HAMP Modification Overview

Home Affordable Modification Program℠ ("HAMP®"), designed to help financially struggling homeowners, was announced on March 4, 2009. HAMP was effective for mortgages originated on or prior to January 1, 2009. The deadline for borrower applications was December 30, 2016. While program performance and borrower incentives are still being managed, no new modifications are being settled

Mechanics of the HAMP program

- Step 1: All arrearages, including past due interest, escrow advances, and servicer advances of amounts secured by the mortgage are added to the borrower's outstanding balance. This is known as capitalization
- Step 2: Solve for a payment that achieves a housing debt-to-income ratio for the borrower of 31% by adjusting terms of the mortgage in the following order until the ratio is achieved:
  - First, incrementally reduce the rate to no lower than 2%
    - The rate will step up by up to 1% per year after the 5th year after modification until the loan reaches the PMMS®[1] rate at the time of the modification
  - Second, incrementally extend the maturity out to a maximum term of 40 years
  - Third, incrementally forbear an amount of the loan balance scheduled to be due at maturity. Forbearance amounts are non-amortizing and bear no interest
    - Forbearance amount cannot exceed a limit[2]
    - Forbearance amounts are contractually due at maturity with no option for forgiveness
- Step 3: Eligible borrowers who make timely payments will receive a "Pay for Performance" incentive from either Freddie Mac or Treasury[3]
  - $1,000 per year for 5 years and $5,000 in the 6th year is used to pay down borrower principal balances, which will be realized by investors as a principal prepayment

(1) PMMS is the Freddie Mac Primary Mortgage Market Survey®
(2) For trial period plan evaluations conducted on or after 12/1/2009, forbearance is limited to the greater of (i) 30% of the unpaid principal balance ("UPB") of the mortgage loan, including the capitalization of arrearages or (ii) an amount resulting in a modified interest-bearing balance that would create a MTMLTV Ratio equal to 100%
(3) Eligible borrowers are those who have received at least a 6% payment reduction and who were never 90 or more days delinquent post-modification

Standard and Streamlined Modification Overview

Standard and Streamlined Modification, designed to help financially struggling homeowners, were announced on September 12, 2011, and March 27, 2013, respectively. While trial plans and official modifications continue into 2018, the deadline for borrower evaluations under these programs expired on September 30, 2017

These modifications focused on a favorable P&I payment with the overall goal of reducing the borrower's P&I payment below the current contractual P&I. Borrower may have been previously modified, but not more than two times. Available for both occupied and non-occupied properties

Mechanics of Standard & Streamlined Modifications

- Step 1: All arrearages, including past due interest, escrow advances, and servicer advances of amounts secured by the mortgage are added to the borrower's outstanding balance. This is known as Post Capitalized Unpaid Principal Balance (UPB)
- Step 2: Determine the Post Capitalized MTMLTV Ratio, which is the UPB divided by the fair market value
- Step 3A: If the Post Capitalized MTMLTV Ratio was <80%, the borrower is offered a modification with term extension. The term would be extended up to 480 months. In some instances, under ARM and step-rate mortgages, the rate is set/adjusted to the PMMS[(1)] interest rate to avoid future payment shock. Note the term could be shorter if requested by the borrower and certain financial conditions are met
- Step 3B: If the Post-Capitalized MTMLTV Ratio was >80%, we solved for a sustainable payment by adjusting terms of the mortgage as follows:
  - First, set/adjust the rate to the PMMS[(1)] interest rate
  - Second, extend the amortization term to 480 months from the modification effective date
  - Third, if the Post-Capitalized MTMLTV Ratio was greater than 115%, forbear an amount of principal that was the lesser of (i) an amount which creates an interest bearing MTMLTV Ratio of 115% or (ii) 30% of the UPB
- Step 4: After taking the above steps (Steps 3A and 3B), the borrower was offered the modification if the modified payment was the same or lower than the borrower's contractual P&I payment. Also, for Standard Modification the modified payment must result in a housing to income ratio that was between 10-55%

(1) PMMS is the Freddie Mac Primary Mortgage Market Survey

Flex Modification Overview

Beginning on October 1, 2017, Freddie Mac Flex Modification ("Flex Modification”) replaced the previously available Standard and Streamlined Modification to help financially struggling borrowers to sustain ownership in a changing housing market

Mechanics of Flex Modification

- Step 1: All arrearages, including past due interest, escrow advances, and servicer advances of amounts secured by the mortgage are added to the borrower's outstanding balance
- Step 2: Verify that the MTMLTV Ratio is greater or equal to 80%
- Step 3: Determine the interest rate for calculation of the trial period payment and the terms of modification agreement based on Freddie Mac’s posted interest rate, pre-modification interest rate or maximum step-rate/lifetime cap note rate
- Step 4: Extend the amortization term to 480 months from the modification effective date. If the MTMLTV Ratio is less than 80%, offer the modification based on Steps 1-4 as forbearance of principal is not available
- Step 5: If the MTMLTV Ratio is greater than 100%, forbear principal until the earlier point at which (i) a post-modification interest-bearing MTMLTV Ratio of 100% or (ii) 30% of the post-capitalization UPB (the “Forbearance Cap”) is achieved
- Step 6: If the MTMLTV Ratio is greater than 80% and the mortgage is less than 90 days delinquent at the time of evaluation:
    - Offer the Flex Modification based on Steps 1-5 if the estimated modified P&I payment is at least 20% less than the current P&I payment and post-modification housing expense-to-income (“PMHTI”) ratio is equal to or less than 40%; otherwise
    - If either the estimated modified P&I payment is not at least 20% less than the current P&I payment OR the PMHTI ratio is not equal to or less than 40%, continue to forbear principal in $100 increments until the earlier of (a) a 20% P&I payment reduction and PMHTI ratio equal to or just below 40% are both achieved, (b) a MTMLTV Ratio as close as possible to, but not below, 80% is achieved, or (c) the aggregate forbearance amount equals or is no less than $100 below the Forbearance Cap and, provided that the modification results in a P&I payment less than borrower’s pre-modification P&I payment, offer the Flex Modification to the borrower with the maximum permitted forbearance amount

    If the MTMLTV Ratio is greater than 80% and if the mortgage is 90 days or more delinquent at the time of evaluation, follow the same steps above, excluding the PMHTI ratio requirements and offer the Flex Modification