Loan Mod Example

Supplement to training June 18, 2018
What kind of Loan Mod would we consider for Mark?

• Fannie Mae loan with a UPB of $167,000
• Employment (gross) $2,300 per month
• Property value estimate
  • Tax Assessor $120,000
  • Zillow $128,000
• Prior forbearance: None
• Current interest rate: 7% fixed
• Current PI $807
• Current TI: $210
• Reanalyzed TI: 217
• Condo dues: $250/month
• Arrearage: 7 months
• Late fees $160 per month
Flex Mod

When HAMP phased out, Fannie Mae and Freddie Mac created the “Flex Modification” program. The Flex Modification replaces not only the GSEs’ version of HAMP, but also the “Standard” and “Streamlined” modifications that the GSEs offered in the past.
Is Mark eligible for a flex mod?

- Employment (gross) $2,300 per month
- Property value estimate
  - Tax Assessor $120,000
  - Zillow $128,000
- Interest bearing UPB: $167,000
- Prior forbearance: None
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Not eligible if:
- Had more than three prior mods
- Past flex mod default within past twelve months
- Involved in an approved loss mitigation option, such as a forbearance plan, liquidation option, or modification, and in compliance with the option

Can still apply and be found eligible for the Flex Mod if
- Received a Flex Mod in the past and did not accept it
- Applied in the past and found not eligible
- Now have changed circumstances or
- Past eligibility determination was erroneous

- Servicer may request waiver of eligibility requirements based on determination that “acceptable mitigating circumstances” exist. See e.g., Fannie Mae Single Family Servicing Guide Part D2-3.2-09
Yes.

What does Mark need to do to get a flex mod?
He has to complete a Borrower Review Package

He can’t get the unilateral flex mod offered to borrowers who are less than 90 days delinquent.

He must complete GSE Uniform Borrower Assistance Form (form 710) and submit with required documentation of income. The whole packet is called a Borrower Review Package or BRP.

To be eligible for a mod, the borrower must designate a “hardship” that contributed to the default or imminent risk of default. The hardship must cause a long-term drop in income or increase in expenses.
Waterfall

Step 1: Capitalizing eligible arrears

- Employment (gross) $2,300 per month
- Property value estimate
  - Tax Assessor $120,000
  - Zillow $128,000
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Flex Mod basic waterfall

1. Capitalize eligible arrears

2. Set modification interest rate
   For this example, assume Standard GSE Mod Rate of 4.5%
   Use standard rate unless contract rate is lower or post-modification loan-to-value ratio for the property is less than 80%

3. Extend term to 480 months
   Always

4. Forbear principal
   If post modification MTMLTV is greater than 100%. MTMLTV = Mark to Market Loan to Value and means the gross unpaid principal balance of the mortgage loan divided by the current value of the property that secures the mortgage loan
After capitalizing arrears, principal is $175,449.17

- UPB 167,000
- Interest $167 \times 0.07 \times \frac{7}{12} = 6,819.17$
- T&I $210 \times 7 = 1470$
- Late fees = 160
Waterfall
Step 2: What will mod rate be set at?

• Employment (gross) $2,300 per month
• Property value estimate
  • Tax Assessor $120,000
  • Zillow $128,000
• Interest bearing UPB: $167,000
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Flex Mod basic waterfall
1. $175,449.17
2. Set modification interest rate
   For this example, assume Standard GSE Mod Rate of 4.5%
   Use standard rate unless contract rate is lower or post-modification loan-to-value ratio for the property is less than 80%
3. Extend term to 480 months
   Always
4. Forbear principal
   If post modification MTMLTV is greater than 100%. MTMLTV = Mark to Market Loan to Value and means the gross unpaid principal balance of the mortgage loan divided by the current value of the property that secures the mortgage loan
Mod rate will be standard GSA of 4.5%

- Contract rate is higher – 7%
- LTV ratio is well above 80% - like $140%
- So use contract rate – right now it is 4.75, but for purposes of this example, use 4.5
Waterfall
Step 4: Do you forbear principal?

- Employment (gross) $2,300 per month
- Property value estimate
  - Tax Assessor $120,000
  - Zillow $128,000
- Interest bearing UPB: $167,000
- Prior forbearance: None
- Current interest rate: 7% fixed
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Flex Mod basic waterfall
1. $175,449.17
2. Interest rate 4.5%
3. Extend term to 480 months
4. Forbear principal

If post modification MTMLTV is greater than 100%. MTMLTV = Mark to Market Loan to Value and means the gross unpaid principal balance of the mortgage loan divided by the current value of the property that secures the mortgage loan.
Yes

Loan to value ratio is well above 80%

Post mod UPB: 175,449.17
Value of house: $120K/$128K
175,449.17/120,000= 146%
175,449.17/128,000= 135%
Waterfall
Step 4: How much principal do you forbear?

- Employment (gross) $2,300 per month
- Property value estimate
  - Tax Assessor $120,000
  - Zillow $128,000
- Interest bearing UPB: $167,000
- Prior forbearance: None
- Current interest rate: 7% fixed
- Current PI: $807
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- Condo dues: $250/month
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- Late fees: $160

Stage 1 Forbearance (Step 4 of Waterfall)
After you
1. Capitalize arrears: $175,449.17
2. Set Interest rate 4.5%
3. Extend term to 480 months

Reduce interest bearing principal by the lesser of
- Amount that brings interest bearing principal to 100% of fair market value (FMV), or
- 30% of post modification unpaid principal balance (UPB)
This is a trick question

Using tax assessor’s $120,000
UPB $175,449.17
Forbear lessor:
• Amt to reduce to FMV: 55,449.17
• 30% of post mod UPB (175,449.17): 52,634.75

Using Zillow’s $128,000
$175,449.17
Forbear lessor:
• Amt to reduce to FMV: 47,449.17
• 30% of post mod UPB (175,449.17): 52,634.75
Step 5 of waterfall: Is Mark eligible for additional forbearance

- Employment (gross) $2,300 per month
- Property value estimate
  - Tax Assessor $120,000
  - Zillow $128,000
- Interest bearing UPB: $167,000
- Prior forbearance: None
- Current interest rate: 7% fixed
- Current PI $807
- Current TI: $210
- Reanalyzed TI: 217
- Condo dues: $250/month
- Arrearage: 7 months
- Late fees $160

Five Steps of the waterfall:
1. Capitalize eligible arrears: $175,449.17
2. Set modification interest rate 4.5%
3. Extend term to 480 months
4. Forbear principal: 52,634.75 or 47,449.17
5. **Provide or increase principal forbearance.**
   if steps 1-4 did not reduce P&I payment by at least 20%.
No

Current P&I $807
20% of current P&I $161.40
Target P&I $645.6

1. FMV 120K: total UPB of $175,449.17 minus FB $52,634.75, gives an interest bearing UPB of $122,814.42 over 40 years at 4.5% = $552

2. FMV 128K: total UPB of $175,449.17 minus FB $47,449.17, gives an interest bearing UPB of $128,000 over 40 years at 4.5% = $575