



The Home Affordable Modification Program

Julane Brooks Alt

MBA Legal Issues Conference- Chicago

May 5, 2009

Our Focus: Making Home Affordable

- Making Home Affordable program is part of Administration's Homeowner Affordability and Stability Program
 - Provides expanded access to refinancing for borrowers whose homes have fallen in value
 - Provides \$75 billion to support the modification of at-risk mortgages
 - Treasury increasing funding commitment to GSEs to \$200 billion each
 - Treasury will continue to purchase GSE MBS
 - Work with GSEs to support state and local housing agencies



The Home Affordable Modification Program...

...is designed to help at-risk homeowners – both those who are in default and those who are at imminent risk of default – by reducing the 1st lien monthly mortgage payment to a sustainable level.

The modification is made permanent only after the borrower successfully completes a trial payment period.

Fannie Mae has been designated the financial agent for the United States in administering the program.

Freddie Mac has been designated the compliance agent for the United States for the program.

Home Affordable Modification Highlights

- Borrowers in default, at risk of imminent default, or in foreclosure can have loans modified to a more affordable monthly payment equal to 31 percent of monthly gross income.
- Servicers may reduce interest rates, lengthen repayment period, or forbear principal to bring down payment.
- Government shares in modification cost of non-GSE loans.
- All servicers must participate for eligible Fannie Mae portfolio and MBS pool mortgages.
- They may elect to participate for non-GSE loans by signing the Servicer Participation Agreement.

Which loans are eligible for the Home Affordable Modification Program?

Any first lien loan originated on or before January 1, 2009 and secured by a borrower's principal residence is eligible -- even a loan currently in foreclosure or (at servicer's discretion) involved in bankruptcy proceedings, EXCEPT:

- Loans previously modified under the Home Affordable Modification Program
- Loans for condemned properties
- Loans subject to full lender recourse

Which borrowers may qualify?

The borrower's monthly mortgage payment ratio is currently greater than 31%

The borrower must—

- Document a hardship by completing a Home Affordable Modification Program Hardship Affidavit (Form 1021)
- Provide required income documentation (< 90 days old)
- Provide documentation of occupancy status
- Agree to an escrow account for taxes and insurance

Other eligibility requirements may apply

When can I start?

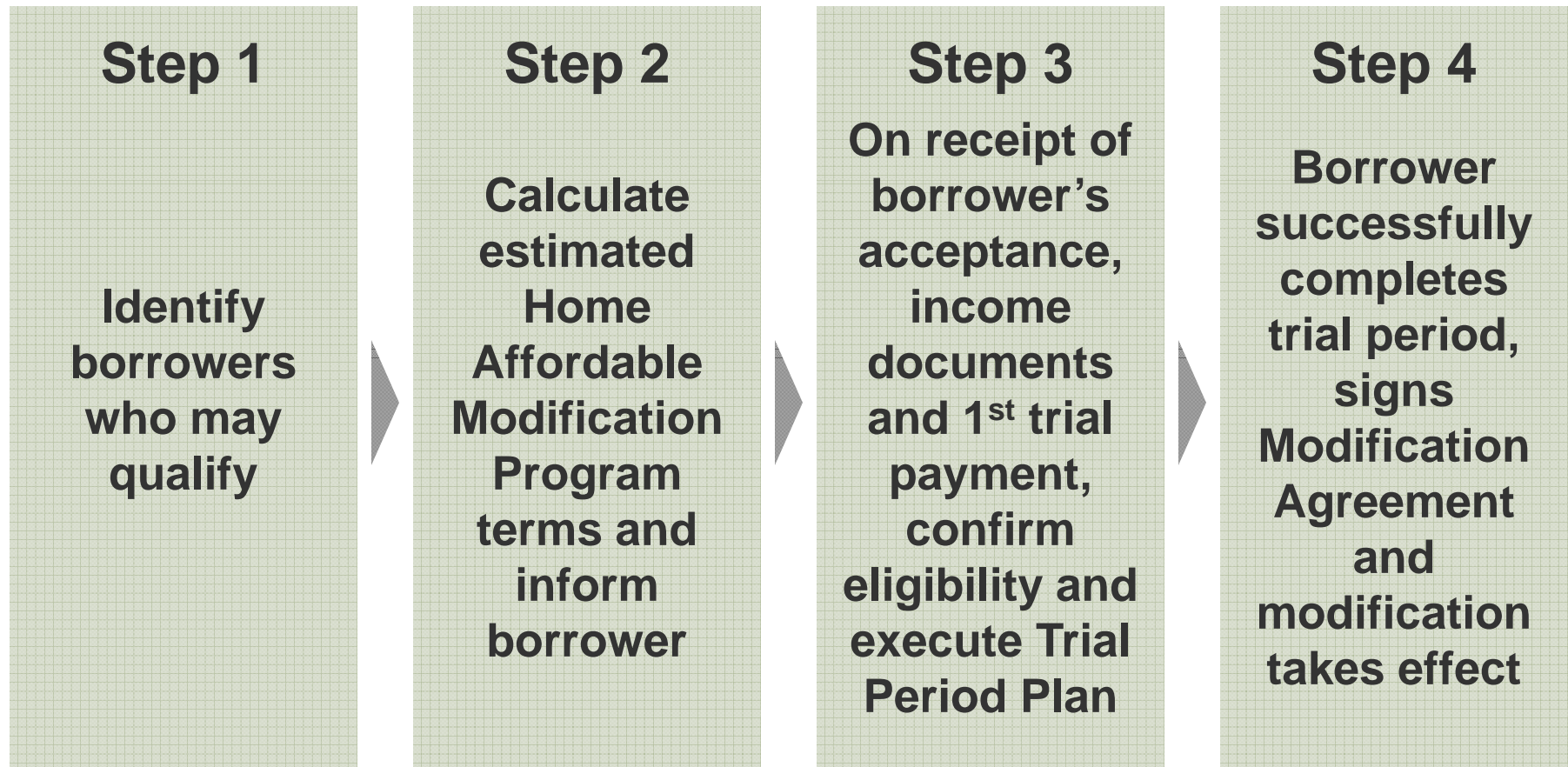
The Home Affordable Modification Program—

- Went into effect March 4, 2009
- Will close to new borrowers on December 31, 2012.

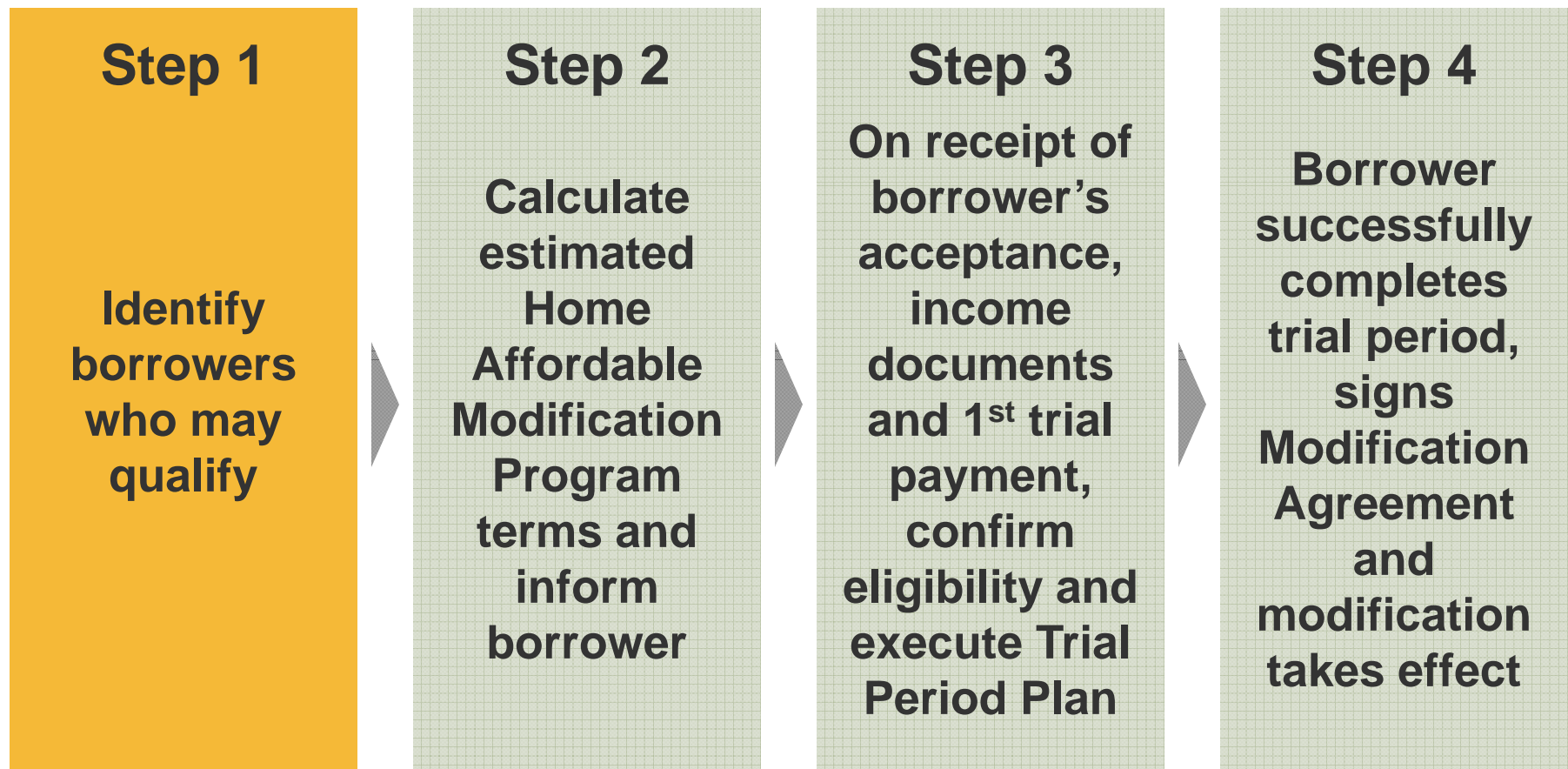
All Fannie Mae servicers must complete and submit an HMP Registration form to participate

- Download, complete and submit via www.hmpadmin.com

The Home Affordable Modification Program Process



The Home Affordable Modification Program Process



Step 1: Identify borrowers who may qualify...

Each borrower seeking a modification, whether in default or not, must sign a Hardship Affidavit that attests to one or more of the following types of hardship:

- A reduction or loss of income
- A change in household financial circumstances
- A recent or upcoming increase in the monthly mortgage payment or other expenses
- A lack of sufficient cash reserves (excluding retirement accounts and assets that serve as an emergency fund – generally equal to three times the borrower’s monthly debt payments)
- Excessive monthly debt payments and overextension with creditors
- Other verifiable hardship that causes the borrower to be unable to make scheduled mortgage payments

Step 1: Identify borrowers who may qualify... (continued)

For a current borrower facing *imminent default* or a borrower in actual default but less than 30 days delinquent:

- Obtain
 - a completed *Borrower Financial Statement* (Fannie Mae Form 1020 or 1020S) from the borrower
 - a credit report
 - other documents as necessary to evaluate the borrower's financial condition
- Evaluate the condition and occupancy of and circumstances affecting the property
- Document the basis for the imminent default determination in your servicing system

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Step 1: Identify borrowers who may qualify... (continued)

If the borrower satisfies the imminent default screen, proceed to Step 2

Otherwise, consider the borrower for other Fannie Mae loss mitigation options following the guidelines of the new workout hierarchy

Important note: You are not allowed to solicit borrowers who are current or less than 31 days (2 monthly payments) past due for participation in the Home Affordable Modification Program. However, if any borrower contacts you regarding his/her inability to make scheduled mortgage payments, a HMP should be considered as an alternative to foreclosure.

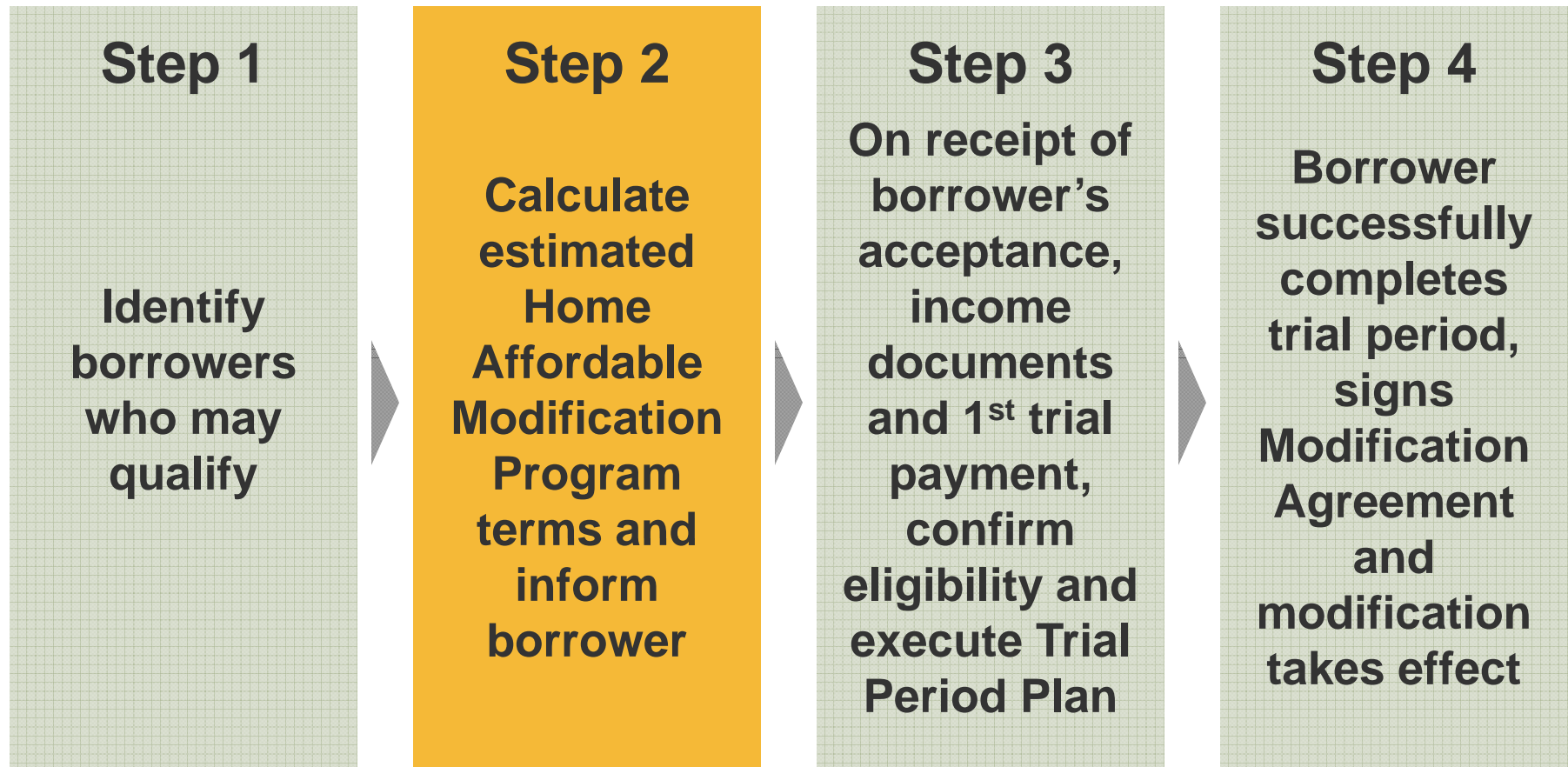
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Step 1: Identify borrowers who may qualify... (continued)

For a borrower who is *in default* (two or more monthly payments past due):

- If current financial information (90 days old or less) is available and the borrower's monthly mortgage payment >31% of monthly gross income, use the waterfall described in the next step to calculate terms for a trial period
- If current financial information is not available, send a letter asking the borrower to call to discuss his or her individual circumstances
 - Use the "Solicitation Letter" template available on eFannieMae.com
- Ineligible borrowers should be considered for other Fannie Mae loss mitigation options following the guidelines of the new Fannie Mae workout hierarchy

The Home Affordable Modification Program Process



Step 2: Determine the Home Affordable Modification Trial Period terms...

Once you have identified potential HMP candidates, you must determine the Home Affordable Modification Program Trial Period terms as follows:

- Perform a Net Present Value (NPV) test, using the NPV model available at www.hmpadmin.com
- Obtain information from the borrower regarding borrower income and confirm that the borrower's monthly mortgage payment >31% of gross monthly income
- Use verbal or documented income information provided by the borrower and apply the actions specified in the Standard Modification Waterfall to reduce the mortgage payment ratio to as close as possible to 31% without going below 31%

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Step 2: Determine the Home Affordable Modification Trial Period terms... (continued)

Take the following actions – in the specified order – until the borrower’s monthly mortgage payment ratio is reduced as close as possible to 31%. If the loan has an adjustable interest rate or an Interest Only feature, it must first be converted to a fixed rate, fully amortizing loan.

1. Capitalize accrued interest, escrow advances, and servicing advances by adding to loan balance
2. Reduce interest rate by .125% increments, to not less than 2%
3. Extend the mortgage term to up to 480 months
4. Provide for principal forbearance if needed to reach target—but UPB excluding the deferred principal amount must create LTV based on current property value equal to or greater than 100%

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Step 2: Determine the Home Affordable Modification Trial Period terms... (continued)

Finally:

- Determine monthly gross expenses and total monthly debt ratio
- Perform escrow analysis and establish an escrow account if the borrower does not already have one for both taxes and insurance and an escrow account is not prohibited by applicable law

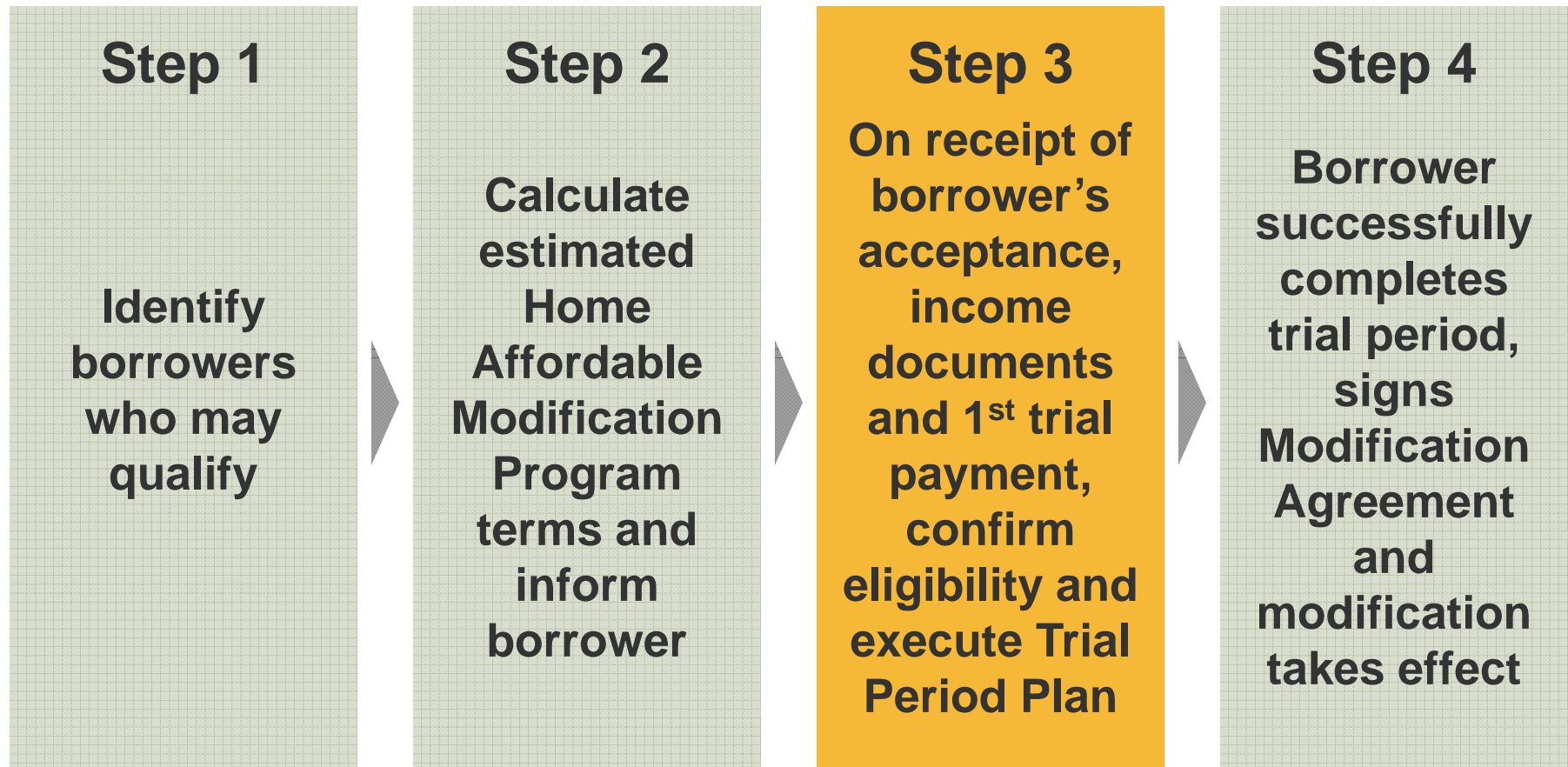
Step 2: ... and inform borrower of the Trial Period terms

Inform the borrower of the trial period terms using the templates available on www.eFannieMae.com, including:

- Home Affordable Modification Program Trial Period Plan Cover Letter (income stated or income verified version)
- Home Affordable Modification Program Trial Period Plan (Form 3156)
- Home Affordable Modification Program Hardship Affidavit (Form 1021)

Servicers are strongly encouraged to use the templates on eFannieMae.com. Certain permitted revisions are stated in Restated Announcement 09-05. Other servicer revisions require prior written approval from Fannie Mae.

The Home Affordable Modification Program Process



Step 3: On receipt of borrower's acceptance and 1st trial payment...

To confirm acceptance of the Trial Period Plan, the borrower must return the following items within 30 calendar days after you send the Trial Period Plan offer package:

- Signed Home Affordable Modification Period Trial Period Plan
- Signed Hardship Affidavit
- Specified documents that provide verification of income and occupancy (if not provided previously)
- First trial payment

Step 3: ...confirm eligibility and execute Trial Plan

Upon receipt of the Trial Period Plan and required documents, verify that the borrower:

- Meets the underwriting and eligibility criteria set forth in Announcement 09-05, and
- Has submitted good funds for the first trial period payment

Then execute the Home Affordable Modification Program Trial Period Plan and send a signed copy of the Plan, and if applicable the credit counseling letter, to the borrower.

If verified income exceeds stated income by >25%, the borrower must be reevaluated, and if still eligible, new terms must be provided and the trial period restarted. In all cases verified income will be used to calculate the permanent modification payment.

Step 3: The Trial Period

During the trial period, service the loan as you would service a loan in forbearance

If the loan is an MBS mortgage loan, then service it as you would any MBS loan under the servicing guidelines

Trial payment period is three months long for loans already in default; and four months for loans facing imminent default

- If all trial period payments are not received by end of trial payment period, the borrower is considered to have failed the trial period and is therefore ineligible for a modification
- If next to last and last trial period payments are received after 15th calendar day of the final month but before the end of the trial period, you must extend the trial period by one month

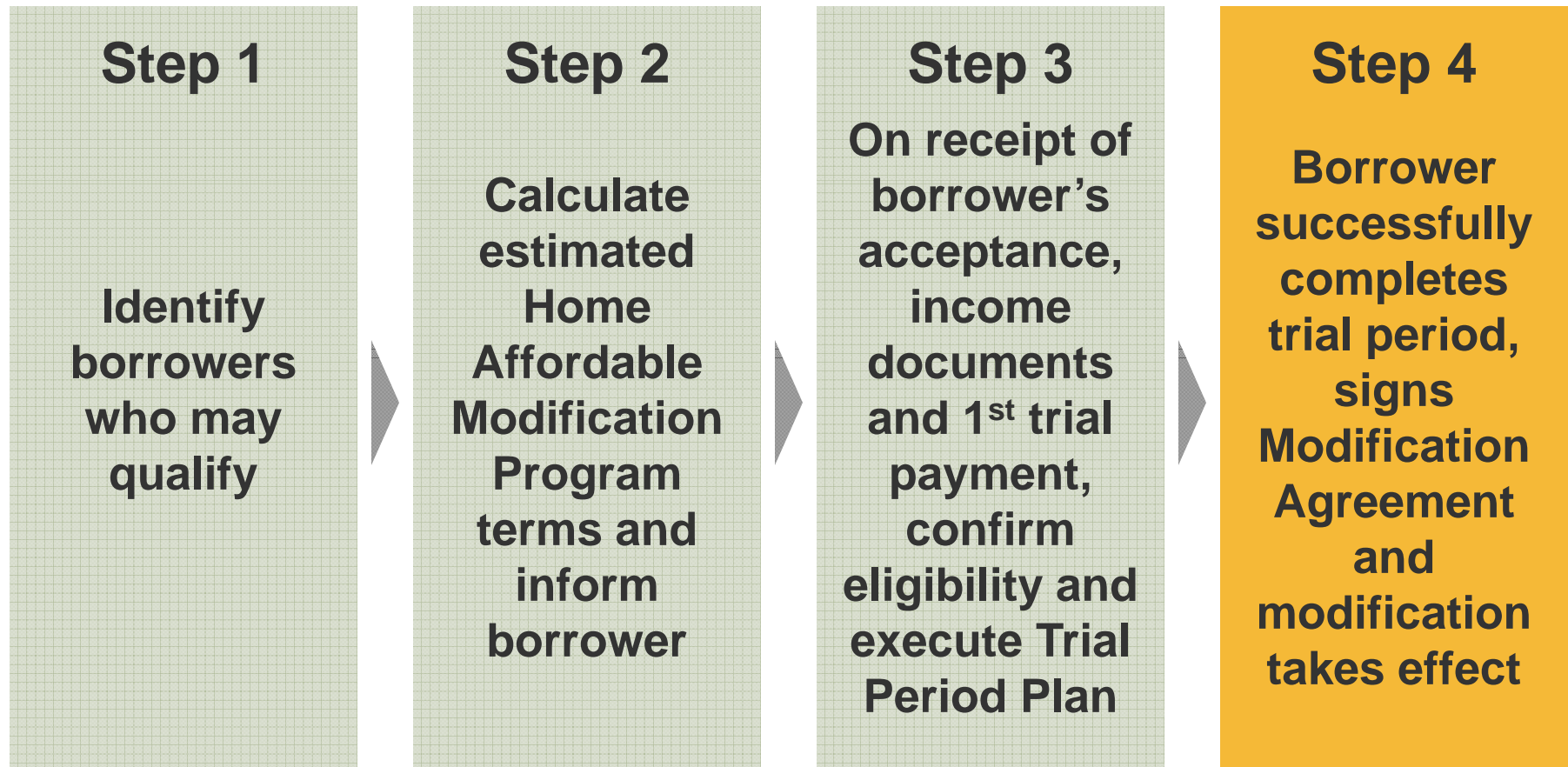
Step 3: During the trial period...

Trial payments collected from the borrower should be held as unapplied funds (if permitted by the applicable loan documents and applicable law)

After enough trial period payments have been collected to total at least a full monthly contractual payment amount, the payment must be applied to the loan balance

Funds remaining as unapplied at the end of the trial period should be applied to reduce any amounts that otherwise would be capitalized and added to the principal balance

The Home Affordable Modification Program Process



Step 4: Executing the Modification Agreement...

Send the Home Affordable Modification Agreement and Cover Letter to the borrower, confirming the terms of the permanent modification, for execution by the borrower:

- After receipt of the second trial period payment—if the loan was in default, or
- After receipt of the third trial period payment—if loan was facing imminent default

The servicer should sign the Modification Agreement only after execution by the borrower and receipt of all trial period payments and not before the loan has been reclassified or repurchased if it was in a MBS pool.

Modification Agreements must be recorded if required by applicable law and in certain other situations specified in Restated Announcement 09-05.

Step 4: ...Modification takes effect

Modification takes effect on the first day of the calendar month immediately following the successful completion of the trial period, reclassification of the loan if an MBS loan, and execution of the Modification Agreement

You must ensure that the modified loan retains its first lien position and is fully enforceable

If, for any reason, the borrower defaults after the modification takes effect—

- Evaluate borrower for other loss mitigation options
- You cannot offer another Home Affordable Modification

What are the reporting requirements?

To Fannie Mae—

- Use HSSN to:
 - Provide loan level data once you have received a successfully executed trial period plan
 - Record receipt of the trial period payments due under the plan
 - Request reclassification of MBS mortgage loans when appropriate
- When reporting delinquency status...
 - Use delinquency code 09 during trial period
 - Use delinquency code 28 once borrower has successfully completed the trial period

What are the reporting requirements? (continued)

To Treasury—

- Report periodic Home Affordable Modification Program loan activity via the servicer web portal www.hmpadmin.com
 - At the start of a modification trial period
 - During the trial period
 - For loan set-up of approved modification
 - On a monthly basis after the modification is set up
- Submit three separate data files
- Obtain more information –
 - Now – by sending an email to servicing_solutions@fanniemae.com
 - Via www.hmpadmin.com

What are the reporting requirements? (continued)

To Mortgage Insurers—

- You must maintain your mortgage insurance processes and comply with all reporting required by the MI
- Do not forget to pay the mortgage insurance premium!

To Credit Bureaus—

- You must submit a “full-file” credit report to each major credit repository on a monthly basis
- Borrowers current when Trial Plan begins – report current on a modified payment if borrower makes trial payments by 30th day of each trial period month and report modification when completed.
- Borrowers in default when Trial Period commences – report delinquency and workout status using customary reporting standards and report modification when completed
- CDIA will publish more detailed information.

What are the reporting requirements? (continued)

Government Monitoring Data—race, sex and ethnicity

- The federal Fair Housing Act was passed to prevent discrimination in the sale and financing of housing and HUD was charged with administering the Act. Loan modifications under the Program are “real estate related transactions” that are subject to the Act.
- Fannie Mae entered into an agreement with HUD to provide the monitoring data to enable HUD to administer the Act.
- Please see Supplemental Directive 09-02 – “Fair Housing Obligations under the Home Affordable Modification Program” and Appendix D to Supplemental Directive 09-01 for non-GSE loans

What are the reporting requirements? (continued)

When servicing is transferred—

- The transferring servicer must provide special notification to the receiving servicer
- Both servicers are jointly and severally liable to Fannie Mae for all warranties and for repurchase, all special obligations under agreements previously made by the transferring servicer; and all reporting, compliance, and audit oversight related duties

What are the incentives?

For
borrower

Borrowers will earn a principal balance reduction incentive of up to \$1,000 per year for up to five years if a modification reduced the borrower's monthly mortgage payment by 6% or more AND the loan remains a performing loan modification.

What are the incentives? (continued)

**For
servicer**

\$1,000 servicing incentive fee once a borrower has successfully completed their trial period.

Additional \$500 servicing incentive fee if the borrower was current at the time he/she entered the Trial Period.

Incentive fees are paid automatically by Fannie Mae as long as servicer does the required delinquency reporting.

Annual “pay for success” fee for up to three years after a modification is implemented as long it reduced the borrower’s monthly mortgage payment (PITIA, excluding MI premiums) by 6% or more AND the loan is a performing modification.

What are the costs and/or fees?

For
borrower

There is no cost to the borrower.

In addition, all late charges, penalties, stop payment fees or similar fees must be waived upon successful completion of the trial period.

What are the costs and/or fees? (continued)

**For
servicer**

Trial period servicing fees are earned as the borrower payments equal a contractual full payment.

Post-modification servicing fees are based on the existing fee schedule for modified mortgage loans.

All late charges, penalties, stop payment fees or similar fees must be waived upon successful completion of the trial period.

No administrative costs can be charged to the borrower.

Where to get additional help?



Contact your Servicing Consultant or Portfolio Manager

Email servicing_solutions@fanniemae.com

Call the National Servicing Organization's Servicer Support Center at 1-888-FANNIE5

Servicers with questions about non-Fannie Mae mortgages can call 1-866-939-4469 or e-mail HomeAffordable_Modification@fanniemae.com

While every effort has been made to ensure the reliability of the content of this tutorial, Fannie Mae's Selling and Servicing Guides and their updates are the official statements of Fannie Mae's policies and procedures, and should be adhered to in the event of discrepancies between the information in this seminar and the Guides.