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United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

Homeownership Preservation Summit
Statement of Principles
May 2, 2007

The goal of the Homeownership Preservation Summit is to maximize the number of homeowners who are able to stay in their homes who would otherwise be threatened with default and foreclosure as subprime hybrid ARMs reset, resulting in significant payment shocks. Participants recognize that no one – not investors, servicers, lenders, homeowners, or neighborhoods – benefits when families lose their homes to foreclosure. To preserve homeownership upon rate reset, consistent with applicable legal and contractual obligations, and accounting standards, the participants agree with the following set of principles:

1. **Early Contact and Evaluation**: Servicers should attempt to contact subprime ARM borrowers prior to the loan reset to determine whether the borrower can afford the new, higher payments, or whether the higher payments create a reasonable risk of default. If it is clear, after reviewing all the available facts and circumstances, that the borrower will be unable to make the new payment when the loan resets, then the servicer may presume that default on the mortgage is reasonably likely to occur. This conclusion may permit the servicer to modify the loan.

2. **Modify to Create Longterm Affordability**: If the borrower cannot afford the reset payment (as described above), servicers should seek to modify loans prior to the reset. The objective of the modification should be to create a permanent solution for the borrower to ensure that the loan is sustainable for the life of the loan rather than, for example, deferring the rate reset period. Such modification options should include, as appropriate, one or more of the following:

   - Change of terms. Switching from an adjustable to a fixed rate loan at an affordable rate by, for example, making the introductory rate permanent.
   - Reduce the interest rate. Reducing the interest rate is one way to assist a borrower to afford the mortgage. Ability to repay should take into account the borrower's total debt-to-income ratio, including factoring in the costs of taxes and insurance.
   - Reduce principal. Reducing the loan principal in order to ensure affordability and a continued revenue stream on the loan.
   - Reamortize the loan. Reamortizing the loan to account for any changed loan terms or to make the payments more affordable.
   - Escrows. If possible, servicers should begin to escrow for taxes and insurance as part of the modification process to ensure the home loan will remain sustainable for the life of the loan.

3. **Dedicated Teams or Resources**: Servicers should adopt a modification policy so that modifications can be done on the scale required in the time required by dedicated teams or dedicated resources. Where feasible, servicers should partner with experienced third party counselors and non-profits to make outreach as effective as possible.

4. **Low-Cost Refinancing**: For those who are eligible, refinancing to prime loans should be made in as streamlined and low-cost fashion as possible.

5. **Credit Availability**: In conjunction with lender efforts to modify or refinance existing loans, the GSEs should work with lenders to make credit available to borrowers through new products and expanded programs provided on affordable terms so that borrowers can refinance out of the resetting subprime ARMs. These new loans should be underwritten to provide long-term affordability. FHA should provide insurance for such loans when possible and desirable. The GSEs should also explore opportunities to buy subprime portfolios and modify them according to these principles.

6. **Maximize Success, Minimize Damage**: The participants understand that not every foreclosure can be prevented nor every home saved. All parties should work to minimize the damage to borrowers, communities, and the mortgage market when saving the home is not possible.

7. **Accountability**: A system should be developed for measuring progress on achieving the principles outlined above so that the parties can track progress, and so that the process is as transparent as possible.