



Refinance and Modification Program Execution and Risks

- The global financial crisis has nearly financially incapacitated many thousands of homeowners and brought them at the brink of default and foreclosure. The harsh times brought about by economic crash, massive inflation, rising commodity prices, layoffs, etc. have made increased challenges in one making on time mortgage payments.
- More and more borrowers are turning towards Loan Modification's which are leaving Servicer's faced with unprecedented volumes, having to re-underwrite loans which significantly extend processing timeframes and ensure compliance with frequent program guidelines - which could drastically impact the quality of the loan.
- The volume has overwhelmed Servicer's and the sheer shift of having to be held to a re-underwrite standard has added increased scrutiny
- Many homeowners are frustrated they cannot obtain Refinances although rates are historically low
- Some economists argued that the Making Home Affordable Plan was built for last year's problem — exotic mortgages-which incurred payment increases and not for the current menace of soaring unemployment rates and borrower's being underwater on their mortgage

- Refinancing mortgage loans through the Home Affordable Refinance Program (HARP)-The objective of a refinance under HARP is to provide creditworthy homeowners who have shown a commitment to paying their mortgage the opportunity to get into a new mortgage with better terms.
- Modifying first and second mortgage loans through the Home Affordable Modification Program (HAMP) and the Second Lien Modification Program (2MP)-eligibility includes- , owner- occupied; originated on or before January 1, 2009; unpaid principal balance equal to or less the loan limit for the number of units involved, mortgage payment greater than 31% of gross income; and financial hardship).
- Providing temporary assistance to unemployed homeowners through the Home Affordable Unemployment Program (UP)
- Offering other alternatives to foreclosure through the Home Affordable Foreclosure Alternatives Program (HAFA).
- There is a new “Hardest Hit Fund” to support local initiatives to assist homeowners who are struggling due to living in areas of economic distress due to unemployment
- Policies for Disaster relief and unique hardships should be explored

- By definition, a loan modification is a permanent change in the terms of loan which allows it to be reinstated, and results in an affordable payment, offers a long term solution and designed to prevent a re-default
- Home Affordable MOD program was designed to enable borrower's who meet certain eligibility requirements to avoid foreclosure by modifying loans to a level that is affordable and sustainable long term . The goal of Obama's home rescue plan is to arrive at a new target payment that equals just 31% of homeowners gross monthly income by doing the following:
 - ✓Lower Interest Rate
 - ✓Extend Term
 - ✓Forbear (defer) Principal
- Falling housing prices have left many borrowers with little or no home equity, which is also known as being "underwater." As a result, they can't qualify for refinancing and Modification may be the only option
- Loan modifications offer viable options for those people who are in adjustable rate mortgages and who will not be able to make their payments once the rate becomes variable, or who are not making their payments already for the same reason.
- Loan Modifications are designed for borrower's who are struggling financially and who are having difficulty making their payments on time. A home loan modification is for the borrower who doesn't have time and at risk of losing their homes in the near future.
- All homeowners who request consideration for a loan Modification under HAMP must be reviewed for eligibility

- The Home Affordable Refinance Program will benefit homeowners who have a reliable payment history and are current on their mortgages owned or backed by Fannie Mae or Freddie Mac, but are unable to refinance because their homes have lost value
- Qualifications include : Occupancy may be primary residence, 2nd home or investment; loan is owned or backed by Fannie Mae or Freddie Mac; mortgage payments are current; amount owed on first mortgage is about the same or less than the current value of home
- The maximum loan-to-value (LTV) ratio for refinance mortgage loans under this initiative will be expanded to 105 percent, (updated to 125% with certain restrictions in 7/10) and MI requirements will be significantly relaxed to assist borrowers who have experienced home price declines.
- Not all borrowers or all loans will qualify for a Home Affordable Refinance. For example, borrowers may not qualify due to income or credit requirements, including the capacity to continue paying monthly mortgage payments at the new loan amount. In other instances, the loan itself may not meet the eligibility criteria for the program.
- On March 1, 2010, the Federal Housing Finance Agency announced the extension of the Home Affordable Refinance Program (HARP) to June 30, 2011 to support market stability and encourage greater adoption of the program
- HARP FAQ's were also updated on the Marking Home Affordable Website on 7/26/10

- Home Affordable Refinance addresses the problem faced by millions of homeowners who have been unable to take advantage of low mortgage rates to refinance because their property value has fallen. The loan modification program is intended to prevent foreclosure for borrowers in default or in imminent danger of default, and has clear guidelines regarding qualification and terms.
- The Refi Plus options are intended for borrowers who 1) are not having difficulty making their monthly payments, 2) are current on their payments at the time of refinance, and 3) have not been delinquent by more than 30 days during the past 12 months (during the life of the loan if it has existed for less than 12 months).
- The Home Affordable Modification program is intended for borrowers who do not have the ability to make their mortgage payments, even with a refinance. To be eligible for Home Affordable Modification, the borrower is required to “document a financial hardship and represent that s/he does not have sufficient liquid assets to make the monthly mortgage payments

- Ensure Collectors/Loss Mitigation Negotiators are trained for Loss Mitigation Intervention
- Obtain all necessary income documentation upfront in order to perform a detailed financial analysis
- Follow the Making Home Affordable Guidelines that holds Servicer to a Credit Re-underwrite standard. Set standard for verifying all income and debts.
- Large Servicer's need to have dedicated resources to HAMP so borrower has a point of contact and not get lost in the shuffle of departments
- Train Personnel in the detection of Fraud-If Fraud is suspected then the loan does not have to be done.
- Although Investors have their own Hierarchy, create helpful hierarchies for the goal of reinstatement and retention: Capitalize to Reinstatement, Capitalize with Term Extension, Cap for Rate and Term, Cap with a Rate Reduction or combinations of all. Negotiate the 2nd liens.
- Do own scrub of 30 to 40% of your loans to check for Fraud
- Companies should maintain a "Watch List" of fraudulent, suspicious companies or individuals.
- Quality Control review should include an alternative confirmation process and specialized reports that can verify the data has been tested for integrity
- Have a Central Reporting Process and discuss issues-Communication is Key
- Ensure Portfolio's are reconciled with Investor Records

- Test for detailed letters of documentation requirements with clear deadlines for return
- Ensure an initial consultation was performed to collect data and pursue best course of action
- Determine Reason for default and root cause analysis and that borrower demonstrated they are facing a financial hardship
- File to contain a financial review of all household income and expenses to determine if surplus income is sufficient to meet the new modified payment, but insufficient to pay back the arrearage. All non-borrower household income included must also be documented and verified
- Review for detailed contact attempts in the Servicing system with thorough updates at each contact
- Ensure file contains occupancy verification
- Ensure borrower does not qualify for traditional loss mitigation options first prior to proceeding with HAMP evaluation
- Ensure Investor seasoning requirements are met (Norm is 12 months from Note date and at least 4 full payments had been made on loan)
- If current loan, must have documented reason in Servicing system for imminent default
- Ensure Title is ordered based on capping requirements
- File must contain a hardship affidavit –generally lenders consider divorce, loss of income, death of spouse, co-borrower or family member, illness, job relocation, military service to be acceptable reasons to consider a loan modification.
- Initial Package for the HAMP includes Request for Modification and Affidavit, Tax Form 4506T-EZ and Verification of Income . Income and asset documentation should not be over 90 days old

- Ensure company's Client/Portfolio Screen Scrapes are checked for any related or undisclosed accounts
- Legal fees and related foreclosure costs for work completed and applicable to current default can be capitalized into the modified principal balance
- Ensure file meets income/backend ratio and principal balance requirements
- All loans modified under HAMP must include an escrow account for payment of future property taxes and hazard insurance, unless prohibited by state law. If the existing loan does not include an escrow account, one must be established
- Any Chapter 7 Bankruptcy must be discharged or reaffirmed and permission/authorization from the Bankruptcy Trustee/Debtor Attorney must be obtained prior to proceeding on Chapter 13
- Foreclosure process must be halted during evaluation for HAMP-ensure file was placed on hold or sale postponed if applicable
- Federal plan mandates to waive any administrative fees, late charges and penalties associated with current default when Modification is complete
- Ensure proper reporting has been done to the Investors during HAMP Process
- Servicers must describe to the credit reporting agencies the exact status of each mortgage-if trial payments made on time, report as current and "modified under Federal government plan" or if delinquent the "workout status"
- Have 2nd tier reviews on denials to ensure key items were not missed
- Stay abreast of changing regulations via All Regulation updates, Safeguard updates, Mortgagee Letters, Industry bulletins and announcements

- Write a loan number on every single page of documentation to minimize lost or unidentifiable documentation
- Scan all loss mitigation packages to your in-house imaging systems
- Have concise and uniform checklists to follow for Modification Process
- Have a date/step tracking process in your Servicing system to track key events in the MOD process
- Be strategic in setting timelines for volumes-while rationally files should be worked in the order received, the higher risk loans facing foreclosure should be reviewed to minimize further costs
- Perform retroactive escrow analysis at time of Loan Modification to endure delinquent payments being capitalized reflect the actual escrow requirements required for those months capitalized
- Strongly encourage borrower's to contact HUD-approved Housing Counselors and require it when total monthly debts are equal to or greater than 55% (FHA-cannot exceed the back end over 55%)
- Ensure borrower fully understands Trial Payment Terms
- Address any corporate advances and capitalize if applicable
- Proof read Modification documents
- Number one is for the lender to look at ability to make the new modified payment now and in the future
- There are extra bonuses for reaching out to borrowers who face imminent default and are not yet delinquent but are at risk of becoming delinquent in the future
- ARM Reset loans should be campaigned to be targeted for a Loan Modification

- “Income Validation” or “Secure” income Calculation Systems to ensure accuracy in income calculation
- Calculation and Input systems to calculate principal forbearance and Partial Claim piece if FHA Loan
- Net Present Value Test
- Freddie Mac Workout Prospector
- Efanniemae.com lists HAMP Servicing Resources
- FreddieMac.com provides tools such as Borrower Qualification Worksheet
- Asset Management Network under Fannie Mae hosts several tools such as Home Saver Solution and Workout Evaluator
- HMPadmin.com website
- Makinghomeaffordable.gov
- Usfn.com-resource for Network Servicing and the Mortgage Banking Industry
- Imminent Default Indicator within agency guidelines
- Vendors to order BPO/AVM’s and Title Requests
- Check Exclusionary lists
- A new web portal has been established to improve the execution of HAMP and non-HAMP modifications. It allows counselors to collect the necessary documents from homeowners, upload the completed package, submit the completed package directly to the service, and track the status of a borrower's application. Benefits include No lost documents, Standardization by collecting complete HAMP applications that include all required data elements and documentation. Improved communication as servicers provide the status of in-process modifications. It improves efficiency with servicers completing modifications and establishes accountability and transparency for all stakeholders. The website is <http://www.hopeloanportal.org>

- Third Party Companies making calls/payments on borrower's behalf-FC Rescue Scams/agents of the servicer
- Must have proper borrower written authorizations for any 3rd party to obtain information on the loan.
- Strongly discourage the payment of any fee to a 3rd party to represent a borrower in any workout
- When organizations share information with other organizations, the risk of that information being compromised is increased. Ensure Appropriate Borrower Proxy, Test for authorization on 3rd parties, companies working for a profit and/or requiring up front fees for no work performed
- Servicers should stress the importance of assistance available through Servicer and stress first contact for any loss mitigation options should be to the Servicer. Servicers should refer to HUD Counseling Agencies and HOPE Now. Contact the Homeowner Preservation Foundation (HPF). Be mindful of Borrower Authorizations and verify where possible. Check for Title chain, Deeds Transfers, etc...Advise borrower's if determined that a 3rd party is assisting that borrower should avoid any company or individual that requires a fee in advance. Check 3rd party company accreditation and references.
- Contact Federal Trade Commission at www.ftc.gov or call 1-877-FTC-HELP; State Attorney General; Local, State and Local consumer protection agencies, State and Federal Law Enforcement, Local Better Business Bureau, OCC Customer Assistance Group

- Need controls to test for intentional verses non intentional. Identify intersection of 3 critical populations of borrowers-those with upcoming payment spike, those who qualify for a loan modification, and those who will be able to sustain the modified loan because it offers true long term benefits. Have proper controls in place to test for imminent default.
- Mortgage Delinquency is not consistent with borrower's spending, savings and other credit patterns may also signal a red flag- Review complete credit to identify borrower targeting their mortgage loan for a mod. If all other payments (auto, cc) are up to date, why can't they make their mortgage payment? Review employment info to identify any change in circumstances. Also review credit for an increase in inquiries or change in address/dob/phone # etc. to identify a straw buyer/stolen id.
- Look for False Documentation, Identity theft, amended tax returns Quit Claim Deeds, properties that have been placed in a trust, Partial Releases, Short Sale.
- Always verify a borrower's identity. Lenders should consider checking origination files against the Loss Mitigation files. Red flags may be present to determine borrowers who may have really misrepresented verses those who are really experiencing a life altering event. Checks for Name Associations, Validity of Info from Origination file to Servicing file, Deed History, Transfers of Title.
- Know your borrower's, Employees and Vendors
- Accepting verbal financials and what borrower presents. Lenders should take one time verified financials if possible to determine the best and most viable loss mitigation alternative-many Investor requirements have now changed to verified income. .