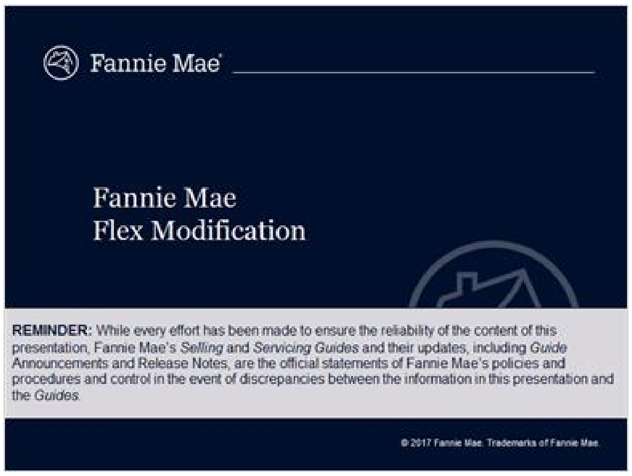
Fannie Mae Flex Modification

1. Welcome Intro

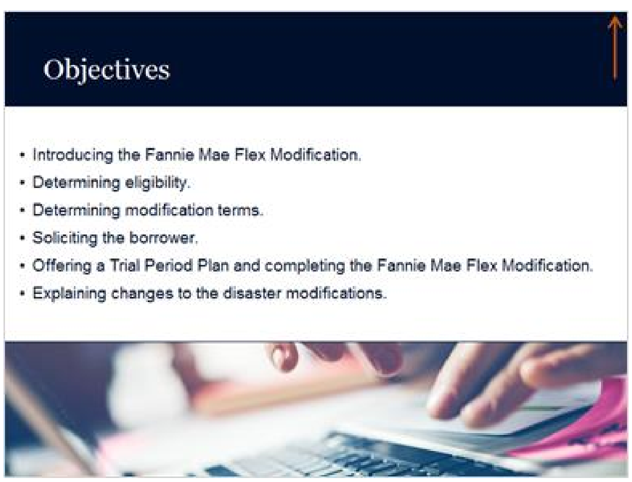
1.1 Welcome



Notes:

Welcome, and thank you for taking time to view the Fannie Mae Flex Modification course.

1.2 Objectives



Notes:

In this course, you'll learn about the Fannie Mae Flex Modification, including how to determine a borrower's eligibility.

How to determine modification terms for a mortgage loan, including determining property value, calculating the housing expense-to-income (or HTI) ratio, and understanding how terms differ depending upon delinquency and submission of a complete Borrower Response Package (or BRP).

- How to solicit the borrower, including required timelines, and handling a complete BRP.
- Requirements for offering a Trial Period Plan (or TPP), and completing the modification.
- And how the Fannie Mae Flex Modification changes the modification terms for the Fannie Mae Streamlined Modification Post Disaster Forbearance and the Fannie Mae Cap and Extend Modification for Disaster Relief.

Throughout this course, we will refer to portions of the *Servicing Guide*, as well as other references. You can find links to all these items in the Resources tab of this course. A PDF version of this course is also available in Resources.

For complete details about the Fannie Mae Flex Modification, be sure to review *Lender Letter LL-2016-06*.

1.3 Introduction

Notes:

The Fannie Mae Flex Modification was jointly developed with Freddie Mac at the direction of the Federal Housing Finance Agency.

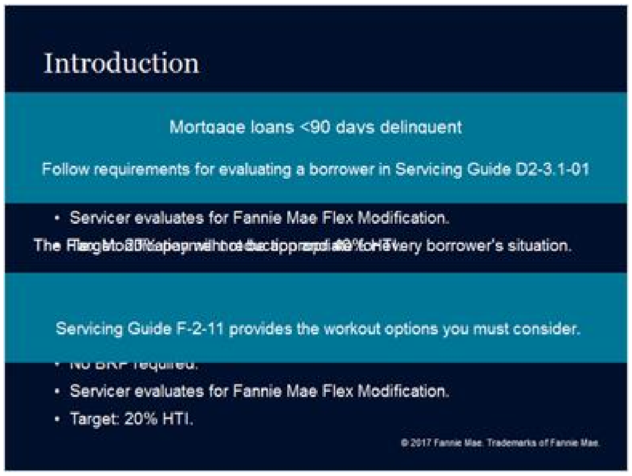
This modification combines many of the features of the Fannie Mae HAMP, Standard Modification, and Streamlined Modification. The Flex Modification was created to be adaptable in different housing environments, and moves us into an era in which a single modification replaces multiple programs that were used to serve our customers.

Servicers must implement Flex Modification on or before the effective date of October 1, 2017. Fannie Mae Flex Modification replaces the Standard and Streamlined Modifications, so upon servicer implementation, those modifications will no longer be available. Standard and Streamlined Modification trial offers and trials in process must be honored, but servicers must not evaluate borrowers for Standard and Streamlined Modifications after they implement the Flex Modification.

You can actually begin using the Flex Modification right away; servicers have been able to implement its use as of

March 1, 2017.
And Servicing Management Default Underwriter™ (or SMDU™) is supporting this modification as of May 15, 2017.

1.4 Introduction



Notes:

Let's look at the basic requirements for evaluating mortgage loans for the Flex Modification.

- Borrowers with mortgage loans less than 90 days delinquent must submit a complete BRP, and will be evaluated for a Fannie Mae Flex Modification which will target both a 20% payment reduction and a 40% HTI ratio.
- Borrowers with mortgage loans 90 or more days delinquent are not required to submit a BRP and will be evaluated for a Fannie Mae Flex Modification with a 20% payment reduction target.

It's important to remember that when you are evaluating a borrower for workout options, you must follow the requirements in
Servicing Guide D2-3.1-01, Determining the Appropriate Workout Option.

The Flex Modification will not be appropriate for every borrower's situation. For example, an unemployed borrower is ineligible for a modification; forbearance might be the better solution, depending on the borrower's specific circumstances.

Servicing Guide F-2-11 Fannie Mae's Workout Hierarchy provides the workout options you must consider, depending on the borrower's hardship.

1.5 Topics

Notes:

To view information regarding a particular topic in this course, click the topic you want to view.

To navigate the course sequentially from the beginning, click Next. You can return to this Topics slide at any time by clicking the home button at the top of each slide.

2. Determining Eligibilty

2.1 Determining Eligibility

Notes:

All the criteria discussed on this slide must be met for Fannie Mae Flex Modification eligibility. Click the criteria type to learn more.

BRP (Slide Layer)

If the mortgage loan is current or less than 90 days delinquent, the borrower must submit a complete BRP; however, if the mortgage loan is 90 or more days delinquent, a complete BRP is not required and you may solicit eligible borrowers for the Flex Modification without a complete BRP. Be sure that you follow the guidance set forth in *Servicing Guide* D2-3.1-01, Determining the Appropriate Workout Option, and in F-2-11: Fannie Mae's Workout Hierarchy.

Mortgage Loan (Slide Layer)

The 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 you must have determined that the borrower's monthly payment is in imminent default in accordance with *Servicing*

Guide D2-1-02, Using Freddie Mac's Imminent Default Indicator.

A mortgage loan that's secured by a second home or an investment property must be at least 60 days delinquent.

The mortgage loan must not be subject to:

- A recourse or indemnification arrangement under which Fannie Mae purchased or securitized the mortgage loan or that was imposed by Fannie Mae after the mortgage loan was purchased or securitized.
- 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, regardless of the mortgage loan modification program or dates of prior mortgage loan modifications.

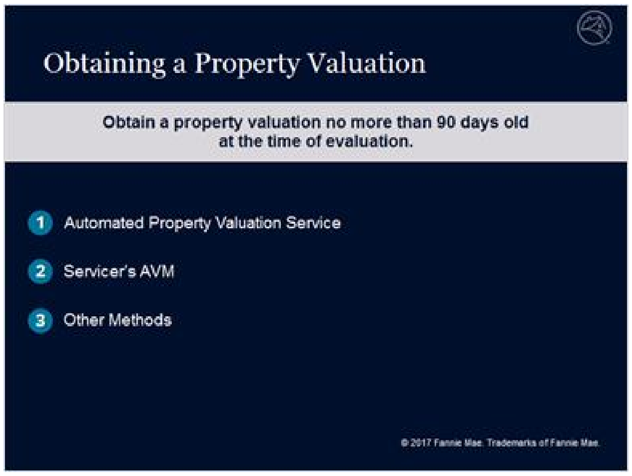
It must not have received a Fannie Mae Flex Modification and become 60 days or more delinquent within the first 12 months of the effective date of the mortgage loan modification without being reinstated.

And the mortgage loan must not have failed a Fannie Mae Flex Modification Trial Period Plan within 12 months of being evaluated for eligibility for another Fannie Mae Flex Modification.

Property (Slide Layer)

The property securing the mortgage loan may be vacant or condemned.

2.2 Obtaining a Property Valuation

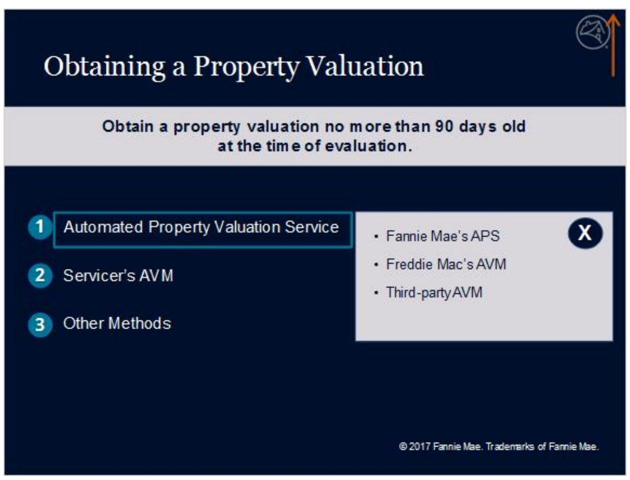


Notes:

As part of determining the borrower's eligibility for a Flex Modification, servicers must obtain a property valuation, which must not be more than 90 days old at the time the servicer evaluates the borrower for the mortgage loan modification.

Click the number beside each property valuation method for more information.

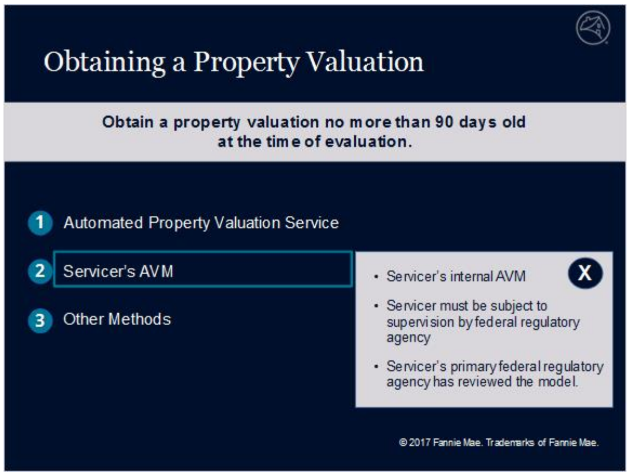
Automated Property Valuation Service (Slide Layer)



You can use Fannie Mae's Automated Property Service (or APS), Freddie Mac's Automated Valuation Model (or AVM), or a third-party AVM.

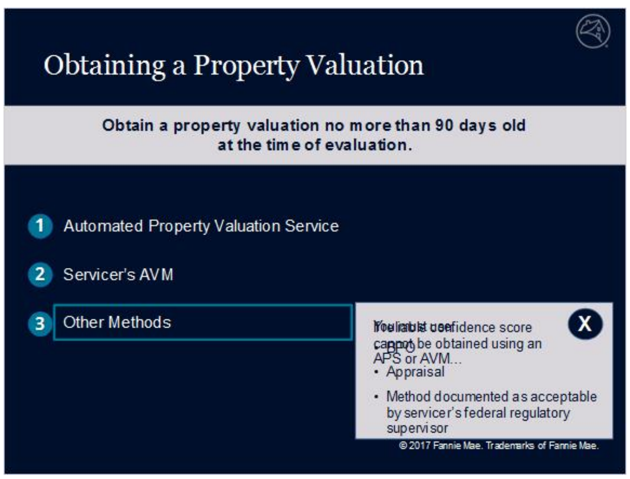
For more information about Fannie Mae's APS, go to the Resources tab of this course where you will find a link to the APS for NPV page on Fannie Mae's Single Family website.

Servicer’s AVM (Slide Layer)



Servicers can also use their own internal AVM as long as the servicer is subject to supervision by a federal regulatory agency, and the servicer's primary federal regulatory agency has reviewed the model.

Other Methods (Slide Layer)



If you cannot obtain a reliable confidence score using Fannie Mae’s APS, Freddie Mac’s AVM, a third-party AVM, or your own internal AVM, then you must obtain an assessment of the property value using an exterior Broker Price Opinion (or BPO), an appraisal, or a property valuation method documented as acceptable to the servicer’s federal regulatory supervisor.

2.3 Escrow Analysis

Notes:

You must perform an escrow analysis prior to offering a Trial Period Plan.

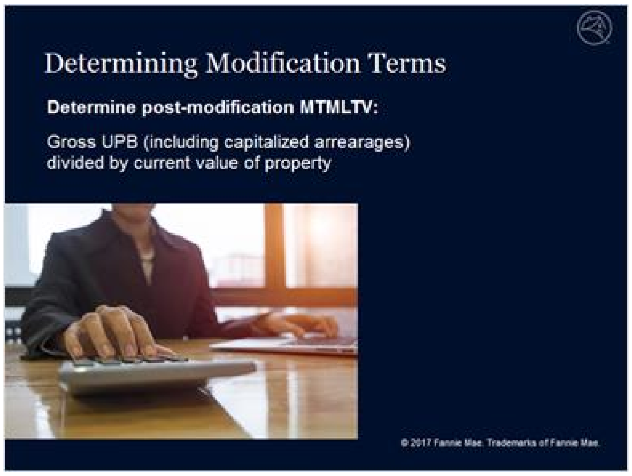
Any escrow account shortage that is identified at the time of the mortgage loan modification must not be capitalized and you are not required to fund any existing escrow account shortage.

If applicable law prohibits the establishment of the escrow account, you must ensure that the tax and insurance (or T&I) premiums are paid to date.

For additional information, refer to Administering an Escrow Account in Connection With a Mortgage Loan Modification in *Servicing Guide* B-1-01, Administering an Escrow Account and Paying Expenses.

3. Determining Modification Terms

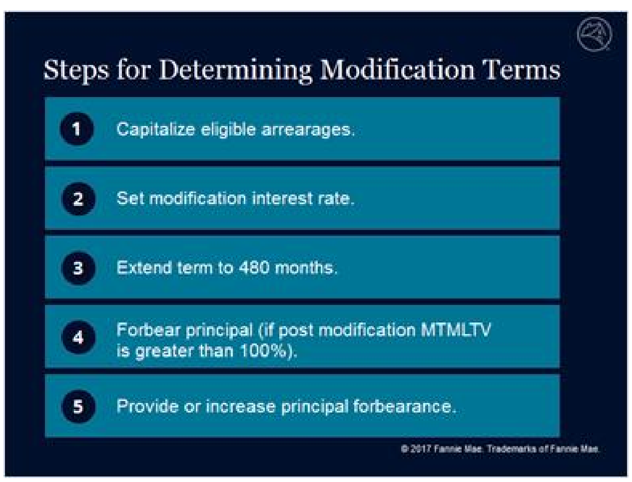
3.1 Determining Modification Terms



Notes:

To determine the Flex Modification terms for the borrower, you must determine the post-modification mark-to-market loan-to-value
(or Post-Modification MTMLTV) ratio, which is defined as the gross unpaid principal balance (or UPB) of the mortgage loan including capitalized arrearages, divided by the current value of the property.

3.2 Steps for Determining Modification Terms

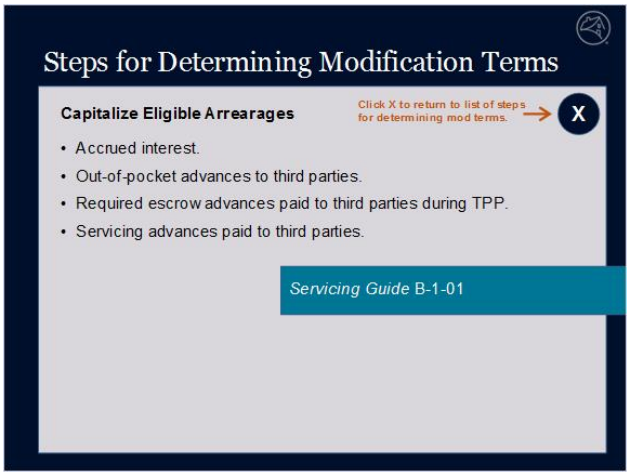


Notes:

Let's walk through the procedure for determining the borrower's new mortgage loan terms. Remember that you must complete all the steps in this procedure, in the order presented.

Click each step number to learn more.

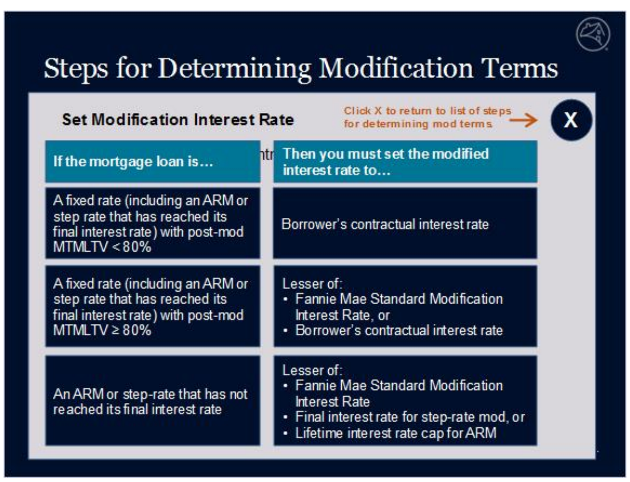
Capitalize eligible arrearages (Slide Layer)



Step 1 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.

For more information, refer to *Administering an Escrow Account in Connection With a Mortgage Loan Modification* in the *Servicing Guide* B-1-01, Administering an Escrow Account and Paying Expenses.

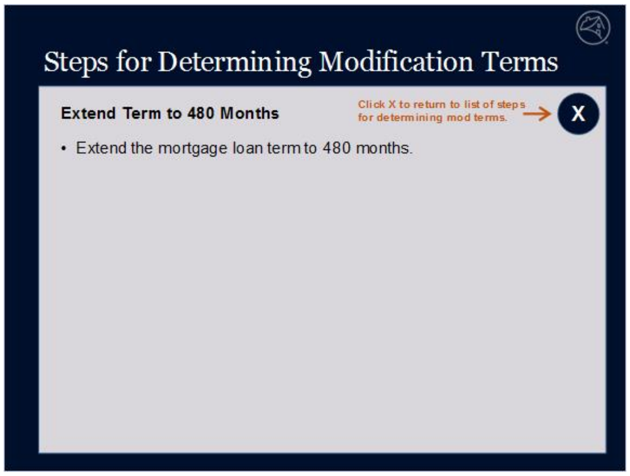
Set modification interest rate (Slide Layer)



Step 2 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.

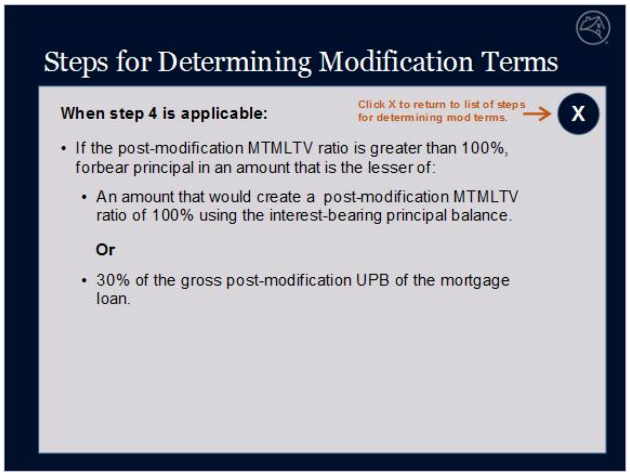
- If the mortgage loan is a fixed rate, including an adjustable rate mortgage (or ARM) or step-rate that has reached its final interest rate, with a post-modification MTMLTV less than 80%, then you must set the interest rate to the borrower's contractual interest rate.
- If the mortgage loan is a fixed rate, including an ARM or step-rate that has reached its final interest rate, with a post-modification MTMLTV that is greater than or equal to 80%, then you must set the modified interest rate to the lesser of the Fannie Mae Standard Modification Interest Rate, or the borrower's contractual interest rate.
- If the mortgage loan is an ARM or a step-rate that has not reached its final interest rate, you must set the interest rate to the lesser of the Fannie Mae Standard Modification Interest Rate, the final interest rate for the step-rate modification, or the lifetime interest rate cap for the ARM.

Extend term to 480 months (Slide Layer)



Step 3 is to extend the mortgage loan term to 480 months from the modification effective date.

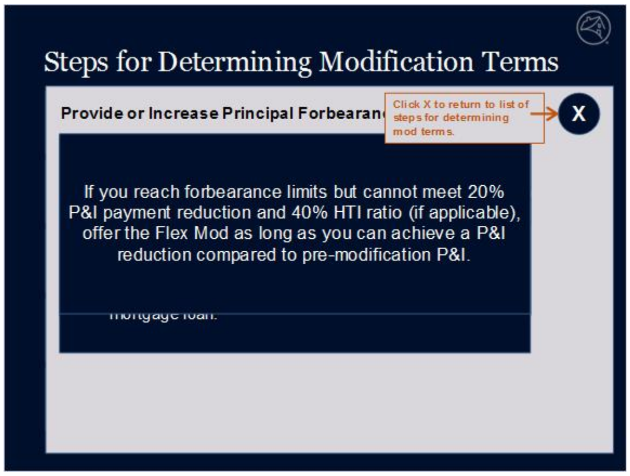
Forbear principal (Slide Layer)



Step 4 is only applicable if the post-modification MTMLTV ratio is greater than 100%.

If the post-modification MTMLTV is greater than 100%, then the servicer must forbear principal in an amount that is the 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 UPB of the mortgage loan.

Provide or increase principal forbearance (Slide Layer)



Step 5 is only applicable if the post-modification MTMLTV ratio is greater than 80%.

- If the post-modification MTMLTV is greater than 80%, then the servicer must provide or increase principal forbearance, based on the following criteria.
- If the mortgage loan is less than 90 days past due when the borrower submitted a complete BRP, then you must provide or increase principal forbearance until a 20% P&I payment reduction and a 40% HTI ratio are achieved. (We will discuss how to calculate HTI ratio in the next section of this course.)
  You must not forbear more than an amount that would create a post-modification MTMLTV ratio 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 is greater than or equal to 90 days past due, and the borrower did not submit a complete BRP before the 90th day of delinquency, provide or increase principal forbearance until a 20% payment reduction is achieved.

In either situation, remember that you must not forbear more than an amount that would create a post-modification MTMLTV ratio that is less than 80% using the interest-bearing principal balance, or 30% of gross post-modification UPB of the mortgage loan.

Please note that if you reach the forbearance limits but you are unable to meet the 20% payment reduction and 40% HTI ratio targets, if applicable, you must still offer the borrower the Flex Modification as long as you are able to achieve a P&I reduction as compared to the pre-modification P&I payment.

3.3 Calculating HTI Ratio

Notes:

The HTI ratio compares housing expenses to gross (before-tax) income. The borrower's monthly gross income is defined as the borrower's monthly income amount before any payroll deductions. How you calculate the HTI ratio depends on the property type that secures the mortgage loan. Click the different property types to learn more.

Principal Residence (Slide Layer)

For a principal residence, divide the borrower's monthly housing expense by the borrower's monthly gross income.

Refer to *Lender Letter LL 2016-06* for a list of monthly housing expenses you should include in this calculation.

Let's look at an example.

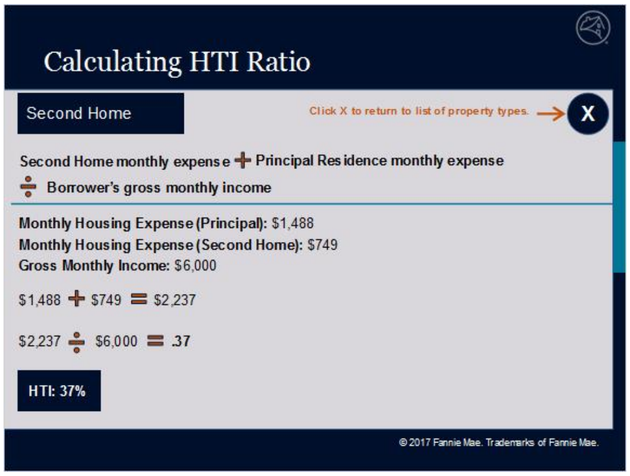
Marion has a mortgage loan secured by her principal residence.

Her monthly housing expense is $1,148 which includes P&I of $772; a property insurance premium of $60; real estate taxes of $166;
and HOA dues of $150.

Marion's gross monthly income is $2,900.

To calculate Marion's HTI ratio, divide her monthly housing expenses of $1,148 by her monthly gross income of $2,900 for a quotient of .39. This makes Marion's HTI ratio 39%.

Second Home (Slide Layer)



For a second home, add the monthly housing expense of the second home to the monthly housing expense on the borrower's principal residence and divide this amount by the borrower's monthly gross income.

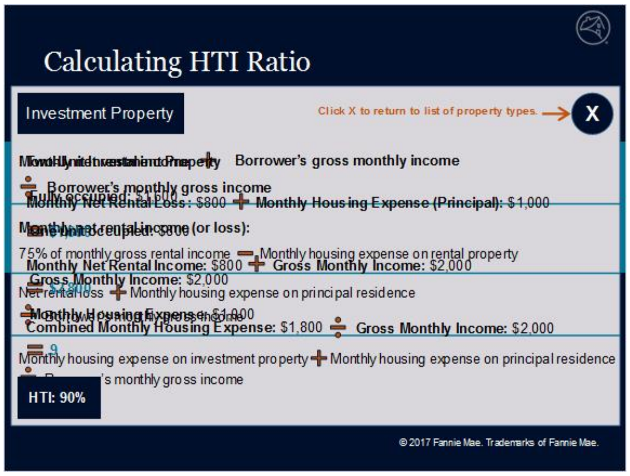
For example, Joel and Alicia own a principal residence, and they also own a second home for family vacations.

- Their monthly housing expense for their principal residence is $1,488.
- Their monthly housing expense for their second home is $749.
- Their gross monthly income is $6,000.

To determine the HTI ratio, first add the monthly housing expense for their second home to the monthly housing expense for their principal residence, for a total of $2,237.

Next, divide their combined monthly housing expenses of $2,237 by their monthly gross income of $6,000 for a quotient of .37. This makes Joel and Alicia's HTI ratio 37%.

Investment Property (Slide Layer)



For an investment property, add any monthly net rental income on the subject property to the borrower's gross monthly income, then divide that total by the borrower's monthly gross income.

Calculate the net rental income (or net rental loss) on the subject property as 75% of the monthly gross rental income, minus the monthly housing expense on the rental property.

Add any monthly net rental loss on the subject property to the monthly housing expense on the borrower's principal residence and divide this amount by the borrower's monthly gross income.

If the borrower currently is not receiving rental income on the subject property, add the monthly housing expense on the subject property to the monthly housing expense on the borrower's principal residence, and then divide by the borrower's monthly gross income.

Here's an example of how to calculate the HTI ratio on an investment property.

Ivan has a two-unit investment property. When fully occupied, the combined net rental income for the two units is $1,600. However, only one unit is currently occupied, so he is receiving monthly net rental income of $800.

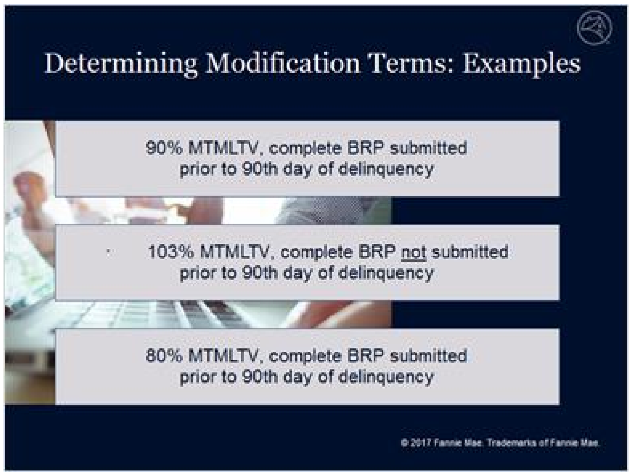
- Ivan's gross monthly income is $2,000.
- Ivan's monthly housing expense for his principal residence is $1,000.

Start by calculating the net rental income. First, add Ivan's monthly net rental loss of $800 (for the second unit that is not currently rented) to the monthly housing expense for his principal residence for a total of $1,800.

Next, add Ivan's monthly net rental income of $800 (for the unit that is currently rented) to his gross monthly income of $2,000 for a total of $2,800.

Finally, divide his combined monthly housing expense for his principal residence and monthly net rental loss ($1,800) by his gross monthly income ($2,000) for a quotient of .9. This makes Ivan's HTI ratio 90%.

3.4 Determining Modification Terms: Examples



Notes:

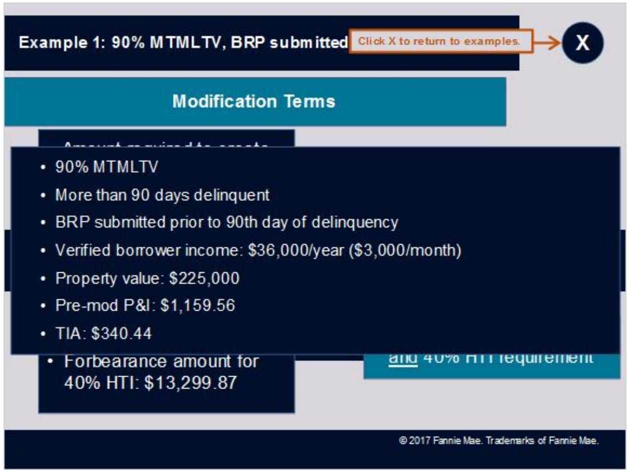
Now that we've discussed how you must determine Fannie Mae Flex Modification terms, including calculating the HTI ratio used in step 5 of the modification terms calculation, let's look at some examples to help enhance your understanding.

We'll look at three examples: a mortgage loan with a 90% MTMLTV, where the borrower submitted a complete BRP prior to the 90th day of delinquency; a mortgage loan with an MTMLTV of 103%, where the borrower did not submit a complete BRP prior to the 90th day of delinquency; and a mortgage loan with an MTMLTV of less than 80%, where the borrower submitted a complete BRP prior to the 90th day of delinquency.

When reviewing these examples, you may wish to have Lender Letter *LL-2016-06* on hand to follow the steps and policy outlined in the section, Determining the Fannie Mae Flex Modification Terms.

Click each scenario to review these examples.

90% MTMLTV, complete BRP submitted prior to 90th day (Slide Layer)



In this first example, you have a mortgage loan with a 90% MTMLTV, the mortgage loan is more than 90 days delinquent, and the borrower submitted a complete BRP prior to the 90th day of delinquency. You have verified the borrower's gross income reported in the complete BRP as $36,000 per year, which is $3,000 per month.

- The value of the subject property is $225,000.
- The pre-modification P&I is $1159.56.
- The tax, insurance and homeowner's association fees (or TIA) portion of the monthly housing payment is $340.44.

Let's walk through the steps to determine the modification terms.
First, you must capitalize the arrearage.

The pre-modification UPB is $200,000, and the eligible arrearages are $4,500. This gives you a total of $204,500 for the UPB with capitalized arrearages, using the property value of $225,000. The post-modification MTMLTV is 90.9%.

The second step is to set the interest rate.

This mortgage loan is an ARM that has not reached its final interest rate. The contractual interest rate is 5%. The lifetime cap for the ARM is 9.75%.

The following rule applies to this modification: The interest rate is set to the lesser of the Fannie Mae Standard Modification interest rate of 4.5% and the ARM lifetime cap of 9.75%.

Because the Fannie Mae Standard Modification interest rate is the lower of the two interest rates, you must set the interest rate to 4.5%.

The third step is to set the term.

For Fannie Mae Flex Modification the term must always be 480 months.

The fourth step for determining modification terms is only performed if the post-modification MTMLTV is greater than 100%.

Because the post-modification MTMLTV for this mortgage loan is 90.9%, which is less than 100%, we skip this step and continue to step 5.
The fifth and final step is to provide or increase principal forbearance if the post-modification MTMLTV is greater than 80%.
In this example, the borrower submitted a complete BRP before the 90^{th} day of delinquency, so you must provide or

increase principal forbearance until you achieve a 20% P&I payment reduction and a 40% HTI ratio. But you cannot forbear an amount that would create an MTMLTV less than 80%, or 30% of the gross post-modification UPB.

To determine payment reduction, you must calculate the payment using the parameters in steps 1-4.

- In step 1, you capitalized the arrearages for a post-modification UPB of $204,500.
- In step 2, you set the interest rate to 4.5%.

And in step 3, you set the 480-month term.

With these steps completed, the modification P&I is $919.36.

With a pre-modification P&I of $1,159.56 and a modification P&I of $919.35, we can calculate the reduction in P&I to be 20.7%.

Adding TIA of $340.44, the modification principal, interest, taxes, insurance, and association fees (or PITIA) is $1,259.79.

We can then calculate the modified HTI ratio to be the modification PITIA of $1,259.79 divided by the monthly gross income of $3,000, or an HTI ratio of 42.0%.

While the P&I reduction is more than 20%, the HTI ratio is not less than 40%, so you must provide or increase forbearance in this step.

First, calculate the forbearance to create an MTMLTV of 80% for a forbearance amount of $24,500.

Second, calculate 30% of the post-modification UPB for a forbearance amount of $61,350.

Third, calculate the UPB that provides 40% HTI ratio, which is $191,200.13. This amount meets both the 20% P&I reduction and the 40% HTI ratio requirements.

And the total amount of forbearance required to meet the 20% reduction in P&I and 40% HTI ratio is $13,299.87.

To determine the forbearance, select the lesser of these three options:

The forbearance amount that creates an MTMLTV of 80%, which is $24,500; 30% of the post-modification UPB, which is $61,350; or the total amount of forbearance needed to meet P&I and HTI ratio requirements, which is $13,299.87.

Because $13,299.87 is the lesser of these three amounts, this will be the forbearance amount for the modification terms.

To recap, based on the steps you walked through in this example, the modification terms for this Fannie Mae Flex Modification are as follows:

The UPB after capitalizing eligible arrearage is $204,500.

The forbearance for the modification is $13,299.87.

The interest-bearing UPB is $191,200.13.

The fixed interest rate is 4.5%.

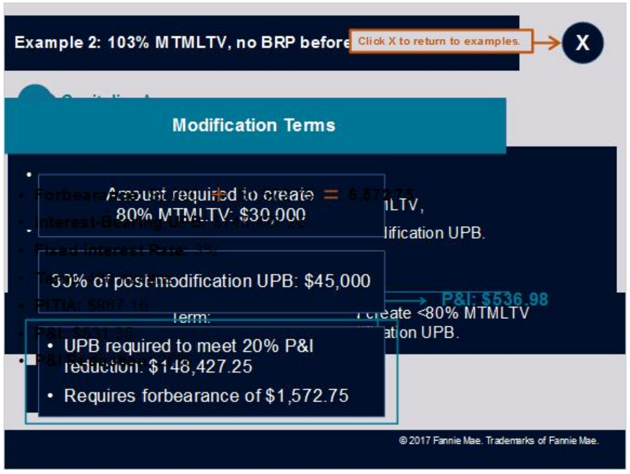
The term is 480 months.

The post-modification P&I is $859.56, or a P&I reduction of 25.9%.

Adding TIA of $340.44, the post-modification PITIA is $1,200, resulting in an HTI ratio of 40%.

This modification achieves both a P&I reduction of at least 20% and an HTI ratio of no more than 40%.

103% MTMLTV, complete BRP not submitted prior to 90th day (Slide Layer)



First, capitalize the arrearage.

The pre-modification UPB is $152,000 and the eligible arrearages are $3,000. This gives you a total of $155,000 for the UPB with capitalized arrearages.

The post-modification MTMLTV is 103.3%.

For step two, set the interest rate.

This mortgage loan has a fixed rate, and the contractual interest rate is 3%.

The Fannie Mae Standard Modification interest rate is 4.5%.

Because the post-modification MTMLTV is greater than or equal to 80%, the interest rate is set to the lesser of the Fannie Mae Standard Modification interest rate (of 4.5%) and the contractual interest rate (of 3%), you must set the interest rate to 3%.

The third step is to set the term.

For Fannie Mae Flex Modification the term must always be 480 months.

Because the post-modification MTMLTV in this example is greater than 100%, you will complete s**tep 4.** As a reminder, because the MTMLTV is greater than 100%, you can forbear as low as 100% MTMLTV, but no more than 30% of the post-modification UPB.

The forbearance amount that would create an MTMLTV of 100% is $5,000.

30% of the post-modification UPB is $46,500.

Because you must select the lesser amount of these two options, select the $5,000 forbearance, which now makes the interest-bearing UPB $150,000.

The fifth and final step is to provide or increase principal forbearance if the post-modification MTMLTV is greater than 80%.

In this example, the mortgage loan is more than 90 days delinquent, and the borrower did not submit a complete BRP before the 90th day of delinquency, so you must provide or increase forbearance until you achieve a 20% payment reduction. The HTI ratio component of the terms does not apply because the borrower did not submit a complete BRP prior to the 90th day of delinquency.

As in the first example, you must not create a post-modification MTMLTV of less than 80%, or 30% of the gross post-modification UPB.

In step 1, you capitalized the arrearages for a post-modification UPB of $155,000.

In step 2, you set the interest rate to 3%.

In step 3, you set the 480-month term.

In step 4, you applied $5000 forbearance to make the interest-bearing UPB $150,000.

With these steps completed, the P&I is $536.98.

The pre-modification P&I was $664.18, and the post-modification P&I is $531.35, which is a reduction of 19.2%.

A P&I reduction of 19.2%, is less than our 20% target, so you must provide or increase forbearance in this step.

First, calculate the forbearance to create an MTMLTV of 80% for a forbearance amount of $30,000.

Second, calculate 30% of the post-modification UPB for a forbearance amount of $45,000.

Third, calculate the UPB required to meet 20% P&I reduction for an amount of $148,427.25. This would require a forbearance amount of $1,572.75.

To determine the forbearance, select the lesser of the three options:

$1,572.75 (the total amount of forbearance needed to meet P&I requirement).

$30,000 (the forbearance amount that creates an MTMLTV of 80%), or

$45,000 (30% of the post-modification UPB)

Because $1,572.75 is the lesser of these three amounts, this will be the forbearance amount for the modification terms.

To recap, based on the steps you walked through in this example, the modification terms for this Fannie Mae Flex Modification are as follows:

Forbearance of $5,000 in step 4, and additional forbearance in step 5 of $1,572.75 for a total forbearance amount of $6,572.75.

Interest-Bearing UPB: $148,427.25.

Fixed Interest Rate: 3%.

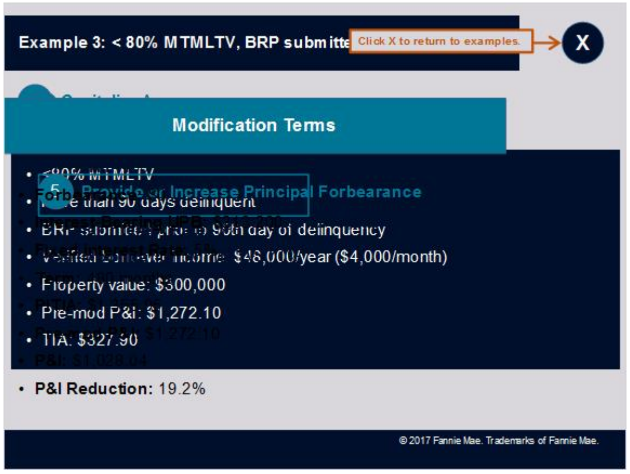
Term: 480 months.

PITIA: $867.16.

P&I: $531.35.

And P&I Reduction: 20%.

<80% MTMLTV, complete BRP submitted prior to 90th day (Slide Layer)



In this final example, you have a mortgage loan with an MTMLTV of less than 80%, the mortgage loan is more than 90 days delinquent, and the borrower submitted a complete BRP prior to the 90th day of delinquency.
You have verified the borrower's gross income reported in the complete BRP as $48,000 per year, which is $4,000 per month.

- The value of the subject property is $300,000.
- The pre-modification P&I is $1,272.10.
- The TIA portion of the monthly payment is $327.90.

- **First,** capitalize the arrearage.

The pre-modification UPB is $210,000 and the eligible arrearages are $3,200.
This gives you a total of $213,200 for the UPB with capitalized arrearages. The post-modification MTMLTV is 71%.
The second step is to set the interest rate.
This mortgage loan is a step-rate that has reached its final interest rate, and the contractual interest rate is 5%, and the final interest rate is 5%.
Repeating step 2 of the modification terms, if the mortgage loan is a fixed rate, including an ARM or step-rate, that has reached its final interest rate with a post-modification MTMLTV less than 80%, then you must set the interest rate to the borrower's contractual interest rate.
The interest rate is set to the borrower's contractual interest rate of 5%.
The third step is to set the term.
For Fannie Mae Flex Modification the term must always be 480 months.
The f**ourth step for d**etermining modification terms is only performed if the post-modification MTMLTV is greater than 100%.
Because the post-modification MTMLTV for this mortgage loan is not 100%, we skip this step.
Additionally, for this example, we skip s**tep 5** because, for the Fannie Mae Flex Modification, you do not forbear on mortgage loans that are less than 80 % MTMLTV. The post-modification MTMLTV for this mortgage loan is only 71.1%.
To recap, based on the steps you walked through in this example, the modification terms for this Fannie Mae Flex Modification are as follows:

- Forbearance: $0.
- Interest-Bearing UPB: $213,200.
- Fixed Interest Rate: 5%.
- Term: 480 months.
- PITIA: $1,355.95.
- Pre-modification P&I: $1,272.10.
- P&I: $1,028.04.
- And P&I Reduction: 19.2%.

4. Soliciting the Borrower

4.1 Soliciting the Borrower

Notes:

If you determine that a mortgage loan that is 90 days or more delinquent is eligible for a Fannie Mae Flex Modification, you must send the borrower a Fannie Mae Flex Modification Solicitation Letter, with the appropriate Evaluation Notice, if any of the following circumstances are met:

- The borrower did not submit a complete BRP before the 90th day of delinquency.
- Prior to sending the Fannie Mae Flex Modification Solicitation Letter, you previously conducted an evaluation of the complete BRP and determined that the borrower was not eligible for a workout option in accordance with the *Servicing Guide*.
- Or the borrower has rejected all other alternatives to foreclosure offered by the servicer.

Under any of these circumstances, you must send the solicitation letter and Evaluation Notice between the 90th and 105th day of delinquency.

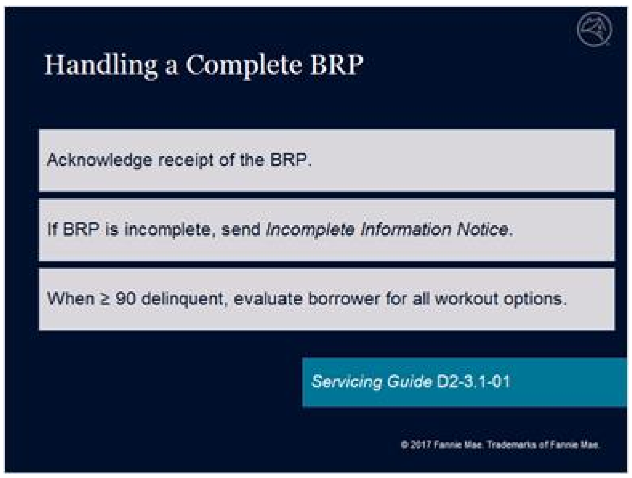
Lender Letter LL-2016-06 includes instructions for completing the Solicitation Letter and Evaluation Notice.

The timeline for sending the Fannie Mae Flex Modification Solicitation Letter differs under the specific circumstances in which:

- The mortgage loan was previously modified into a mortgage loan with a step-rate feature.
- An interest rate adjustment occurred within the last 12 months.
- The mortgage loan became 60 days delinquent after the interest rate adjustment.
- And the servicer determines that the borrower is eligible for a Fannie Mae Flex Modification without a complete BRP.

In this case, you must send the borrower a Fannie Mae Flex Modification Solicitation Letter between the 60th and 75th day of delinquency.

4.2 Handling a Complete BRP

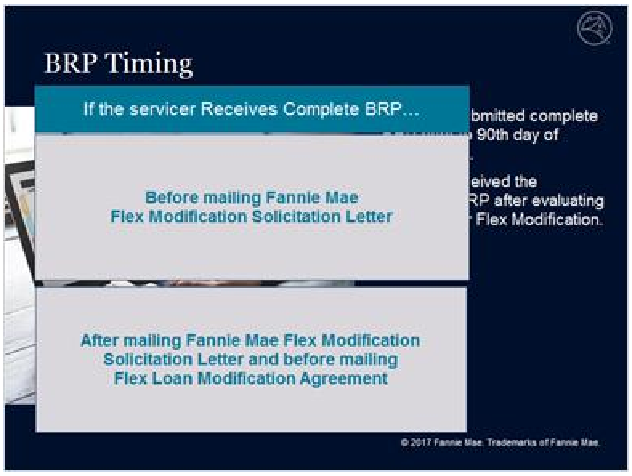


Notes:

When you receive a BRP, you must acknowledge receipt, and send a written notice indicating if the BRP is complete or incomplete following the guidance in *Acknowledging Receipt of a Borrower Response Package* in *Servicing Guide* D2-2-05, Receiving a Borrower Response Package.

If the borrower submits a complete BRP when the mortgage loan is 90 or more days delinquent, you must evaluate the borrower for all workout options in accordance with *Servicing Guide* D2-3.1-01, Determining the Appropriate Workout Option.

4.3 BRP Timing

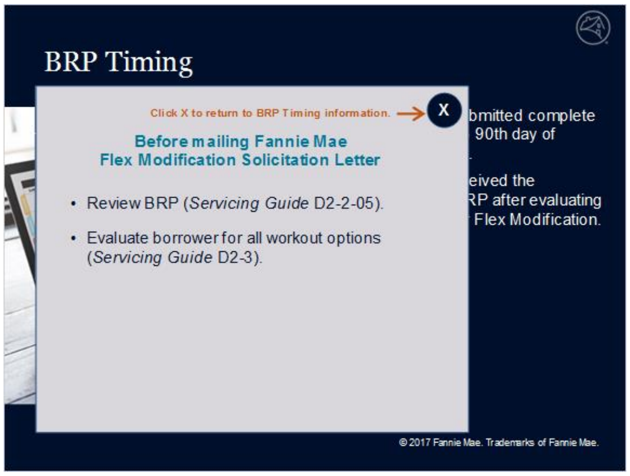


Notes:

Let's talk about the situation in which the borrower submitted a complete BRP prior to the 90th day of delinquency but the servicer received the complete BRP after evaluating the borrower for a Fannie Mae Flex Modification.

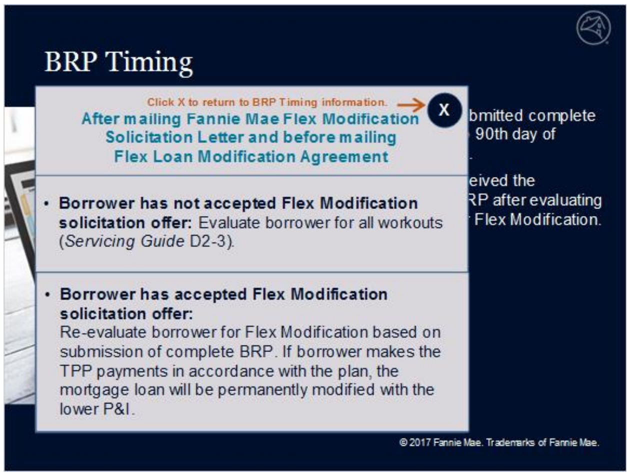
Click each text box for more information.

Before mailing Fannie Mae Flex Modification Solicitation Letter (Slide Layer)



If you receive the BRP before you have mailed the borrower the *Fannie Mae Flex Modification Solicitation Letter*, you must review the BRP, following the guidance in *Servicing Guide* D2-2-05, Receiving a Borrower Response Package; and, you must evaluate the borrower for all workout options, following the guidance in *Servicing Guide* D2-3 Fannie Mae's Home Retention and Liquidation Workout Options.

After mailing Fannie Mae Flex Modification Solicitation Letter and before mailing Flex Loan Modification Agreement (Slide Layer)



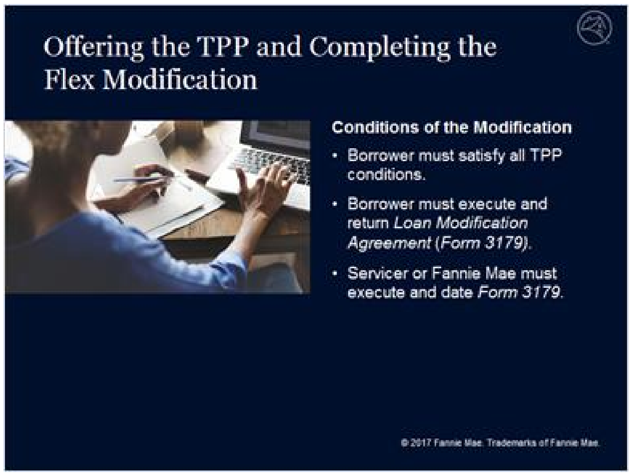
If you receive the borrower's complete BRP after you have mailed the borrower the Flex Modification Solicitation Letter and prior to mailing the borrower the Flex Loan Modification Agreement for their signature, your required action depends on whether the borrower has accepted the Flex Modification solicitation offer.

- If the borrower has not accepted the Flex Modification solicitation offer, you must evaluate the borrower for all workouts, including the Flex Modification, based on the submission of the complete BRP, following the guidance in *Servicing Guide* D2-3.
- If the borrower has accepted the Flex Modification solicitation offer, you must re-evaluate the borrower for a Flex Modification based on submission of the complete BRP. Then, if the P&I payment amount based on borrower submission of a complete BRP is less than the P&I payment amount reflected in the solicitation Trial Period Plan, inform the borrower that if he or she makes the Trial Period Plan payments in accordance with the plan, the mortgage loan will be permanently modified with the lower P&I payment amount which will be reflected in the Loan Modification Agreement.

5. Offering a TPP and Completing the Modification

5.1 Offering the TPP and Completing the

Flex Modification

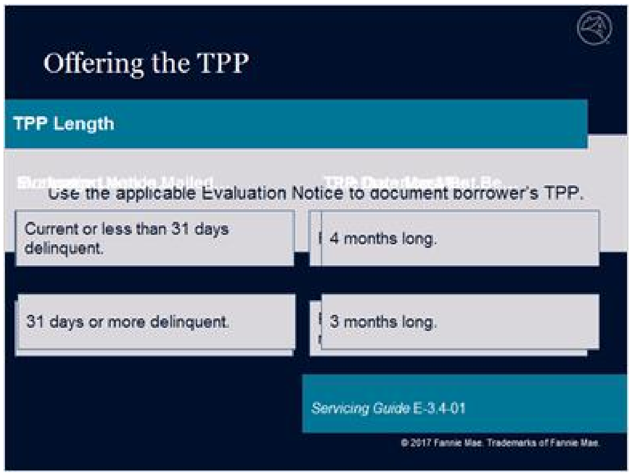


Notes:

When you are ready to offer a Trial Period Plan, you must communicate to the borrower that the mortgage loan modification will not be binding, enforceable, or effective unless all conditions of the mortgage loan modification have been satisfied.
These conditions include the following:

- The borrower has satisfied all of the requirements of the Trial Period Plan, and he or she has executed and returned a copy of the *Loan Modification Agreement (Form 3179).*
- Additionally, the servicer or Fannie Mae (depending upon the entity that is the mortgagee of record) has executed and dated *Form 3179*).

5.2 Offering the TPP



Notes:

You must use the applicable *Evaluation Notice* to document the borrower's Trial Period Plan.

For details, refer to *Sending a Notice of Decision on a Workout Option* in *Servicing Guide* D2-2-05, Receiving a Borrower Response Package for requirements relating to the *Evaluation Notice*.

Also review the additional requirements outlined in *Offering a Trial Period Plan and Completing a Fannie Mae Flex Modification* in Lender Letter LL 2016-06.

You must include the Trial Period Plan payment due date in the Evaluation Notice that you send the borrower.

- If you mail the Evaluation Notice on or before the 15th day of the calendar month, you must use the first day of the following month as the first Trial Period Plan payment due date.
- If you mail the Evaluation Notice after the 15th day of the calendar month, then you must use the first day of the month after the next month as the first Trial Period Plan payment date.

The length of the Trial Period Plan is determined by the duration of the mortgage loan delinquency.

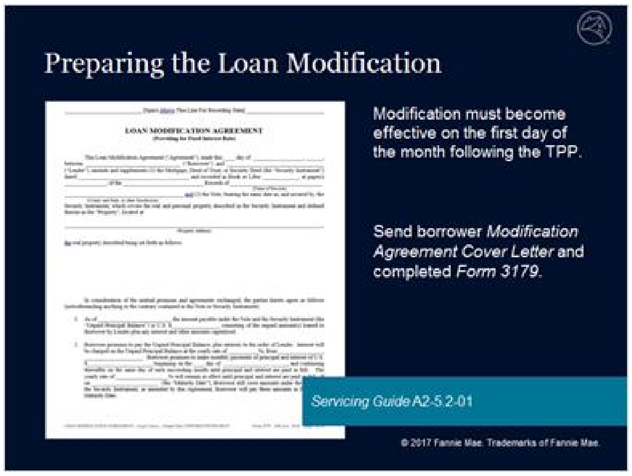
- If the mortgage loan is current or less than 31 days delinquent at the time of the evaluation, the Trial Period Plan must be four months long.
- If it is 31 or more days delinquent, then the Trial Period Plan must be three months long.

Remember that the length of the plan must not change, even if the borrower makes scheduled payments earlier than required.

If the borrower fails to make 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 you must not grant the borrower a permanent Fannie Mae Flex Modification.

For details regarding the requirements for suspending foreclosure, refer to *Servicing Guide* E-3.4-01, Suspending Foreclosure Proceedings for Workout Negotiations.

5.3 Preparing the Loan Modification



Notes:

Prepare *Form 3179* early in the Trial Period Plan process so that you can allow sufficient processing time for the Agreement, and ensure the mortgage loan modification becomes effective on the first day of the month following the Trial Period Plan, except as authorized in *Preparing the Loan Modification Agreement* in Lender Letter LL 2016-06.

Send the borrower the *Modification Agreement Cover Letter* and a completed *Form 3179*.

You can send electronic documents and obtain electronic signatures as long as you comply with Fannie Mae's requirements in
Servicing Guide A2-5.2-01, Storage of Individual Mortgage Loan Files and Records.

5.4 Executing and Recording the Loan Modification

Notes:

When executing and recording *Form 3179*, you are responsible for confirming that all borrowers execute the Agreement, and you must ensure all real estate taxes and assessments that could become first liens are current.

You must record the executed Agreement if recordation is necessary to ensure that the modified mortgage loan retains its first lien position and is enforceable, or if the Agreement includes assignment of leases and rents provisions. If you do record the Agreement, you must obtain title insurance.

Execute and record the Agreement based upon the entity that is the mortgagee of record, following the requirements in *Servicing Guide* A2-1-03, Execution of Legal Documents.

If the mortgagee of record is the servicer, Mortgage Electronic Registration Systems (that is, MERS), or on behalf of Fannie Mae, you must send the Agreement to the document custodian. For more details, refer to Executing and Recording the Loan Modification in Lender Letter *LL 2016-06*.

6. Changes to Disaster Forbearance and Relief

6.1 Changes to Disaster Modifications

Notes:

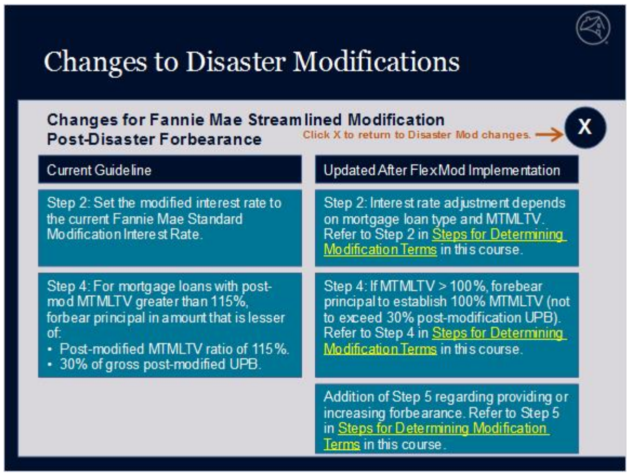
When you implement the Fannie Mae Flex Modification, some of the steps for determining modification terms will change in the Fannie Mae Streamlined Modification for Disaster Forbearance, and the Cap and Extend Modification for Disaster Relief.

Additionally, upon implementation of the Fannie Mae Flex Modification, the Fannie Mae Streamlined Modification for Disaster Forbearance will be part of the Flex Modification and no longer referenced as a separate modification.

For detailed information about the current procedures for determining modification terms for the disaster modifications, refer to *Servicing Guide* F-1-21 Processing a Fannie Mae Streamlined Modification for Disaster Forbearance, and *Servicing Guide* F-1-16 Processing a Fannie Mae Cap and Extend Modification for Disaster Relief.

Click each modification title to review the changes to each.

Streamlined Modification for Disaster Forbearance (Slide Layer)



A few steps for determining modification terms will change for the Fannie Mae Streamlined Modification Post-Disaster Forbearance.

For Step 2, which is currently to set the modified interest rate to the current Fannie Mae Standard Modification Interest Rate, the step will change to mirror the second step in determining modification terms for the Fannie Mae Flex Modification.

How you adjust the interest rate will depend on mortgage loan type and the MTMLTV ratio.

For details, refer to Step 2 in Steps for Determining Modification Terms in this course.

For Step 4, which currently requires that for mortgage loans with a post-modification MTMLTV greater than 115%, you must forbear principal in an amount that is the lesser of the post-modified MTMLTV of 115% or 30% of the gross post-modified UPB, the step will change to mirror the fourth step in determining modification terms for the Fannie Mae Flex Modification.

If the MTMLTV is greater than 100%, you will forbear principal to establish 100% MTMLTV.

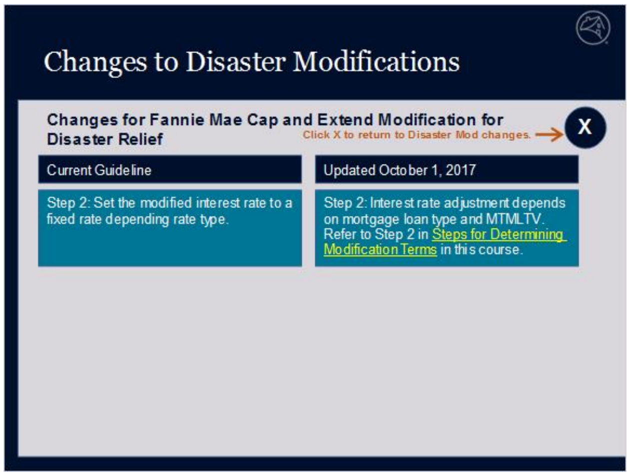
For details, refer to Step 4 in Steps for Determining Modification Terms in this course.

Additionally, you will begin following Step 5 that is currently in the procedure for determining modification terms for the Fannie Mae Flex Modification.

This step requires you to provide or increase forbearance if the payment reduction is greater than or equal to 20%.

For details, refer to Step 5 in Steps for Determining Modification Terms in this course.

Cap and Extend Modification for Disaster Relief (Slide Layer)



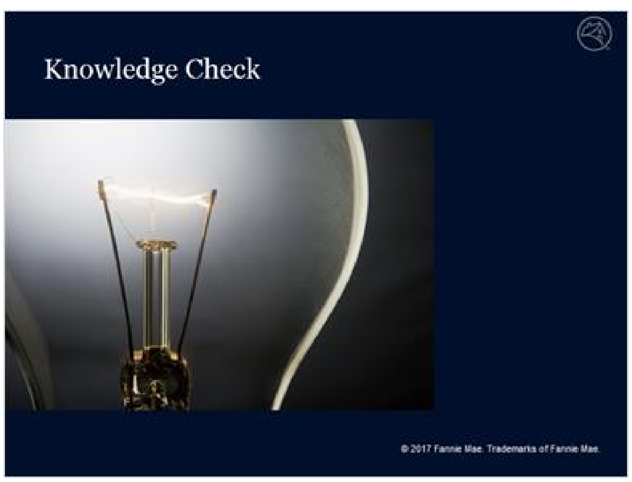
For Step 2 of the Cap and Extend Modification for Disaster Relief, you are currently required to set the modified interest rate based on the mortgage loan type. Upon implementation of the Fannie Mae Flex Modification, you will determine the modification terms based on mortgage loan type and also the MTMLTV ratio.

For details, refer to Step 2 in Steps for Determining Modification Terms in this course.

Because the Cap and Extend Modification does not allow for additional forbearance, determination of terms for this modification type will not include Steps 4 and 5 which are a part of the procedure for the Fannie Mae Flex Modification.

7. Knowledge Check

7.1 Knowledge Check

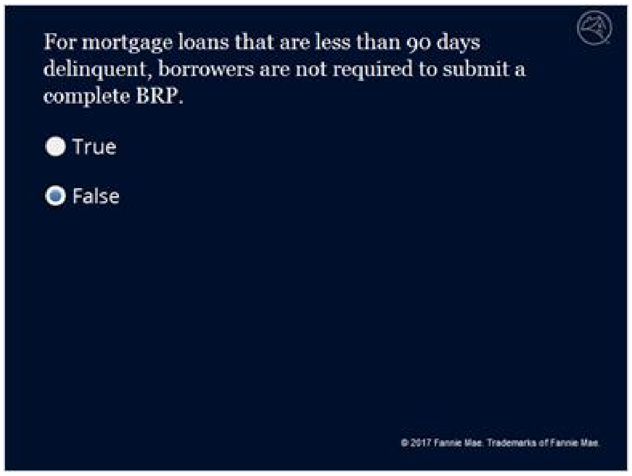


Notes:

Let’s check your knowledge on what you have learned in this course.

7.2 Question 1

(True/False, 10 points, 1 attempt permitted)



Correct	Choice
	True
X	False

Feedback when correct:

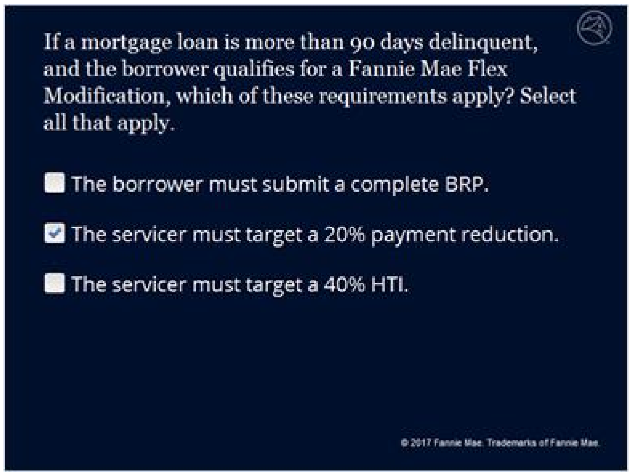
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.3 Question 2

(Multiple Response, 10 points, 1 attempt permitted)



Correct	Choice
	The borrower must submit a complete BRP.
X	The servicer must target a 20% payment reduction.
	The servicer must target a 40% HTI.

Feedback when correct:

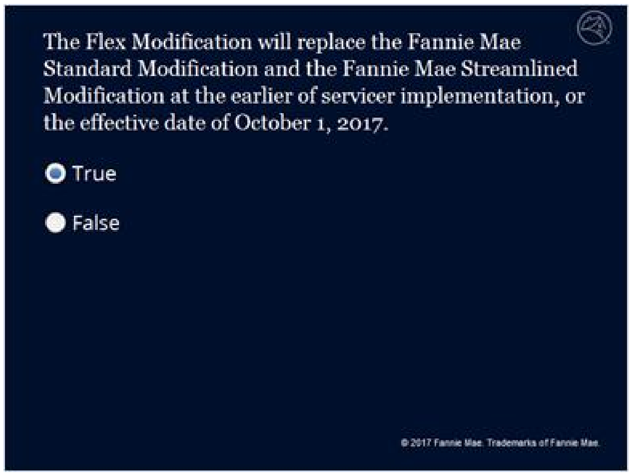
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.4 Question 3

(True/False, 10 points, 1 attempt permitted)



Correct	Choice
X	True
	False

Feedback when correct:

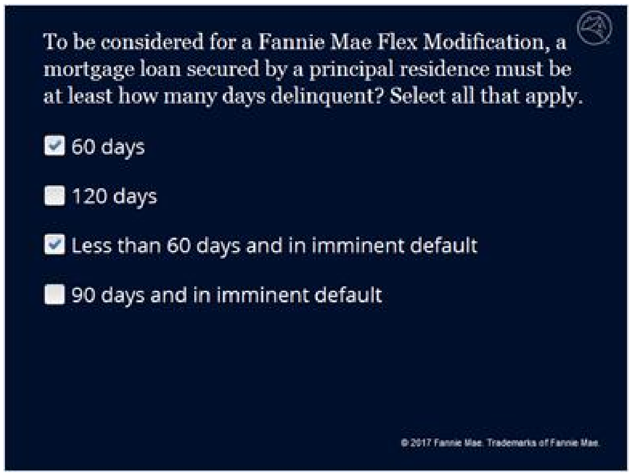
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.5 Question 4

(Multiple Response, 10 points, 1 attempt permitted)



Correct	Choice
X	60 days
	120 days
X	Less than 60 days and in imminent default
	90 days and in imminent default

Feedback when correct:

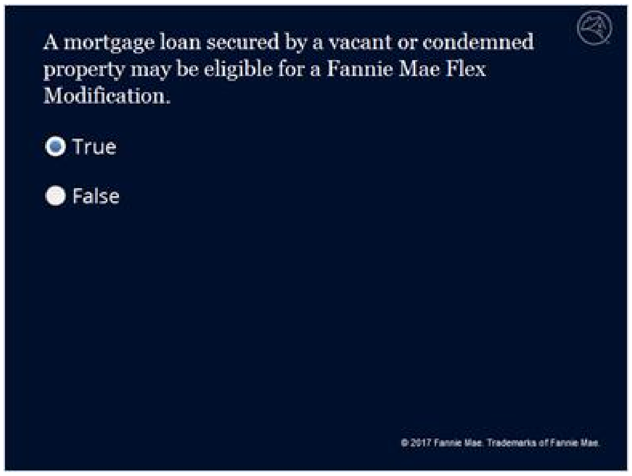
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.6 Question 5

(True/False, 10 points, 1 attempt permitted)



Correct	Choice
X	True
	False

Feedback when correct:

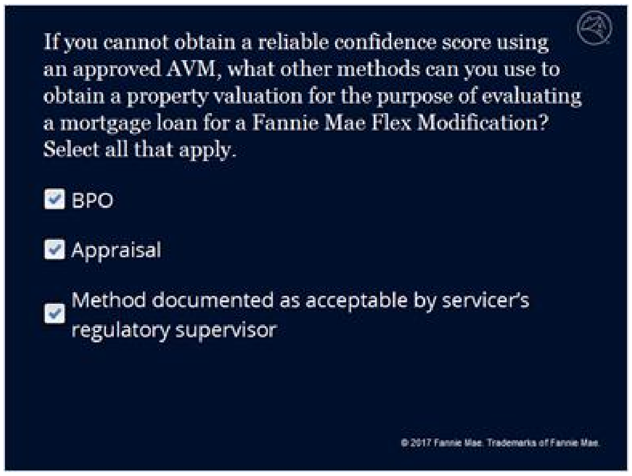
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.7 Question 6

(Multiple Response, 10 points, 1 attempt permitted)



Correct	Choice
X	BPO
X	Appraisal
X	Method documented as acceptable by servicer's regulatory supervisor

Feedback when correct:

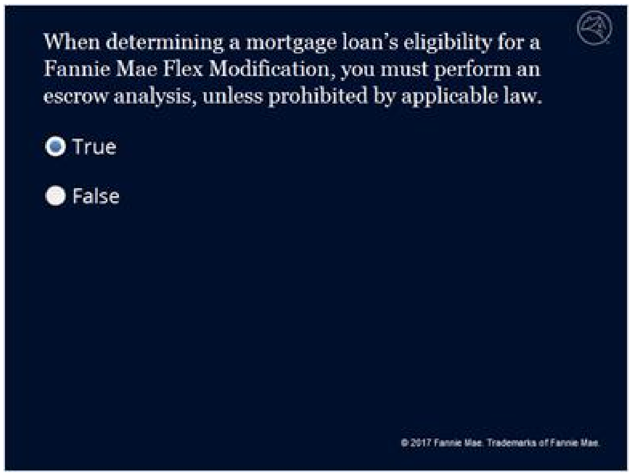
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.8 Question 7

(True/False, 10 points, 1 attempt permitted)



Correct	Choice
X	True
	False

Feedback when correct:

That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.9 Question 8

(Sequence Drag-and-Drop, 10 points, 1 attempt permitted)

Correct Order
Capitalize eligible capital arrearages.
Set modification interest rate.
Extend term to 480 months.
Forbear principal.
Provide or increase principal forbearance.

Feedback when correct:

That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.10 Question 9

(True/False, 10 points, 1 attempt permitted)

Correct	Choice
X	True
	False

Feedback when correct:

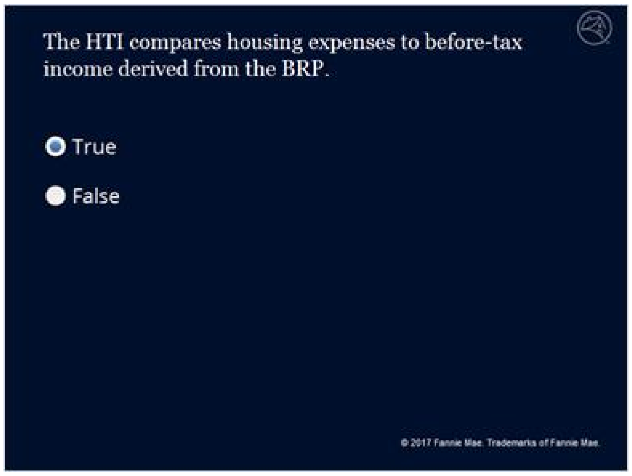
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.11 Question 10

(True/False, 10 points, 1 attempt permitted)



Correct	Choice
X	True
	False

Feedback when correct:

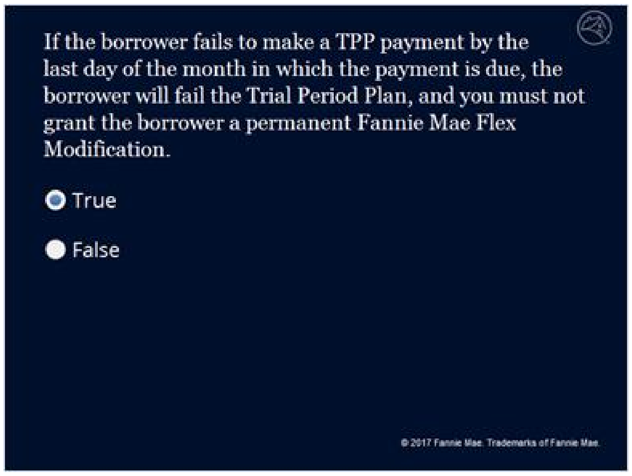
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.12 Question 11

(True/False, 10 points, 1 attempt permitted)



Correct	Choice
X	True
	False

Feedback when correct:

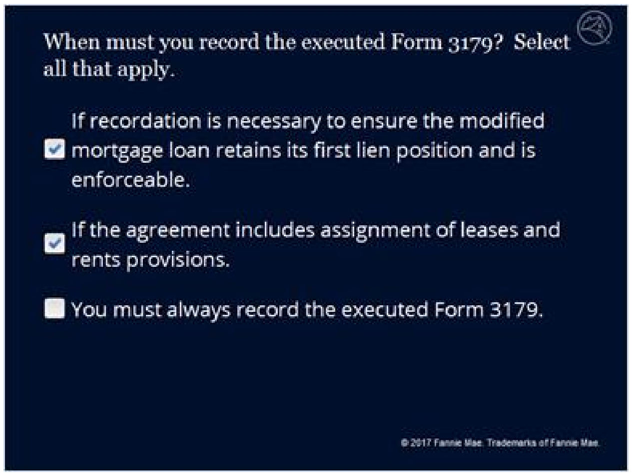
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

7.13 Question 12

(Multiple Response, 10 points, 1 attempt permitted)



Correct	Choice
X	If recordation is necessary to ensure the modified mortgage loan retains its first lien position and is enforceable.
X	If the agreement includes assignment of leases and rents provisions.
	You must always record the executed Form 3179.

Feedback when correct:

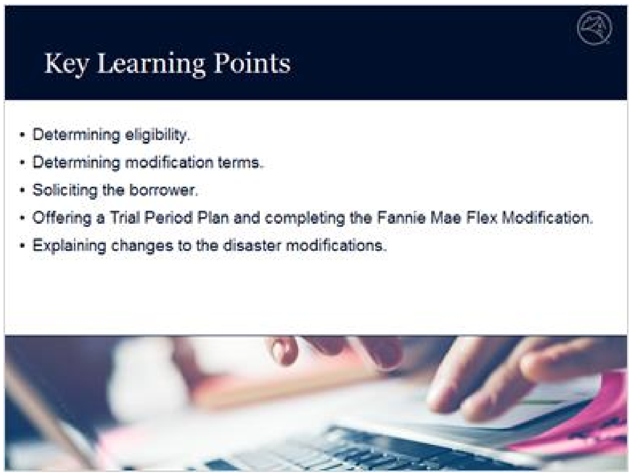
That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

8. Key Learning Points

8.1 Key Learning Points



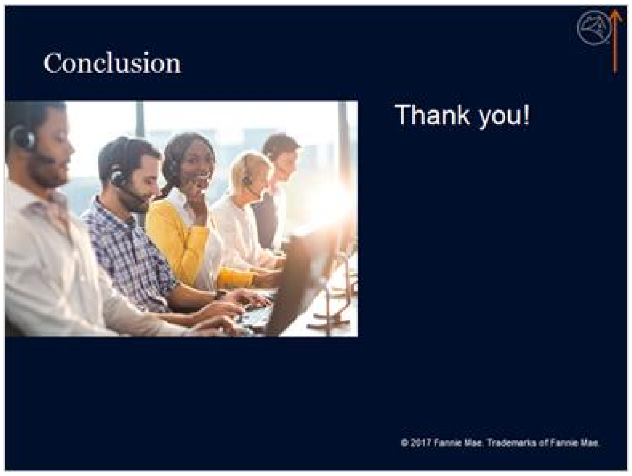
Notes:

During this course, we've provided you information about the Fannie Mae Flex Modification, including:

- How to determine a mortgage loan's eligibility .
- How to determine modification terms for a mortgage loan, including determining property value, calculating the HTI ratio, and understanding how terms differ depending on delinquency duration and BRP requirements.
- How to solicit the borrower, including required timelines, and the importance of understanding when a complete BRP is required.
- Requirements for offering a Trial Period Plan, and completing the modification.
- And how the Fannie Mae Flex Modification changes the procedural steps followed in the Fannie Mae disaster modifications.

9. Conclusion

9.1 Conclusion



Notes:

Thank you for viewing the Fannie Mae Flex Modification course.

Be sure to review the content-related links and references, including a PDF version of this course, available in the Resources tab.

This concludes the course.