

# Principal Reduction Program

## Summary Guidelines



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### Program Overview

The Principal Reduction Program (PRP) is one of CalHFA MAC's federally-funded programs developed with a goal to provide capital on a dollar-for-dollar matching basis with participating lenders to reduce over a three-year period the outstanding principal balances of qualifying properties with negative equity.

PRP will provide monies to reduce the principal balance of the first mortgage loan for the purpose of establishing an appropriate level of debt for eligible homeowners with qualifying properties.

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### Program Goals

The PRP program will, in cooperation with participating lenders, leverage the HHF dollars by reducing the principal balances of underwater mortgages and 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 can achieve desired income ratios and affordability for a homeowner on the existing mortgage loan or can be used in conjunction with a loan modification.

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### 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.

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### Program Allocation

(Excluding Administrative Expenses)

\$790,488,123.52

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### Eligibility Criteria

Homeowner must qualify as a low-to-moderate income household, 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.
- A loan financed in whole or in part by bonds that are tax-exempt under IRC section 143, the homeowner is presumed to satisfy income limits.

Homeowner must complete and sign a Hardship Affidavit / 3rd Party Authorization documenting the reason for the hardship.

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 lender 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.

Homeowner in an "active" bankruptcy is ineligible for KYHC program assistance consideration. KYHC will handle written requests for assistance received from a homeowner's bankruptcy attorney or trustee on an exception basis. Final approval is subject to servicer participation in accordance with investor guidelines. Homeowner's who have previously filed bankruptcy are eligible for consideration with proof of court order "Dismissal" or "Discharge".

# Principal Reduction Program

## Summary Guidelines (Continued)



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### Eligibility Criteria

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.

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### Property/Loan Eligibility Criteria

Property is encumbered by a first lien mortgage loan that was originated on or before January 1, 2009.

Current unpaid principal balance (UPB) of the first lien mortgage loan is not greater than \$729,750 (GSE conforming limit for a one-unit property).

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.

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### Program Exclusions

Homeowner owns other real property.

Homeowner's "hardship" is a result of voluntary resignation of employment.

Homeowner fails to satisfy lender underwriting guidelines.

LTV of 115% or less.

First lien PITI and any escrowed homeowner's association dues or assessments, payments that are less than 31% of homeowner's gross monthly income, excluding unemployment benefits, are considered affordable and are excluded from PRP benefit assistance eligibility.

Homeowner consummated a "cash-out" refinance of the subject first lien mortgage property.

- Refinancing for the sole purpose of obtaining a new interest rate and loan term is permissible.
- Costs associated with the first mortgage refinance may be financed in the new loan.
- Junior liens used to purchase the subject property first mortgage property are not excluded from eligibility.

Stand-alone second liens including home equity lines of credit and FEMA funded low-cost loans to homeowners to help pay for uninsured losses associated with natural disasters are considered "cash-out."

Homeowners with junior liens that meet this description are not eligible for program assistance.

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### 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 (3) three 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 refinance 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.

# Principal Reduction Program

## Summary Guidelines (Continued)



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### Structure of Assistance

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

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

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### Per Household Assistance

Up to \$50,000 per household (average funding of \$31,449.58), less program monies previously received under other HHF Programs.

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### Duration of Assistance

Available on a one-time only basis, per household.

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### Estimated Number of Participating Households

Approximately 25,135. This figure is based on loans with unpaid principal balances ranging from \$200,000 to \$400,000 with an average funding of \$31,449.58.

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### Program Inception/Duration

The statewide launch of PRP was February 7, 2011 and it will continue up to three (3) years or until funding is fully reserved.

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### Program Interactions with Other HFA Programs

PRP may be used in conjunction with MRAP aimed at reinstatement.

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### Program Interactions with HAMP

PRP may work in conjunction with a standard HAMP modification to help eligible homeowners achieve desired income ratios and affordability. PRP may not be combined or used in conjunction with the HAMP Principal Reduction Alternative (PRA). PRP layering with HAMP PRA is strictly prohibited. PRP funds are not eligible in any combination to qualify for HAMP PRA investor incentive compensation.

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### Program Leverage with Other Financial Resources

The goal of the program is for the applicable servicer/lender to match PRP funds on a dollar-for-dollar basis. The servicer/lender's matching funds will be paid no later than at the time of CalHFA MAC program funding.

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.

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### Qualify as an Unemployment Program

No.