PRESS RELEASE

Federal Deposit Insurance Corporation ● Each Depositor insured to at least $250,000

Media Contact:
Andrew Gray
(202) 898-7192
angray@fdic.gov

September 11, 2009

FDIC Encourages Loss-Share Partners to Provide Forbearance to Unemployed Borrowers

FOR IMMEDIATE RELEASE

As part of its loss-share agreement with acquirers of failed FDIC-insured institutions, the FDIC is encouraging its loss-share partner institutions to consider temporarily reducing mortgage payments for borrowers who are unemployed or underemployed. This program will provide additional foreclosure prevention alternatives to these borrowers through forbearance agreements that will give them an opportunity to regain full employment and avoid an unnecessary foreclosure.

"With more Americans suffering through unemployment or cuts in their paychecks, we believe it is crucial to offer a helping hand to avoid unnecessary and costly foreclosures. This is simply good business since foreclosure rarely benefits lenders and would cost the FDIC more money, not less," said FDIC Chairman Sheila C. Bair. "This is a win-win for the borrower, who can remain in his or her home while looking for a new job, and the acquiring institution, which continues to receive payments on the loan. Ultimately, by reducing losses under our loss-share agreements, this approach helps reduce losses to the FDIC as well."

The recommendation to loss-share partners applies where unemployment, or underemployment, is the primary cause for default on a home mortgage. In such cases, the FDIC is urging its loss-share partners to consider the borrower for a temporary forbearance plan, reducing the loan payment to an affordable level for at least six months. The monthly payment during this period should be established based on an affordable payment – given the borrower's circumstances – and it should allow for reasonable living expenses after payment of mortgage-related expenses. The reductions in mortgage payments during a temporary forbearance period are not covered losses under the loss-share agreement with the FDIC, though losses incurred from subsequent permanent loan modifications are covered. If the home preservation efforts are ultimately unsuccessful, losses incurred in subsequent foreclosures or short sales also are covered losses.

Acquirers of failed insured institutions who agree to a loss-share arrangement with the FDIC must abide by the FDIC Mortgage Loan Modification program for assets purchased from the failed institution. The program's objective is to modify the terms of certain residential mortgage loans to improve affordability, increase the probability of performance, allow borrowers to remain in their homes and increase the value of the loans to the FDIC and assignees. The program provides for the modification of "qualifying loans" – those that meet certain criteria – by reducing the borrower's monthly housing debt to income ratio (DTI ratio) to no more than 31 percent at the time of the modification and eliminating adjustable interest rate and negative amortization features.

###