



December 14, 2016

## Fannie Mae Flex Modification Program Frequently Asked Questions (FAQs)

Fannie Mae has combined the features of the Fannie Mae Home Affordable Modification Program (HAMP), Fannie Mae Standard Modification (Standard Modification) and Fannie Mae Streamlined Modification (Streamlined Modification) into the Fannie Mae Flex Modification (Flex Modification), which is intended to replace the HAMP modification that expires in December of 2016 and to replace the Standard and Streamlined Modifications in 2017. Servicers may begin to implement the new program as early as March 1, 2017 and must implement the program no later than October 1, 2017. Once the Fannie Mae Flex Modification program has been implemented, servicers may no longer offer the Fannie Mae Standard and Fannie Mae Streamlined Modifications.

Complete details of the Flex Modification program can be found in the related [Lender Letter](#).

### Modification program features

- 1) What programs will the Fannie Mae Flex Modification replace?
  - a. The following programs expire in December 2016: Home Affordable Modification Program (HAMP), the Fannie Mae MyCity Modification, and the Fannie Mae Principal Reduction Modification
  - b. The program will replace the Standard and Streamlined Modification programs no later than October of 2017
- 2) How does the Fannie Mae Flex Modification impact the current mix of modification programs?
  - a. Since mid-2012, an increasing number of our modifications have leveraged Fannie Mae's Standard and Streamlined Modification Programs. On a go forward basis, the predecessor programs will be phased out and the Fannie Mae Flex Modification will be the primary program. The Flex Modification is similar in design to the Standard and Streamlined Modification programs.
- 3) Can borrowers who previously modified their loan through HAMP (or any of the predecessor programs) be eligible for a Flex Modification?
  - a. Yes; however, the mortgage loan must meet all of the eligibility requirements for the Flex Modification Program including but not limited to the following:
    - i. The mortgage loan must be delinquent or in imminent default
    - ii. The mortgage loan must not have been modified three or more times, regardless of the loan modification program
    - iii. The mortgage loan must not have received a Flex Modification and become 60 days or more delinquent within 12 months of the modification effective date without being reinstated.
    - iv. The borrower must not have failed a Flex Modification Trial Period Plan within 12 months of being evaluated for eligibility for another Flex Modification.
- 4) Can borrowers participate in the Flex Modification program multiple times?
  - a. A servicer may evaluate a borrower under the Flex Modification program for an additional modification. To be eligible, the modification must result in a payment reduction. If the modification does not result in a payment reduction, servicers can move forward with foreclosure alternatives. Other limitations on prior Flex Modifications are described in the response to question 3.



- 5) What are some of the critical eligibility parameters for the program<sup>1</sup>?
- Borrowers that are less than 60 days delinquent must be determined to be in imminent default<sup>2</sup>. For these loans, the property securing the loans must be the borrower's primary residence and the borrower must complete a borrower response package (BRP)<sup>3</sup>.
  - Borrowers that are 60-89 days delinquent are also eligible. The property may be the borrower's primary residence, second home or investment property and the borrower must complete a BRP.
  - Borrowers that are 90 days or more delinquent are eligible. The property may be the borrower's primary residence, second home or investment property. In these circumstances, the borrower is not required to submit a complete BRP and the servicer is required to solicit an eligible borrower with a trial modification plan that includes the terms of the offer.
  - The mortgage loan must have been originated at least 12 months prior to the evaluation date for the mortgage loan modification.
  - 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.
  - The borrower must not have failed a Flex Modification Trial Period Plan within 12 months of being evaluated for eligibility for another Flex Modification.
  - The mortgage loan must not have received a Fannie Mae Flex Modification and become 60 days or more delinquent within 12 months of the modification effective date without being reinstated.

If the eligibility criteria for a Flex Modification is not satisfied, but the servicer determines that there are acceptable mitigating circumstances, the servicer is authorized to offer a modification outside of these requirements by submitting a request to Fannie Mae for review and obtaining prior approval from Fannie Mae.

- 6) How is the Flex Modification structured?
- The following program is structured to provide the borrower with a principal and interest (P&I) payment reduction of at least 20%. Any adjustable-rate mortgages or step rate mortgages that have not already reached their final rate are converted to fixed-rate mortgages.

Flex Modification	
1	Capitalize Arrearages
2	<ol style="list-style-type: none"> <li>Set interest rate to lesser of current note rate or standard modification rate (if MTMLTV is &gt; 80%) or to the current note rate (if MTMLTV &lt;80%)<sup>4</sup></li> <li>Extend term to 480 months</li> <li>If MTMLTV &gt; 100%, forbear principal to establish 100% MTMLTV<sup>5</sup></li> </ol>
3	Provide or increase principal forbearance until a 20% payment reduction is achieved <sup>6 7</sup>

<sup>1</sup> Please refer to Fannie Mae's *Lender Letter LL-2016-06* for full eligibility requirements

<sup>2</sup> Imminent default = Examples of hardships associated with imminent default include, but are not limited to, death of a co-borrower, divorce, or disability.

<sup>3</sup> A Borrower Response Package contains financial and hardship information from the borrower to the servicer. It assists the servicer in evaluating a borrower in need of assistance for all available loan workout options. Options may include forbearance plans, repayment plans, modifications, short sales, or mortgage release, depending on whether a hardship is temporary or permanent as well as other factors.

<sup>4</sup> The logic above applies to a fixed-rate mortgage, including adjustable-rate mortgages (ARMs) and step rate mortgages that are at their final note rate. For ARMs and step rate mortgages that have not reached their final note rate, those mortgages are converted to fixed-rate mortgages and the note rate is then set to the lesser of the standard modification rate or the lifetime cap (in the case of an ARM loan) or the maximum step rate (in the case of a step rate mortgage loan).

<sup>5</sup> The post-modification MTMLTV ratio is defined as the gross unpaid principal balance (UPB) of the mortgage loan including capitalized arrearages, divided by the current value of the property.

<sup>6</sup> The servicer must not forbear more than 30% of the gross post-modification UPB of the mortgage loan.

<sup>7</sup> In the case of a borrower that is 89 days or less delinquent and who submitted a complete BRP, principal forbearance is increased until there is a minimum 20% payment reduction and a Housing expense-to-income (HTI) ratio of 40% is achieved. See Fannie Mae *Lender Letter LL 2016-06* for a detailed explanation of the HTI calculation.



- 7) What is a Borrower Response Package (BRP) and when will it be required?
- A BRP is a loss mitigation application process that contains financial and hardship information from the borrower to the servicer. It assists the servicer in evaluating a borrower in need of assistance for all available loan workout options.
  - If the mortgage loan is current or less than 90 days delinquent, the borrower must submit a complete BRP to be evaluated for the Flex Modification.<sup>8</sup>
- 8) If a mortgage loan is current, why would it be evaluated for a modification?
- A current loan can be evaluated for a modification if it is considered to be in imminent default in accordance with Fannie Mae's requirements. Loans can be tested for imminent default if they are current or less than 60 days delinquent and the property is the borrower's principal residence. Hardships that typically result in imminent default include, but are not limited to, death of a co-borrower, divorce, and disability.
- 9) What do you expect the borrower payment reduction to be in the new program?
- We expect the principal and interest payment reduction to be generally consistent with the programs that Fannie Mae has in place today.
- 10) For loans with mortgage insurance (MI), will a servicer need to seek MI approval for this modification?
- Yes. However, Fannie Mae has obtained delegation of authority on behalf of all servicers from some of the MI companies for this modification program. The servicer must refer to *Servicing Guide F-2-07, Mortgage Insurer Delegations for Workout Options*, for the list of conventional mortgage insurers that have delegated approvals. Servicers should refer to the Streamlined Modification delegations of authority listed in this section of the *Servicing Guide* for this program until delegations for the Flex Modification program are available.
- 11) Are there any MIs who have not provided their delegation of authority for the Flex Modification?
- The Delegation of Authority process is currently in progress. We have the authority to leverage our delegation in place. The *Servicing Guide* will be updated once delegations for the Flex Modification are confirmed.
- 12) Is a property valuation required for the Flex Modification?
- The servicer 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, using one of the following:
    - an exterior Broker Price Opinion (BPO);
    - an appraisal;
    - Fannie Mae's Automated Property Service (APS);
    - Freddie Mac's Automated Valuation Model (AVM);
    - a third-party AVM; or
    - the servicer's own internal AVM, provided that
      - the servicer is subject to supervision by a federal regulatory agency, and
      - the servicer's primary federal regulatory agency has reviewed the model.

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<sup>8</sup> While a complete BRP is required on loans that are current or less than 90 days delinquent, it is not required in situations where a mortgage loan was previously modified into a mortgage loan with a step-rate feature, and the loan has become 60 days delinquent within 12 months of the last interest rate adjustment. If a complete BRP is not received, the borrower's payment reduction is limited to 20 percent.



## Modification practices related to Mortgage-Backed Securities (MBS)

- 13) Will any of our modification policies related to loans in an MBS trust change?
- No, modification policies related to mortgage loans in an MBS trust will not change. We will continue to remove loans from the trust prior to completing a modification.
  - As we do today, a loan may enter into a trial modification period while in the trust. However, Fannie Mae continues to advance principal and interest to the MBS trust based on the terms of the original mortgage loan while the loan is in the trial period.
- 14) Should we expect to see more modifications that occur prior to 120 days of delinquency?
- Consistent with the predecessor streamlined modification program, a borrower must be 90 days or more delinquent before they are solicited by the servicer with a specific modification offer. As such, we do not anticipate this program to change the amount of modifications that would occur prior to 120 days of delinquency.
- 15) Other than a modification, what can a servicer do to help a delinquent borrower avoid foreclosure prior to 120 days of delinquency?
- Fannie Mae has a workout hierarchy outlining the workouts the servicer has to review the borrower for based on the borrower's situation. Other than a modification, the borrower could be evaluated for a repayment plan, forbearance plan, short sale or a Mortgage Release (Deed in Lieu of Foreclosure).
- 16) Do we expect the re-performance rate of loans to change under the Flex Modification compared to the predecessor programs?
- Given that the Flex Modification will generally provide similar payment reductions as predecessor programs, it is anticipated that, all other things equal, the re-performance of these loans will be similar to what we see today.

## Comparing the Flex Modification Program to HAMP, Standard and Streamlined Modifications

Fannie Mae HAMP Modification	Fannie Mae Standard Modification	Fannie Mae Streamlined Modification	Fannie Mae Flex Modification Pre-90 Mod	Fannie Mae Flex Modification Post-90 Mod
<b>Complete BRP required. Loan may be delinquent or current. If &lt; 60 days past due, must be principal residence and in imminent default. Pre-Mod HTI must be &gt; 31%. Solve for 31% HTI.</b>	<b>Complete BRP required. Loan may be delinquent or current. If &lt; 60 days past due, must be principal residence and in imminent default.</b>	<b>Complete BRP is not required. Loan must be at least 90 days past due. Day 90-105 triggers evaluation</b>	<b>Complete BRP required. Loan may be delinquent or current. If &lt; 60 days past due, must be principal residence and in imminent default.</b>	<b>Complete BRP is not required. Loan must be 90 days past due. Day 90-105 triggers evaluation.</b>
1. Capitalize Arrearages	1. Capitalize Arrearages		1. Capitalize Arrearages	
2. Convert to Step-Rate mortgage. Decrease rate in 1/8 increments, to a 2% floor.	2. If MTMLTV >= 80%, set rate to Standard Modification Rate. If MTMLTV < 80%, <ul style="list-style-type: none"> <li>FRM (includes ARM/Step-Rate with no future changes), No interest rate change</li> <li>ARM/Step Rate mortgage, (Convert to FRM): set rate to higher of current note rate or Standard Modification Rate</li> </ul>		2. FRM, (includes ARM and Step Rate mortgages with no future changes): <ul style="list-style-type: none"> <li>If MTMLTV &gt;= 80%, set rate to lesser of current note rate or standard modification rate</li> <li>If MTMLTV &lt; 80%, set rate to current rate</li> </ul> ARM/Step Rate mortgage, (Convert to FRM): <ul style="list-style-type: none"> <li>Set rate to lesser of standard modification rate or lifetime cap (ARM) or max step rate (Step Rate mortgage)</li> </ul>	
3. Extend term up to 480 months.	3. Extend term to 480 months		3. Extend term to 480 months	
4. Forbear incrementally to achieve a 31% HTI. Not required to forbear more than the greater of: <ul style="list-style-type: none"> <li>30% of post-mod UPB</li> <li>an amount that would result in 100% MTMLTV, using the interest-bearing UPB.</li> </ul>	4. If MTMLTV > 115%, forbear principal to establish 115% MTMLTV, (not to exceed 30% of post-mod UPB)		4. If MTMLTV > 100%, forbear principal to establish 100% MTMLTV, (not to exceed 30% of post-mod UPB)	
			5. Determine whether payment reduction is >= 20% and HTI is <= 40%. If not, provide or increase principal forbearance until 20% payment reduction and 40% HTI thresholds are achieved, (not to exceed 30% of post-mod UPB or to create a MTMLTV ratio < 80%)	5. Determine whether payment reduction is >= 20%. If not, provide or increase principal forbearance until 20% payment reduction threshold is achieved, (not to exceed 30% of post-mod UPB or to create a MTMLTV ratio < 80%).

Modified P&I must be <= pre-mod P&I.  
Modification will be offered even if thresholds are not met.  
MTMLTV refers to post-cap MTMLTV.