that in connection with both the TMAP and Assignment programs, HUD "shall, to the extent practicable, provide homeownership counseling to persons assisted...." If monthly counseling is not to be a part of the TMAP program,* the counselor's role will have to be filled either by HUD staff or, conceivably, the mortgage servicer. In the PIP demonstration, the counselor performed the following tasks, either monthly or less frequently, as appropriate:

1. Reviewed program objectives with mortgagor
2. Explained requirements for continued eligibility
3. Collected information on expenses and income and, if necessary, initiated budget planning for the mortgagor
4. Examined circumstances that led to the delinquency
5. Ascertained steps taken by the mortgagor to resolve the financial problem
6. Assessed prospect for restoration of income
7. Assisted mortgagor in completing voucher Certificate form which had to accompany mortgagor's partial payment
8. Submitted monthly reports to the contractor (acting in behalf of the HUD Single Family Loan Management Office), including, for example, recommendations for a change in the mortgagor's partial payments based upon financial data obtained during counseling

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* The current procedures used in the Assignment program include notification of the mortgagor of the availability of housing counselors, if desired. Thus, it may be that, at this point in the TMAP program, the mortgagor will be consulting a counselor even if counseling is not mandatory.

The OFA responsibilities during the benefit period will be those associated with the accounting, monitoring, and auditing of accounts payable.*

During the benefit period, the servicers will interface with the Single Family Loan Management staff of the HUD field office regarding changes in the amount of monthly mortgage payments, defaults, and questions regarding remittances from OFA. Basically, the normal functions of the mortgage servicer continue uninterrupted. The procedures and guidelines of HUD Handbook 4191.1 Rev., Administration of Insured Home Mortgages, remain applicable. This handbook is adaptable to collection activities and payment-monitoring systems required under the national TMAP program; however, there are aspects of monitoring and collection in this type of operational program that warrant special consideration. Even though the mortgagor would be making payments based upon ability to pay, there may be delinquencies caused by unforeseen emergencies or further reductions in income. The monitoring system must be able to identify these problems early, determine whether there is a need to change the amount of the mortgagor's partial payment (and thus the amount of the TMAP payment), reassess the potential for the mortgagor to restore his or her income, or terminate the mortgagor for lack of intent to meet the requirements for participation.

The monitoring system employed should identify the failure of the mortgagor to make the partial payment. The servicer should report this occurrence to the HUD field office. The servicer, in employing its normal collection procedures, may know the reason for the delinquency. This information should be reported to HUD. The counseling agency should attempt to find the reason for delinquency and make a recommendation to HUD on what action should be taken. The mortgage servicer should not be expected to enter into arrangements such as the acceptance of payments from the mortgagor which are less than the HUD-determined mortgagor's partial payment requirement. However, the mortgage servicer could accept two full partial payments. If this happens on a continuing basis, this pattern should be reported to HUD with a copy to the counseling agency. This notice would trigger activity by the counselor to use counseling techniques designed to put the mortgagor in a pattern of making payments on the due date.

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* In the PIP demonstration, the monthly PIP payment was mailed as soon as the contractor was notified that the counseling session had taken place so that the PIP payment would be received by the servicer on the first day of the month. It is suggested that the same procedure be used in the TMAP program, and if mandatory counseling is not part of the TMAP program, the person with whom the mortgagor meets to fill out the monthly Certificate would be the one to notify HUD that the Certificate had been filled out. If the mortgagor is to fill out the Certificate without assistance, the procedure should be set up so that payments will automatically be made to be received by the servicer on the first day of the month.

Since the TMAP payment will be sent by HUD automatically, in the case of delinquent mortgagor partial payments, the servicer should hold the HUD advance in a suspense account until the matching mortgagor payments are received. The servicer should not hold more than three payments in suspense. Failure of a mortgagor to make three partial payments should be reason for termination, consideration of hardship assignment, or foreclosure, whichever is warranted by the circumstances. HUD should notify the servicers of what action to take with regard to the three partial payments held in suspense.

If the circumstances indicate a need for relief, such as increasing HUD's share of the payment or of a lump-sum payment of the delinquency by the mortgagor, then these payments will be held until the agreed-upon action is taken by the mortgagor and/or HUD; however, it is expected that these problems normally would be solved before the need to hold three payments in suspense. If, for instance, it is determined that the default was caused by a further reduction in effective income, and there remains a prospect of income restoration, HUD may determine that a retroactive adjustment is required. This retroactive adjustment might mean that the mortgagor's share of the monthly payment should be reduced to zero for a specific period. If this is the case, HUD may remit the amount required to complement the three payments held in suspense.

If the mortgagor is terminated from the program, the three payments held in suspense would be applied to complete the monthly installments in the order in which they become due, beginning with the earliest unpaid installment. The remaining balance should be deducted from the insurance claim made to HUD upon foreclosure or hardship assignment. If neither of these options becomes the final disposition of the case, the remaining balance would be remitted by the servicer to HUD's Office of Finance and Accounting.

Upon receipt of the monthly Certificate from the servicer, the HUD Single-Family Loan Management staff must verify that the mortgagor still qualifies for the TMAP program. The TMAP payments should terminate when one of the following occurs:

1. The mortgagor fails to make a required partial monthly payment and the HUD loan specialist (in the follow-up described above) is not satisfied that future partial payments will be made.

2. The information shown in the monthly Certificate indicates that the mortgagor no longer qualifies for participation in the program for any of the following reasons:

   a. The mortgaged property is no longer the principal residence of the mortgagor.

   b. The maximum amount of TMAP payments to be made by HUD (as set forth in the TMAP Note) has been made.

c. If the period of the payment plan originally established with the mortgagor is concluded and the mortgagor's income has not yet been restored or the other cause of default has not been cured, the HUD loan specialist must determine whether to extend the period of the payment plan up to the maximum of 36 months or terminate the TMAP payments.

d. HUD determines that, based on information now available to it, there is no longer a reasonable prospect that the mortgagor will be able to resume full mortgage payments and begin the repayment of the TMAP Loan by the end of the TMAP benefit period.

3. The information in the monthly Certificate indicates that (a) the gross family income of the mortgagor has increased to an amount equal to or greater than 75 percent of such income immediately preceding the occurrence of the circumstance or set of circumstances beyond the mortgagor's control which temporarily rendered the family financially unable to correct its delinquency; or (b) if the original circumstance causing the default was not a reduction of the mortgagor's income, such original cause of the default has been eliminated. The first part of this test was the one used in the PIP demonstration to signal that the mortgagor was able to begin making full mortgage payments, and the same criteria is suggested for use in the TMAP program.

If the TMAP payments are to be terminated without recast of the TMAP Mortgage, it will be necessary to notify the mortgagor and give him a notice that complies with the federal Equal Credit Opportunity Act and Fair Credit Reporting Act similar to the Statement of Credit Termination on Form LD-8A that was used for this purpose in the PIP demonstration. In addition, upon such termination from the TMAP program, the servicer (and counseling agency, if applicable) must be notified. The mortgage servicer would conduct business in the usual manner. Since there would be no apparent resolution of the mortgagor's financial distress, default would probably recur. The usual options, including foreclosure, would be available to the mortgage servicer in handling these delinquencies. Similarly, alternative HUD relief provisions could be utilized should circumstances warrant their consideration.

6.3.1.3 Post-Benefit Period

If the HUD loan specialist determines that the circumstances causing the initial default have been corrected (e.g., the mortgagor's income has been restored), the process of recasting or modifying the TMAP Loan are to begin.

The first step in this process would be for the HUD loan specialist to notify OFA of the necessity for recast. The notification must include the information necessary for OFA to compute the recast, and for this purpose, a form such as the Mortgage Modification Data Form used in the PIP demonstration (modified by eliminating the information that was needed in the PIP demonstration to recast the HUD-insured first mortgage) may be used. OFA will then use the RECAST program created for the PIP demonstration to prepare a new amortization table for the modified TMAP Loan.

As was the case in the PIP demonstration, it is suggested that the RECAST program be used to provide for a term on the recast TMAP Loan over a period that will be no longer than the remaining term of the HUD-insured first mortgage and no less than 60 months (unless the remaining term of the HUD-insured first mortgage is less than 60 months) and be set so that the monthly installment on the TMAP Loan plus the monthly installment due under the HUD-insured first mortgage will, if possible, not exceed 30 percent of the mortgagor's gross family income.

Even though the decision has been made to recast, the next TMAP payment should still be made to give the mortgagor an additional period of time to get back on his or her feet after the correction of the circumstances causing the initial default.

After the amortization table for the recast TMAP Loan is prepared, the HUD loan specialist must contact the mortgagor asking him (or her) to come to the HUD area office to sign the documents necessary to modify the TMAP Loan. This letter must request the presence of all of the mortgagors (if more than one) and the spouse of the mortgagor, since the legal documents have to be signed by each of these individuals.

At the time of this visit, the following matters are to be accomplished:

1. The legal documents must be signed by the mortgagor and HUD. These include a modification document (similar to the Modification of PIP Mortgage, Form LD-10, used in the PIP demonstration) and a new Truth-in-Lending Disclosure Statement. Both of these documents are described in section 6.3.2 of this report.

2. The mortgagor is also given a letter explaining the new monthly payment to be made to the mortgage servicer (i.e., the combined payment due under the HUD-insured first mortgage and the payment under the modified TMAP Mortgage). The mortgagor is also given a copy of the amortization table for the modified TMAP Loan.

After this visit is completed, the modification document is forwarded to the title company (which recorded the TMAP Mortgage) with the request that this document be recorded and returned to HUD with an updated title report showing the recording of the modification document. At the same time, the mortgage servicer must be notified indicating that the TMAP modification has been completed and informing it of the new monthly payment that it will be receiving from the mortgagor. Finally, if a counseling agency was involved, a letter must be sent instructing such agency of the modification.

Once the mortgagor begins making the modified payment of the TMAP Loan directly to the servicer, the Regulations or Handbooks prepared for the TMAP program will indicate the procedures to be followed by the servicer in retaining a portion of the TMAP payment as a servicing fee and remitting the balance to HUD. It is suggested (as indicated in section 5.3) that the servicer be required to account to HUD-OFA on a monthly basis but with no accounting or payment required until a minimum amount is to be paid (e.g., $2,500). In the meantime, the interest and principal portion of the payment on the TMAP Loan will be held in escrow (possibly, as an added inducement, in an interest-bearing account) by the servicer in the same manner that it holds escrows for the mortgagee on the HUD-insured first mortgage.

6.3.2 Legal Documents

6.3.2.1 General

As indicated in section 4.2 of this report, the preparation of the legal documents for the PIP demonstration required a review of the laws of the states in which the demonstration was being conducted; therefore, any legal documents used for the national TMAP program would also require such a review. However, there are at least two reasons why such a review would be far less extensive for a national TMAP program:

1. Because of the elimination of the forbearance by the mortgagee during the TMAP payments, the number and complexity of the documents are greatly reduced.

2. The problems regarding State interest rate limitations have been eliminated through Federal preemption in the TMAP Legislation which provides that the interest rate in the TMAP Note "shall be payable notwithstanding any provision of any State constitution or law or local law which limits the rate of interest on loans or advances of credit."*

6.3.2.2 Legal Documents Executed Before TMAP Payments Begin

Prior to the commencement of PIP payments in the PIP demonstration, the following seven legal documents were used:

Protective Insurance Payments Agreement (Form LD-1) (PIP Agreement)

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* The TMAP Legislation does not deal with other state restrictions such as those on compounding of interest and due-on-sale clauses. (See section 6.6 of this report.)

Protective Insurance Payments Demonstration Program Guidelines (Form LD-2) (Guidelines)

Promissory Note (Form LD-3) (PIP Note)

Mortgage/Deed of Trust (Form LD-4) (PIP Mortgage)

Disclosure Statement (HUD) (Form LD-5)

Disclosure Statement (First Mortgage) (Form LD-5)

Rescission Notice (HUD) (Form LD-6)

Three of these documents (the PIP Agreement, the Guidelines, and the Disclosure Statement in connection with the HUD-insured first mortgage) would not be needed in a national TMAP program if the contractor's suggestion is followed--if the TMAP program does not include any extension of the maturity date of the first mortgage. The following discussion of each of these seven documents includes an explanation of why these three documents are not needed and the changes needed in the other four documents.

6.3.2.2.1 PIP Agreement--PIP assistance commenced by having the four parties sign the PIP Agreement. It is suggested that for a national TMAP program the PIP Agreement may be eliminated.

1. The principal reason for having the mortgagee sign a PIP Agreement was to agree to forbear the three delinquent monthly payments on the HUD-insured first mortgage while PIP payments were being made. Since it is proposed that the first TMAP payment be sufficient to bring the first mortgage current (and this is specifically authorized by the TMAP Legislation), there is no need for this agreement to forbear. Similarly, the mortgagee's agreement to execute a modification of the HUD-insured first mortgage will not be required if, as the contractor suggests, there is to be no extension and thus no modification of such first mortgage. The other agreements of the mortgagee set forth in the PIP Agreement could also be eliminated:

    a. The mortgagee agreed that the servicer would be entitled to receive his normal servicing fee with respect to the payments made on the HUD-insured first mortgage by means of PIP payments and the partial payments from the mortgagor. In retrospect, it appears rather clear that the servicer would be entitled to his servicing fee without such agreement from the mortgagee.

    b. The mortgagee agreed that if it effected a transfer of the servicing of the first mortgage, it would also cause the transferee servicer to service the PIP Mortgage. Although this may be desirable, it is not necessary, since the original servicer can be required by HUD regulation to continue to service the TMAP Mortgage even if servicing of the HUD-insured first mortgage is transferred.

c. Finally, in the PIP Agreement the mortgagee authorized the servicer to service the PIP Mortgage in accordance with the PIP Agreement and Program Guidelines, although this appears to be unnecessary.

2. The agreements by the mortgage servicer in the PIP Agreement (namely to service the PIP Mortgage in accordance with applicable regulations that apply to the servicing of the HUD-insured first mortgage and the requirements in connection with the monthly Certificates) do not require a PIP (or TMAP) Agreement, since these requirements can be imposed upon the servicer in regulations promulgated under the TMAP Legislation.

3. The agreements of HUD contained in the PIP Agreement are set forth in the TMAP Legislation and in the HUD regulations implementing that legislation.

4. The agreements of the mortgagor in the PIP Agreement can, to the extent necessary, be included in the TMAP Note and TMAP Mortgage as well as in the written payment agreement regarding the mortgagor's obligation with respect to partial payments.

6.3.2.2.2 Guidelines--The Guidelines would be incorporated in the HUD Regulations and in HUD Handbooks related to the TMAP program and therefore will not be needed as a separate legal document. When the Guidelines are so incorporated, some of the following modifications would have to be made:

1. The eligibility provisions of the Guidelines (Section 3) must be modified to conform to the eligibility criteria as described in section 6.2 of this report. Similarly, the criteria for continuing eligibility once enrolled in the program (in Section 4 of the Guidelines) will have to be modified to conform to such criteria as described in section 6.3.1 of this report.

2. If monthly counseling sessions are not to be required, the provisions of the Guidelines requiring counseling (Section 5) will be eliminated or replaced with comparable provisions regarding the mortgagor's monthly meetings with either the HUD staff or the mortgage servicer (for the purpose of completing the monthly Certificate).

3. If the Guidelines for setting the amount of the mortgage partial payments are to be modified from the ones used for the PIP demonstration, those provisions of the Guidelines (in Section 5.2) will require modification.

4. The provisions of the Guidelines regarding forbearance by the mortgagee will be unnecessary for the TMAP program.

5. Since the implementing TMAP Legislation provides that the rate of interest used in the TMAP Note supercedes any state usury restrictions, the interest rate used in connection with the TMAP Note in every state will be the same.

6. It is not clear whether the TMAP Legislation also preempts state restrictions on the compounding of interest. Therefore, it is not clear whether in every state it will be possible to provide that interest on the TMAP advances will accrue from the date of each advance rather than from the date of the last TMAP payment. Althought the PIP Note provided for interest to accrue during the PIP payment period, the Guidelines indicated no such interest would accrue because of such compounding restrictions.

7. The provisions of the Guidelines requiring the servicer to record the PIP Mortgage and Modification of PIP Mortgage will not be required in the TMAP program.

8. The provisions regarding the servicer's accounting and payment to HUD for payments received on the TMAP Loan must be modified to reflect the requirements for monthly accounting and the minimum remittance required.

6.3.2.2.3 PIP Note--The TMAP program will require the mortgagor to execute a promissory note (the TMAP Note). For this purpose the form used for the PIP Note may be used without modification except as may be necessary after further review for compliance with local law.

6.3.2.2.4 PIP Mortgage--Similarly, the basic form of PIP Mortgage, with changes required to comply with various state laws, may be utilized as the TMAP Mortgage. In particular, since the implementing TMAP Legislation does not preempt state law with respect to due-on-sale clauses (see section 6.6 of this report), the decision on the inclusion of such a clause in the TMAP Mortgage will have to be made on a state-by-state basis.

6.3.2.2.5 Disclosure Statement (HUD)--The Disclosure Statement used in the PIP demonstration to comply with the provisions of the Truth-in-Lending Act and Regulation Z and the applicable provisions of state law will also be required in the TMAP program. Again, since state law provisions have not been preempted (see section 6.6), review of each state law will have to be made to determine whether additional disclosures are required, as was the case with Georgia for the PIP demonstration. Subject to such state law modifications, the Disclosure Statement used for the PIP demonstration may be used for the TMAP program only until April 1, 1982, at which time the recently enacted amendment to the Truth-in-Lending Act (Title VI, Depository Institutions Deregulation and Monetary Control Act of 1980) becomes effective. At that time the Disclosure Statement will have to be modified to comply with the Act and Regulation Z, as amended.

6.3.2.2.6 Disclosure Statement (First Mortgage)--If as suggested by the contractor the HUD-insured first mortgage is not to be modified, there will be no need for this document in the TMAP program.

6.3.2.2.7 Rescission Notice (HUD)--This document will be needed in the TMAP program and, unless state law requires additions, should not need modification for use in the TMAP program.

6.3.2.3 Modification of TMAP Mortgage

In the PIP Demonstration, the legal documents used to effect a recast of the PIP Mortgage and the HUD-insured first mortgage were as follows:

Modification of First Mortgage (Form LD-9)

Modification of PIP Mortgage (Form LD-10)

Disclosure Statement (HUD) (Form LD-11)

Disclosure Statement (First Mortgage) (Form LD-12)

Rescission Notice (First Mortgage) (Form LD-13)

If the HUD-insured first mortgage is not to be modified in the TMAP program, the Modification of First Mortgage, Disclosure Statement (First Mortgage), and Rescission Notice (First Mortgage) will not be necessary. The Disclosure Statement (HUD) will be necessary and subject to the same comments set forth above with respect to the Disclosure Statement used at loan inception (i.e., with respect to state law requirements and amendment to the Truth-in-Lending law).

The Modification of PIP Mortgage will require modification as follows:

1. Review for compliance with each state law will be required.

2. The provisions indicating that interest does not accrue on the TMAP Loan until the date of the last TMAP payment may require modification.

6.3.3 <u>Instructional Seminars</u>

To ensure the most effective and successful national implementation of TMAP, it is suggested that all parties are well informed as to the operational requirements of the program prior to program start-up.

Instructional seminars could be held using HUD field offices. These seminars could be conducted by informed personnel representing HUD-Central or by members of the PIP Consultant Team under contract to HUD. The seminars could be conducted in person or by preparation of a video tape provided to area office personnel, who then would be responsible for convening the other concerned parties.

Irrespective of where the training is conducted, who conducts it, or how the task is accomplished, it is necessary that three separate groups of people receive the training: HUD field office personnel; mortgage servicers; and, if they are to be used in the program, default and delinquency counseling agency personnel.

Prior to implementation of the PIP demonstration, training for these three groups was accomplished in two stages. The first stage was a one-day seminar introducing the program and considering those problems and explanations that were common to everyone in the program. The full text of the presentation, complete with illustrations, provided to all participants as a handout upon completion of the seminar can be found in Appendix B.

The second stage of this two-stage training program was concerned with the separate elements of the program such as reporting, Privacy Act compliance, forms preparation, confidentiality, etc., and was accomplished in face-to-face question-and-answer sessions with the concerned groups.

While this two-stage training technique was found to be the most effective method of providing the necessary training relative to the very limited PIP demonstration, it might not be feasible for national implementation because of the increased scope of the task. While direct contact with individuals of the counseling agencies and the mortgage servicers is preferred, this mode of training would require a minimum of one week in each Area Office city visited. Unless several teams were available to provide this preferred two-stage training, another, more practicable method of delivering this training would need to be developed to eliminate a prohibitively long training period.

The importance of a training program should not be minimized. A one-step training program could be satisfactory assuming that it is properly designed and contains a comprehensive presentation for seminar attendees and, at the same time, provides descriptive, understandable training materials as handouts to effectively educate HUD, counseling agency, and mortgage servicer personnel unable to attend and for further study by those who do attend.

6.4 STAFFING ANALYSIS*

6.4.1 Introduction

The purpose of this section (6.4) is to estimate the personnel requirements for a national TMAP program compared to those requirements for the Assignment program. This will be accomplished in essentially a three-step process. The first step is to estimate the staff allocation to the current Assignment program. The second step consists of estimating the staffing requirements if the current Assignment program were to be replaced by a national TMAP program. The final step, subtracting the two allocations computed above, yields the potential net savings in personnel.

Although the procedure seems easy, it is fraught with difficulties. In the first place, there are no precise figures kept on the exact number of personnel, nor the hours per week devoted to the various functions associated with the Assignment program. Secondly, since the national TMAP program, as envisaged, differs in several respects from the PIP demonstration, it is not possible to estimate precisely the number and level of effort that would be required by the Department.

Notwithstanding these impediments, the following estimates are provided utilizing data drawn from the records and interviews conducted with officials of the Office of Management Information (OMI), the Office of Finance and Accounting (OFA), and the Office of Single-Family Loan Management (OLM).

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* Because of the change in circumstances since the staffing analysis was undertaken, the conclusions regarding the savings in staff years no longer may be reliable. Since the conclusion of the staffing analysis, the following developments could reduce the estimated savings in staff-years: (a) the acceptance rate into the Assignment program (and thus presumably into the TMAP program) has increased from approximately 15% at the time the staffing analysis was made to a current rate of approximately 25%; (b) the information used in the staffing analysis was gathered just prior to the commencement of the "reconsideration" of all rejected applications between May, 1976 and January, 1979, and such reconsideration is continuing at this time; (c) the staffing analysis was based on the assumption that the Assignment program would be replaced with the TMAP program and the TMAP Legislation provides that both are to be maintained; and (d) HUD Handbook 4191.2 (Chapter 7) promulgated in January, 1979, requires the encouragement of counseling and the additional counselors involved with mortgagors may increase the staff time needed for intake into the TMAP program.

6.4.2 Staff Requirements of Assignment Program

The personnel utilized to conduct the day-to-day operations of the Assignment program in the various field offices are primarily drawn from the single-family loan specialists and the finance and accounting staff. The functions of the former group include processing applications, holding conferences, conducting appeals, setting up forbearance agreements, and servicing the HUD-held (assigned) mortgages. The finance and accounting staff performs the functions of the escrow department of a mortgagee with respect to the disposition and disbursement of collected funds during both the benefit period (when the forbearance agreements are in effect) and the repayment period.

The single-family loan specialists perform the overwhelming majority of tasks associated with the Assignment program, and this report concentrates primarily on this group of individuals. The number of staff-years by principal function utilized by single-family loan management personnel, based upon the records of OMI, is reflected in figure 6.0-3.

Function	Fiscal Year 1976	1977	1978	1979	1980*
Mortgage management	312	89	61	30	30
Default servicing	--	248	221	213	216
Assignment processing	--	--	50	52	52
TOTAL	312	337	332	295	298

* Projected (see the caveat set forth in the footnote on the preceding page)

Figure 6.0-3.--Single-Family Management Staff Estimates

Prior to FY77, the term "mortgage management" included the combined tasks of conducting single-family mortgagee reviews and the default servicing of regular and HUD-held mortgages (the latter being those accepted under 24 CFR §203.350, hardship assignment). In FY77, just as the current Assignment program began operation, these two functions were separated. It is not clear from the records for that year whether the processing of new applications for assignment were to be part of mortgage management or default servicing. For FY78 and subsequent fiscal years, the definitions of the three tasks are made clear and distinct: mortgage management is virtually synonymous with mortgagee review. Default servicing encompasses the servicing of the established caseload of HUD-held mortgages (accepted under the hardship provisions of §203.350) and HUD-held mortgages accepted under the Assignment program (§203.650), as well as tasks associated with the servicing of other

HUD-insured mortgages in default. Assignment processing included the entire intake phase from application through forbearance agreements (as well as appeals and conferences).

A major difficulty in working with these figures is that they have not been compiled on the basis of measuring the specific level of effort devoted to component tasks, but rather on allocation formulas involving the expected number of overall work units involved.

For mortgage management, the total work units involved are defined as the number of mortgagee reviews conducted. Staffing requirements are estimated on the basis that each work unit (mortgagee review) requires an average of 19.6 staff-hours, that is:

$$\text{Staff-years (mortgage management)} = \frac{19.6 \times \text{mortgagee reviews}}{1800}$$

For default servicing, the total work units (WU) involved is defined as the number of defaults among all single-family, HUD-insured mortgages and HUD-held home mortgages, as of the start of the fiscal year. As the standard for staff requirements, it is assumed by HUD that 2.5 staff-years are required, on average, at each field office (FO) and that additional staff-hours, equal to 90 percent of the work units involved are required, that is:

$$\text{Staff-years (default servicing)} = (2.5 \times \text{no. of FO}) + \frac{.9 \times \text{WU}}{1800}$$

For assignment processing, the total work units involved is defined as the number of formal applications submitted requesting assignment. Staffing requirements are predicated on the basis of 6.0 staff-hours (average) to process each application, that is:

$$\text{Staff-years (assignment processing)} = \frac{6.0 \times \text{Applications}}{1800}$$

The number 1800 in each of the above formulas represents the effective number of staff-hours in each staff-year. As there are currently 73 field offices, there is a "floor" of 182.5 staff-years available for default servicing. Figure 6.0-4 shows the total number of work units utilized in the computation of the staff-year estimates in figure 6.0-3.

Function	1976	1977	Fiscal Year 1978	1979	1980
Mortgage management	28,841	8,219	5,600	2,800	2,800
Default servicing	--	111,849	71,100	60,971	65,003
Assignment processing	--	--	15,000	15,500	15,500

Figure 6.0-4.--Single-Family Mangement Work Units

Where verifiable, the number of work units appears to be conservative in most instances in that they slightly overestimate the number of cases involved. In FY78, for example, the actual volume of assignment applications was 14,375. For the first nine months of FY79, 11,083 applications were received, corresponding to an annual rate of 14,777.

The national TMAP program, as proposed, would not adversely affect the intake phase or mortgagee review process currently being conducted by the single-family loan specialists in the various field offices. What would be affected is the number of staff-years allocated to default servicing. Because of this, it is important to know how the 213 staff-years estimated for FY79 or the 216 staff-years projected for FY80 are allocated among the various activities comprising the default servicing function.

As was pointed out earlier, single-family default servicing involves the servicing of regular home mortgages in default, the servicing of HUD-held mortgages accepted under the hardship provisions of §203.350, and the servicing of HUD-held mortgages accepted under the provisions of §203.650 since May 1976. Because of the high delinquency rate* among HUD-held mortgages accepted for assignment under §203.650, the loan specialists servicing such mortgages have been forced to devote a greater portion of their time and resources to this aspect of the Home Mortgage Assignment program. As told to the contractor team by individuals both in the field and at HUD Central, the additional demands on time and resources imposed by the large number of delinquent HUD-held mortgages has led to a diminution of activity in mortgagee reviews and in regular default servicing. This redistribution of resources is not unexpected as there are, after all, only a finite number of staff-years available for all single-family loan management activities.

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* As of June 1979, the delinquency rate among these HUD-held mortgages was 54.4 percent, and approximately 35 percent of such mortgages were 90 days delinquent or worse.

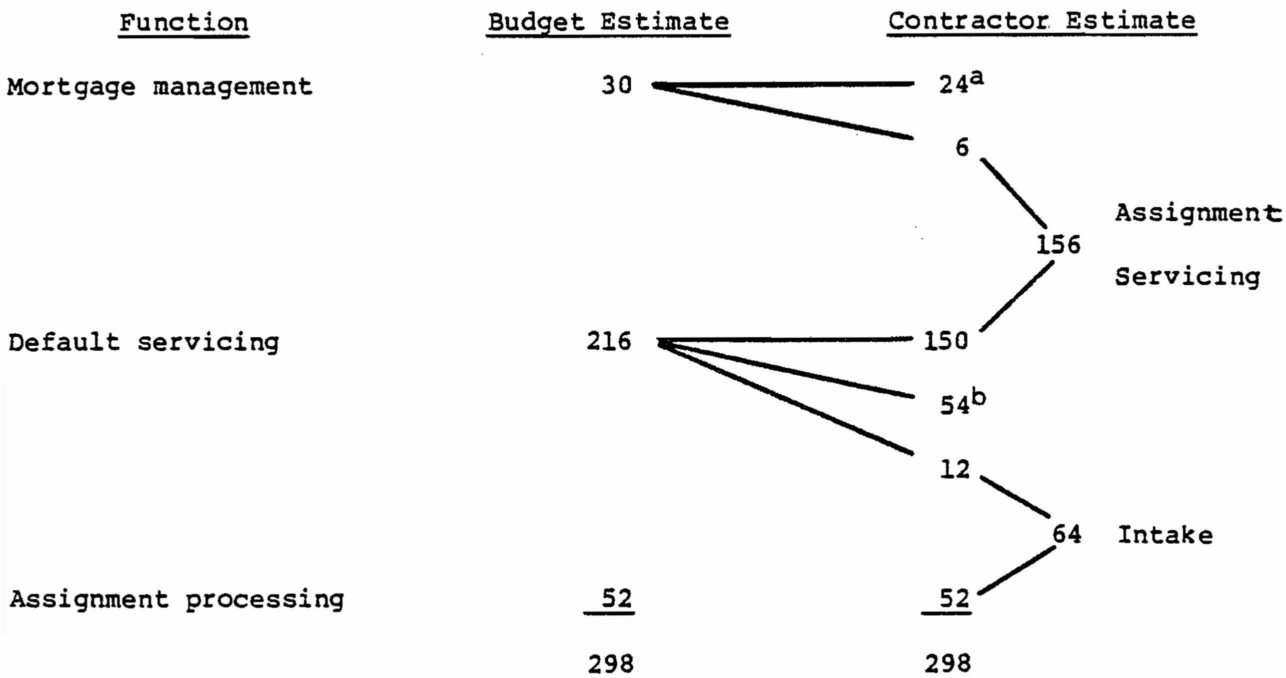
Notwithstanding this lack of "hard" data, estimates will be made of the number of staff-years devoted to servicing of the mortgages accepted under §203.650. Information from informal discussions with officials within OMI, OLM and OFA (the information obtained from each group being consistent) will serve as the basis of these estimates.

Two factors substantially influence the level of accuracy of estimates of the number of staff-years currently being devoted to the servicing of HUD-held mortgages accepted to date under the Assignment program. The first factor encountered is that time sheets kept by the loan specialists at the field office level do not separate the time spent in default servicing by subtask. The second factor concerns the distribution of work efforts reflected on time sheets. Specifically, the time sheets received by OMI from the field offices may not accurately reflect the distribution of staff-years between mortgage management and default servicing. OLM received authorization during 1979 to conduct a detailed personnel study of the field office loan management. The results of that study will help clarify the uncertainties associated with these factors and assist in establishing more accurate estimates of staff personnel needs. For now, the consensus among the three HUD groups in Washington, D.C. is that (1) as much as 20 percent of the staff-years allocated toward mortgagee reviews for FY79 is utilized for default servicing, (2) irrespective of mortgagee reviews, as much as 80 percent of the single-family loan management staff is involved in some way in the Assignment program, and (3) the staff-years for processing assignment requests are about 20 percent greater than estimated.

It is therefore currently estimated that the staff-years for <u>mortgagee reviews</u> are more likely 24; the staff-years for <u>assignment processing</u> are closer to 64; and the staff-years for <u>servicing</u> the mortgages accepted under §203.650 total about 156 for FY80. The detailed break-out is shown in figure 6.0-5.

These break-outs agree quite closely with the estimates provided to the contractor by OLM in May 1978, wherein it was estimated that 23 staff-years were being devoted to mortgagee reviews and 61 staff-years to assignment processing.

In addition to the above staff-years, OFA estimates about 35 staff-years are devoted by their field personnel to the finance and accounting functions associated with the Assignment program.



a. Mortgagee review tasks

b. Tasks associated with servicing other HUD insured mortgagors in default

Figure 6.0-5.--Staff-Years by Function, FY80

6.4.3 Staff Requirements of National TMAP Program

The national TMAP program, as proposed, would retain essentially the same processing and intake requirements as used in the current Assignment program. This means the estimated 64 staff-years, as taken from figure 6.0-5, would still be required. One of the major advantages of TMAP, however, is that the principal servicing functions currently being conducted by the single-family loan management staff would be conducted by mortgage servicers in the private sector.* Because of this, perhaps 90 percent (i.e. 140) of the 156 staff-years currently estimated as being devoted to the HUD-held mortgage portfolio would not be required for that function.

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* The cost of servicing these mortgages in the private sector will be borne in the usual way by the mortgage investors of the underlying HUD-insured mortgages.

In addition, it is possible that fewer than the 35 staff-years devoted to the Assignment program by OFA field staff would be required, depending upon the extent to which the payments from the servicers are made annually rather than monthly, as explained in section 6.3.1.3 of this report. As a conservative estimate, we shall posit a requirement of 25 staff-years on the part of OFA, with a corresponding savings of 10 staff-years.

Returning to the postulated savings of 140 staff-years on the part of loan management, it is to be emphasized that it is not intended to imply that the current field office staff could or should be reduced by that number of staff-years. What is meant is that under the proposed national TMAP program, a substantial number of the 140 field staff-years currently relegated to servicing the HUD-held mortgages could be released from those duties to the resumption of conducting mortgagee reviews and servicing of HUD-insured mortgages which are in default but not assigned. In effect, the "savings" in staff-years of adopting a national TMAP program would occur through the fact that the Department would not have to authorize an additional 140 staff-years in the future in order to supply the services to the public that the loan management field staff was forced to cut back on when the Assignment program was originally adopted. These results are summarized in figure 6.0-6.

Function	Assignment	TMAP	Difference
Servicing	156	16	140
Processing	64	64	0
OFA	35	25	10
TOTAL	255	105	150

Figure 6.0-6--Staff-Year Difference: TMAP versus Assignment

6.5 COST-BENEFIT AND RISK ANALYSIS

6.5.1 Introduction

There are two ways in which a nationwide TMAP program would serve to reduce the annual cash flow losses of the various HUD insurance funds. In the first place because of the time value of money, there is a definite savings to HUD associated with any TMAP Loan made to preserve the integrity of a single-family HUD-insured mortgage versus accepting that mortgage under the Assignment program. That is, a savings exists whether the homeowner would recover under both programs or would not recover and go into secondary default and ultimately undergo foreclosure in both programs. In addition to this, the savings if a homeowner in default recovered under TMAP but would have failed under Assignment can be potentially very significant.

The establishment of the costs, benefits, and risks associated with TMAP versus the Assignment program requires the development of a certain amount of analytic machinery before the overall analysis can be conducted. To do this, the first step is to estimate the financial impact on the HUD insurance funds of a single HUD-insured mortgagor in default who is subjected to each of five separate treatment paths:

1. The mortgagor is accepted for assignment and ultimately recovers.

2. The mortgagor is provided TMAP assistance and ultimately recovers.

3. The mortgagor is provided no assistance and goes directly to foreclosure.

4. The mortgagor is accepted for assignment and ultimately fails.

5. The mortgagor is provided TMAP assistance and ultimately fails.

In section 6.5.2, below, we calculate the present value of the financial impact on the HUD insurance funds for each of the above treatment paths both for an 18-month and a 36-month period of forbearance, where applicable. Although arduous, an understanding of these computations is considered necessary for the general comprehension of the overall approach to benefits, costs, and risks. For this reason, a series of cash-flow diagrams has been prepared to illustrate the treatment path in each case and to summarize the corresponding present value computations. They are included as the first of two appendices to this chapter.

Section 6.5.3 utilizes the present values established to calculate the net benefits, costs, and risks of the TMAP and Assignment programs from the viewpoint of HUD in the cost of a single HUD-insured mortgage. Section 6.5.4 then calculates the overall annual benefits and costs to the Department for the various programs, based upon intake rates established as part of the present Assignment program.

Finally, section 6.5.5 calculates the collateral benefits of a nationwide TMAP program to the mortgage lending and servicing industries.

6.5.2 Treatment Path Analysis

The scenario common to all cases involves a HUD-insured loan made on January 1, 1977, with an initial balance of $25,000 at 8 percent interest for 30 years. The debt service (principal and interest) is $183.45 per month. Thirty-six consecutive payments are made, the last occurring on January 1, 1980, at which time the mortgage balance is $24,319.62. Upon default, we assume that the mortgagor applies for and promptly receives HUD assistance in the form of assignment or TMAP for either 18 or 36 months. (Both benefit periods will be independently analyzed.) Under the terms of the forbearance agreements involved, we further assume that the mortgagor will make the escrow payments involved including taxes, insurance, and the mortgage insurance premiums (MIP). In what follows, all amounts will be discounted back to the reference point of January 1, 1980, at the OMB-mandated discount rate of 10 percent per annum.

6.5.2.1 Assignment (Successful)

Under an assignment, HUD is presumed to pay the insurance claim of $24,319.62 to the mortgagee soon after the beginning of the reference period; for simplicity it is assumed that this takes place at the commencement of the forbearance period. By the terms of the forbearance agreement involved, no payments of principal or interest are collected during the period of reduced or suspended payments. At the end of this time, the interest accrued is combined with the unpaid balance and the entire amount is recast over a period of up to ten years beyond the remaining life of the original mortgage. It is assumed here that the term of the recast mortgage is 30 years and that the interest accrued is the product of the monthly amount of interest foregone times the number of months in which no debt service was received, that is, no "interest on interest" is accrued during the forbearance period.

6.5.2.1.1 Eighteen-Month Forbearance--The monthly interest foregone is $24,319.62 times .08/12, or $162.13. Over 18 months this comes to $2,918.34, so the total amount of the revised mortgage, as recast on July 1, 1981, is $24,319.62 plus $2,918.34, or $27,237.96. At 8 percent interest for 30 years, the new debt service will be $199.86 per month.

The total lifetime payments received by the Department, if the recast mortgage is fully repaid without further incident, will amount to 360 times $199.86, or $71,949.60. The present value of this sum, when discounted back to January 1, 1980, at 10 percent per annum, is $19,613.99 (see Appendix 2 to this chapter for the numerical factors involved). Subtracting the present value of the dollars so received from the dollars paid by HUD as part of the insurance claim ($24,319.62 minus $19,613.99) establishes HUD's net <u>loss</u> under this successful assignment as $4,705.63. The cash flow diagram in figure 6.0-18 of Appendix 1 to this chapter illustrates the process.

6.5.2.1.2 Thirty-Six Month Forbearance--The monthly interest of $162.13 that is foregone over 36 months will mean that the total amount by January 1, 1983, will be $24,319.62 plus $5,836.68, or $30,156.30. At 8 percent interest for 30 years, the new debt service will be $221.28 per month.

The total lifetime payments received under the terms of the recast mortgage will be $79,660.80. The present value of this sum, when discounted back, is $18,702.87. Subtracting the present value of the dollars so received from the dollars paid by HUD as part of the insurance claim ($24,319.62 minus $18,702.87) establishes HUD's net <u>loss</u> under this successful assignment as $5,616.75. The cash flow diagram in figure 6.0-19 of Appendix 1 to this chapter illustrates the process.

6.5.2.2 TMAP (Successful)

Under the TMAP program, HUD, upon approval of the mortgagor's application, would advance an amount equal to the regular mortgage payments of $183.45 to the mortgagee each month (assuming the TMAP payments to be equal to the escrow requirements, as was done for assignment). The above amount includes not only interest but payment to principal as well, so that the balance outstanding on the first mortgage will be the balance of $24,319.62 (as existed on the reference date of January 1, 1980), less the accumulated payments to principal over the 18-month or 36-month period involved.

At the end of the benefit period, the mortgagee has been made whole, while the total amounts advanced by the Department are aggregated and cast as a second or junior mortgage at an interest rate assumed here to be the same as that on the first mortgage. To permit direct comparison with the process as it would exist under Assignment, the term of this mortgage has also been set at 30 years. In actual procedure, the TMAP loan could be repaid in a period as short as 5 years, consistent with the mortgagor's income and ability to pay.

6.5.2.2.1 Eighteen Months of TMAP--The total amount of the TMAP advances over 18 months will be 18 x $183.45, or $3,302.10. Because these payments are spread out over 18 months, their present value is calculated as $3,054.59. The assumption is made that the amount of the second mortgage is the same as the $3,302.10 advanced; that is, just as for assignment, there is no "interest on interest" during the benefit period. The monthly payments on this amount at 8 percent interest for 30 years is $24.23; the mortgagor's combined payments for the 25.5 years remaining on the first mortgage is therefore $183.45 plus $24.23, or $207.68.

The total lifetime payments received by HUD, if the TMAP loan is successfully repaid, will amount to 360 times $24.23, or $8,722.80. When brought back to present value, this sum will be $2,377.90. Subtracting the present value of the dollars so received from the present value of dollars paid by HUD as part of the TMAP advances establishes HUD's net loss under a successful 18-month TMAP Loan as $3,054.59 minus $2,377.90, or $676.69. The cash flow diagram in figure 6.0-20 of Appendix 1 to this chapter illustrates the process.

6.5.2.2.2 Thirty-Six Months of TMAP--The total amount of the TMAP advances over 36 months will be 36 times $183.45, or $6,604.20. Because they are spread out over 3 years, the present value of these payments is calculated as $5,685.34. The TMAP Loan of $6,604.20, when repaid at 8 percent interest over 30 years, results in additional payments of $48.46 per month; the mortgagor's combined payments for the 24 years remaining on the first mortgage are therefore $183.45 plus $48.46, or $231.91.

The total lifetime payments received by HUD will amount to 360 times $48.46, or $17,445.60. When brought back to present value, this sum will be $4,095.90. Subtracting the present value of the dollars so received from the present value of the dollars paid by HUD as part of the TMAP advances establishes HUD's net loss under a successful 36-month TMAP Loan as $5,685.34 less $4,095.90, or $1,589.44. The cash flow diagram in figure 6.0-21 of Appendix 1 to this chapter illustrates the process.

6.5.2.3 Foreclosure

In the treatment paths described above, the situations involved have presumed to work out to the satisfaction of all parties concerned. We must now consider what happens if the mortgagor defaults and winds up in foreclosure subsequent to having received such assistance, that is, undergoes "secondary failure."

As a preliminary step, it is necessary to determine the financial impact on the HUD insurance funds in the pure foreclosure case; that is, if no relief whatever were provided the mortgagor and foreclosure took place directly. In that case, HUD would have written a check for the full amount of $24,319.62 plus expenses of claim. (For simplicity we will ignore claim expenses for the present.)

Approximately one year later (the average time spent in property disposition), the property involved would have been sold by HUD for an amount invariably well below the mortgage balance of $24,319.62. HUD's loss ratio (the amount of the net loss on the above transaction as a fraction of the outstanding mortgage balance) ranges from 50 percent for homes insured under Section 203(b) to 102 percent for homes insured under Section 223(e). For homes insured under Section 221(d)(2), the loss ratio is 78 percent.

Using the loss ratio of 78 percent as representative, the net loss to HUD under foreclosure would be 0.78 times $24,319.62, or about $18,969.

6.5.2.4 Assignment (with Secondary Failure)

Under assignment with secondary failure, the assumption is made that the home in question is foreclosed upon by HUD with the same earlier established net loss of $18,969. This implies that the net sales price of the home (after all expenses) was the difference between the mortgage balance of $24,319 and $18,969, or $5,350. If this net sales price is brought back to present value and subtracted from the insurance claim, the result will be the net loss to HUD.

To place matters on a definitive basis, it is presumed that the mortgagor defaults immediately upon the termination of the forbearance period involved, either 18 months or 36 months, as the case may be.

6.5.2.4.1 Eighteen Months of Forbearance--In this case, the present value of the net sales price of $5,350 is $4,608. The net loss to HUD insurance funds is therefore the difference between $24,319 and $4,608, or $19,711. The cash flow diagram in figure 6.0-22 of Appendix 1 to this chapter illustrates the process.

6.5.2.4.2 Thirty-Six Months of Forbearance--In this case, the present value of the net sales price of $5,350 is $3,968. The net loss to HUD insurance funds is therefore the difference between $24,319 and $3,968 or $20,351. The cash flow diagram in figure 6.0-23 of Appendix 1 to this chapter illustrates the process.

6.5.2.5 TMAP (with Secondary Failure)

Under TMAP, a net sales price of $5,350 (after all expenses of sale) is also assumed when secondary failure occurs. Again, there are two cases:

6.5.2.5.1 Eighteen Months of TMAP--After 18 months of TMAP, the outstanding balance on the first mortgage has been reduced from $24,319 to $23,913, because part of the TMAP advances were utilized for amortization of principal. Therefore, the net insurance claim to HUD is $23,913 less $5,350, or $18,563. This sum, when brought back to present value, amounts to $15,987. The present value of the net loss to HUD insurance funds for secondary failure under 18 months of TMAP is therefore the sum of the present value of the TMAP advances ($3,055) and the net insurance claim of $15,987, or $19,042. The cash flow diagram in figure 6.0-24 of Appendix 1 to this chapter illustrates the process.

6.5.2.5.2 Thirty-Six Months of TMAP--After 36 months of TMAP, the outstanding mortgage balance on the first mortgage has been reduced from $24,319 to $23,455 for the same reason as above. Because of this, the net insurance claim to HUD is $23,455 less $5,350, or $18,105. This sum, when brought back to present value, amounts to $13,429. The present value of the net loss to HUD insurance funds for secondary failure under 36 months of TMAP is therefore the sum of the present value of the TMAP advance ($5,685) and the net insurance claim of $13,429, or $19,114. The cash flow diagram in figure 6.0-25 of Appendix 1 to this chapter illustrates the process.

6.5.3 Benefits, Costs, and Risks to HUD

This section brings together the knowledge derived in the previous set of analyses and presents it in the form of specific levels of benefits, costs, and risks to HUD.

6.5.3.1 Benefits

From the viewpoint of HUD, the dollar benefits of a given forbearance program will be defined as the difference between (1) a successful result following HUD assistance and (2) no assistance with subsequent foreclosure.

From sections 6.5.2.1, 6.5.2.2, and 6.5.2.3, the relative benefits to HUD can be calculated as shown in figure 6.0-7.

Program	Benefit Period	Net Loss	Foreclosure Loss	Relative Benefits
TMAP	18 months	$ 677	$18,969	$18,292
TMAP	36 months	$1,589	$18,969	$17,380
Assignment	18 months	$4,705	$18,969	$14,264
Assignment	36 months	$5,616	$18,969	$13,353

Figure 6.0-7.--Relative Benefits of TMAP and Assignment

6.5.3.2 Costs

From the viewpoint of HUD, the dollar cost of a forbearance program is defined as the present value of the cash advanced by HUD during the corresponding benefit (forbearance) period.

From section 6.5.2, we have:

Program	Benefit Period	Relative Cost
TMAP	18 months	$ 3,055
TMAP	36 months	$ 5,685
Assignment	18 months	$24,319
Assignment	36 months	$24,319

Figure 6.0-8.--Relative Costs of TMAP and Assignment

6.5.3.3 Risks

Risk may be defined as the downside of benefits, that is, the penalty incurred if a given treatment fails. From the viewpoint of HUD, the risk of a given forbearance program shall be defined as the difference in outcome between (1) unsuccessful assistance by HUD and (2) no assistance with subsequent foreclosure.

From sections 6.5.2.3, 6.5.2.4, and 6.5.2.5, we therefore calculate:

Program	Benefit Period	Net Loss	Foreclosure Loss	Relative Risks
TMAP	18 months	$19,042	$18,969	$ 73
TMAP	36 months	$19,114	$18,969	$ 145
Assignment	18 months	$19,711	$18,969	$ 742
Assignment	36 months	$20,351	$18,969	$1,382

Figure 6.0-9.--Relative Risks of TMAP and Assignment

6.5.3.4 Benefit-Cost-Risk Comparison

We may now combine the relative benefits, costs, and risks for TMAP and Assignment into the following format (figure 6.0-10):

Program	Benefit Period	Relative Benefits	Relative Costs	Relative Risks
TMAP	18 months	$18,292	$ 3,055	$ 73
TMAP	36 months	$17,380	$ 5,685	$ 145
Assignment	18 months	$14,264	$24,319	$ 742
Assignment	36 months	$13,353	$24,319	$1,382

Figure 6.0-10.--Relative Benefits, Costs, and Risks of TMAP and Assignment

To interpret the information in figure 6.0-10, we note, for example, that under an 18-month TMAP program, an outlay of $3,055 (present value) during the benefit period will ultimately save HUD $18,292 of the net cost of foreclosure, if successful. Should the mortgagor fail, notwithstanding the TMAP assistance, HUD will have ultimately lost only $73 more than the net cost of immediate foreclosure.

6.5.3.5 Expected Benefits to HUD

The above characterization of benefits, costs, and risks does not present the entire picture. This is because the various outcomes of any of the forbearance programs have yet to be weighted by the relative probabilities of their occurrence.

At present, for example, nearly 40 percent of all single-family mortgages accepted under the Assignment program are in serious default (defined as 1 day short of missing their fourth (or more) consecutive payment). Almost 60 percent of the total are currently in some stage of delinquency. Because of this, we shall conservatively estimate that as many as one-third of all such HUD-held mortgages will ultimately result in conversion (i.e., foreclosure following assignment).

The _expected_ benefits associated with any forbearance program are defined as the product of the relative benefits times the relative likelihood of successful outcome, less the relative risk times the relative likelihood of eventual (secondary) failure. As a formula, this is expressed in the form:

$$\text{Expected benefits} = \text{relative benefits} \times \Pr(\text{success}) - \text{relative risks} \times \Pr(\text{failure})$$

(The minus sign is used because, for convenience, benefits and risks are expressed in this report as positive numbers.)

Applying this formula to the Assignment program, the expected benefits under 18 months of forbearance are:

$$(\$14{,}264 \times 0.67) - (\$742 \times 0.33) = \$9{,}312$$

Under 36 months of forbearance, the expected benefits are:

$$(\$13{,}353 \times 0.67) - (\$1{,}382 \times 0.33) = \$8{,}490$$

In other words, under 18 months of Assignment, HUD will expect to save $9,312 of the net cost of foreclosure, on average, for each mortgage accepted (assuming such a mortgage to have the profile of our prototypical loan).

As the TMAP program is only prospective, we have no rigorous basis from which to estimate the secondary default rate among accepted mortgagors. With the use of identical eligibility criteria, however, and the fact that the mortgage servicing would be retained in the private sector, we have every reason to believe that the secondary failure rate for TMAP would be no greater and, most likely, significantly less than that of the Assignment program. We will therefore make the very conservative estimate for the purposes of this analysis that the secondary failure rate for TMAP is also one-third. We point out that the fraction of mortgagors in danger of foreclosure and claim at the end of the PIP demonstration, as reported in section 5.0, was only 10 cases out of 46, or 22 percent.

On this basis, the expected benefits under 18 months of TMAP are:

$$(\$18,292 \times 0.67) - (\$73 \times 0.33) = \$12,230$$

Under 36 months of TMAP, the expected benefits are calculated as:

$$(\$17,380 \times 0.67) - (\$145 \times 0.33) = \$11,596$$

Expressing this in tabular form yields the results shown in figure 6.0-11.

Program	Benefit Period	Expected Benefits	Costs	Benefit-Cost Ratio
TMAP	18 months	$12,230	$ 3,055	4.00
TMAP	36 months	$11,596	$ 5,685	2.04
Assignment	18 months	$ 9,312	$24,319	0.38
Assignment	36 months	$ 8,490	$24,319	0.35

Figure 6.0-11.--Expected Benefits and Benefit-Cost Ratios of TMAP and Assignment

Figure 6.0-11 shows that the expected benefits of a TMAP program are roughly one-third more than that of the Assignment program, taking into account the estimated levels of success and failure involved. Because of the way in which costs have been defined (i.e., the present value of cash outlays or advances during the forbearance period), the resulting benefit-cost ratios (BCR) are tipped that much more in favor of a TMAP-type forbearance program. As figure 6.0-11 shows, the BCR varies from the extreme high of 4.0 in the case of an 18-month TMAP program to an extreme low of 0.35 in the case of a 36-month Assignment program.

What this says, in effect, is that for every $1.00 spent in the form of TMAP advances, the HUD insurance funds can ultimately expect to reduce their cash-flow losses by $4.00. On the other hand, for every $1.00 spent in the form of mortgages purchased under the current Assignment program, the HUD insurance funds can ultimately expect to reduce their cash-flow losses by 35 cents.

It is to be borne in mind in using these figures that the results involved are all predicated upon the prototypical mortgage of $25,000 at 8 percent, as described earlier. As such, all dollar figures for benefits, costs, and risks must be scaled accordingly, e.g., for a mortgage of $18,000 at 8 percent, all dollar figures presented in this section should be multiplied by the ratio of 18:25, or 72 percent. It is to be noted, however, that the benefit-cost ratios derived above do not change, and are invariant with, the size of the mortgages involved.

It must also be recognized that the numerical results presented are sensitive to both the mortgage rate of interest selected and the discount rate utilized in the analysis. FHA mortgage interest rates have varied between 4 and 15 percent in the past, and notwithstanding the current high level of interest rates, it was decided to select a representative interest rate (8 percent) which lay midway between its historical high and low.* As additional justification for selection of the 8 percent mortgage interest rate, it is observed that the average mortgage interest rate of the 10,000 or so single-family mortgages accepted to date under the current Assignment program has been about 8 percent. The discount rate, as far as any long-term government program is concerned, is dictated by OMB directive to be 10 percent.

6.5.4 Annual Cost-Benefit Projections

The investigations conducted in section 6.5.2 and 6.5.3 have shown the potential impact on the HUD insurance funds of a single loan accepted under TMAP compared to Assignment. To arrive at the overall impact of a full-scale TMAP program, it is necessary to scale the results by the annual application, acceptance, and secondary failure rates that can be expected on a nationwide basis.

6.5.4.1 Application and Intake Rates

During the first 3 years of operation of the Assignment program, approximately 1,500 applications per month were being received for assignment to HUD. Of these, about 250 were accepted each month for assignment, and the remainder were either rejected or returned for further servicing. Since December 1978, upon promulgation of the revised procedures contained in HUD Handbook 4191.2, the application rate has been averaging about 1,300 cases per month, of which about 320 cases per month have been accepted. During fiscal 1979, the number and dollar amount of single-family home mortgages assigned to HUD were as shown in figure 6.0-12.

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* Note that the average interest rate will always be closer to the low end of the range involved because of the much greater volume of mortgage originations when interest rates are low. In general, mortgage activity is inversely proportional to the level of interest rates available.

Section	Mortgages	Amount	Average
203	2,153	$44,529,347	$20,682
221	810	14,500,236	17,902
223(e)	366	5,923,243	16,184
235(old)	448	8,354,959	18,649
Misc.	56	1,159,980	20,714
	3,833	$74,467,765	$19,428

Source: Summary of Mortgage Insurance Operations and Contract Authority, OFA, month ended September 30, 1979, page 7

Figure 6.0-12.--Home Mortgage Assignments, FY79

From program inception in May 1976 through January 1, 1980, about 11,000 mortgages have been accepted for assignment. Using the FY79 average figure of $19,428 per mortgage, total mortgages acquired in this manner through January 1, 1980, amount to over $200 million.

Assignments accepted during FY79 have primarily encompassed mortgages originated some 2 to 5 years earlier, during which time the maximum permissible FHA mortgage interest rate averaged close to 8 percent. Predicting future mortgage interest rates is so fraught with difficulties that, rather than speculate, we will analyze the costs and benefits to the HUD insurance funds had the packet of mortgages contained in figure 6.0-12 been granted TMAP assistance instead of assignment.

6.5.4.2 Projected Costs and Benefits

In terms of the 3,833 mortgages that passed the eligibility criteria in FY79, the cost of assignment amounted to $74,467,765.

From section 6.5.2.2, we note that the cost of 18 months of TMAP assistance on a mortgage balance of $24,319 at 8 percent is $3,054 (present value). For an average mortgage amount of $19,428 at 8 percent, this figure scales proportionately to $2,440. In a similar manner, the 36 months of TMAP support of $5,685 (present value) scales down to $4,542 for our average mortgage of $19,428.

In terms of the packet of 3,833 mortgages that passed the eligibility criteria in FY79, the annual cost of TMAP for 18 months of forbearance is calculated as 3,833 x $2,440, or $9,353,000. For 36 months of TMAP, the annual cost is 3,833 x $4,542, or $17,793.000. (Note that, even though the $17.8 million required to support the 3,833 mortgagors is spread out over 3 years, in the latter case, for example, the TMAP program in any given year will ordinarily contain "freshmen," "sophomores," and "juniors," so the cost for the entire group becomes identical to the required annual outlay.)

Under the fundamental assumption that both the home mortgage Assignment program and TMAP will experience a secondary failure rate of one-third, the net expected benefits associated with accepting the packet of 3,833 mortgagors who passed the eligibility criteria in FY79 can be obtained by extrapolating the data developed in figure 6.0-11. If we first scale each of the figures in the column under "Expected Benefits" by multiplying by the ratio of 19,428:24,319, and if we then multiply by 3,833, the following chart (figure 6.0-13) results:

Program	Benefit Period	Expected Benefits	Annual Costs	Benefit-Cost Ratio
TMAP	18 months	$37,450,000	$ 9,353,000	4.00
TMAP	36 months	$35,508,000	$17,793,000	2.04
Assignment	18 months	$28,514,000	$74,468,000	0.38
Assignment	36 months	$25,998,000	$74,468,000	0.35

Figure 6.0-13.--Projected Benefits, Annual Costs and Benefit-Cost Ratios of TMAP and Assignment, FY79 Data

As the forbearance periods under the Assignment program have been averaging far closer to 36 months than 18 months in most cases, the second and fourth lines of figure 6.0-13 become the more compelling to compare: Under 36 months of TMAP assistance, the annual outlay required by HUD in FY79 would have been only $17.8 million rather than the almost $75 million that was required under Assignment. Furthermore, the annual expected benefits (defined as the reduction in loss had all 3,833 cases gone directly to foreclosure) under a 36-month TMAP program would be $35.5 million, nearly $10 million more than the annual expected benefits under the corresponding Assignment program. (Note that the benefit-cost ratios derived in figure 6.0-11 hold just as true for the nationwide projection.)

It is to be emphasized that the expected benefits reflected in figure 6.0-13 are predicated on a one-third secondary failure rate in both the Assignment and TMAP programs. To the extent that the secondary failure rate in TMAP turns out to be less than one-third, the above differences between the two programs will be that much more tipped in favor of TMAP-type assistance.

6.5.5 Benefits, Costs, and Risks to Mortgagees

This section provides an analysis, from the standpoint of mortgage lenders and servicers, of the financial impact of the TMAP program and contrasts this against the Assignment program and outright foreclosure.

In conducting this analysis, no distinction will be made between the subcases involving 18 months versus 36 months, as the difference in cash flow losses to the mortgagee (lender or servicer) is relatively insensitive to the period of forbearance.

From the perspective of mortgagees, there are five principal treatment paths that must be analyzed:

Direct Foreclosure without HUD intervention

Accepted for TMAP without secondary failure

Accepted for TMAP with secondary failure

Application for TMAP or Assignment denied (with subsequent foreclosure)

Assignment granted (with or without secondary failure)

Note carefully that the above set of treatment paths are not the same as the five paths considered in section 6.2.

The assumptions concerning the mortgage will follow those made in section 6.2: an initial balance of $25,000 at 8 percent for 30 years, with debt service of $183.45 per month, and a remaining balance of $24,319.62 at the time of default 3 years later. Additional assumptions made are that:

1. The servicing fee earned by the mortgage servicer each year is 3/8 of 1 percent of the outstanding mortgage balance.

2. The foreclosure and redemption period is approximately 18 months. (The actual period is highly dependent on state and local law and ranges from 6 to 24 months. As established in the final report under HUD Contract H-2270, 18 months is about the national average.)

3. The Assignment processing time is about 3 months, the nominal time limit specified for the completion of most cases according to HUD Handbook 4191.2.

6.5.5.1 Foreclosure

6.5.5.1.1 Mortgage Lender--Whenever a single-family HUD-insured mortgage goes into foreclosure, the mortgage lender will ordinarily experience financial loss in three ways:

1. Two months' interest

2. One-third of all legal and court costs

3. The difference between the debenture rate and the mortgage interest rate on the note between the time of default and the final payment of claim

As discussed in the final report submitted under HUD Contract H-2270, the legal and court costs of foreclosure averaged approximately $600 nationwide during the mid-1970's. Inflation has probably caused an increase since then, but, for the purposes of analysis, the documented figure will be utilized.

As a general rule, the difference between mortgage interest and debenture interest rates has been about 2 percent over the years. That standard will be adopted for use here. With these assumptions, the foreclosure loss to the mortgage lender is calculated as:

Two months interest: 2/12 x 8% x 24,320	= $324
Processing costs: 1/3 x $600	= $200
Debenture/mortgage differences (over 16 months): 16 x 0.02/12 x $24,320	= $649

The total loss to the mortgage lender in the case of a direct foreclosure is therefore $324 + $200 + $649, or $1,173.

6.5.5.1.2 Mortgage Servicer--Earlier research under HUD Contract H-2270 revealed that the mortgage servicer typically lost about $250 during the default and foreclosure process because of visits, letters, telephone, and other unreimbursed expenses. It is also appropriate to consider the opportunity cost due to the loss in potential servicing fees; that is, the loss of the 3/8 of 1 percent of the outstanding mortgage balances over the remaining term (in this case 27 years) of the loan, less the servicing costs involved on a month-to-month basis. As detailed in the final report under HUD Contract H-2270, the present value of the servicing fees less servicing cost on a typical FHA loan of $20,000 was estimated to be about $350 over a mortgage life of 30 years.

This figure cannot be scaled directly from $20,000 to $24,320 because, whereas servicing income increases with increasing mortgage amount, servicing cost does not. Taking into account the fact that less than 30 years now remain on the mortgage balance of $24,320, however, we will adopt the $350 figure as the standard opportunity cost.

In summary, then, the overall loss to the mortgage servicer in the case of a direct foreclosure is $250 in unreimbursed expenses plus about $350 in opportunity costs, for a total loss of about $600.

6.5.5.2 TMAP (without Secondary Failure)

As described in section 6.3 of this report, the TMAP program would make the mortgage investor whole immediately upon the mortgagor's acceptance into the program. As the mortgage servicer would automatically receive the servicing fee missed during the intervening time period as well, it too would be made whole.

Because of this, the cash flow losses to the mortgage lender and mortgage servicer would be virtually nil under the proposed TMAP program in those cases where no secondary failure occurred. (This was not the case for the loans made as part of the PIP demonstration, wherein the lender and servicer had to forbear 3 months' worth of debt service and servicing fees, respectively, and could only recoup it upon recast of the mortgage over its remaining life.)

6.5.5.3 TMAP (with Secondary Failure)

6.5.5.3.1 Mortgage Lender--The insurance claims on the part of mortgage lenders in the case of TMAP loans that subsequently went to foreclosure would follow the rules that apply to <u>special forbearance</u>; that is, lenders would be reimbursed for all legal and court costs, would not lose the two months' interest as in a normal foreclosure claim, and would lose only the difference between the debenture and mortgage interest rates. The loss due to the debenture/mortgage difference is calculated on the basis of the full 18-month period involved, or 18 x .02/12 x $24,320.

The total loss to the mortgage lender in the case of a TMAP Loan with secondary failure is therefore estimated at $730.

6.5.5.3.2 Mortgage Servicer--The total loss estimates for the mortgage servicer for this case are as previously estimated for direct foreclosure: approximately $250 in unreimbursed expenses plus about $350 in opportunity costs.

6.5.5.4 Application Denied (with Foreclosure)

6.5.5.4.1 Mortgage Lender--In a certain number of cases, the mortgagor will apply for forbearance relief under TMAP but will have the application denied. Under these circumstances, the loss to the mortgage lender will be the same as incurred under a direct foreclosure, but there will be an additional 3-month waiting period involved.

At the debenture rate difference of 2 percent per year, this added loss is calculated as 3 x 02/12 x $24,320, or $122. The total loss for the mortgage lender is therefore calculated as $1,173 plus $122, or $1,295.

6.5.5.4.2 Mortgage Servicer--For the mortgage servicer there is the additional expense of monitoring the property for an additional 3-month period. As it costs the servicer $250 to do this over 18 months, or about $14 per month, the servicer's overall cost in this case is increased by about another $42. The total cost to the mortgage servicer is therefore $292 in expenses plus $350 in opportunity costs.

Note that the costs of holding and foreclosure described here apply equally well for the case whether it is TMAP or Assignment that has been applied for (and subsequently denied). This follows because of the fundamental presumption that the intake procedures for both programs would be virtually identical.

6.5.5.5 Assignment Granted

6.5.5.5.1 Mortgage Lender--In the instance where an application for assignment is granted, the mortgage investor is reimbursed for 100 percent of all reasonable expenses involved. Furthermore, interest during the application and waiting period is accrued at the mortgage interest rate. Because of this, the loss to the mortgage lender is virtually nil. (We say "virtually" because, in fact, there is the loss of interest-on-interest during the holding period, interest being computed on a monthly basis without compounding. This amount is so trivial by comparison that it can be ignored in the analysis.)

6.5.5.5.2 Mortgage Servicer--The mortgage servicer's loss in the case of Assignment is not trivial, however. Aside from the effort in filing the appropriate forms and responding to HUD inquiries concerning the case, the servicer will have conducted many of the activities associated with the early stages of the foreclosure process, having monitored the property for 3 additional months or more and foregone the potential servicing revenue for that mortgage over its remaining life. The contractor did not make a specific study of the costs incurred during the application process for assignment by servicers, but we would estimate these costs to be about one half the corresponding cost of foreclosure, or about $125. To this the standard opportunity cost of $350 is added for an overall cost to the mortgage servicer of $475.

From the viewpoint of the lender and servicer, of course it does not matter whether the mortgage, once assigned, goes into secondary default or not because their losses were established the moment the mortgage was accepted for assignment.

6.5.5.6 Cost Summary

As a first step in putting these mortgagee costs together, a summary chart (figure 6.0-14) has been prepared for the five treatment paths investigated:

	Case	Mortgage Lender	Mortgage Servicer "Hard"	"Soft"	Total
(1)	Foreclosure	$1,173	$250	$350	$600
(2)	TMAP (success)	0	0	0	0
(3)	TMAP (failure)	730	250	350	600
(4)	Application denied (foreclosure)	1,295	292	350	642
(5)	Assignment granted	0	125	350	475

Figure 6.0-14.--Mortgagee Costs of TMAP, Assignment and Foreclosure

It is entirely possible to introduce the concept of mortgagee "benefits" by reducing each of the figures in rows (2) through (5) in figure 6.0-14 by the corresponding entry in row (1), similar to what was done in section 6.3 for HUD; however, it is simpler to retain figure 6.0-14 in its present form and to work with costs instead.

6.5.5.7 Expected Cost of Assignment

The expected cost of assignment to mortgagees is calculated through the formula:

Expected cost = cost of application denied x Pr(denial)

+ cost of assignment granted x Pr(acceptance)

6.5.5.7.1 Mortgage Lenders--With a recent historical rate of acceptance of approximately 25 percent in the Assignment program, the expected cost to mortgage lenders for submitting such application is calculated as (0.75 x $1,295) + (0.25 x$0), or $971. Although this sum is not substantially less than the $1,173 cost for direct foreclosure, it is certainly not the case either that all applications rejected for assignment subsequently go to foreclosure; indeed, approximately one-quarter are returned for "further servicing." As a result, there is really a much greater difference between the expected cost of assignment and direct foreclosure than the figures would indicate, and this explains in part why mortgage lenders find it economically preferable to divest themselves of problem mortgages through assignment rather than to process foreclosures.

6.5.5.7.2 Mortgage Servicer--With the same recent historical acceptance rate of 25 percent, the total expected cost to the servicer is calculated as (0.75 x $642) + (0.25 x $475), or $600, an amount coincidentally equal to the cost of direct foreclosure. This result helps explain the reluctance of mortgage servicers to submit applications for assignment on behalf of HUD-insured mortgagors.

6.5.5.8 Expected Costs of TMAP

The expected costs of TMAP to mortgagees is calculated through the formula:

Expected cost = cost of application denied x Pr(denial)

+ cost of successful TMAP x Pr(success given acceptance) x Pr(acceptance)

+ cost of unsuccessful TMAP x Pr(failure given acceptance) x Pr(acceptance)

6.5.5.8.1 Mortgage Lenders--Assuming the same acceptance rate for TMAP as Assignment, and with the one-third failure rate among those accepted, as was presumed earlier, the expected costs for the mortgage lender is given by (0.75 x $1,295) + (0.25 x 0.67 x $0) + (0.25 x 0.33 x $730), or $1,031.

6.5.5.8.2 Mortgage Servicer--The expected total cost of TMAP to the mortgage servicer is given by (0.75 x $642) + (0.25 x 0.67 x $0) + (0.25 x 0.33 x $600), or $530.

6.5.5.9 Expected Cost Summary

As a summary of the expected costs to mortgagees of TMAP and Assignment versus foreclosure, the full table of results is shown in figure 6.0-15.

Case	Mortgage Lender	Mortgage Servicer "Hard"	Mortgage Servicer "Soft"	Mortgage Servicer Total
Foreclosure	$1,173	$250	$350	$600
TMAP	1,031	238	292	530
Assignment	971	250	350	600

Figure 6.0-15.—Expected Mortgagee Costs of TMAP, Assignment, and Foreclosure

What figure 6.0-15 reveals (bearing in mind that it is based on the recent historical acceptance rate of 25 percent and an estimated failure rate among accepted mortgagors of one-third) is that, from the mortgage lender's perspective, an Assignment program is slightly preferable to a TMAP program, which in turn is preferable to the alternative of direct foreclosure.

From the mortgage servicer's perspective (again bearing in mind the same caveats), a TMAP program is most desirable, with the Assignment program and direct foreclosure having identical expected costs.

6.5.5.10 Annual Cost Projections

To arrive at the overall impact of a full-scale TMAP program on the cash flow positions of the mortgagees, the amounts in figure 6.0-15 can be scaled in the same manner that figure 6.0-11 was scaled to produce the annual expected benefits and costs for HUD in figure 6.0-13. That is, each entry in figure 6.0-15 can be successively multiplied by factors 19,428/24,319 and 3,833, the first factor representing the adjustment for average mortgage amount and the second representing annual volume of eligible mortgages.

When this is done, the following table (figure 6.0-16) emerges:

Case	Mortgage Lender	Mortgage Servicer "Hard"	"Soft"	Total
Foreclosure	$3,592,000	$766,000	$1,072,000	$1,383,000
TMAP	3,157,000	729,000	894,000	1,623,000
Assignment	2,973,000	766,000	1,072,000	1,830,000

Figure 6.0-16.-- Annual Mortgagee Costs of TMAP, Assignment, and Foreclosure

6.5.5.11 Expected Annual Benefit Projections

As a final step in estimating the advantages (or disadvantages) in conducting a nationwide TMAP program, we may introduce the concept of benefits in the same manner as was done in sections 6.2 and 6.3 for HUD, i.e., as the difference between (1) the annual outlays expected under either TMAP or Assignment and (2) the outcome that would have resulted under direct foreclosure. Subtracting the second and third rows in figure 6.0-16 from the first row produces the table shown in figure 6.0-17.

Case	Mortgage Lender	Mortgage Servicer "Hard"	"Soft"	Total
TMAP	$435,000	$37,000	$178,000	$215,000
Assignment	619,000	0	0	0

Figure 6.0-17.--Expected Mortgagee Benefits of TMAP and Assignment

Figure 6.0-17 reveals that the mortgage-lending industry could be expected to have reduced its annual foreclosure losses by $435,000 if TMAP had been in place in FY79 as compared to the $619,000 loss reduction actually experienced under the Assignment program. In this sense, TMAP costs the mortgage lending industry $184,000 more each year than Assignment.

On the other hand, figure 6.0-17 reveals that the mortgage servicing industry saves no more under Assignment than under direct foreclosure but could be expected to have saved a total of $215,000 had TMAP been in operation during FY79.

As with HUD, the above results are conservative. To the extent that the secondary failure rate in TMAP turns out to be less than one-third, the TMAP program will become even more attractive to mortgage servicers and might even overtake the Assignment program in cost savings to mortgage lenders.

6.6 LEGAL IMPLICATIONS/IMPEDIMENTS

6.6.1 Required Legislation

6.6.1.1 General

HUD, unlike such institutions as FDIC and FSLIC, is not authorized to make advances to a mortgagee from any insurance fund to protect the Mutual Mortgage Insurance Fund or any other insurance fund (except, pursuant to 12 U.S.C. §1715k (Section 220) for the protection, in the respects specified therein, of the Housing Investment Insurance Fund). Such advances by HUD could be characterized as protective insurance payments; however, these advances clearly are not contemplated by the Mutual Mortgage Insurance Fund (12 U.S.C. §§1708, 1711 (Sections 202, 205)). Further, authorization is no longer available under the Emergency Homeowners' Relief Act (EHRA), since EHRA has expired.

Implementation of a national TMAP program could have been legislatively authorized either by (1) enactment of enabling legislation requiring an appropriation similar to that contained in EHRA or (2), more simply, amendment of the National Housing Act to permit use of the HUD insurance funds for loans or advances for the benefit of the mortgagor and to protect the insurance fund.

6.6.1.2 TMAP Legislation

Congress chose the latter and simpler alternative when it enacted the TMAP Legislation, which became effective October 8, 1980. The TMAP Legislation (a copy of which is included in Appendix H to this report) contains the following provisions:

1. Upon receiving notice of default of a mortgage covering a 1-, 2-, 3- or 4- family residence insured under the National Housing Act, HUD is authorized to:

   "make all or part of the monthly payments due under the mortgage directly to the mortgagee on behalf of the mortgagor, if such default was caused by circumstances which are beyond the mortgagor's control and render the mortgagor temporarily unable to correct a mortgage delinquency and to resume full mortgage payments." [Section 230(a)(1)]*

2. The payments may be made only after HUD has determined that the payments are necessary to avoid foreclosure. To ensure that the cause of default is only temporary, HUD must also have determined that there is a reasonable prospect that the mortgagor will be able:

   "(A) to resume full mortgage payments within thirty-six months after the beginning of the period for which such payments are provided...;

   "(B) to commence repayment of the payments made under this subsection at a time designated by the Secretary; and

   "(C) to pay the mortgage in full by its maturity date or by a later date established by the Secretary for completing the mortgage payments." [Section 230(a)(2)]

   These requirements are consistent with the eligibility criteria set forth above for the proposed national TMAP program. As indicated, the contractor proposes that there be no extension of the maturity date of the HUD-insured first mortgage, since this would require the consent of the mortgagee and thereby complicate the implementation of the program. The TMAP Legislation would permit HUD, if it chose, to modify the program so that, in order to ensure that the mortgagor would be able to make the payments under the HUD-insured first mortgage and the TMAP Mortgage with a certain percentage of his or

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* References to section numbers in this Section 6.6.1.2 are references to the National Housing Act as amended by the TMAP Legislation.

her income, the amount required to be paid under both mortgages could be slightly reduced by extending the maturity date of the mortgages beyond the original maturity date of the HUD-insured first mortgage.

3. Monthly payments are authorized up to an amount equal to the monthly payment under the HUD-insured first mortgage, including principal, interest, taxes, assessments, ground rents, hazard insurance, mortgagee's expenses in connection with payments or repayments, and mortgage insurance premiums. The TMAP Legislation also permits the initial TMAP payment to be larger in order to bring the HUD-insured mortgage current. However, if HUD determines that the mortgagor is capable of contributing toward the mortgage payments, the amount of the payment by HUD is to be appropriately reduced. [Section 230(a)(3)] These provisions are consistent with the proposed national TMAP program.

4. The TMAP payments are initially to be made for a period not to exceed 18 months (which, in HUD's discretion, could either include or exclude the period of default) and then can be extended in HUD's discretion for an additional period up to 18 months if after the initial 18-month period HUD determines that additional payments are necessary to avoid foreclosure and there is still a reasonable prospect that the mortgagor will be able to make the payments and repayments described above. [Section 230(a)(4)] This is also consistent with the proposal set forth in this chapter (section 6.0) providing for an initial benefit period of 18 months with a possible extension for another 18 months.

5. HUD is required to review the financial circumstances of the mortgagor during the continuance of the TMAP payments; if HUD determines that there is no longer a reasonable prospect that the mortgagor will be able to make the payments and repayments as specified above, or determines that the payments are no longer necessary to avoid foreclosure, HUD is required to cease the TMAP assistance. [Section 230(a)(4)] This periodic review of the mortgagor's financial condition is a part of the national TMAP program proposed in this chapter with the information gathered by means of the monthly Certificate completed by the mortgagor.

6. The TMAP loan must be secured by at least a lien on the property covered by the HUD-insured first mortgage. [Section 230(a)(5)] The proposed national TMAP program described in this chapter contains a requirement that the TMAP loan be secured by a mortgage on the mortgagor's home (the "TMAP Mortgage"); and the validity of that mortgage is to be confirmed through the use of title reports and having the TMAP mortgage recorded by a title company, which would then issue a Certificate of Title or other title report showing HUD's lien.

7. HUD is authorized to establish an appropriate interest charge for repayment of the TMAP loan and such interest is to be payable:

"[n]otwithstanding any provision of any State constitution or law or local law which limits the rate of interest on loans or advances of credit...except that such charges shall not exceed a rate which is more than the maximum interest rate applicable with respect to level payment mortgages insured pursuant to section 203(b) of this Act at the time assistance under this section is approved by the Secretary." [Section 230(a)(5)]

This provision precludes potential conflict with state constitutional or legislative proscriptions or limitations on the rate of interest.*

However, the TMAP Legislation may not preclude conflict with State restrictions against charging "interest on interest." "Interest on interest" occurs when (1) the interest accruing on the TMAP advances, as made, is added to the aggregate principal amount of the advances and (2) when the TMAP Loan is recast. (The total amount

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* The case of Mayo v. United States, 319 U. S. 441 (1943) is often cited for the general principle that the activities of the Federal Government are free from regulation by any state. The Court in United States v. City of Chester, 144 F.2d 414 (3d Cir. 1944) interpreted this principle as follows:

> "A state statute, a local enactment or regulation or a city ordinance, even if based on the valid police powers of a State [such police powers usually being the justification for state usury laws], must yield in case of direct conflict with the exercise by the Government of the United States of any power it possesses under the Constitution."

Such priority of the Federal Government is based upon the supremacy clause of the Constitution of the United States (Article VI, Clause 2) making the Constitution and laws of the United States adopted pursuant thereto the supreme law of the land. Congress has recently adopted several other laws providing for preemption of state usury limitations in various areas. (See, Title V of the Financial Institutions Deregulation and Monetary Control Act of 1980, which permanently preempts State usury ceilings on first mortgage loans made by certain lenders, and Section 245(c) of the National Housing Act (12 U.S.C. §17152-10(c)), which preempts any State or local usury law that would prevent the graduated mortgage provisions authorized by Section 245.)

is then to be repaid with interest over the period of the TMAP Loan.) The situation described does not represent the more severe case of monthly compounding. Rather, it is being proposed that each TMAP advance would bear interest from the date of the advance until completion of the relief payments, at which time the total accrued interest plus relief payments would aggregate a "new principal amount" to be repaid with interest. Among the states that limit or deny such charges are Louisiana, New York, Maine, North Dakota, and Minnesota.

The TMAP Legislation enables HUD to set an interest rate up to but not exceeding the maximum interest rate applicable to mortgages insured pursuant to Section 203(b) of the National Housing Act in effect at the time HUD approves the TMAP Loan. The contractor proposes for the national TMAP program that such maximum interest rate under Section 203(b) be used as the rate of interest for the repayment of the TMAP Loans.

8. A mortgagor is permitted to take advantage of the TMAP program more than once, but the TMAP Legislation provides that if the mortgagor has previously received TMAP assistance, he or she must have made the full monthly payments on his or her first mortgage and on the TMAP loan for at least 12 months to be eligible again for TMAP assistance. [Section 230(a)(6)]

9. If HUD has determined that assistance using TMAP "would be inappropriate" in the case of any particular mortgagor, HUD may still accept assignment of the mortgage, and except as indicated below, the provisions regarding assignment are identical to the current provisions of the National Housing Act dealing with assignment. [Section 230(b)(1)] This provision permits the concurrent use of the TMAP and Assignment programs as recommended by the contractor in section 6.2.2 of this report.

10. After HUD has accepted assignment of a mortgage, if the mortgagor has not received TMAP assistance within 12 months prior to the acquisition of the mortgage by HUD and if HUD determines that there is a reasonable prospect that the mortgagor will be able to meet the payment and repayment provisions described above, HUD may offer additional relief through forbearance of interest or principal for a period of up to 18 months after acquisition of the mortgage. This 18 month period may be extended for not to exceed an additional 18 months where HUD determines that the extension is necessary to avoid foreclosure and also determines that there is a reasonable prospect that the mortgagor will be able to meet the payment and repayment conditions described above. The assistance provided after assignment is to be repayable upon terms and conditions prescribed by HUD with any interest rate set not to exceed the interest rate described above for TMAP. [Section 230(b)(2)]

11. HUD may accept an assignment of a mortgage even if TMAP payments are being made "for the sole purpose of extending the term of repayment under the mortgage so that the mortgagor will be able to make the full payments on the mortgage." [Section 230(b)(3)] This provision would be helpful if, for example, it was decided to include extensions of the first mortgage as part of the TMAP program and a mortgagee refused such extension. This provision should be helpful in meeting the allegations of the plaintiffs in the Ferrell case that the TMAP program is defective in that assistance is dependent on mortgagee approval.

12. The expenditures for TMAP advances are to be made from the insurance fund that is chargeable for insurance benefits on the HUD-insured first mortgage outstanding to the mortgagor, and any payments received in repayment of a TMAP loan are to be credited to such insurance fund. However, payments for TMAP may only be made to the extent approved in appropriation acts and implementation of TMAP is now awaiting such an act. [Section 230(c)] This would mean, for example, that if the HUD-insured first mortgage were insured under Section 203(b), the Mutual Mortgage Insurance Fund would be the one used for making TMAP payments and would be the one to which any repayments were credited. Similarly, if the HUD-insured first mortgage loan were insured under Section 221(d)(2), the General Insurance Fund would be the one used, and if the HUD-insured first mortgage were insured under Section 235, the Special Risk Insurance Fund would be utilized.

13. HUD "shall, to the extent practicable, provide homeownership counseling to persons assisted under this section." [Section 230(d)] This is consistent with the contractor's recommendations (in section 5.3.1 of this report) that counseling is a useful supportive element in the operation of a TMAP program.

6.6.1.3 Additional Considerations for Enabling Legislation

One provision not included in the TMAP Legislation is authorization for a "due-on-sale" clause in the TMAP Mortgage without regard to whether any state or local law would prohibit the use of such clause. The PIP Demonstration Program provided that the PIP Loan was to become payable in full upon disposition of the property. As discussed above, this clause is desirable for inclusion in the TMAP Mortgage in a national TMAP program to enable HUD to be repaid if the home is sold. Certain states, such as California, have attempted to preclude an acceleration provision in residential mortgages;

therefore, it is suggested that consideration be given to additional enabling legislation which would preempt any such state or local prohibitions.*

As indicated above, it may also be desirable to have additional enabling legislation preempt state or local restrictions related to charging "interest on interest."

Moreover, if the TMAP Loans are to be marketed in the secondary market with HUD insurance, and if HUD desires to collect a mortgage insurance premium on the TMAP Loan, additional enabling legislation would be needed to authorize such mortgage insurance premium. (See section 7.1 of this report for a discussion of this issue.)

Finally, it may be desirable to consider having additional enabling legislation which would preempt any state laws relating to disclosures so that the federal Truth-in-Lending disclosures made will be all that is required. As indicated above it was determined in the PIP demonstration that the Truth-in-Lending Disclosure Statement had to be supplemented to include certain additional disclosures required by Georgia law. In a national TMAP program, compliance with the various requirements of each state regarding disclosures would complicate the documents used in connection with the program. This preemption is not included in either the Truth-in-Lending Act or the recent amendments to the Truth-in-Lending Act that will become effective April 1, 1982. That Act provides that if the State disclosures are inconsistent, they are preempted, but if not inconsistent, they are not preempted and must be made.

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* In at least one other area, this preemption of state law with respect to due-on-sale clauses has been accomplished by regulation. Thus, the Regulations of the Federal Home Loan Bank Board provide that a Federal Savings and Loan Association shall have the power to include such a due-on-sale clause in its loan instruments (Reg. §545.8-3(f)); and the Attorney General of Iowa, in an opinion dated January 4, 1980, has held that such Regulations validly preempt the Iowa state law restrictions on due-on-sale clauses. The Regulations also provide certain safeguards with respect to the exercise of such a clause, providing, for example, that the association shall not impose a prepayment charge if there is an acceleration as a result of the exercise of such clause. Reg. §545.8-3(g).

6.6.2 Impact of Ferrell Litigation*

As indicated in section 2.6, the Assignment program was largely a result of the Ferrell litigation. Although the case has been settled, the plaintiffs are obviously still involved in a close examination of HUD's activities in this area to make sure that the relief sought and obtained in the litigation does not become illusory. There have been and continue to be allegations by the legal representatives involved in the litigation that HUD has failed to take action demonstrating that the Assignment program is being administered in accordance with the Ferrell settlement. As a result of such allegations, an amendment to the settlement was entered into on August 2, 1979 (and approved by the Court on November 18, 1979), pursuant to which HUD agreed to reopen all requests that it accept assignment of insured home mortgages that were rejected between May 17, 1976, when the assignment procedure was instituted, and January 31, 1979, if the mortgagor or former mortgagor requests reconsideration and if the mortgage has been foreclosed or is in foreclosure, or if foreclosure is imminent. In addition, as a result of the amended settlement and with respect to the ongoing Assignment program, HUD has proposed amendments to its Regulations that would eliminate the necessity for mortgagees to determine whether or not a mortgagor meets the criteria for HUD's accepting an assignment of the mortgage. Under the proposed Regulations, in every case mortgagees would provide HUD with an opportunity to determine whether or not to accept assignment of the mortgage prior to initiating any action required by law to foreclose the mortgage.

More recently, and in connection with introduction of the legislation which resulted in the enactment of the TMAP Legislation, the plaintiffs sought to have the Secretary of HUD held in contempt of court for violating the settlement stipulation by allegedly proposing to eliminate the Assignment program and replace it with a national TMAP program. The request for a contempt citation was denied, but it was clear from the proceedings that Judge Will would not permit the elimination or even the modification of the Assignment program or its partial replacement by the national TMAP program unless he was assured that the benefits sought by the plaintiffs would be available in such a national TMAP program. Moreover, the TMAP Legislation provides for the continuation of the Assignment program in cases where TMAP is not appropriate.

In the course of the hearing on the plaintiff's motion to hold the Secretary of HUD in contempt, one of the matters that was discussed and objected to by both the plaintiffs and Judge Will was the fact the TMAP benefits could not be granted to the mortgagor without the consent of the mortgagee. The contractor's proposal to eliminate modification of the HUD-insured first mortgage would solve this problem. In addition, even if the

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* Ferrell v. Hills, Case No. 73 C 334, U.S.D.C., N.D. Ill., July 29, 1976, later redesignated Ferrell v. Harris and now Ferrell v. Landreu, and referred to in this report as the Ferrell case or the Ferrell litigation.

TMAP program is to include modification of the HUD-insured first mortgage so that consent of the mortgagee would be required, the TMAP Legislation authorizes HUD to accept assignment of the mortgage if the TMAP program could not be offered to a particular mortgagor because of refusal by the mortgagee to consent. Either of these alternatives should satisfy the plaintiffs and, more importantly, Judge Will.

In both the original Stipulation settling the Ferrell litigation and the Order of Judge Will approving that Stipulation, it is acknowledged that the plaintiffs were seeking, *inter alia*, to require HUD "to...require relief in the alternative to foreclosure to distressed homeowners such as forbearance relief, recasting of the mortgage or the taking of an assignment...by HUD...." ("Emphasis supplied.) The intent of a national TMAP program is to provide such relief to "distressed homeowners." While the implementation of a national TMAP program under the TMAP Legislation could certainly give rise to an attempt by the legal services group to re-open the settlement, they are at liberty at any time and for any reason to seek to re-open the settlement.*

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* Although the amended stipulation does provide that the suit was dismissed with prejudice, the rights and obligations contained in the stipulation continue for five years and thus at least for that period there could be a request by the legal services group to re-open the settlement to determine if HUD is complying with it.

APPENDIX 1
(Chapter 6.0)

Cash-Flow Diagrams

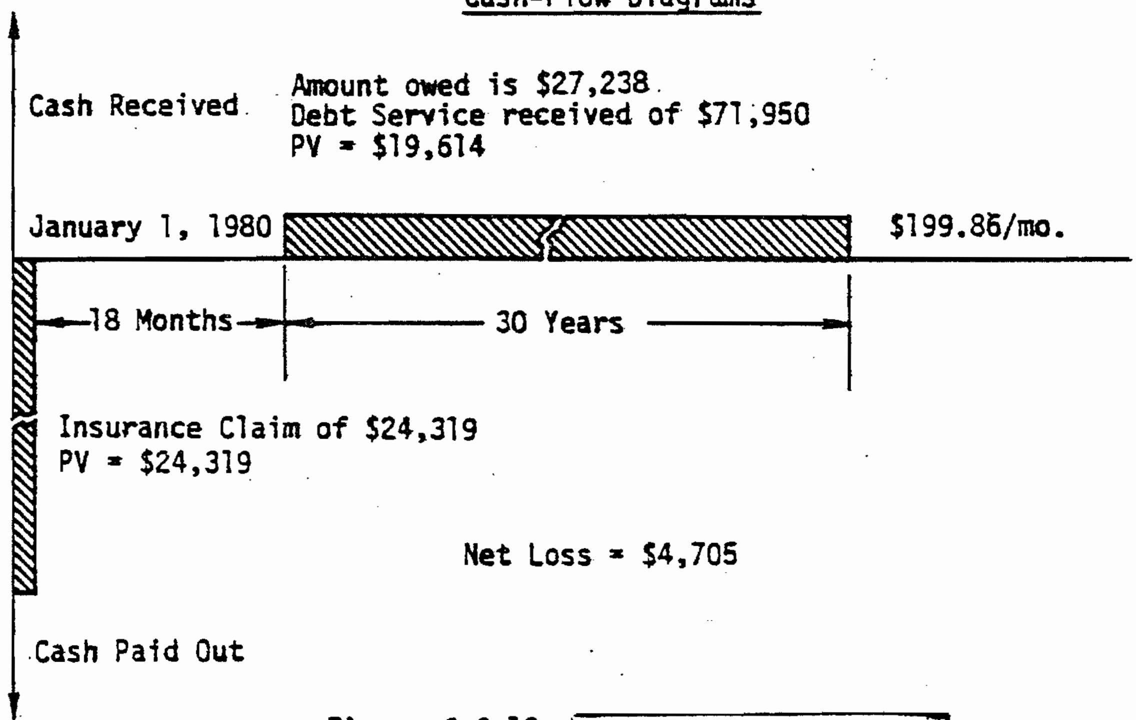

Figure 6.0-18.--Cash Flow for 18-Month Assignment

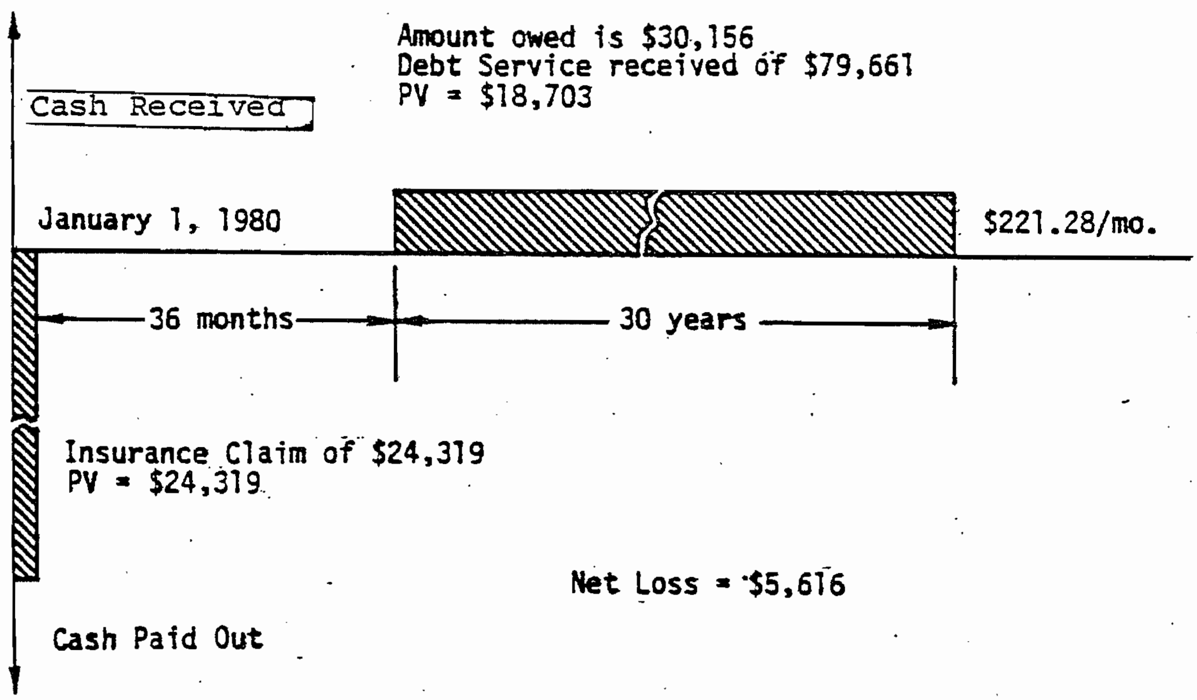

Figure 6.0-19.--Cash Flow for 36-Month Assignment

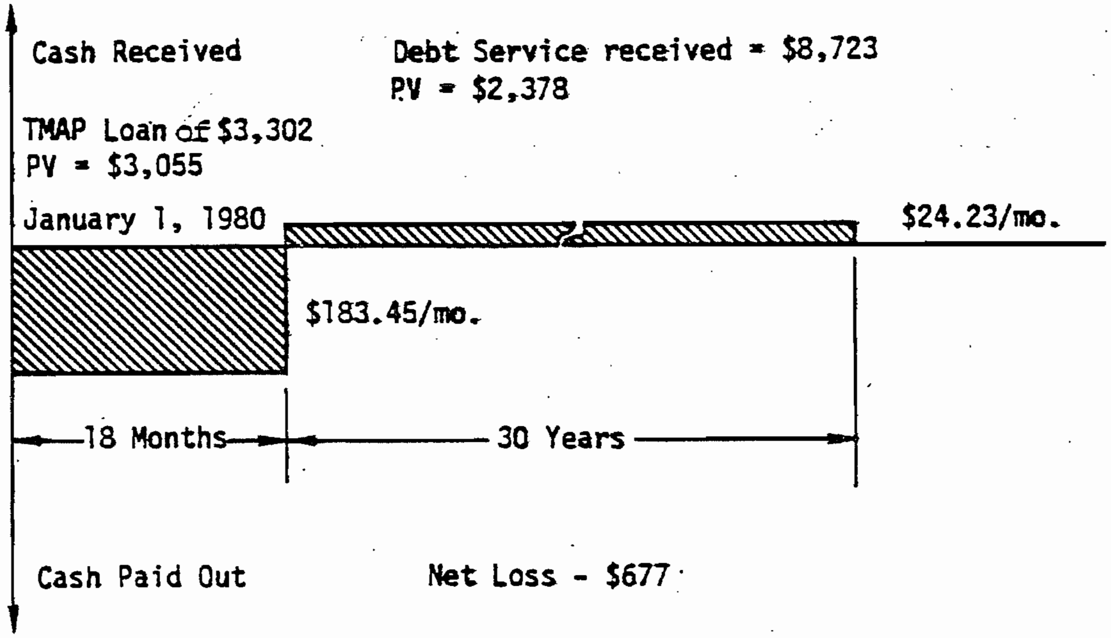

Figure 6.0-20.--Cash Flow for 18-Months of TMAP

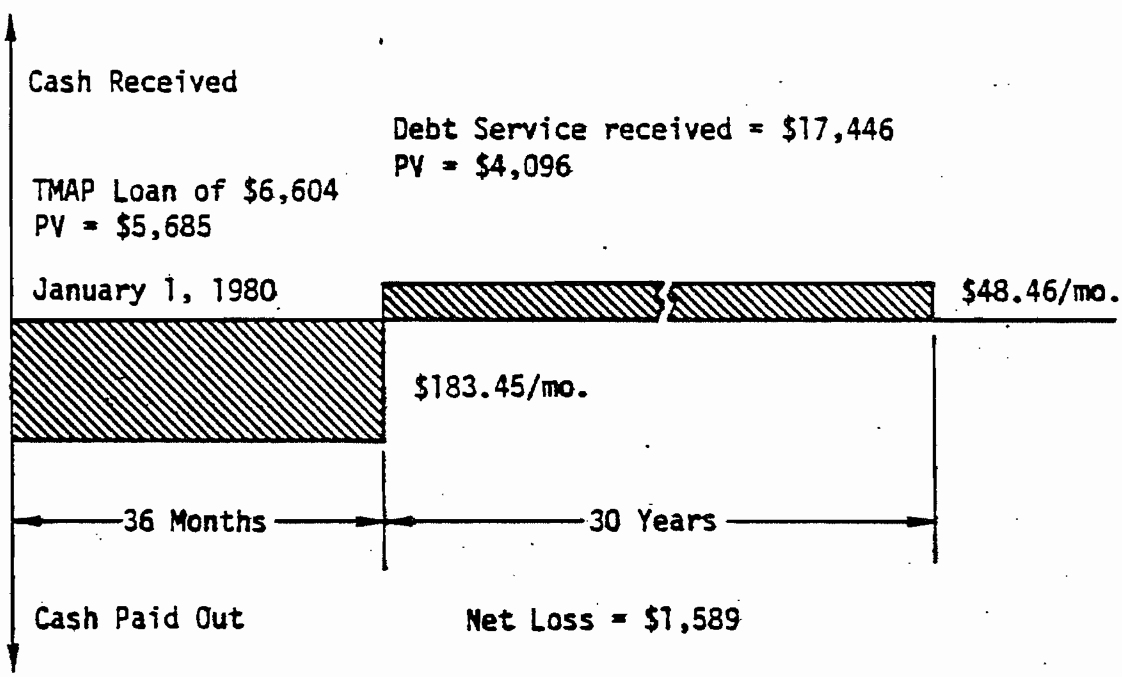

Figure 6.0-21.--Cash Flow for 36-Months of TMAP

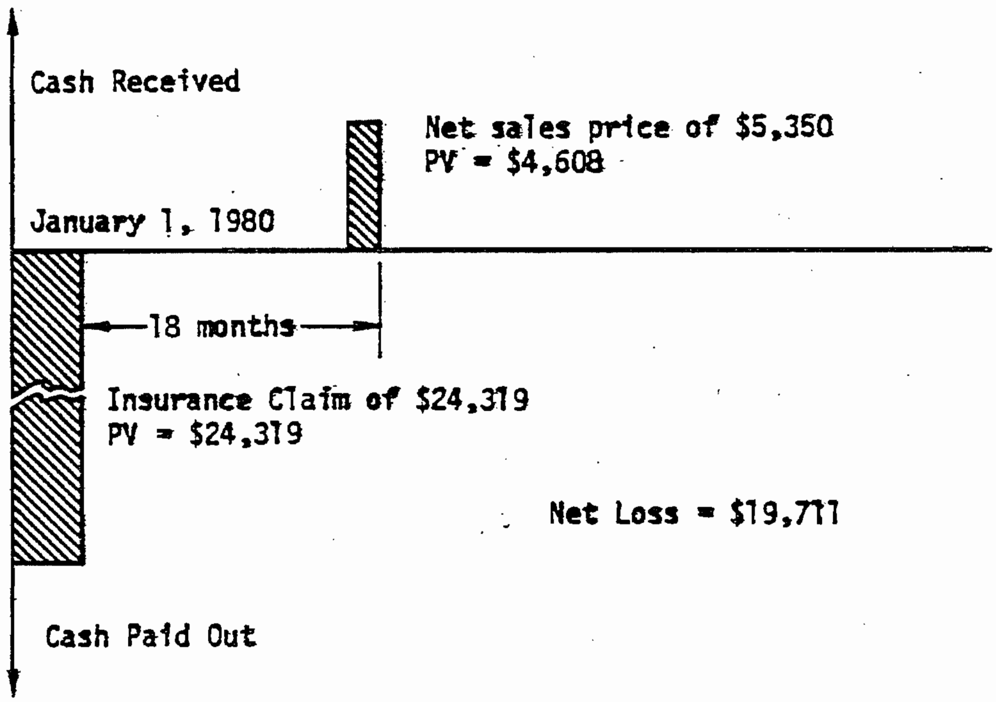

Figure 6.0-22.--Cash Flow for 18-Month Assignment with Secondary Failure

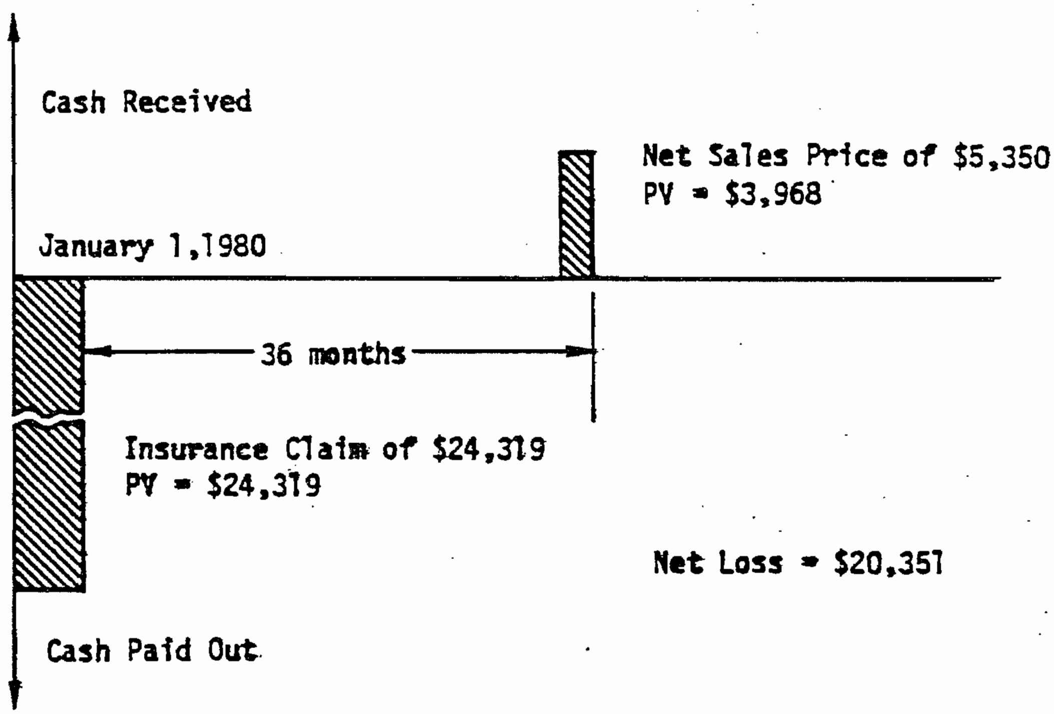

Figure 6.0-23.--Cash Flow for 36-Month Assignment with Secondary Failure

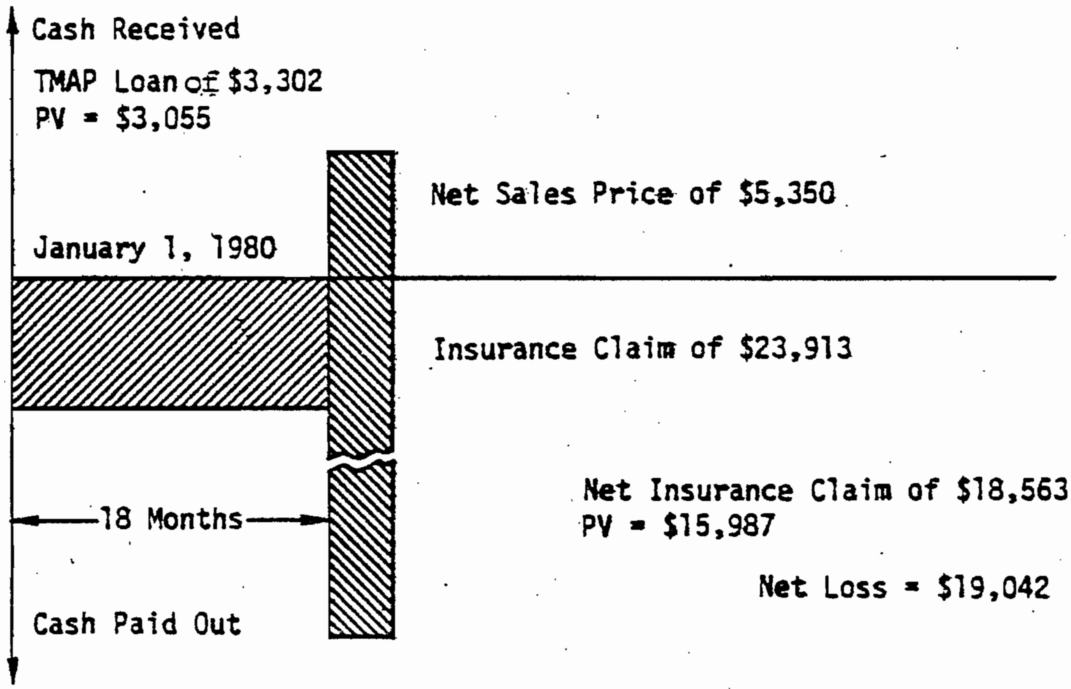

Figure 6.0-24.—Cash Flow for 18-Months of TMAP with Secondary Failure

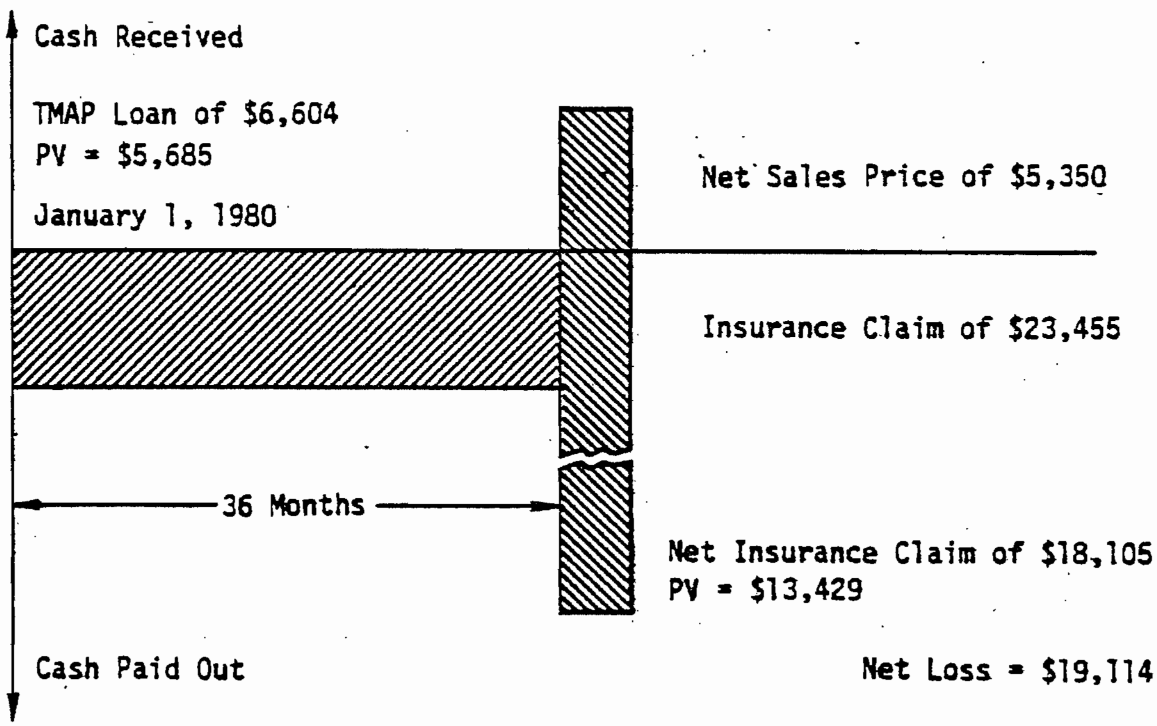

Figure 6.0-25.—Cash Flow for 36-Months of TMAP with Secondary Failure

APPENDIX 2

(Chapter 6.0)

Discount Factors

The discount factors utilized in the preceding analyses are calculated as follows, with a monthly discount rate of r = 0.10/12 = 0.083333:

Present value of $1 received monthly for 18 months:

$$PV = \sum_{i=1}^{18} \frac{\$1}{(1+r)^{i}} = 16.65$$

Present value of $1 received monthly for 36 months:

$$PV = \sum_{i=1}^{36} \frac{\$1}{(1+r)^{i}} = 30.99$$

Present value of $1 received monthly for 360 months:

$$PV = \sum_{i=1}^{360} \frac{\$1}{(1+r)^{i}} = 113.95$$

Present value of $1 received in 18 months:

$$PV = \frac{\$1}{(1+r)^{18}} = 0.861243$$

Present value of $1 received in 36 months:

$$PV = \frac{\$1}{(1+r)^{36}} = 0.741740$$

7.0 NATIONAL IMPLEMENTATION--SPECIAL AREAS

7.1 ALTERNATIVE SOURCES OF FUNDING

7.1.1 HUD Insurance Funds

One source of funds necessary to make the TMAP payments in a national TMAP program would be the HUD insurance fund applicable to the HUD-insured first mortgage. Subject to the necessity for a specific appropriation act, the TMAP Legislation authorizes such expenditures from the appropriate insurance fund.

The TMAP Legislation also provides that the repayments of the TMAP Loans are to be redeposited into the appropriate HUD insurance fund.

7.1.2 Revolving Fund

An alternative to financing a TMAP program with existing HUD insurance funds would have been to set up a separate revolving fund for the TMAP program. Under these circumstances, the TMAP payments would come from this separate fund and from repayments of the TMAP Loans.

Assuming such a separate revolving fund were set up, it could be made at least partially self-sustaining through the use of a mortgage insurance premium in connection with the TMAP Loans (as is done in connection with the HUD-insured mortgages).

It is beyond the scope of this report to estimate the amount of funds that would be required to create such a revolving fund and to make it self-sustaining. Chapter 6.0 of this report does estimate, based on various assumptions set forth therein, that the annual cash outlay for a TMAP program (with a 36-month benefit period) would be approximately $17,793,000. Obviously, it would not cost this amount each year because there would be incoming funds in the form of repayments of TMAP Loans and (if used) mortgage insurance premiums. It is also beyond the scope of this report to compute the mortgage insurance premium needed to "pay" for the program without additional contributions by HUD.

7.1.3 Secondary Market for TMAP Loans

A national TMAP program would result in a sizable number of loans owned by HUD, each with a relatively small principal amount and secured by a second (or more junior) mortgage on the mortgagor's home. One option would be for HUD to retain these loans in its loan portfolio. Another option--one that would at least partially finance the TMAP program--would be for HUD to attempt to market these loans in the secondary loan market. Based on the contractor's discussions with representatives of GNMA and FNMA, it is our opinion that these loans would not be marketable unless they were insured by HUD. (If it were decided to insure these loans, authorization would have to be included in additional enabling legislation for the TMAP program.) Apparently because of the small size of the loans and the fact that they would be created out of a default situation, it would be virtually impossible to market the loans without HUD insurance unless the discount from the face amount was so large as to make the sale economically useless.

If the TMAP Loans were sold with HUD insurance, it is suggested that at the time of the creation of the TMAP Loan a certificate of title or other title evidence be obtained so that the loans could be marketed as secured by a mortgage and so that there would eventually be a means of collecting the loans.

One of the problems created by the small principal amount of the TMAP Loans is the economics of servicing such small loans. This is to some extent alleviated when (1) all of the loans are owned by HUD and (2) a servicer with a number of the loans is permitted to account and send funds only to HUD after a certain minimum amount has been accumulated (and possibly to hold accumulating funds at interest). If the TMAP Loans were sold in the secondary market, and if the servicers then had to account to and pay numerous owners of the loans, this would create a considerable problem in servicing the loans. Obviously, one solution would be to sell all of the loans to one investor, such as FNMA, or to an investor who puts all of the loans into a GNMA pool. Another possible solution (discussed briefly with GNMA officials) would be to have GNMA set up a trust prior to the sale of the loans and have the servicers make all the payments and reports on the loans directly to such trust for the benefit of the eventual owners of the loans.

7.2 EXPANSION BEYOND MORTGAGES AND LOANS UNDER ASSIGNMENT

7.2.1 General

The PIP Demonstration Program covered only mortgagors whose property was covered by a mortgage insured by HUD under either Section 203(b) or Section 221(d)(2) (and in either case not also insured under Section 223(e)) of the National Housing Act. In section 6.2 of this report it was suggested that the national TMAP program cover mortgagors whose property was covered by a mortgage insured by HUD under those sections of the National Housing Act which are presently covered under the Assignment program. The purpose of this section is to consider expansion of any national TMAP program beyond those mortgagors whose property would be covered under the Assignment program to include all of the following:

1. A borrower whose loan is insured by HUD under a section of the National Housing Act that does not presently qualify the borrower for participation in the Assignment program

2. A mortgagor whose property is covered by a mortgage insured or held by some other Government agency (other than HUD)

3. A mortgagor whose property is covered by a conventional first mortgage loan

7.2.2 Expansion to Other HUD-Insured Loans

7.2.2.1 Co-Insured Mortgages

As described in section 6.2 of this report, the Assignment program is currently available to mortgagors whose property is covered by a single-family mortgage insured by HUD under each Section of Title II of the National Housing Act other than Section 244 (under which HUD accepts co-insurance with the mortgagee). These mortgages are eligible for the Assignment program pursuant to Reg. §203.350. Also, mortgages co-insured by HUD under Section 244, covering one-to-four-family residences, can also be accepted for assignment by HUD as "hardship cases" in HUD's discretion but are not generally considered part of the Assignment program (Reg. §203.6540).

Section 244 of the National Housing Act permits HUD to insure any mortgage pursuant to a co-insurance contract providing the mortgagee assumes a percentage of any loss on the insured mortgage in direct proportion to the amount of the co-insurance (which is not to be less than 10 percent). These mortgages are not eligible for participation in the Assignment program, but there seems to be no reason why any loans that would meet the other criteria of a national TMAP program should not be eligible for a national TMAP program.

Since the TMAP Legislation authorizes TMAP assistance (and also assignment) with respect to any mortgage insured by HUD covering a 1-4 family residence, mortgages co-insured under Section 244 of the National Housing Act are eligible for TMAP under the implementing TMAP Legislation.

7.2.2.2 Property Improvement and Mobile Home Loans

The PIP Demonstration Program and the Assignment program are limited to loans that are secured by a mortgage and insured by HUD under Title II of the National Housing Act. There is also a group of loans (some of which are secured by a mortgage on real property) that are insured by HUD under Section 2 of Title I of the National Housing Act and apparently do not qualify for the Assignment program*, but could be included in the TMAP program pursuant to the TMAP Legislation. This Section authorize the Secretary to insure property improvement loans and mobile home loans. These programs are as follows:

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* It is not clear from HUD Regulations whether those Title I loans that are secured by a mortgage on real property technically qualify for the Assignment program, but it is the contractor's understanding that, in practice, those loans are not being considered for the Assignment program.

7.2.2.2.1 Property Improvement Loans--Property improvement loans can be made to finance alterations, repairs, and improvements on or in connection with existing structures. The maturity of all of the loans is 12 years and 32 days. The loans designated as Class 1(a) deal with any type of structures, while the loans designated as Class 1(b) deal with structures used as apartment houses or dwellings for two or more families. These are primarily personal unsecured loans, but loans in excess of $7,500 (exclusive of financing charges) must be secured by a recorded lien on the improved property. Therefore, to the extent the loans exceed $7,500, these loans are secured by a mortgage (and thus qualify under the TMAP Legislation for both the TMAP and Assignment programs) but are not presently eligible for the Assignment program even if so insured by a mortgage because the Assignment program, at least in practice, is limited to Title II loans.

It is suggested that property improvement loans insured by HUD under Section 2 of Title I that are in excess of $7,500 and thus secured by a recorded lien on the improved property should be eligible for the TMAP program. (Although, in theory, loans of $7,500 and less could also qualify for the TMAP program, the TMAP Legislation would not permit coverage of these loans and in any event the TMAP program would most probably be unnecessary for such small loans since the small monthly payments involved would almost certainly constitute only a tiny fraction of the mortgagor's other fixed obligations and, standing alone, should not be the factor causing the mortgagor's financial difficulties.)

7.2.2.2.2 Mobile Home Loans--Under Section 2 of Title I the Secretary is also authorized to make a loan for the purchase of a mobile home that will serve as the borrower's principal residence and to make a loan for the purchase of a lot on which such a mobile is to be placed. Since the mobile home is not real property, there can be no mortgage on it; therefore, the loans to purchase a mobile home where no lot is involved do not qualify for the present Assignment program and would not qualify for either TMAP or Assignment under the TMAP Legislation. Although the loans to acquire a lot are secured by a mortgage on the lot and it is not clear from HUD Regulations whether those loans presently qualify for the Assignment program, it is the Contractor's understanding that, in practice, those loans are not being considered for the Assignment program. It is suggested that these loans which are secured by a lot should be eligible for a national TMAP program. If the loans to purchase a mobile home are to be included in the national TMAP program (after additional enabling legislation), instead of HUD taking a real property mortgage on the borrower's property, it is suggested that HUD could retain a lien on the mobile home by means of a security interest covering the personal property (subject to the lien securing the HUD-insured loan).

7.2.3 Expansion to Mortgages Insured or Guaranteed by Other Government Agencies

Consideration should also be given to expanding the TMAP program to cover mortgages insured or guaranteed by other Government agencies. Such expansion would require additional enabling legislation.

7.2.3.1 Loans Guaranteed and Insured by the Veterans Administration (VA)

7.2.3.1.1 Background--VA loans can be insured, guaranteed, or direct loans. In the direct loan program the qualified veteran applies directly to the VA for the loan and loan disbursements are made from the direct loan revolving fund. Under the loan guarantee program, the VA guarantees to private lenders up to 60 percent of the indebtedness due under a loan up to a maximum of $17,500. Under the insured loan program, the VA creates insurance accounts in the names of qualified lenders, and for each loan made by the lender, the VA credits up to 15 percent of the loan to the lender's insurance account. In the case of default, the VA pays the lender either the amount in the insurance account for the loan or the unpaid balance on the loan, whichever is less. In recent years, the insurance program has been used very little, the principal reason seemingly being that the lenders prefer the VA loans guarantee program. Since there would be no need for a program such as TMAP with respect to direct loans, we considered only the VA-guaranteed and -insured loan programs.

7.2.3.1.2 Types of Dwellings--To be eligible for guarantee or insurance, a loan must be made for one of various specified purposes, including the following (38 U.S.C. §1810):

1. To purchase or construct a dwelling to be owned and occupied as a home by the veteran

2. To purchase a farm on which there is a farm residence, to be owned and occupied as the veteran's home

3. To construct on land owned by the veteran a farm residence to be occupied as a home by the veteran

4. To repair, alter, or improve a farm residence or other dwelling owned and occupied as a home by the veteran

5. To refinance existing mortgage loans or other liens secured of record on a dwelling or farm residence owned and occupied as a home by the veteran

6. To purchase a one-family residential unit in a new condominium development or project or in a structure built and sold as a condominium

7.2.3.1.3 Eligible Mortgagors--Basically, the only limitation with respect to the mortgagor is that he be an "eligible veteran" as defined in the applicable law. Each eligible veteran is entitled to benefits equal to $17,500. These benefits may be used by obtaining a VA guarantee of up to $17,500 of a loan or loans and/or by obtaining VA insurance of up to $17,500 of a loan or loans. (Reg. §36.4302.)

7.2.3.1.4 Mortgage Eligibility--Among other requirements as to the terms of the loan, the loan may not provide for acceleration of maturity by reason of the death of the mortgagor or sale of the property. (Information Bulletin No. 1B-2-30 and Reg. §36.4308(a).)

7.2.3.1.5 Coverage in TMAP Program--The VA encourages holders of VA-insured and -guaranteed loans to forbear (VA Lenders' Handbook, Section F); its Regulations authorize modification of the terms of repayment by written agreement between the holder and the debtor in the event of default or to avoid imminent default (Reg. §36.4314); and the applicable law provides that, before suit or foreclosure, the holder of such an obligation must notify the VA of the default and within 30 days thereafter VA may at its option pay the holder the unpaid balance of the obligation plus accrued interest and receive an assignment of the loan and security (38 U.S.C. §816). Although an investigation into the operation of these provisions in practice is beyond the scope of this report, assuming that the practices are similar to those applied to HUD-insured loans, the use of a national TMAP program with respect to VA-insured and -guaranteed loans would seem appropriate.

One obvious and necessary decision is whether the TMAP Loans should be made by HUD or the VA. Mechanically, it could be done either way, but if HUD were the entity making the loans, it would be necessary either to obtain the consent of VA on a case-by-case basis or on a blanket basis. The decision as to which entity would make the loans depends in part on the source of funding as discussed in section 7.1 of this report. Otherwise, the mechanics of the TMAP program should work where the first mortgage is guaranteed or insured by the VA just as they do in the case of mortgages insured by HUD.

7.2.3.2 Loans Guaranteed by the Farmers Home Administration (FmHA)

7.2.3.2.1 Background--Basically, the FmHA conducts programs for lower-income farmers and for nonfarm rural and small-town residents. The major part of FmHA's housing assistance is provided under its basic home ownership direct loan program known as the Section 502 program. However, in addition to this direct loan program and other benefit programs, the FmHA has authority to guarantee home loans made by private lenders to rural residents of low or moderate income. The guaranteed loan program, however, is presently limited to moderate-income families by its funding authorization. In effect, FmHA operates a mortgage insurance program in nonmetropolitan areas parallel to HUD's program in metropolitan areas. Loans under the guarantee program are originated, made, and serviced by approved private lenders; FmHA's county offices then review the applications and issue the contract of guarantee.

7.2.3.2.2 Types of Dwellings--FmHA is authorized to guarantee various types of loans. Those listed below relate to dwellings to be occupied by the borrower (Section 501 of Housing Act of 1949 and Reg. §1980.306):

1. Loans to owners of farms to enable them to construct, improve, alter, repair, or replace dwellings

2. Loans to owners of other real estate in rural areas for the construction, improvement, alteration, or repair of dwellings and for the purchase of buildings and land constituting a minimum adequate site to enable borrowers to provide dwellings for their own use

3. Loans to elderly persons who are or will be the owners of land in rural areas for the construction, improvement, alteration, or repair of dwellings and related facilities and for the purchase of land constituting a minimum adequate site to provide such persons with adequate dwellings and related facilities for their own use

4. Loans to owners described in items 1, 2, or 3 above for refinancing certain types of indebtedness

7.2.3.2.3 Eligible Mortgagors--To be eligible for a FmHA-guaranteed loan the mortgagor must: (1) not own adequate, decent, safe, and sanitary housing for his use; (2) be (or will become) the owner-occupant of the housing; (3) have adequate and dependable available income to meet the living expenses, obligations, necessary capital replacement, and repayment of debts; and (4) have a moderate income (which is defined as an adjusted annual income below the moderate adjusted income limits applicable to the state in which the housing is or is to be located). (Reg. §1980.330.)

7.2.3.2.4 Coverage in TMAP Program--A study of the scope of the forbearance procedures utilized in connection with FmHA-guaranteed loans and the procedures used by FmHA in accepting assignment or purchasing the guaranteed portion of a loan is beyond the scope of this report; however, the comments set forth above regarding the inclusion of VA loans in the TMAP program would also apply to FmHA-guaranteed loans.

7.2.4 Expansion to Conventional Mortgages

With additional enabling legislation, it would also be possible to expand the national TMAP program to cover conventional mortgages that are not insured or guaranteed by any Government agency. These might be mortgages held by private investors or mortgages held by one of the investors in what is called the secondary market, i.e., FNMA, GNMA or FHLMC. However, the absence of any government agency with a relationship to the first mortgage raises many substantive issues regarding the use of a national TMAP program with conventional mortgages. Although a thorough investigation of these issues is beyond the scope of this report, the following represent basic questions to be considered before expansion of the national TMAP program to cover conventional mortgages:

1. Because there will be no Government agency with any responsibility with respect to the first mortgage, serious consideration would have to be given as to whether the broad eligibility criteria proposed for the national TMAP program should be used with respect to conventional

mortgages. If a mortgage is insured by HUD (or some other Government agency), a large financial loss results to the Government agency if the mortgage is foreclosed or assigned. Under those circumstances, the use of broad eligibility criteria makes sense because it results in saving a larger number of cases from foreclosure or assignment. With respect to conventional mortgages, where HUD or another Government agency has no direct monetary responsibility with respect to the first mortgage, such broad criteria would impose a large cost on HUD or any other source of funding. It is suggested that under those circumstances use of narrower criteria such as used in the PIP Demonstration Program or as set forth in the Emergency Homeowners' Relief Act might be more appropriate.*

2. Another important determination that would have to be made if the national TMAP program were to be expanded to cover conventional mortgages would be the source of funding. Two possibilities are the alternatives described in section 7.1 of this report, i.e., use of one or more of HUD's existing insurance funds or a separate revolving fund established for the TMAP program (in either case, with or without the marketing of the resulting TMAP Loans). It would also be possible for such a TMAP program to be funded and administered through one or more of the private entities presently supplying partial mortgage insurance. Since those entities would have an interest in saving a mortgage from default (just as HUD has when it fully insures a loan), it would be possible for such entities to set up a TMAP program that could be at least partially funded with Government funds but administered by the private mortgage insuror.

3. Another basic decision required is the designation or creation of an entity that would administer the national TMAP program with respect to conventional mortgages. Since there will be no potential insurance or guarantee claim against a Government agency, a Government agency is not necessarily the obvious administrator of such a program. As indicated above with respect to the expansion to cover VA and FmHA loans, the source of the funds for the TMAP advances would have a direct bearing on this decision. If, for example, HUD was to be the source of funds, assuming the funding included funds for personnel, HUD would be the logical choice to administer the program. Another relevant factor in determining responsibility for administration of the program is the choice of

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* The criteria of the PIP Demonstration Program and the Emergency Homeowners' Relief Act would basically cover cases where the mortgagor had incurred a substantial reduction in income as a result of involuntary unemployment or underemployment.

eligibility criteria. If, for example, very narrow, objective criteria were to be used it might be possible to have the program administered by the mortgage servicers or counseling agencies as described in section 7.4 of this report.

4. Finally, it is possible that in connection with conventional mortgages, the use of equity insurance rather than a TMAP program would be more appropriate. (See the discussion of equity insurance in section 7.3 of this report.)

7.2.5 Investor Response

Each of the investors (including FNMA and GNMA) with whom these possible expansions were discussed indicated that they though it would be a good idea. Generally, their position was that if the TMAP program was workable and made sense with respect to HUD-insured mortgages, it should also be workable and make sense in connection with these other mortgages, including conventional mortgages.

7.3 FORERUNNER OF EQUITY INSURANCE

7.3.1 General

The PIP Demonstration Program and the prospective national TMAP program were designed to provide temporary secondary-secured financing to assist insured homeowners in default. These programs provide assistance by having HUD make monthly mortgage payments for the mortgagor for a period of up to 36 months (in the case of the proposed national TMAP program) or up to and including the month succeeding the month in which the mortgagor has reestablished his or her income flow or corrected the temporary default.

An alternative to assisting such mortgagors with Government funds would be to use a program of equity insurance supplied by private industry. Instead of having HUD provide assistance by means of loans to the mortgagor, each mortgagor who desired to have the benefit of the availability of TMAP type assistance* would purchase equity insurance from a private source. Upon the occurrence of an event that would result in a TMAP loan under the TMAP program, the private insurance company would begin making the mortgage payment

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* It would also be possible for appropriate HUD Regulations (or those of any other Government agency that may have insured and/or guaranteed a loan) to require each mortgagor whose first mortgage is insured by HUD to purchase such equity insurance from a private insurance company as would minimize the risk that HUD would have to pay off under its insurance contract.

on the HUD-insured first mortgage to the mortgagee on behalf of the mortgagor. No loan would be created because the payments would be the insurance benefits under the contract between the mortgagor and the insurance company.

7.3.2 Previous Studies

Section 109 of the National Housing Act of 1968 (P.L. 90-488) contained the following provision:

> "The Secretary of Housing and Urban Development is authorized, in cooperation with the private insurance industry, to develop a plan for the establishment at the earliest practical date of an insurance program to help homeowners in meeting mortgage payments in times of personal economic adversity. Such insurance program shall be designed to protect mortgagors against foreclosure due to curtailment of income resulting from factors beyond their effective control, including such factors as death, disability, illness and unemployment. Such insurance program shall also be designed to be actuarially sound through the use of premiums, fees, extended or increased payment schedules, or other similar methods, in conjunction with such federal participation as may be necessary."

In response to this provision of the Act, HUD organized an Insurance Technical Advisory Group (ITAG). ITAG was composed of 13 members of the American Life Convention, the Health Insurance Association of America, and the Life Insurance Association of America. It was chaired by Mr. Morton D. Miller, Vice President and Chief Actuary of the Equitable Life Assurance Society of the United States. At the suggestion of the then FHA Commissioner, Mr. Philip N. Brownstein, ITAG conducted a two-part study of the potential costs and benefits of such an insurance program: first, a study of the feasibility of providing death, disability, and unemployment coverage for subsidized lower-income homeowners (primarily Section 235 mortgagors), and second, a study of the feasibility of providing death and disability (but not unemployment) coverage for unsubsidized homeowners (primarily Section 203(b) and Section 221(d)(2) mortgagors).

The study efforts by this group culminated in a report submitted to HUD on April 24, 1969, entitled "Insurance Protection Against Foreclosure in Government Assisted Home Mortgage Programs." A substantial number of technical considerations were examined in the course of the ITAG study efforts, but all centered about one primary delivery mechanism for the proposed insurance program: In return for the payment of certain additional premiums collected along with the monthly mortgage payment, the participating private insurors would make part or all of the mortgage payments due by the mortgagor in the event that he or she were forced by certain circumstances to default on his or her governmentally insured mortgage. This is identical in concept to the national TMAP Program with the obvious exception that the monthly payments are made by a private insurance company rather than by HUD.

The report produced estimates of the premium schedules required by the private insurors to make coverage both actuarially sound and modestly profitable. The premium schedules were quite complicated and voluminous, encompassing a rate structure varying with the age of the principal mortgagor, section of the National Housing Act under which the mortgage was insured, circumstances and combination of circumstances leading to default, length of benefit period, and many other variables.

To establish perspective on the magnitude of the premiums involved in such an insurance program, we have extracted from tables I-E (page 65) and I-C (page 90) of the ITAG report the following premium schedules (figure 7.0-1) showing the monthly premium rates as percentages of the monthly payment for a 40-year old mortgagor:

	Benefit Period	
	12 Months	24 Months
Subsidized (death, disability and unemployment)	4.86%	6.24%
Unsubsidized (death and disability)	1.53%	2.25%

Figure 7.0-1.--Monthly Premium Rates as a Percentage of Monthly Mortgage Obligation: 40-Year Old Mortgagor

To get a better feel for what these premiums are in terms of an annual percentage of the mortgage balance, consider a mortgage of $15,000 for 30 years at a rate of interest of 10.88 percent with a monthly PITI of $141.52 and, in the case of the Section 235 mortgagor, a maximum subsidy of $73.28. The percentages in figure 7.0-1 will then produce, for the same 40-year old mortgagor, the following (figure 7.0-2) annual premium as a percentage of the outstanding mortgage:

	Benefit Period	
	12 Months	24 Months
Subsidized (death, disability and unemployment)	0.50%	0.69%
Unsubsidized (death and disability)	0.48%	0.73%

Figure 7.0-2.--Premium Rates as an Annual Percentage of Outstanding Mortgage Balance: 40-Year Old Mortgagor

Thus, in return for an annual premium of 0.5 percent of the mortgage balance, a subsidized mortgagor could expect to have up to 1 year of mortgage payments, including principal, interest, taxes, and mortgage and hazard insurance paid on his or her behalf in the event of death, disability, or unemployment. For 2 years of potential coverage, the premium required would increase to almost 0.7 percent. For the unsubsidized mortgagor, for whom unemployment was not covered, a premium of 0.48 percent would be required to ensure up to 1 year's worth of mortgage payment in the event of death or disability. For 2 years' worth of benefit coverage in the event of death or disability, the premium required for the unsubsidized mortgagor would have to be almost 3/4ths of 1 percent. The reason that the premium rates for unsubsidized mortgagors are roughly equal to or substantially exceed those of subsidized mortgagors, while apparently eligible for fewer benefits, is primarily the fact that the subsidized mortgagors are already receiving substantial assistance with their monthly mortgage payments. The additional benefits accorded them in the event of default will consist, at most, of only that portion of the mortgage payment for which they were originally responsible.

The second operative paragraph of Section 109 of P.L. 90-488 provided that, within 6 months following the date of enactment of the Act, the Secretary was to report to Congress and recommend such legislation as the Secretary deemed appropriate to authorize him to enter into agreements with any insurance company for the purpose of re-insuring insurance reserve funds, subsidizing premium payments on behalf of lower income mortgagors, or otherwise making possible the insurance protection of homeowners in accordance with the first paragraph of Section 109 quoted above. However, the Department's response to this provision was another report issued during 1971 which gave little consideration to the ITAG proposals of April 24, 1969, favoring consideration of alternate procedures that did not rely on private insurance sources, i.e., procedures dealing only with mortgagors already in default, similar in concept to the PIP program.

7.3.3 Substitution for TMAP

Little development has occurred in the area of equity insurance for mortgagors as an alternative to a national TMAP program, probably because of the high premiums that would be required due to the "default" status of the mortgagors involved. The determination of such premiums would require a thorough actuarial study and is beyond the scope of this report. However, this report is helpful in determining the cost to HUD of a national TMAP program, and if the necessary premium for an equity insurance program were determined, the comparison of the cost of TMAP to HUD and the cost of equity insurance to the mortgagor could be relevant to a judgment of what portion of the premium, if any, should be subsidized by HUD.

7.4 AUTOMATED TMAP

As indicated in section 6.0 of this report, the use of the Assignment intake criteria dictated that HUD personnel have a major responsibility in connection with a national TMAP program. It might be desirable, strictly from HUD's manpower point of view, to design a national TMAP program in which HUD personnel were not required for purposes of entry into the TMAP program. Such a program could thus be referred to as an "automated" TMAP program.

If HUD personnel were not to be involved in the intake procedure, two likely candidates to perform the intake tasks are the mortgage servicer and the counseling agency. However, it is the contractor's belief that if the subjective eligibility criteria proposed in section 6.0 are to be used, the program should be administered by an independent party. Since the mortgage servicer represents the mortgagee and the counseling agency is the advocate for the mortgagor, it would be inappropriate to have either of them administer a program using such subjective eligibility criteria. However, if the criteria were limited to more objective criteria, such as the criteria used in the PIP Demonstration Program, it would be possible to have an automated TMAP program for such narrower class of mortgagors. In fact, under those circumstances, it would be possible to have such an automated TMAP program for that smaller class of mortgagors and have a regular TMAP program for the remaining mortgagors.

In such an automated TMAP program, the mortgage servicer or counseling agency would determine whether a particular mortgage qualified under the objective criteria. If a mortgage qualified, the mortgage servicer or counseling agency would prepare the legal documents needed to enroll the mortgagor, have the documents signed by the mortgagor, and submit the documents to HUD with an appropriate certification of eligibility. After HUD performed a limited review of the documents to make sure they were in order for execution by HUD, the TMAP payments could begin.* The remainder of the TMAP program would be effected in the manner described in section 6.0.

Under such an automated program, a procedure would seem to be desirable whereby a mortgagor whose mortgage was not submitted to HUD could submit the cases to HUD on his or her own with the requirement then that HUD personnel would have to be involved to determine whether the objective criteria were met.

Obviously, such a program is subject to abuse, but to the extent the criteria are sufficiently narrow and objective, the abuse should be limited. As the criteria are broadened and made more subjective, the potential for abuse is obviously increased.

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* It might be appropriate to HUD to use a random review process by which a small percentage of the cases would be reviewed for eligibility by HUD's mortgage servicer review staff.

7.5 EVALUATION

7.5.1 General

As indicated in section 6.3 of this report regarding the implementation of a national TMAP program, it is proposed that the data-gathering procedures presently being used for intake into the Assignment program be used for intake into a national TMAP program. However, as was indicated above, the contractor does have some suggestions for modifying the data-gathering procedures in order to enhance HUD's ability to evaluate the results of the national TMAP program and, if these modifications were used, an Assignment program.

7.5.2 Current Data Requirements

The Office of Housing collects data to make monthly processing reports on the number of applicants, current and cumulative, who have entered one or more of the following categories:

A. Assignment Requests Received
   1. Mortgagor requests
   2. Mortgagee requests
   3. Total requests

B. Cases Rejected (mortgagor does not appeal mortagee's determination)
   1. Mortgagor requests
   2. Mortgagee requests
   3. Total requests

C. Cases Rejected (criteria not met)
   1. Mortgagor requests
   2. Mortgagee requests
   3. Total requests

D. Cases Returned for Further Servicing
   1. Mortgagor requests
   2. Mortgagee requests
   3. Total requests

E. Assignments Accepted
   1. Mortgagor requests
   2. Mortgagee requests
   3. Total requests

F. Summary Data

1. Total cases returned for foreclosure
2. Total cases afforded relief (acceptances plus returns for servicing)

G. Workload Data

1. Total cases processed during the month
2. Cases that required less than 90 days to process
3. Cases that required more than 90 days to process
4. Total cases still in process as of end of month

H. Acceptance Reconcilation

1. Assignments accepted 5/9/76 to 11/30/79
2. Assignments accepted since 11/30/79
3. Total assignments accepted since 5/9/76

In addition to the above monthly processing report, the Office of Housing maintains a payment status report of cases accepted for assignment. The primary data categories collected for this report are:

A. Cases current
B. Delinquent less than 3 payments
C. Delinquent 3 or more payments
D. Recommended for foreclosure
E. Foreclosed
F. Paid off
G. Deed-in-lieu

Both reports, processing and payments status, are broken out by field office and also present the results on a nationwide basis.

7.5.3 Proposed Data Collection

While the foregoing reports are quite useful, we believe that (1) a substantially greater amount of data already collected as standard procedures should also be computerized and tabulated and (2) it would be desirable to collect additional data to answer certain fundamental questions concerning the efficiency of the proposed TMAP program.

7.5.3.1 Data Already Collected

A wealth of data is already collected on all mortgagors either applying for or accepted into the Assignment program. Most of this data concerning the mortgagor himself is found on one of these forms:

92068F (Request for Assignment of Mortgage)
92206 (Background Data on Request for Assignment)
92208 (Analysis of Mortgagor's Income and Expenses)

From these three forms enough data could be extracted to (1) facilitate construction of a suitable data base from which demographic profiles could be drawn of the type of mortgagors applying for the TMAP (or Assignment) program and (2) identify those whose applications have been accepted, rejected, or returned for further servicing.

The only shortcoming of the three forms involved is that they are not currently designed for key-punching and computerization. There are at least two ways to handle this problem. The first is to redesign each of the basic forms involved in the intake process of the program, including 92068F, 92206, and 92208, so that the information contained therein stands in a format that can be directly keypunched for the computer. A second way to resolve the problem would be to devise an auxiliary instrument upon which certain of the more relevant information contained in the three basic forms could be transcribed and keypunched.

The 11-page Mortgagor Application Form utilized in the PIP Demonstration Program provides an example of the first method. The two-page collection instrument utilized by the National Urban League in its investigation of the extent of counseling intervention in the Assignment program (under Contract HC-6070) is an example of the second approach to data collection.

7.5.3.2 Data to be Collected

The other kinds of data that must be collected before a program evaluation can be conducted fall primarily into two classes.

7.5.3.2.1. Assistance Data--The first class is the level, extent, and depth of assistance provided by the other participants in the mortgage servicing arena, including housing counseling agencies and the mortgage servicers themselves. It is the contractor's belief that any evaluation of either the current Assignment program or proposed national TMAP program depends upon a precise knowledge of the resources brought to bear by the counseling agencies to which the mortgagors are referred by regulation. The kind of data required here would be the number of counseling contacts, the corresponding number of hours of counseling units involved, and type of counseling offered (e.g., program explanation, interpretation of forms and procedure, representation at conferences, advocacy roles, etc.).

For cases returned for further servicing, it would be highly desirable to have a uniform record of the reasons why the application was returned. (At the present time the reasons for acceptance and rejection are both well and uniformly documented from case to case; however, this is not true for some 25 percent of all cases returned to the mortgagees for servicing.) In addition to why the case was returned for servicing, it is of enormous importance to document and record the type of specific relief measures granted the mortgagor by the servicers, such as voluntary or special forbearance, assistance in the refinancing or sale of the home, or obtaining home improvement or second trust loans. It is just as important to note the terms of the voluntary or special forbearance, including monthly payments and duration, to complete the picture.

7.5.3.2.2 Mortgagor Disposition Data--The second class of data that must be collected and recorded in a uniform manner is the ultimate outcome for all mortgagors who apply for admission into the program. Although statistics are kept on the outcome of the mortgagor when accepted into the Assignment program, there are absolutely no records kept on the eventual fate of the mortgagors rejected or of the cases returned for further servicing. While not every case rejected winds up as a conveyance to HUD via foreclosure or deed-in-lieu, as of now the percentage is simply unknown. With respect to return for servicing, the current record-keeping system does not permit us to know how many of the defaults involved are "cured" under the aegis of the mortgage servicer, how many ultimately fail, or how many show up again as applications for assignment (or for TMAP, in the case of the proposed program).

7.5.4 Measures of Effectiveness

The ability to compare the TMAP program, if and when it is put into operation, with the Assignment program, or with itself over the passage of time, depends upon having selected one or more performance criteria, or measures of effectiveness. Because of the large complex system that the TMAP (or Assignment) program is, no single measure of effectiveness can possibly serve to evaluate the overall efficiency of the process involved. Among the many possible choices are the following:

7.5.4.1 Outreach

Currently, only a small percentage of all mortgagors in default nationwide are submitting applications for assignment. Without further investigation, we do not know the exact reasons for this fact, but to some extent it may be due to a combination of the low acceptance rate as well as the high secondary default rate experienced among those accepted for assignment. If, through the adoption of TMAP, the high secondary default rate were to be significantly reduced, a collateral effect might be to increase the application rate among deserving mortgagors. In addition to this, a larger set of deserving mortgagors might be reached by enlarging the entrance critria to include other classes of homeowners, such as those with Section 244 mortgages and home improvement loans and mobile home loans, as discussed above in section 7.2 of this report.

7.5.4.2 Quality of Decision Making

It is common knowledge that a very high percentage of cases accepted for assignment have been done so on appeal. In some instances, the initial decision to reject the application may have been based on--or at least strongly influenced by--the fact that there is simply not enough local HUD staff to properly serve the mortgage if accepted for assignment. Two measures of effectiveness therefore might be: (1) the number of applicants together with the percentage of applications accepted under TMAP versus Assignment, and (2) the percentage of rejected applications that were later reversed on appeal as between one program and the other. Both these measures, when taken together, can serve as strong indications of the extent to which the proper decisions are being made overall and the extent to which they are being properly made in the first instance.

7.5.4.3 Secondary Default Rate

The extent to which the level of mortgage servicing has been enhanced by TMAP could be measured by the number and percentages of accepted mortgages that are in default or foreclosure. To break this out even further, we first recognize that there are two distinct phases in the life cycle of a mortgage that has been granted long-term forbearance relief under either the Assignment or TMAP programs. The first phase is the forbearance period itself, which ordinarily lasts no longer that 36 months, during which the mortgagor is normally placed on a reduced or suspended payment plan. The second phase is the repayment, or "post-recast" period, which begins upon termination of the forbearance period and is accompanied by a modification of a portion of the mortgage debt (in the case of TMAP) that continues until the TMAP loan is fully amortized.

With this in mind, statistics on the secondary default rate during the first phase (forbearance) and second phase (post-recast) could be maintained and compared, thus providing (1) a measure of the efficiency with which reduced payment plans are being set up during the forbearance period and (2) a measure of the efficiency in which repayment plans are being set up during the post-recast period.

7.5.5 Cost-Benefit Analysis

From the viewpoint of HUD as the Federal insurer of FHA mortgages, the impact of TMAP that is of particular importance is the program's ultimate effect on the cash flow and reserve position of the various HUD insurance funds. The 3,833 single-family mortgages accepted for assignment in FY79 represented a volume of $75 million in insurance claims to the Department. Although these transactions can be regarded as merely an exchange of assets (cash for notes), each time one of the HUD-held notes goes into secondary default a heavy net loss to HUD is experienced--on the order of $12,000, according to the Office of Finance and Accounting.

Even in the event that the assigned mortgage is paid off, the time value of money loss can be very significant (section 6.6), as much as $5,600 on a $25,000 mortgage at 8 percent with 36 months of forbearance.

To conduct an evaluation of the financial impact of TMAP versus Assignment on the HUD insurance funds, the approach in general will be to track the cash advances and payments received over similar periods for one program versus the other, correcting for such phenomena as inflation, fluctuating interest rates, and the annual default rate among HUD-insured mortgages. The financial parameters of the Assignment program are by now fairly well established, encompassing a $75 million annual pay-out and a substantial secondary default rate. What these will be under TMAP can only be established with full certainty after the implementation of the TMAP program. As investigated in section 6.6 of this report, however, there is every indication that the benefit-cost ratios for the TMAP program will far exceed those of the current Assignment program.