NCLC®
NATIONAL CONSUMER LAW CENTER®

No Hope for Homeowners: The Administration's Home Affordable Unemployment Program Hurts the Unemployed

July 1, 2010

The Obama Administration's recently announced Home Affordable Unemployment Program promotes a three-month reduced payment for unemployed homeowners. The proposed forbearance program likely will force many homeowners to either sell their homes at a loss or face foreclosure, even if they could make modified payments on a loan that would provide a higher return to investors than a foreclosure sale. While new assistance is on the way for unemployed homeowners, many of the unemployed need long-term loan modifications.

Only long-term loan modifications will help homeowners whose loans were unaffordable before their unemployment, whether because of fraud at origination, negative amortization, or interest rate resets. Nor will loan programs provide sufficient help to those homeowners whose eventual re-employment leaves them with less take-home pay than when their loans were made. Moreover, the new programs designed to help unemployed homeowners, whether in the ten states eligible for Hardest Hit Funds monies or the federal bridge loan program for the unemployed, are likely to take months to set-up and implement, even if adequately funded; millions of homeowners are at risk of losing their homes in the interim. Finally, since many homeowners owe more than their homes are worth, often because of fraudulent appraisals, any meaningful program to help homeowners who can't make their mortgage payments, whether employed or not, must mandate principal reductions.

Why It Won't Work:

- **Three months is not long enough for homeowners to get back on their feet.**

  The administration's proposal only requires a reduced payment for three months. According to the U.S. Bureau of Labor Statistics, in May most unemployed workers had been unemployed for longer than three months, with nearly half (46%) unemployed for more than six months. Few of the unemployed are likely to be re-employed when their three month forbearance runs up. The administration further shortens the time frame by requiring evaluation for a HAMP modification 30 days before the end of the forbearance, possibly only eight weeks into the borrower's unemployment, long before most unemployed workers have found re-employment.

How It Hurts:

- ### Homeowners will be disqualified for HAMP as having insufficient income.

  Previously, all income in the household could be included in evaluating homeowners for a HAMP modification, provided homeowners could show receipt for at least nine months into the future. Many homeowners have used unemployment benefits to support the modified mortgage payments under HAMP. Under the administration's new proposal, unemployment benefits will no longer be counted as income, regardless of how long the homeowner expects to receive unemployment benefits. Many homeowners receiving unemployment, who could have qualified for a modification under the old rules, will be denied that assistance under the new program.

- ### Unemployed homeowners will face increased debt.

  The administration's new program requires a three-month partial forbearance. This three-month forbearance is in addition to the three-month mandated trial plan under HAMP proper. As with the trial plan payments, the difference between the partial payments made under the three-month partial forbearance and the regularly scheduled mortgage payments will be added to the homeowner's debt load. Additionally, late fees will continue to accrue during the processing of the forbearance request and during the forbearance itself. These late fees will only be waived in the unlikely event of a permanent HAMP modification.

- ### Homeowners are likely to be confused by the program's timing requirements.

  Homeowners must request forbearance under this plan before they are three months delinquent, but servicers may require them to receive three months of unemployment benefits before approving them for forbearance. Only homeowners with counsel are likely to understand the reason for a three month delay between the request and the forbearance, and many may be deterred from a timely application because they cannot receive the forbearance until after they have received three months of unemployment benefits.

- ### Homeowners will be more likely to lose their homes.

  Most unemployed homeowners will not regain employment during the three-month forbearance period and will still need mortgage payment assistance to remain in their homes. Yet, with higher debt loads and less eligible income, more homeowners will be found ineligible for HAMP modifications, and forced to sell their homes or face foreclosure. While some unemployed homeowners—those with otherwise sustainable loans—will be eligible for assistance under the new federal bridge loan program once it is operational, those with inflated appraisals, underwater homes, and toxic loans, or those who find re-employment at reduced pay or reduced hours, will need long-term modifications.

For more information, contact Alys Cohen, Staff Attorney, acohen@nclcdc.org or Diane Thompson, Of Counsel, dthompson@nclc.org.