

## Appreciation Worksheet

### FHA's HOPE for Homeowners Program:

### Understanding of Key Provisions of Appreciation Sharing

U.S. Department of Housing and Urban  
Development  
Office of Housing  
Federal Housing Commissioner  
OMB Approval No. 2502-0579 (Exp. 08/31/2009)

**Loans made under the FHA's HOPE for Homeowners (H4H) Program include a requirement that the borrower share future property appreciation with HUD. As an existing subordinate mortgage lien holder, in exchange for a full release of your lien, you may be eligible to receive:**

- An upfront payment received at settlement of the new H4H loan, or**
- An interest in any future appreciation actually received by HUD when the property is sold.**

### **Determining the Upfront Payment and Appreciation Share**

During underwriting of the H4H loan the originating lender will calculate the upfront payment or future appreciation interest amount for each subordinate lien holder according to the procedures below. The lender will:

- Request payoff statements identifying the total principal and interest due to each existing mortgage lien holder.
- Add the unpaid principal and interest of liens held by each subordinate mortgage lien holder and all holders with liens senior to that subordinate lien holder (as of the first day of the month in which the borrower has made application) to determine the cumulative outstanding debt relevant to that lien holder. **Interest may not be calculated at a default rate of interest, but must be calculated at the contract rate in effect prior to the default.**
- Divide the cumulative debt by the new appraised value to determine a cumulative combined loan-to-value ratio (CLTV) relevant to that lien holder.

#### *Cumulative CLTV Illustration*

Amount Owed	1 <sup>st</sup> Lien P&I	2 <sup>nd</sup> Lien P&I	3 <sup>rd</sup> Lien P&I	Total P&I
Principal (P)	158,500	20,000	40,000	218,500
Accrued Interest(I)	<u>10,900</u>	<u>2,200</u>	<u>4,400</u>	<u>17,500</u>
Total P&I	169,400	22,200	44,400	236,000
Cumulative P&I as a % of Current Appraised Value of \$150,000	112.9%	127.8%	157.3%	

Using the matrix below, the lender will calculate the upfront payment and maximum future appreciation interest amount for each subordinate mortgage lien holder by multiplying the amount of that lien holder's write-off by the percentage factor in the matrix.

**Calculation of  
Upfront Payment or Future Appreciation Payment to  
Subordinate Lien Holders**

Subordinate Lien Holder	<u>Upfront Payment Option</u> Percent of Unpaid Principal and Interest a Lien Holder is Eligible to Receive#	<u>Future Appreciation Payment Option</u> Percent of Unpaid Principal and Interest* a Lien Holder is Eligible to Receive#
Cumulative CLTV >135%	3%	9%
Cumulative CLTV ≤135%	4%	12%

\* A payment to a subordinate mortgage lien holder will depend on a actual appreciation of the property as determined in accordance with 24 CFR 4001.120. Payment will be made according to the subordinate lien holder's position of priority in relation to the property at the time the Program mortgage is originated.

# Payment will be based upon principal and interest as of the first day of the month in which the borrower made application for the Program mortgage, calculated at the pre-default contract rate of interest.

***Upfront Payment Example***

Assume that at origination of the H4H loan a second mortgage lien holder agreed to forgive debt in the amount of \$22,200 and a third mortgage lien holder agreed to forgive debt in the amount of \$44,400. Both of these lien holders have elected to receive upfront payments and assign any future appreciation rights to HUD.

- The second lien holder has a CLTV of 127.8%. Because this is less than 135% of the appraised value of the property, the second lien holder is entitled to 4% of its total write off of \$22,200 for an upfront payment of **\$888**.
- The third lien holder has a CLTV of 157.3%. Because this is more than 135% of the appraised value of the property, the third lien holder is entitled to 3% of its total write off of \$44,400 for an upfront payment of **\$1,332**.

***Future Payment Example***

Assume that at the sale or other disposition of the property referenced above in the Cumulative CLTV Illustration, the difference between the property's appraised value at origination of the H4H loan and the net sale proceeds resulted in \$20,000 of appreciation. HUD is entitled to 50% of this appreciation (\$10,000) and will share it with subordinate mortgage lien holders as follows:

- The second mortgage lien holder has a CLTV of 127.8%. Because the CLTV is less than 135% of the current appraised value, the second lien holder is entitled to receive up to 12% of its total write off of \$22,200, for a maximum payment of \$2,664. From HUD's \$10,000 share, the second lien holder receives the first **\$2,664**.
- The third mortgage lien holder has a CLTV of 157.3%. Because the CLTV is more than 135% of the current appraised value, the third lien holder is entitled to receive up to 9% of its total write off of \$44,400, for a maximum payment of **\$3,996**.
- HUD retains the balance of **\$3,340** (**\$2,664 + \$3,996 + \$3,340 = \$10,000**).

In this example, it is assumed that the borrower made no capital improvements to the property prior to sale and all subordinate mortgage holders were eligible and elected to receive a share in future appreciation. Please see Mortgagee Letter 2008-30 for further information.

At no time will HUD make payments that exceed HUD's realized share of appreciation.

### *Combined Payment Example*

Using the Future Payment Example above, assume that the second mortgage lien holder elected the upfront payment option. That lien holder transferred its interest in the property's future appreciation share to HUD. If the third mortgage lien holder elected the future appreciation option, in the event of a sale where HUD was entitled to a \$10,000 appreciation share, the distribution would be as follows: the first \$2,664 to HUD; \$3,996 to the third mortgage lien holder; the balance of \$3,340 to HUD.

#### **Upfront Payment and Appreciation Sharing Terms and Conditions**

- Only the holders of subordinate mortgage liens that were originated before January 1, 2008 are eligible.
- Subordinate mortgage lien holders whose total principal and interest write-off as of the first day of the month in which the mortgagor made application for the Program mortgage is less than \$2,500 are not eligible.
- Only mortgage principal and note rate interest may be included in the amount used to determine the cumulative debt outstanding used in calculating the CLTV ratio. No other costs, fees, or expenses advanced on behalf of the borrower are allowed.
- The lien holder must fully release the borrower from the debt and may not have any side agreements with the borrower for repayment that survive the date of settlement of the new loan. Lenders accepting the upfront appreciation share option have no recourse or claim on future appreciation.
- At settlement, subordinate lien holders who have elected the future payment option will receive an Appreciation Share Certificate that evidences an interest in the future appreciation of the mortgaged property, with payment conditional on the value of HUD's appreciation share.
- Future appreciation distributions will be made only upon sale or disposition of the property, which could be many years in the future. There is no provision for forcing an earlier sale or distribution.
- The future appreciation option involves risk.** In the event that there is only a modest increase or a decrease in a property's value there may be insufficient future appreciation available for distribution to any or all subordinate mortgage lien holders, in which case they will have no recourse against the Government or the borrower.
- In the event the H4H loan is not endorsed for FHA insurance the ASC becomes void.

**FHA's HOPE for Homeowners Program:**  
**Upfront Payment and Future Appreciation Sharing Worksheet and Certification**

U.S. Department of Housing and Urban Development  
Office of Housing  
Federal Housing Commissioner  
OMB Approval No. -----(Exp. -----)

Borrower Name(s) \_\_\_\_\_  
 Property Address \_\_\_\_\_  
 Originating Lender Name \_\_\_\_\_  
 FHA Case Number \_\_\_\_\_  
 Subordinating Lender / Lien Position \_\_\_\_\_  
 Appraised Value / Appraisal Date \_\_\_\_\_

Amount Owed	1 <sup>st</sup> Lien P&I*	2 <sup>nd</sup> Lien P&I*	3 <sup>rd</sup> Lien P&I*	Total P&I*
Principal (P)				
Accrued Interest (I*)	+	+	+	+
Total P&I*	=	=	=	=
Cumulative P&I* as a % of Current Appraised Value of \$				

\* Payment is calculated based on the P&I as of the first day of the month of application for the Program Loan with interest at the pre-default contract rate.

**Upfront Payment Option**  $\frac{\text{Total P\&I Write Off}}{\text{Total P\&I Write Off}} \times \frac{\text{Matrix \%}}{\text{Matrix \%}} = \$ \frac{\text{Upfront Payment}}{\text{Upfront Payment}}$

**OR**

**Future Payment Option**  $\frac{\text{Total P\&I Write Off}}{\text{Total P\&I Write Off}} \times \frac{\text{Matrix \%}}{\text{Matrix \%}} = \$ \frac{\text{Max Future Payment}}{\text{Max Future Payment}}$

By signing below, the undersigned certifies that the statements and information contained herein are true and correct. On behalf of \_\_\_\_\_, the undersigned subordinate mortgage lien holder certifies that it will release in full all mortgages secured by the subject property in exchange for:

- [ ] A payment at settlement of the H4H loan in the amount of \$ \_\_\_\_\_; OR,
- [ ] An interest in future appreciation in the subject property to be paid from HUD's share of said appreciation, if any, in an amount not to exceed \$ \_\_\_\_\_.

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Subordinate Lien Holder Authorized Signature / Title

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Date

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Subordinate Lien Holder Address

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Telephone

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Originating Lender Authorized Signature / Title

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Date

Warning: It is a crime to knowingly make false statements to the United States on this or any other similar form. Penalties upon conviction can include a fine and imprisonment. For details, see: Title 18 U.S. Code Sections 1001 and 1010. False statements may also be the basis for civil and/or administrative penalties. For details, see: Title 31 U.S. Code Sections 3729 et seq., and 3801 et seq., as well as 12 U.S. Code Section 1735f-14.

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