“One Mod:” Principles for Post-HAMP Loan Modifications

Produced by The Future of Loss Mitigation Taskforce
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1. Executive Summary

During the financial crisis, the Treasury Department established the Home Affordable Modification Program (HAMP) to attempt to systemize loss mitigation procedures and standardize the relief available to consumers through loan modifications. Millions of homeowners were able to access the program from 2009 to the present and now HAMP is winding down and will terminate at the end of 2016. After HAMP terminates, there will be a need for servicers to be able to provide loss mitigation under a cohesive framework. A unified framework is preferable because it offers clarity and predictability to both servicers and consumers, equitable outcomes that do not vary based on the particular government insurer or guarantor, and provides servicers with a single program to administer.

An MBA Task Force including over 35 members and 20 companies convened to draw upon the experiences of the financial crisis and HAMP to formulate universal principles that should be applied to a future loss mitigation program.

The MBA Task Force came to the conclusion that the successor to HAMP should also be a relatively universal program — One Modification or “One Mod.” “One Mod” incorporates four guiding themes that drive successful loss mitigation.

- **Accessibility**: The successor to HAMP should be accessible to as many consumers as possible.
- **Affordability**: It should result in affordable relief for eligible customers.
- **Sustainability**: It should be sustainable over the long-term to avoid re-default.
- **Transparency**: It should be easy-to-understand and transparent in both its process and how any outcomes are determined.

From these four guiding themes, the Task Force developed 10 core principles:

1. Eliminate “gaps” that consumers can fall through.
2. Only require the consumer submit documentation that is directly related to their eligibility for the modification.
3. Produce a positive outcome for the investor.
4. Result in a decrease in mortgage payments for the consumer immediately following modification.
6. Use waterfall of options and loss mitigation solution that are based on criteria that have a clear impact on re-default rates.
7. Provide a solution that maximizes the relief that the consumer is eligible for in the first loss mitigation offer.
8. Offer home retention and liquidation options at the same time.
9. When a term extension is utilized, educate the consumer about how additional money applied to monthly payments can change the amortization schedule.
10. Provide clear disclosure to the consumer of their loss mitigation options and the rationale for the selected loss mitigation option presented to the consumer.
The need for a loan modification to provide meaningful payment relief was paramount among all the lessons learned from the large volume of loan modifications during the crisis. The Task Force developed a “One Mod” waterfall proposal that offers deep payment relief for customers and a positive economic outcome for investors:

### TABLE 1: “ONE MOD” WATERFALL PROPOSAL

<table>
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<th>TARGET</th>
<th>The largest economically positive payment reduction. OCC Data suggests that 20% is an appropriate benchmark.</th>
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<td>Reduce interest rate to the lower of market rate or current rate. For ARMs, convert to a 30 year term at market rate. For step-rate modifications, convert to the lower of the prior rate cap or the market rate.</td>
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<td>Extend term to 480 months. Provide consumer with amortization tables demonstrating how to payoff mortgage in different amounts of time.</td>
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| STEP 4 | Provide principal forbearance / forgiveness to 100% LTV (with a cap at 30% of UPB). 

Offer modification if the P&I payment reduction is 20% or greater and HTI is less than 40%.

STEP 5 (if necessary) If payment reduction is less than 20% or HTI is greater than 40%, provide principal forbearance / forgiveness until either 80% LTV, 30% of UPB or the payment reduction of 20% and <40% HTI requirement is achieved.

STEP 6 (if necessary) Offer modification as long as post-modification payment is less than or equal to pre-modification payment.

The waterfall is split between pre-90 days delinquent (DQ) and post-90 day DQ to ensure that consumers get both the relief that is needed and a meaningful chance to save their home, in both cases targeting and often exceeding a 20% payment reduction. Prior to 90 days DQ a servicer would evaluate a consumer to 31% housing ratio (PITIA payment relative to income) in order to determine whether the housing payment was truly unaffordable or whether counseling or short-term forbearances are a more appropriate solution in light of the hardship. The modification would also feature an incentive to engage early in the process and an additional check for sustainability by evaluating the modification to a 40% housing ratio at this stage since the consumer has proactively engaged and provided income documentation.

After 90 days DQ, the consumer would be offered a streamlined modification solution to access loss mitigation and possibly remain in their home. The streamlined approach is appropriate because (1) by this point in the delinquency, the consumer has not responded to multiple outreach requests required by the new federal servicing rules and the streamline approach offers a simplified and less burdensome process to customers that may be otherwise unwilling to engage with their servicer, and 2) industry data suggest that streamlined modifications perform similarly to underwritten modifications when controlling for other factors.

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i. This presumes that 480 months is available as the maximum term. In situations where that is not currently available as a maximum term, a 360 month term should be utilized.

ii. As noted above, forbearance could be replaced by principal forgiveness should an investor choose to do so. MBA would not suggest using principal forgiveness in instances where an investor or guarantor will not provide reimbursement.

iii. Step 5 may also be offered in the streamlined waterfall, but only with regards to the 20% payment reduction target.
2. Background

Multiple loss mitigation programs were established by the federal government following the financial crisis and the ensuing waves of mortgage defaults. The U.S. Department of Treasury Making Home Affordable (MHA) program’s Home Affordable Modification Program (HAMP) is the most prominent of these programs. HAMP has resulted in over 1.5 million permanent loan modifications as of December 31, 2015.¹ These programs are set to sunset on December 31, 2016.

There were two primary motivations resulting in the creation of these mortgage modification programs. The first was to create government incentives designed to encourage investors to try and keep as many homeowners in their homes as possible with net present value positive modifications during a severe economic down turn. The second was due in part to “predatory” lending practices that placed some consumers in loans that were inappropriate or unaffordable over the long-term. The government loss mitigation incentives — particularly for private-label securities — were intended to provide relief to these consumers and place them into loans that were more appropriate for their financial condition and facilitated long-term homeownership.

The financial crisis led to millions of loans entering the loss mitigation process and these programs led to industry-wide consideration about how to best provide mortgage relief to consumers through loss mitigation programs. On the eve of the expiration of the MHA programs, MBA, the Department of Treasury, FHFA, the CFPB, consumer advocates and other stakeholders have all expressed a desire to determine what, if anything, should replace the HAMP loss mitigation programs. It is important to remember that the GSEs and other investors or government guarantors will continue to have loss mitigation programs following the expiration of HAMP. To that end, MBA convened a Task Force to develop guiding principles for these post-crisis loss mitigation programs and to further develop and recommend to regulators and investors one loan modification that can be used across multiple investors and guarantors.

Lessons learned and data analyzed from the financial crisis suggest that a modification that targets a payment reduction will offer consumers the most impactful relief when delivered early in the delinquency. A standard or universal modification is also an important step towards eliminating delays and confusion over loss mitigation options. Creating a standard modification product or adoption of universal principles will confer benefits to consumers and the investors, guarantors and insurers of the underlying mortgages. These entities determine the ground rules for modification of mortgages included in mortgage-backed securities based on their particular interest.

For consumers, a standard universal modification process with reduced or minimal documentation requirements will eliminate confusion and simplify the document collection and submission process that can lead consumers needing assistance to fall out of the loss mitigation process. For servicers, it increases efficiency and reduces default servicing costs by creating modification sustainability supported by streamlined and reasonably tailored diligence.

¹ SIGTARP Quarterly Report to Congress, January 27, 2016. Table 4.11, pg. 109.
3. The Current State of Mortgage Modifications

In order to work towards a common modification, it is important to understand the current landscape of mortgage modifications and required loss mitigation waterfalls that servicers must work through to offer a modification solution. Each loss mitigation program has different and voluminous rules, handbooks and guidance that must be followed by servicers and investors. Indeed, a persistent difficulty with modifications during the financial crisis has been with continually changing program requirements and the overall complexity of the various loss mitigation waterfalls.

For instance, HAMP’s Supplemental Directive Archive contains 75 supplemental directives issued between 2009 and 2015. These policies changes were often welcome and necessary, but implementation was made more challenging by the frequent need to adjust program requirements in near-real-time. This experience also demonstrates the wisdom of developing an efficient and effective HAMP successor program ahead of any potential future housing downturn that will not require as many sudden corrections and changes.

These programs have resulted in a large number of mortgage modifications and a relatively robust data set to derive conclusions about what features in modifications are particularly effective and what factors can drive consumer fall-out and re-default on their mortgages. While servicers have had to make adjustments to implement guidance in real time, the challenge of completing applications has continued to be an issue for consumers, often and unfortunately resulting in loss mitigation denials. As demonstrated in the table below, a full quarter of HAMP denials are due to an incomplete request:

<table>
<thead>
<tr>
<th>REASON</th>
<th>REASON DEFINITION</th>
<th>ASSOCIATED DENIALS</th>
<th>PERCENTAGE OF DENIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Request Incomplete</td>
<td>Homeowner requested a modification under the MHA program but did not provide the financial and/or hardship verification documentation required to complete the evaluation of their request in a timely manner.</td>
<td>1,017,730</td>
<td>25%</td>
</tr>
<tr>
<td>Current DTI Less Than 31%</td>
<td>Under HAMP Tier 1, homeowner’s current monthly housing expense is less than or equal to 31% of their gross monthly income (i.e. monthly income before taxes and other deductions).</td>
<td>730,231</td>
<td>18%</td>
</tr>
<tr>
<td>Offer Not Accepted by Consumer/Request Withdrawn</td>
<td>Homeowner withdrew their modification request for consideration for either a Trial Period Plan or HAMP modification or did not accept either a Trial Period Plan or a HAMP modification offer. Failure of homeowner to make the first trial period payment in a timely manner is considered non-acceptance of the Trial Period Plan.</td>
<td>531,521</td>
<td>13%</td>
</tr>
</tbody>
</table>

In addition to gaining information about the necessity of easily accessible and implementable programs, significant research has been done to discuss what works in loss mitigation offers and leads to longer-term sustainable performance. A recent Fannie Mae study isolated payment reduction and length of delinquency as the primary drivers of modification performance.3

Fannie Mae’s data mirrors industry data that has found that payment reduction is the most significant driver of modification performance over time. If the goal is to keep the consumer in their home, providing meaningful payment relief is one of the most useful tools to consider.

4. MBA’s Solution: The One Modification (“One Mod”) Tool-Kit

GUIDING PRINCIPLES
Before crafting a concrete solution, it is important to identify the fundamental themes underlying a modification regime that satisfies regulators and provides meaningful and impactful relief for both consumers and investors. In order for a modification program to be successful, it should aim to maximize the number of consumers that are able to qualify and receive assistance. This is the principle of accessibility, and the experience of the financial crisis has shown that accessibility can be increased by reducing difficult-to-understand barriers for customers receiving a modification. Another key consideration is the ability of consumers who receive a modification to remain in their homes long term in accordance with modified terms. This sustainability principle is best achieved by ensuring the modification product is responsive to the lessons of the crisis and addresses the key drivers that lead to sustainable performance. Together, it is a relatively simple equation: accessibility x sustainability = number of homes saved.

Industry discussions around the lessons learned from the crisis have identified a consensus centered on four basic principles—accessibility, affordability, sustainability, transparency—that should guide efforts to develop future loss mitigation programs.

ACCESSIBILITY
In order to provide broad benefits, any future mortgage modification program will need to be available to a wide variety of consumers in distress. At its most basic level, accessibility equals simplicity. The modification process, eligibility requirements and terms of modification offers should be easily understandable to struggling consumers who are likely to be stressed about other financial issues, overwhelmed by changes in personal circumstances and/or possess differing levels of general and financial education. Excessive investor or guarantor stratification of modification programs or complex eligibility requirements has been shown to erect unnecessary barriers to entry for consumers into modification programs.

It is also necessary to understand that consumer accessibility will turn on designing a program that will have widespread investor or guarantor acceptance and participation. Loss mitigation is, after all, about creating solutions that encourage investors to mitigate their losses by pursuing options other than foreclosure.

Any future programs will also be operating in an environment where all mortgages are required by law to be underwritten with documentation demonstrating that the consumer has a reasonable ability to repay the loan. Given this starting point, unduly complex or uneconomic loan modification requirements will reduce consumer eligibility.
To help ensure a future loss mitigation solution is accessible to consumers, MBA believes a future loss mitigation modification program should:

- Eliminate “gaps” that consumers can fall through.

Currently there are gaps that can lead to a consumer being unable to receive timely loss mitigation assistance because, for instance, they make too much for a forbearance plan yet do not have sufficient income for a permanent loan modification. These gaps should be eliminated and would be in the procedure outlined below by focusing on identifying and assessing consumer hardship and offering quick relief using reasonable, limited documentation or a streamlined modification.

- Only require the consumer to submit documentation that is directly related to their eligibility for the modification.

Failure to return documentation or complete a loss mitigation package has been a persistent source of consumer fall-out. This is demonstrated by the fact that the top denial reason for HAMP — resulting in a quarter of all denials — is failure to complete an application. Complex underwriting formulas or burdensome document requirements undoubtedly play a part in the lack of completed HAMP applications. The “paper chase” for complete documentation is exacerbated by different requirements across guarantors/investors or different document requirements due to variations in waterfalls. Neither consumers nor servicers are well-served by requiring documentation that is not directly relevant to the final modification offering. This should be minimized by only requiring documentation relevant to the proposed loss mitigation solution.

- Produce a positive outcome for the investor.

Seeking a positive loss mitigation outcome for the investor is crucial to the success of a loan modification regime. It helps ensure continued availability of credit through a liquid mortgage market. While investors may have different methodology and calculations of NPV, ensuring that the underlying economics of the modification work for both the consumer and the investor is necessary for ensuring that a relatively universal solution can emerge, offering simplicity for consumers and efficiency for servicers. A well-designed program with properly calibrated economics will result in incentive alignment as sustainable modifications and re-performing loans represent the best outcome for all parties.

AFFORDABILITY

A loan modification that does not provide the consumer with an affordable solution simply delays future problems or leads to a reoccurrence of delinquency. A solution that is not responsive to the consumer’s underlying hardship or and is unaffordable for the consumer also reduces the chance a consumer would accept the offered solution, resulting in discouragement for the consumer and lost time for both the consumer and servicer.

In order to help ensure affordability, MBA believes a future loss mitigation modification program should wherever possible:

- Result in a decrease in mortgage payments for the consumer immediately following modification.

- Distinguish between short-term hardships and longer-term hardships.

A forbearance and repayment plan may be more appropriate for some consumers suffering a short-term hardship such as temporary unemployment or an injury or illness resulting in a temporary diminution in income. For those with a longer-term hardship or permanent change in circumstances, a permanent mortgage modification would be the desired outcome. A future loss mitigation program should screen for anticipated hardship duration and provide options accordingly.

Any future loss mitigation program should take into account that repayment plans and forbearances are only likely to be effective for short-term hardships.

SUSTAINABLE PERFORMANCE

A loan modification should aim to place the consumer in a loan that is affordable in the long term. While there may be future changes in circumstances that may require additional evaluation, the modification offered should contemplate providing sufficient relief to the consumer to avoid re-defaults or future loan modifications. In order to ensure sustainable performance, MBA believes a future loss mitigation modification program should:

- Use waterfall of options and loss mitigation solutions that have a clear impact on re-default rates.

The financial crisis has provided a wealth of data on the sustainability of various loan modifications and methods of providing consumer relief. The OCC made that clear in their OCC’s 2015 Q2 Mortgage Metrics, where they observed on page 39: “[m]odifications that reduced monthly principal and interest payments by at least 10 percent consistently performed better than modifications that reduced payments by less than 10 percent. Modifications with the greatest decrease in monthly payments consistently had the lowest re-default rates.”
Any future program should leverage this knowledge to construct a loss mitigation solution and associated waterfall that incorporates this data to provide the most sustainable relief for the consumer and efficient outcome for the investor.

The chart on the right demonstrates the average re-default rates by time period for loan modifications by payment reductions from data reported in the OCC’s 2015 Q3 Mortgage Metrics. This data makes clear that payment reduction is a significant driver of modification sustainability. This becomes even clearer when looking at 60+ delinquency rates at six months by vintage, which can be found in the appendix as Appendix 2.

• Provide a solution that maximizes the relief that the consumer is eligible for in the first loss mitigation offer.

Providing deep relief up front should lower re-default rates and reduce the need for future loss mitigation solutions. Providing the best option first also adds transparency. The process is clear and unambiguous. Additionally, housing counselors and other consumer advocates can confidently attest it is the best option.

Providing a solution that maximizes relief that the consumer is eligible for will not always mean that a loan modification is viable for every consumer and every particular hardship. One way to tailor additional relief and reward early (<90DPD) engagement is by implementing a post modification housing ratio target. This would require less burdensome documentation requirements while also providing a rough measure of whether the modified housing payment is sustainable for a consumer.

In some cases the modification waterfall may result in an offer that is payment neutral or does not feature significant payment reduction. In those instances servicers may offer the modification to allow the consumer the option to retain the home. A referral to counseling here can help a consumer understand whether such a modification is sustainable and how to best structure their budget and finances to keep the home.

TRANSPARENCY
A consumer is more likely to accept a loss mitigation option that they understand. Providing basic and easy to understand information about the options available to the consumer and the rationale for loss mitigation decisions will result in more informed engagement and participation. The MBA believes the following tenets create such transparency:

• Offer home retention and liquidation options at the same time.

• When a term extension is utilized, educate the consumer about how additional money applied to monthly payments can change the amortization schedule.

• Provide clear disclosure to the consumer of their loss mitigation options and the rationale for arriving at the selected loss mitigation option presented to the consumer.

CFPB regulations require that a servicer evaluate a consumer for all available loss mitigation options that they are eligible for once the servicer has received a complete loss mitigation request for assistance. The servicer should lead with the modification that presents the optimal available modification to the consumer and the calculations used to derive that result. The consumer should be aware of the inputs and outputs utilized to make the loss mitigation decision.
5. The “One Mod” Tool-Kit

MBA has developed a loan modification solution that adheres to both the guiding universal principles discussed above and the associated 10 tenets for effective future loss mitigation.

A future loss mitigation solution should be:

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MBA believes that a “light document” modification for early delinquencies and streamlined process for 90+ delinquencies is the best way to effectuate these principles. “One Mod” is designed to provide the best offer to the consumer first and is based on universal principles derived from industry data of what modification solutions provide sustainable relief for consumers. It also hopes to provide a framework for a unified loss mitigation regime across government guarantors and insurers. Please see the attached process flow below for more details on how One Modification would work.

It is important that any future modification product provides meaningful relief to consumers, mitigates losses for investors to ensure that the mortgage market remains liquid and stable, is predictable and can be implemented by all types of servicers—large and small. It is also important that these outcomes be achievable across multiple economic cycles, interest rate environments and micro/macro housing market conditions. Finally, this solution, like all loss mitigation, depends on a positive economic outcome for the investor or guarantors.

In order to meet these diverse objectives, MBA believes the future modification solution should target meaningful payment relief as the goal while considering loan-to-value (LTV) ratios. Incorporation of LTV means that the “One Mod” solution will provide more relief where a customer may have fewer options (negative/no equity) and where the local or regional housing market is more distressed. It also results in increased consumer accessibility due to the likelihood of positive economic outcome. Loans with higher LTVs often result in higher losses to investors, thus there is more “economic” cushion to provide additional assistance. Finally, since LTV addresses both customer and investor considerations, the program is conditioned to provide more assistance in down turns in the housing markets, thus making it stable, predictable and scalable for servicers to implement.

Our proposed “One Mod” is intended to be easy for the consumer to access and requires limited document collection to reduce the burden on the consumer. Before the consumers is 90 days delinquent, the servicer will evaluate the consumer to a minimum 31% housing ratio to determine
if the consumer is eligible for the modification or should instead be offered short term alternatives or housing counseling. Consumers above the 40% housing ratio target may be eligible for additional relief at this point in the process. These consumers may be offered the modification and referred to housing counseling for education around the implications of the relief offered by the modification and whether this is sustainable given the consumer’s general financial situation.

The following chart itemizes some of the ways that the proposed “One Mod” waterfall implements the themes discussed above:

### ACCESSIBILITY
- Has manageable documentation requirements
- Has streamlined option to reach as many consumers as possible
- Will provide an offer as long as it offers payment relief or is payment neutral

### AFFORDABILITY
- Targets 20% payment reduction
- Fixed nature of first 4 steps ensures most consumers get significant relief
- Provides deeper LTV-based relief in some instances to be responsive to regional economic events

### SUSTAINABILITY
- Targets payment reduction, greatest indicator of future modification performance
- Includes HTI target for consumers that engage early (<90DPD)

### TRANSPARENT
- Provides education around 40 year term and different amortization schedules
- Reduced documentation requirements make clear decision factors for consumers

### TABLE 3: THE SUGGESTED “ONE MOD” WATERFALL

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| **STEP 4** | Provide principal forbearance / forgiveness to 100% LTV (with a cap at 30% of UPB). Offer modification if the P&I payment reduction is 20% or greater and HTI is less than 40%.

For Pre 90+ DQ Steps and Post 90+ Streamline Steps:

### Notes:

i. This presumes that 480 months is available as the maximum term. In situations where that is not currently available as a maximum term, a 360 month term should be utilized.

ii. As noted above, forbearance could be replaced by principal forgiveness should an investor choose to do so. MBA would not suggest using principal forgiveness in instances where an investor or guarantor will not provide reimbursement.

iii. Step 5 may also be offered in the streamlined waterfall, but only with regards to the 20% payment reduction target.

iv. See FAQ #6 and #11 for some possible limiting factors — such as previous modifications.
FIGURE 3: THE ONE MODIFICATION TOOL-KIT PROCESS FLOW EXAMPLE

Consumer is 90 days or more delinquent on mortgage payments

Servicer evaluates if the consumer’s financial hardship is temporary or permanent/longer-term

Servicer determines if consumer is 90 days delinquent or greater

Servicer begins evaluation of consumer to determine if housing ratio is greater than or equal to minimum pre-modification housing ratio of 31%

OFFER ONE MOD
Offer Non-Retention Options

Servicer denies request for loss mitigation at this point in time and discusses alternative options for assistance/refer to counseling

Servicer offers consumer a temporary forbearance and/or repayment plan not to exceed 6 months in duration

BORROWER METHOD OF EARNING INCOME  |  RECOMMENDED DOCUMENTS FOR HTI DETERMINATION
---|---
Wage Earner | One month of pay stubs (30 days) provided by consumer
| Attestation declaring hardship signed by consumer
| Credit report pulled by lender
| BPO / AVM generated for lender
Self-Employed or Non-traditional Wage Earner | 1 Quarterly Profit and Loss Statements OR 2 months of bank statements
| Attestation declaring hardship signed by consumer
| Credit report pulled by lender
| BPO / AVM generated for lender
Other Income | One month of proof (bank statement, award letter) or source document
| Attestation declaring hardship signed by consumer
| Credit report pulled by lender
| BPO / AVM generated for lender
6. Answers to Frequently Asked Questions About “One Mod”

1. WHAT IS “ONE MOD”?  
“One Mod” is MBA’s attempt to develop a set of universal principles that it believes should be adopted across government guarantors, the GSEs and others to replace HAMP when it expires. Based on data derived from the experience of the financial crisis, “One Mod” stands for a modification that targets a payment reduction, only requires documentation that is necessary for the modification decision and provides transparency for the consumer in how the modification decision is made. Future modification programs should consider these principles and work towards a universal standard, recognizing the reality that there may be variations in the exact offering due to investor or securitization requirements.

2. WHY DOES THIS MODIFICATION TARGET A 20% PAYMENT REDUCTION?  
Research on the different modifications performed during the financial crisis concludes that payment reduction is one of the most effective ways to ensure that a modification does not re-default, keeping the consumer in the home and on relatively sound financial footing. As demonstrated in the OCC chart on page 8, 20% payment reductions tend to have better performance over time. The helps achieve the principle of sustainability that MBA members believe is important for a future loss mitigation program.

3. WHY DOES THIS MODIFICATION REQUIRE REDUCED DOCUMENTATION RELATIVE TO OTHER MODIFICATIONS?  
As discussed above, the “paper chase” for verification documentation or program complexity has resulted in a population of consumers being unable to obtain a needed modification. A future loss mitigation program should strive to address this issue. Another benefit of a modification targeting payment reduction is that it requires less documentation than other possible modification solutions. For consumers that are self-employed or have non-traditional income some challenges will remain, but they should be lessened under a program that strives for light documentation or streamlined assistance to consumers in severe distress.

4. WHY DOES THIS MODIFICATION BECOME STREAMLINED AFTER 90 DAYS OF DELINQUENCY?  
A consumer that is over 90 days delinquent has suffered severe credit consequences, significant arrearages and now has a financial hardship due to delinquency that is more severe than at the point of the initial missed payment. The consumer has also likely not responded to the servicer’s prior outreach efforts. CFPB regulations require that a servicer reach out to a consumer by the 36th day of delinquency and attempt to establish live contact to inform the consumers of appropriate loss mitigation options. A written notice encouraging the consumer to contact the servicer and describing applicable loss mitigation procedures is required by the 45th day of delinquency. The GSEs, government guarantors and HAMP all have their own similar outreach requirements.

Industry data shows that streamlined modifications perform similar to other modifications at this stage of delinquency. A trial payment plan would be utilized as a proxy both for affordability and near-term sustainability. Counseling would be encouraged by referral and appropriate for the consumer to determine longer-term sustainability and how to best structure their budget if home retention is their goal. The MBA believes in the value of offering a streamlined, no-documentation “One Mod” modification at 90 days delinquency. We are also committed to exploring ways to provide additional payment relief throughout the “One Mod” framework that wouldn’t rely on required documentation collection after 90 days of delinquency.

5. WHAT ROLE DO COUNSELING ORGANIZATIONS FILL WITH “ONE MOD”?  
Housing counseling organizations have an important role to play if One Mod is adopted. Given the central focus on payment reduction, these organizations could provide vital assistance and coaching to consumers to reorganize their budgets in order to ensure that the modification is affordable and sustainable given their unique situation. This would

4. See 12 CFR 1024.39
be a return to the traditional role of housing counselors rather than having them primarily collect paperwork and submit it to servicers for consideration for a modification.

Counseling will also be especially important for consumers that are determined to have a short-term hardship. These consumers might benefit from assistance to manage their funds during a period of adversity and prevent a short-term hardship from progressing into a more serious delinquency. In instances of short and long term hardship, One Mod related counseling could focus on:

- The need to budget to consistently afford monthly payments and revisit budgeting and spending plans
- How to understand escrow analysis and tax obligations
- Maintaining saving patterns to build reserves and address delinquency.
- Setting and achieving financial goals

If a modification exceeds the HTI target ratio or is unavailable, housing counselors could also work with the consumer to both understand the implications of accepting a modification that has a high payment relative to income or to advise on executing any non-retention options that may be in their best interest.

6. HOW DOES “ONE MOD” TREAT CONSUMERS IN IMMINENT DEFAULT?

The “One Modification” framework is designed to support customers regardless of the delinquency of the account. If an account is in Imminent Default, additional limited documentation could be required by the servicer / investor / guarantor to underwrite the customer’s hardship and mitigate against any unintended consequences of a reduced documentation program. This documentation may include a death certificate, divorce decree, validation of a disability or some additional income information. The combination of a pre-modification housing ratio of 31% in the early stages, hardship affidavit and a limited documentation of hardship in imminent default should protect against concerns that the program will be used as a mechanism to achieve a “no cost” refinance or customers without a hardship will get a modification.

7. WHAT DOCUMENTATION STANDARDS WOULD BE USED FOR A CONSUMER THAT IS NOT A TRADITIONAL WAGE-EARNER OR SALARIED CONSUMER?

It is currently challenging for self-employed consumers or those that are not “traditional” W-2 wage earners to document their income sufficiently to get a modification. Any such calculation must take into account that the variations in income that can occur in self-employment or independent contracting. These fluctuations may make reliable income calculations difficult or outcomes unpredictable. MBA outlines our recommended documents above. A 4506-T is not recommended as it is both difficult to obtain and can often be outdated at the time the loan modification is being considered.

After 90 days delinquent, this consumer would be offered the streamlined “One Mod.”

8. HOW MANY TIMES COULD A CONSUMER BE OFFERED / ELIGIBLE FOR THIS MODIFICATION?

Based on the OCC’s Uniform Retail Credit Classification and Account Management Policy that states that open-ended accounts should not be re-aged more than once within any 12-month period and no more than twice in any five-year period for open-ended lines of credit, MBA would recommend that as a maximum that a consumer should be eligible once every 12 months and twice in five years. Previous modifications would be taken into consideration for the timeframe when evaluating eligibility for “One Mod.” Some investors may be more conservative and it is important to note that the OCC guidance explicitly leaves room for more conservative guidelines.

Decisions about whether or not to offer modifications with limited payment relief may also be influenced by a recent modification. A servicer may be less inclined to view a payment neutral (or close to it) modification as appropriate if a consumer had received a recent modification, absent documented changed circumstances or other data indicating an increased ability to perform.

9. WOULD “ONE MOD” BE OFFERED FOR NON-OWNER OCCUPIED PROPERTIES?

“One Mod” is designed to be offered for owner-occupied properties. Other loss mitigation solutions may be more appropriate for second homes or investment properties.

10. HOW CAN WE MODERNIZE FORBEARANCE PLANS TO BE MORE EFFECTIVE?

MBA believes that rethinking the forbearance process and effective payment plans is a vital part of the future of loss mitigation. Following efforts around modifications, the MBA Task force will consider a forbearance plan for consumers who have a temporary hardship, which has a low payment during the Forbearance period (consider at minimum escrow payments / customer to remain current on taxes and insurance for non-escrow accounts), then a
conversion to a loss mitigation offering (repay, deferment, modification) at the end of the forbearance plan.

One possible solution that will be considered is a product where delinquent payments are converted to principal forbearance and due at maturity. This could be particularly helpful for customers who can afford their current payment but cannot afford a higher payment associated with a repayment plan or for early stage (rolling) delinquent accounts.

11. HOW DOES GENERAL CONSUMER EDUCATION FACTOR INTO A MORE SIMPLIFIED MODIFICATION PROCESS?

In addition to counseling, servicers and other stakeholders should continue efforts to educate consumers about the importance of reaching out to their servicer ahead of any possible delinquency or default. While the “One Mod” process may result in some consumers being ineligible for the modification due to the circumstances of their hardship, early intervention is still important to reduce credit consequences. Such outreach can result in counseling or financial education that may prevent serious delinquency and the associated consequences.

It is also beneficial for servicers to consider providing information about the potential availability of loan modifications for eligible consumers that is easy to understand before they encounter financial difficulties. Such education about available options could encourage earlier outreach and general awareness of the availability of relief if a consumer proactively notifies their servicer.

12. DO YOU ENVISION “ONE MOD” APPLYING TO JUMBO LOANS OR OTHER LOANS INELIGIBLE FOR GSE OR GOVERNMENT GUARANTEES?

The principles that guided the development of “One Mod” are general tenets that should factor into the development of any loan modification regime. The “One Mod” product is designed with our current origination environment in mind. Loans originated after the financial crisis are subject to the CFPB’s Ability to Repay test (ATR), with Qualified Mortgages (QMs) presumed to satisfy this standard. Loans that are originated subject to GSE, FHA or other government guarantor programs are de-facto QMs and bear similar features. These loans are also subject to the loan limits of the relevant program.

Jumbo loans or other products are also subject to the ATR test, but may have different product features or underwriting considerations at origination. As such, while the “One Mod” principles are durable and universally applicable, jumbo loan investors or those originating non-traditional loans for more sophisticated consumers may not utilize the “One Mod” approach in its entirety. Additionally, the possibility of significant residual income or liquid assets for jumbo and larger balance loan consumers may lead some servicers to make different determinations.

13. ARE THERE ACCOUNTING CONSIDERATIONS WITH THE PROPOSED ONE MOD THAT SHOULD BE CONSIDERED?

For depositories, a streamlined approach would trigger collateral dependent accounting, which could be unfavorable. MBA recommends that OCC should consider changing these standards given that the data supports similar performance for underwritten vs. streamlined modifications and this would be a widely accepted industry practice following adoption of “One Mod.” Barring these changes, it may be more difficult for depository institutions to offer certain modification processes to some consumers.

14. ARE THERE OTHER SECONDARY MARKET CONCERNS THAT MIGHT LIMIT THE ADOPTION OF “ONE MOD”?

Changes to how the secondary market pools and prices mortgages may affect both the adoption of a universal modification program and the economic considerations underlying individual modifications. This may be especially relevant for servicers who modify Ginnie Mae loans where 40-year terms (the primary driver of payment reduction in a raising rate environment) are uncommon and may be cumbersome to deliver.

15. HOW DOES “ONE MOD” ENVISION TREATING LOANS THAT HAVE BEEN SOLD AS PART OF A NON-PERFORMING LOAN (NPL) SALE?

NPLs are usually required to go through the investor/guarantor loss mitigation waterfall before they are bundled and sold. Consequently, prior to the NPLs being sold, the borrower has already been evaluated for a modification following the “One Mod” protocols, which was done by a servicer on behalf of that agency following adoption of “One Mod.” Therefore, as is the case today, we would not expect the “One Mod” waterfall to apply to NPLs that are sold by the GSEs or FHA, since it would not be necessary to have a second servicer pursue all the same protocols with the borrower a second time.

Note that the “One Mod” principles may be instructive in those situations.
## TABLE 4: TOP 10 HAMP DENIAL REASONS OVER THE LIFE OF THE PROGRAM, AS OF APRIL 2015

<table>
<thead>
<tr>
<th>REASON</th>
<th>REASON DEFINITION</th>
<th>ASSOCIATED DENIALS</th>
<th>PERCENTAGE OF DENIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Request Incomplete</td>
<td>Homeowner requested a modification under the MHA program but did not provide the financial and/or hardship verification documentation required to complete the evaluation of their request in a timely manner.</td>
<td>1,017,730</td>
<td>25%</td>
</tr>
<tr>
<td>Current DTI Less Than 31%</td>
<td>Under HAMP Tier 1, homeowner’s current monthly housing expense is less than or equal to 31% of their gross monthly income (i.e. monthly income before taxes and other deductions).</td>
<td>730,231</td>
<td>18%</td>
</tr>
<tr>
<td>Offer Not Accepted by Consumer/Request Withdrawn</td>
<td>Homeowner withdrew their modification request for consideration for either a Trial Period Plan or HAMP modification or did not accept either a Trial Period Plan or a HAMP modification offer. Failure of homeowner to make the first trial period payment in a timely manner is considered non-acceptance of the Trial Period Plan.</td>
<td>531,521</td>
<td>13%</td>
</tr>
<tr>
<td>Ineligible Mortgage</td>
<td>Loan does not meet basic program eligibility criteria, such as: mortgage origination on or before January 1, 2009; or outstanding mortgage balance within program limits.</td>
<td>322,694</td>
<td>8%</td>
</tr>
</tbody>
</table>
| Default Not Imminent/Default Status Not Eligible | • For HAMP Tier 1 or owner-occupied HAMP Tier 2: The subject loan is not delinquent and default is not reasonably foreseeable.  
• For rental property considered under HAMP Tier 2: The homeowner has not missed two or more mortgage payments.                                                                                                                                                                                                                                                                                                                                                     | 311,844             | 8%                     |
| Property Not Owner Occupied                | Loan is not eligible for modification under HAMP Tier 1 because the property secured by the mortgage loan is not occupied by the homeowner as their primary residence.                                                                                                                                                                                                                                                                                                                                                                                                     | 196,977             | 5%                     |
| Excessive Forbearance                      | Loan is not eligible for modification under HAMP Tier 1 because the principal forbearance required to achieve a payment of no more than 31% of the homeowner’s monthly income requires forbearance exceeding program limits.                                                                                                                                                                                                                                                                                                                                                                                     | 189,881             | 5%                     |
| Post-Modification DTI Outside Acceptable Range | Proposed modified monthly payment, which includes a modified monthly principal and interest payment on the first lien mortgage loan plus property taxes, hazard insurance premiums and homeowners dues (if any), is not within eligibility guidelines defined for HAMP Tier 2 in the MHA Handbook.                                                                                                                                                                                                                                                                                                                                                     | 178,557             | 4%                     |
| Investor Guarantor Not Participating       | At least one of the following parties has not granted authority for the servicer to modify the loan under HAMP: investor, guarantor, or private mortgage insurance company.                                                                                                                                                                                                                                                                                                                                                                                                       | 142,033             | 4%                     |
| Negative NPV                               | The result of the standardized Net Present Value (NPV) test is “negative.” This test compares expected cash flows with and without HAMP, if expected future cash flows under HAMP are lower, the servicer is not required to modify the loan.                                                                                                                                                                                                                                                                                                                                                                   | 119,291             | 3%                     |
| Other                                      | Includes HAMP applications denied for any of the following reasons: Insufficient Monthly Payment Reduction, Loan Paid off, Property and/or homeowner Exceeds Allowable Number of HAMP Modifications, Ineligible Rental Property, Application Discrepancy, No Change in Circumstance, Ineligible homeowner, Other Ineligible Property (i.e. Property Condemned, Property >4 units), Unemployment Forbearance Plan, Court/Public Official Declined, Dodd Frank Certification Non-Compliance, Federally Declared Disaster Area.                                                                                                                                                                                                                         | 262,127             | 7%                     |
| **TOTAL APPLICATIONS DENIED**             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 4,002,886           |                        |

Appendix 2

FIGURE 4: 60+ DELINQUENCY % AT SIX MONTHS AFTER MODIFICATION BY CHANGE IN MONTHLY PAYMENT

Source: OCC’s 2015 Q3 Mortgage Metrics, p. 40
### TABLE 5: COMPARISON OF LOSS MITIGATION WATERFALLS

<table>
<thead>
<tr>
<th>MODIFICATION STEPS</th>
<th>&quot;ONE MOD PROPOSAL&quot; (targets a 20% payment reduction or greater)</th>
<th>GSE &quot;STANDARD MOD&quot; FOR POST MTMLV ≥ 80 AND GSE STREAMLINE</th>
<th>GSE &quot;STANDARD MOD&quot; FOR POST MTMLV &lt; 80</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEP 1</td>
<td>Capitalize arrearages.</td>
<td>Capitalize arrearages</td>
<td>Capitalize arrearages</td>
</tr>
<tr>
<td>STEP 2</td>
<td>Reduce interest rate to the lower of market rate or current rate. For ARMs, convert to a 30 year term at market rate. For step-rate modifications, convert to the lower of the prior rate cap or the market rate.</td>
<td>Set the modified mortgage loan interest rate to the current GSE standard modification interest rate.</td>
<td>Set the interest rate to the borrower’s current interest rate for a fixed rate loan. For an ARM or step-rate loan, if the rate is less than the current GSE standard modification interest rate, set to the standard modification rate.</td>
</tr>
<tr>
<td>STEP 3</td>
<td>Extend term to 480 months.1 Provide consumer with amortization tables demonstrating how to payoff mortgage in different amounts of time.</td>
<td>Extend the terms to 480 months. Calculate the Monthly P&amp;I payment using a 480/360/240 month amortization term. Offer: • 480 if less than or equal to current P&amp;I payment  • 360 if monthly P&amp;I payment reduction is at least 20%  • 240 if monthly P&amp;I payment reduction is at least 20% The borrower will be offered the modification with each amortization term they are eligible for. If the borrower is eligible for a modification with more than one amortization term, the borrower may choose an amortization term offer.</td>
<td></td>
</tr>
<tr>
<td>STEP 4</td>
<td>Provide principal forbearance / forgiveness to 100% LTV (with a cap at 30% of UPB).2</td>
<td>Provide principal forbearance to a post-modified MTMLT V ratio of 115% with a cap 30% of the gross post-modified UPB of the mortgage loan.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Offer modification if the P&amp;I payment reduction is 20% or greater and HTI is less than 40%.</td>
<td>Offer Modification if post-modification payment is less than or equal to pre-mod payment.</td>
<td>Offer Modification if post-modification payment is less than or equal to pre-mod payment.</td>
</tr>
<tr>
<td></td>
<td>If payment reduction is less than 20% or HTI is greater than 40%, provide principal forbearance / forgiveness until either 80% LTV, 30% of UPB or the payment reduction of 20% and &lt;40% HTI requirement is achieved.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>STEP 5</td>
<td>Offer modification as long as post-modification payment is less than or equal to pre-modification payment.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(if necessary)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STEP 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(if necessary)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Significant differences between “One Mod” and current GSE modifications in red text.

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i. This presumes that 480 months is available as the maximum term. In situations where that is not currently available as a maximum term, a 360 month term should be utilized.

ii. As noted above, forbearance could be replaced by principal forgiveness should an investor choose to do so. MBA would not suggest using principal forgiveness in instances where an investor or guarantor will not provide reimbursement.

iii. Step 5 may also be offered in the streamlined waterfall, but only with regards to the 20% payment reduction target.
“ONE MOD” AND HOUSING COUNSELING

“One Mod” understands the value of housing counseling and seeks to return housing counselors to their traditional role as trusted coaches for consumers seeking financial information or relief. As such, the envisioned “One Mod” process flow has multiple stages where housing counseling could be beneficial for the consumer to either make an informed choice about their options or better understand their financial situation.

--- Potential Referral/Entry Points for Housing Counseling