Final Transcript

HUD – US DEPT OF HOUSING & URBAN DEVELOPMENT: Fannie Mae & Freddie Mac's Flex Modification Program

October 10, 2017/2:00 p.m. EDT

SPEAKERS

Virginia Holman
Lorraine Griscavage-Frisbee
Jeff Zitelman
Bryan Camilli

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Fannie Mae & Freddie Mac's Flex Modification Program call. At this time, at the request from your host, all participants are in listen-only mode. [Operator instructions]. Also, as a reminder, today's teleconference is being recorded.

At this time, I'll turn the conference over to your host, Ms. Virginia Holman. Please go ahead.

Virginia Thank you very much, Tony, and welcome to today's conference call webinar on the Fannie Mae, Freddie Mac Flex Modification Program. We're glad that you could all join us.

Before they get started, I do want to go over some logistics, however. As the operator said, the audio is being recorded. We will be providing you a playback number along with the PowerPoint and a transcript probably in about a week, and these will be posted on the OHC page on the HUD Exchange. We'll also be sending out a listserv that lets you know that those items are posted in the archives, so watch for that.

Also, as Tony said, all your lines are currently muted. We are going to take questions. We'll, in all likelihood, not take live questions because of the large number of people attending, but should we do that, the operator will give you instructions, but your questions are very important to us and to Fannie Mae & Freddie Mac, so there are a couple of other ways that you can ask questions.

Our preferred method today is on the panel on the right hand side of your screen. There's a box labeled questions. If you would enter your question there and send it off to us, there are people monitoring those questions, and we will take some of them during the webinar. Also, after the webinar is over and any time in the future you have a question on the topic, you can send it to us at housingcounseling@hud.gov, and just put the webinar topic, in this case Fannie Mae & Freddie Mac, in the subject line so that we can get it to the right people.

There's going to be a brief survey that will pop up at the end of the session, so please, please answer the questions. Your input is so critical to us as we continue to plan and present webinars for your training.

You're also going to receive an email from GoToWebinar, and this is generally within 24 to 48 hours. It is going to say this is your certificate of training. Please be aware that there is no attachment. The certificate is, in fact just that email, so you need to print it out and save it for your records.

At this point, I'd like to turn the webinar over to Lorraine Griscavage-Frisbee, the deputy director of the Office of Outreach and Capacity Building. Lorraine.

Lorraine Alright. Well, thank you very much, Virginia, for providing our audience with some logistics information. Welcome, everyone, good morning, and good afternoon to this very important webinar. We are very appreciative of Fannie Mae for collaborating today and presenting you with this important information about their Flex Modification Program, which started October 1st. We have two guest presenters today from Fannie Mae, and I would like to introduce them before I turn the presentation over to them.

Our first instructor is Bryan Camilli, and he is Fannie Mae's director of single-family servicing product development, and he reports to the vice president of Fannie Mae of single-family product development. Bryan is responsible for the development and delivery of all loss mitigation solutions. You must be very busy doing that, including product alignment across the government-sponsored enterprises as directed by the Federal Housing Finance Agency.

Our second instructor today is Jeff Zitelman, and he is the product development manager, and he's been with Fannie Mae for seven years focused on developing and implementing products to assist borrowers who have experienced a financial hardship. I imagine you've dealt with quite a bit of borrowers over your seven years. Jeff was the product development lead for the Fannie Mae Flex Modification, so we definitely have two program experts with us today.

With that, I welcome them, and I'm going to turn the program over to Jeff now. Thank you.

Jeff: Thank you very much. Welcome, and thank you for taking the time to learn about the Fannie Mae Flex Modification.

In this webinar, you'll learn about the Fannie Mae Flex Modification, including how to determine a borrower's eligibility, how to determine the modification terms, and understanding how mod terms differ depending upon the delinquency and submission of a complete Borrower Response Package, how a servicer solicits the borrower, including required timelines, and borrower requirements for a trial period plan or TPP, and to complete a modification.

The Fannie Mae Flex Modification was jointly developed with Freddie Mac at the direction of the Federal Housing Finance Agency. This modification combines many of the features of the Fannie Mae HAMP Modification, Standard Modification, and Streamlined Modification. The

Flex Modification was created to be adaptable in different housing environments, and moves us into an era in which a single modification replaces multiple modification programs that servicers use to serve the borrower.

As of October 1, 2017, all servicers must have completed their implementation of Flex Modification. Fannie Mae Flex Modification replaces the Standard and Streamlined Modifications. Standard and Streamlined Modification trial offers and trials in process will be honored, but all servicers are no longer evaluating borrowers for Standard and Streamlined Modification.

Our experience from the crisis tells us that the more we can reduce a borrower's mortgage payment, the more likely it is that the borrower will be able to make their monthly mortgage payment on time. Flex Modification is designed to possibly provide more payment and reduction to borrowers who are current or less than 90 days delinquent.

Borrowers that are current—

Ginger Jeff, this is Ginger. I need to interrupt you for a second. Tony, we're getting reports that there's a problem with the audio.

Moderator At this point, there's no trouble with the audio. Everything is coming through clear from all speakers.

Ginger Alright. Thank you. Back to you, Jeff.

Jeff No problem. Thank you. Borrowers that are current or less than 90 days delinquent must submit a complete Borrower Response Package, or BRP, to be evaluated for a Fannie Mae Flex Modification. For these borrowers, Flex Modification targets 20% payment reduction and a 40% housing expense to income ratio, HTI, which is also known as the front-end DTI.

Servicers use the income information that the borrower provides on the BRP to calculate the HTI. Borrowers 90 or more days delinquent are not required to submit a BRP. The Flex Modification for these borrowers will target 20% payment reduction.

Modifications are not appropriate for every situation. For example, for an unemployed borrower, unemployment forbearance might be the better solution. Unemployment forbearance provides the borrower with up to 12 months of reduced or no payments to allow the borrower time to obtain new employment. Then, after they become employed, a loan modification is one of several options available to the borrower to resolve their delinquency.

The first topic we will cover is determining a borrower's eligibility for a Flex Modification. Let's now turn to the role of the Borrower Response Package, or BRP, and characteristics of the mortgage loan for determining eligibility for a Flex Modification.

If the mortgage loan is current or less than 90 days delinquent, the borrower must submit a complete BRP, however, if the mortgage is 90 or more days delinquent, a complete BRP is not required. Servicers are required to evaluate all borrowers for eligibility for a Flex Modification when the mortgage loan is 90 to 105 days delinquent, and servicers will solicit eligible borrowers for the Flex Modification without a complete BRP.

The Fannie Mae Flex Modification is only available for mortgage loans owned by Fannie Mae. See knowyouroptions.com for an interactive tool to determine if Fannie Mae owns the mortgage loan. At the end of this presentation, we will provide links to these resources.

The Fannie Mae-owned mortgage loan must be a conventional first-lien originated at least 12 months prior to the evaluation date for the mortgage loan modification. A mortgage loan that is current or less than 60 days delinquent must be secured by a principal residence, and the servicer must have determined that the borrower’s monthly payment is in imminent default. As a side note, imminent default is a statistical method for determining the likelihood that a borrower will become seriously delinquent.

A mortgage loan that is secured by a second home or an investment property must be at least 60 days delinquent. The mortgage loan must not currently be subject to another solution, such as an approved liquidation workout option, an active and performing forbearance plan or repayment plan, unless otherwise directed by Fannie Mae, a current offer for another mortgage loan modification or other workout option, or an active and performing modification trial period plan.

Additionally, the mortgage loan must not have been modified three or more times previously, failed a Flex Modification trial period plan in the 12 months preceding evaluation for another Flex Modification, or been modified with a Flex Mod and become 60 or more days delinquent within 12 months without reinstating.

Bryan: Jeff, this is Bryan. We got some questions here. A question about details on how imminent default is determined. So, today there is a model that is used by the servicer in which they submit the appropriate information that is received from the borrower through the workout package. That is submitted through the model. The model then will determine if the borrower is imminent default.

If the model says it is not imminent default, but the borrower shows they have a hardship of death, divorce, disability, or a recent rate reset, the borrower can be determined imminent default, so there's kind of two ways into it. So, that's to clarify how a borrower is determined to be imminent default.

Jeff: Thank you, Bryan. Now, we will cover determining the terms of the modification. There are five steps in determining the modification terms.

Step one is to capitalize the eligible arrearages, which may include accrued interest, out-of-pocket escrow advances to third parties, any required escrow advances that will be paid to third parties by the servicer during the trial period plan, and servicing advances paid to third parties in the ordinary course of business and not retained by the servicer if allowed by state laws.

Step two is to set the modification interest rate to a fixed rate based on the following requirements; using the contractual interest rate in effect for the periodic payment due in the month of the evaluation date. If the mortgage loan is a fixed rate with a post-modification MTMLTV less than 80%, then the interest rate is set to the borrower's contractual interest rate. This also applies to an adjustable rate mortgage, or an ARM, or a step rate mortgage that has reached its final interest rate.

If the mortgage loan is a fixed rate that is greater than or equal to 80% and is with a post-modification MTMLTV that is greater than or equal to 80%, then the interest rate is set to the lesser of the Fannie Mae modification interest rate or the borrower's contractual rate. This also applies to ARMs or step rate mortgages that have reached their final interest rate.

Last, if the mortgage loan is an ARM or a step rate that has not reached its final interest rate, then the interest rate is set to the lesser of the Fannie Mae modification interest rate, the final interest rate for the step rate modification, or the lifetime interest rate cap for the ARM as applicable.

Step three is to extend the mortgage loan to 480 months from the modification date.

Step four is applicable if the post-modification MTMLTV ratio is greater than 100%, and if it is greater than 100%, then the servicer must forebear principal in an amount that is lesser of an amount that would create a post-modification MTMLTV ratio of 100% using the interest-bearing principal balance or 30% of the gross post-modification unpaid principal balance of the mortgage loan.

Last, step five, is only applicable if the post-modification MTMLTV ratio is greater than 80%. If the post-modification MTMLTV ratio is greater than 80%, then the servicer must provide or increase principal forbearance until a 20% P&I reduction, that's a 20% principal and interest reduction, is achieved. However, the servicer must not forebear more than an amount that would create a post-modification MTMLTV ratio of less than 80% using the interest-bearing principal balance or 30% of the gross post-modification UPB of the mortgage loan.

If the mortgage loan was less than 90 days past due when the borrower submitted a complete BRP, then the servicer must provide or increase principal forbearance until a 40% HTI ratio was achieved.

The HTI ratio now comes into play. It compares the borrower's monthly housing expenses to their gross monthly before-tax income. It's also known as the front-end DTI ratio. The borrower's monthly gross income is defined as the borrower's monthly income amount before any payroll reductions. The HTI ratio calculation depends on the property type that secures the mortgage loan.

Bryan Jeff, let's pause there. A few more questions came in. So, there were some questions whether or not when to apply the HTI versus just look for the 20% payment reduction.

So, because the program requires a complete BRP for borrowers who are less than 90 days delinquent, that full documentation gives us an opportunity to solve for both the 20% payment reduction and a 40% HTI trying to maximize the payment relief we can get to the borrower.

Without documentation, in the post-90 days delinquency space, we only solve for the 20% payment reduction because we don't have a workout package to evaluate for the HTI. The program does cut that off at the 90-day mark. So, anything post-90 for a package to come in, post-90 will still get the 20% payment reduction. So, that's how you think about the difference between when to apply the HTI and when not to.

Jeff Okay. Thank you very much, Bryan. The Fannie Mae Flex Modification must provide a payment reduction. That is a reduction in the principal and interest component of the payment. It will convert any adjustable rate mortgage or step rate mortgage into a fixed rate mortgage, and it targets 20% payment reduction, and for mortgage loans which are current or less than 90 days delinquent a 40% HTI. However, if those targets cannot be achieved, the borrower will still be offered the modification.

Next, we will discuss the servicer's responsibility for soliciting the borrower for a Flex Modification. If the mortgage loan is 90 days or more delinquent, and the evaluation has determined the borrower is eligible for a Fannie Mae Flex Modification, the servicer must send the borrower a Fannie Mae Flex Modification solicitation letter with the appropriate evaluation notice if all of the following circumstances are met: the borrower did not submit a complete BRP before the 90th day of delinquency, the borrower was not eligible for any other workout option in accordance with the servicing guide, and the borrower has rejected all other alternatives to foreclosure offered by the servicer. The servicer must send the solicitation letter and evaluation notice between the 90th and 105th day of delinquency.

The timeline for a servicer to send the Fannie Mae Flex Modification solicitation letter differs when the mortgage loan was previously modified into a mortgage loan with a step rate feature, such as HAMP. If the mortgage loan was previously modified into a mortgage loan with a step rate feature, and an interest rate adjustment occurred within the last 12 months, and the mortgage loan became 60 days delinquent after the interest rate adjustment, and the servicer determined that the borrower was eligible for a Fannie Mae Flex Modification without a complete BRP, then the servicer must send the borrower a Fannie Mae Flex Modification solicitation letter between the 60th and the 75th day of delinquency.

Finally, we will now cover when a servicer offers the trial period plan to the borrower and completes the modification. The loan modification will not be binding and forcible or effective until all conditions of the mortgage loan modification have been satisfied.

These conditions include the following: the borrowers has satisfied all for the requirements of the trial period plan including making all required trial payments on or before the date specified in the solicitation, and he or she has executed and returned a copy of the loan modification agreement, which is Form 3179 and related instructions.

Bryan Jeff, let me pause you there. We have a question about whether or not the borrower submits a complete BRP if that hurts their chances of getting approved. So, the BRP would only be used in the evaluation if they're less than 90 days delinquent. I would say it does not hurt their chances to get approved.

Any borrower who applies based on a complete BRP will be evaluated, and as long as the modified terms will provide a P&I reduction, they will receive an offer. So, the target of 20% payment reduction and 40% HTI in the less than 90 space do not have to be achieved in order for the borrower to be approved. The program is designed to give the borrower the best offer we can by maximizing the steps that Jeff outlined, and as long as that provides a payment reduction, the borrower will get an offer.

Jeff Thank you very much, Bryan. The servicer will include the trial period plan payment due dates in the evaluation notice that is sent to the borrower. If the servicer mails the evaluation notice on or before the 15th day of the calendar month, the first trial period plan will be on the 1st day of the following month. If the servicer mails the evaluation notice after the 15th day of the calendar month, the first trial period plan payment due date will be the 1st day of the month after the next month.

If the servicer does not receive a trial period plan payment by the last day of the month in which the payment is due, the borrower will fail the trial period plan, and the servicer will not grant the borrower a permanent Fannie Mae Flex Modification

Bryan Jeff, let me pause there. We have a question about timelines. The servicer is obligated to follow our procedures. We have groups that review servicers' procedures on an annual basis, and if we find that they're not adhering to these policies, we will create remediation plans for that. So, we do monitor servicers' compliance to these programs and enforce that.

Also, just to clarify, there's questions about the P&I reduction. Again, if the terms of the modification can provide a P&I reduction to the borrower, they will make the offer to the borrower. If, for any reason the terms, and an example may be the borrower is multiple years delinquent and the amount of arrearages prevent a P&I reduction from occurring, that borrower would not be eligible for Flex Mod. If there is a P&I reduction regardless of delinquency, as long as the terms can provide a P&I reduction, the borrower is eligible for Flex Mod.

Jeff Thank you very much, Bryan. Additionally, the length of the trial period plan is determined by the duration of the mortgage loan delinquency. If the mortgage loan is current or less than 31 days delinquent at the time of the evaluation, the trial period plan must be four months long. If it is 31 or more days delinquent, then the trial period plan must be three months long.

The servicer must send the borrower a modification agreement cover letter and complete loan modification agreement, Form 3179, which includes instructions with additional provisions as applicable. The borrower must sign and return the loan modification agreement to meet the terms of the modification.

Bryan Jeff, let me pause there. We got a question regarding the solicitations. Again, the solicitations will be triggered by either of the two events, one being the borrower has reached 90 days delinquent, so the servicer will evaluate between days 90 and 105 for a solicitation.

The other event that could trigger solicitation is if a borrower recently went through a rate reset, as an example, they were previously modified under HAMP and had a payment increase due to the step rate, and that borrower goes 60 days delinquent following the rate reset, that borrower would be evaluated between day 60 and day 75 for a solicitation.

Jeff Any other questions, Bryan? Okay. For complete details about the Fannie Mae Flex Modification, be sure to review the Flex Modification section of the servicing guide. This document is on fanniemae.com. You can search for Flex Modification. It's available on the internet to anybody who wishes to review it, and the link will be in the material that you receive. You could certainly go to fanniemae.com right now and find that material.

You also may wish to visit knowyouroptions.com for more guidance. Earlier in the presentation, I indicated that there was a tool in knowyouroptions.com that is available to determine if a mortgage loan is owned by Fannie Mae.

Bryan There was a question about HTI. There are variations in the formula for HTI based on different incomes the borrower may have and whether or not there's rental properties involved or not, but if the borrower is simply just looking at their primary residence with no other real estates involved, it's basically their income, which includes anything from wages and salaries overtime paid commission, tips, bonuses, housing allowances over the cost of the housing expense.

So, it's their income divided by the housing expense, which includes the P&I, insurance, taxes, special assessment, ground rents, HOAs. So, that's the most simple calculation. Again, if the borrower has other—if they're calculating on an investment property or second home, there are some variations to that calculation, which can be found in our servicing guide, but it's really the income over the household expenses.

Jeff Very good. A re there any other questions?

Bryan There's a question. Is there a 24-month waiting time for a new modification after a previous modification was given? There is a 12-month look back for previous modifications. So, there is not a 24-month look back.

Just to clarify again, yes, the HTI income includes income, wages, and bonuses. Let me confirm that. Again, wages, overtime paid, commissions, fees, tips, bonuses, housing allowances, and other compensation. There's a whole list within our servicing guide divided by the housing expense, which could include PITIA, HOAs, special assessments, co-ops, escrow shortages.

So, again, I would defer to the servicing guide for the exact specifics because there are some variations based on property type, but at a very simplistic high level, it's the income over the housing expense.

Jeff Right, and it should be noted that the unemployment insurance benefits and weekly employment benefit is not considered income for that purpose. As I mentioned earlier, there are more appropriate solutions for people who are unemployed such as unemployed forbearance which allows the borrower time to obtain new employment, and then to get a modification or another workout as appropriate.

Bryan There was a question about why does this not work for Freddie Mac loans. We're not saying this does not work for Freddie Mac loans. You have two representatives from Fannie Mae on the phone who are discussing specifically our program. Freddie Mac has their policy that was created in alignment with Fannie Mae and FHFA, but we would defer to Freddie Mac to discuss their policies.

Jeff I think looking, it seems as though we've gotten to the bottom of the questions. If there are no other questions, I guess, Virginia or others, we turn it back to you.

Lorraine Thank you. This is Lorraine, and thank you very much, Bryan and Jeff. We really appreciate the training you've provided. You gave us excellent information. Virginia, do you want to share with everyone when we anticipate this training will be archived?

Virginia Thank you. Generally, within a week, we get the information to be able to post both the presentation, the transcript, and an audio replay number in our archives. Those archives are on the Office of Housing Counseling page on HUD Exchange. As I said, we'll also send out a listserv message when this webinar has been posted to the archives, so watch for that. Then, also check out the webpage periodically.

Lorraine Alright. Thank you very much. So, I guess we can ask our operator, Tony, to end the call then. Tony, do you have any parting words before we leave?

Moderator Yes. Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive TeleConference. You may now disconnect.