

# Principal Reduction Program

## Summary Guidelines



### 1. Program Overview

The Principal Reduction Program (“PRP”) is one of CalHFA MAC’s federally-funded programs developed with a goal to provide capital to homeowners that have suffered a hardship to reduce the outstanding principal balances of qualifying properties with negative equity.

PRP will provide monies to reduce the principal balance of the first mortgage through a loan recast or in conjunction with a loan modification that includes a rate reduction, each with the purpose of establishing an appropriate level of debt for eligible homeowners with qualifying properties.

### 2. Program Goals

The PRP will reduce the principal balances of underwater mortgages in cooperation with participating lenders. Such lenders will recast eligible loans or provide a loan modification that includes a rate reduction, in each case to provide an incentive for qualifying homeowners to remain in their homes during this period of steep declines in value. A reduction in principal through PRP, by way of either a loan recast or loan modification, will achieve desired income ratios and affordability for a homeowner with respect to their existing mortgage.

### 3. Target Population/ Areas

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

### 4. Program Allocation (Excluding Administrative Expenses)

\$772,197,793.52

### 5. Borrower Eligibility Criteria

- Homeowner must qualify as a low-to-moderate income house hold, as follows:
  - Low-to-moderate income of 120% or less of the HCD Area Median Income (as defined by the California State Department of Housing and Community Development), for a family of four, in the county where homeowner resides.
- Homeowner must complete and sign a Hardship Affidavit / 3rd Party Authorization to document the reason for the hardship.

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- Homeowners who have recently encountered a financial hardship due to their military service are eligible.
- Homeowner has adequate income to sustain modified mortgage payments per CalHFA MAC approved investor guidelines.
- Homeowner must agree to provide all necessary documentation to satisfy program guidelines established by CalHFA MAC.
- Mortgage loan is delinquent or at risk of imminent default as substantiated by homeowner's hardship documentation. Loans in foreclosure are eligible.
- The homeowner's modified monthly mortgage payment ratio must be reduced to at least 38% of the gross household income (excluding unemployment benefits) to meet the definition of an affordable payment. On a case-by-case basis, CalHFA MAC reserves the right to review and approve investor program guidelines that utilize affordable mortgage definitions greater than 38%.
- General program eligibility is determined by CalHFA MAC, the housing counselor or servicer based on information received from the homeowner. Program-specific eligibility is determined by CalHFA MAC on a first-come/first-approved basis until program funds and funding reserves have been exhausted. Loan servicer will implement the HHF program based on participation agreement terms and conditions.
- Funding allocation will be tracked, monitored and performed by CalHFA MAC in a centralized processing operation.

### 6. Property/Loan Eligibility Criteria

- Property is encumbered by a first-lien mortgage loan that was originated on or before January 1, 2010.
- Current unpaid principal balance ("UPB") of the first-lien mortgage loan is not greater than \$729,750.
- The property securing the mortgage loan must not be abandoned, vacant or condemned.
- The applicant must own and occupy the single family, 1-4 unit home (an attached or detached house or a condominium unit) located in California and it must be their primary residence. Mobile homes are eligible if they are permanently affixed to the real property that is secured by the first lien.

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- PRP funds may be used in conjunction with a loan recast or a loan modification that includes a rate reduction to achieve long term sustainability for the homeowner. Loan modifications that include PRP assistance must include a rate reduction and may or may not include an adjustment to term or additional forbearance to achieve affordability.

### 7. Program Exclusions

- Homeowner in an “active” bankruptcy is ineligible for assistance consideration. Homeowners who have previously filed bankruptcy are eligible for consideration with proof of court order “Dismissal” or “Discharge”.
- Homeowner fails to satisfy lender underwriting guidelines.
- Loan to value (LTV) of less than 105%.
- A loan recast or loan modification that would result in a post-modified LTV of greater than 140%.
- Homeowner’s pre-modified total monthly first-lien mortgage payment PITI (principal, interest, taxes, and insurance, as applicable) and escrowed association fees is less than 31 percent of the homeowner’s gross monthly household income, excluding unemployment benefits as determined by CalHFA MAC at the time of a homeowner’s application for assistance. Unemployment benefits may not be used to qualify for PRP assistance.

### 8. Structure of Assistance

In the event that CalHFA MAC receives less than 100% match by the lender/servicer, CalHFA MAC will structure the assistance as a non-recourse, non-interest bearing subordinate loan in favor of the Eligible Entity (CalHFA MAC) secured by a junior lien recorded against the property in the amount of the HHF assistance. At the conclusion of (5) five years, the subordinate loan will be released. Loan funds will only be repaid to Eligible Entity (CalHFA MAC) in the event of a sale or a refinance that includes cash out with sufficient net equity proceeds prior to forgiveness. Recovered funds will be recycled in order to provide additional program assistance until December 31, 2017, at which time any recovered funds will be returned to Treasury.

If the lender/servicer matches the assistance in an amount equal to or greater than 100% of the PRP assistance provided to the homeowner, then the assistance is not required to be structured as a loan to the homeowner.

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After December 31, 2017, any remaining or returned funds will be returned to Treasury.

- 9. Per Household Assistance** Up to \$100,000 per household (average funding of \$86,029.41), less program monies previously received under other HHF programs.
- 10. Duration of Assistance** In most cases, assistance will be available to households on a one-time basis; provided, however, CalHFA MAC reserves the right to provide additional PRP benefits (not exceed the maximum program assistance amount per household) to previous PRP recipients if the homeowner has suffered a subsequent, valid hardship.
- 11. Estimated Number of Participating Households** Approximately 8,976. This figure is based on loans with unpaid principal balances ranging from \$200,000 to \$400,000, with an average funding of \$86,029.41.
- 12. Program Inception/Duration** The statewide launch of PRP was February 7, 2011 and it will continue up to five (5) years or until funding is fully reserved.
- 13. Program Interactions with Other HFA Programs** PRP may be used in conjunction with MRAP aimed at reinstatement.
- 14. Program Interactions with HAMP** PRP may work in conjunction with a HAMP modification to help eligible homeowners achieve desired income ratios and affordability. PRP may also be combined or used in conjunction with the HAMP Principal Reduction Alternative (PRA). PRP funds are not eligible in any combination to qualify for HAMP PRA investor incentive compensation.
- 15. Program Leverage with Other Financial Resources** The goal of the program is for the applicable servicer/lender to leverage PRP funds as necessary by providing a loan modification that includes a rate reduction or loan recast to help establish an appropriate level of first mortgage debt for homeowners with qualifying properties. CalHFA MAC will require that the servicer waive all accrued and unpaid late charges and NSF fees at the time the modification agreement is completed. CalHFA MAC will require the servicer to waive any associated recast fee.

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16. Qualify as an  
Unemployment  
Program

Yes     No