MBa®

MORTGAGE BANKERS ASSOCIATION

January 18, 2022

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Recommended Changes to the Enterprises' Payment Deferral and Modification Policies – Implementing the Lessons Learned from the COVID-19 Pandemic

Dear Director Thompson,

The Mortgage Bankers Association (MBA) [1] appreciates collaborating with FHFA, Fannie Mae, and Freddie Mac (the Enterprises) to deliver effective loss mitigation solutions to borrowers throughout the COVID-19 pandemic. Since the pandemic began, servicers have provided payment relief to over 7.5 million borrowers industry-wide through a COVID forbearance. [2] The loss mitigation solutions deployed by the Enterprises – COVID-19 Payment Deferral and Enterprise modification [3] - have performed well. As a result, most struggling borrowers have stayed in their homes. [4]

Based on this experience, we request that FHFA implement additional changes to critical features of the Enterprises' Payment Deferral and Enterprise modification based on the lessons learned from our industry's response to the pandemic. Our goal is to ensure that mortgage servicers can continue to assist borrowers as we begin to move forward. The Enterprises should adjust their loss mitigation policies to expand available options in response to both emergencies and 'traditional' defaults.

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[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,100 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.
[2] Mortgage Bankers Association, *September Loan Monitoring Survey*, Oct. 17, 2022, available at https://newslink.mba.org/wp-content/uploads/2022/10/MBA-Loan-Monitoring-Survey-Briefing-Materials-September-2022.pdf.
[3] Referred to by Fannie Mae as the "Flex Modification"
[4] *See* Foreclosure Prevention and Refinance Report, FEDERAL HOUSING FINANCE AGENCY (October 2022), https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FPRR_3Q2022.pdf (reflecting the reported activity as of September 30, 2022. The performance of both products measures the number of completed modifications and the redefault rate, which we also highlight below.).

While delinquencies are near historic lows, several hurdles are foreseeable that could impede servicers' ability to continue to provide appropriate relief for borrowers. Nationally, substantial home price appreciation and increasing interest rates are driving these challenges. Of course, the industry's immediate concern is ensuring that borrowers remaining in their forbearance can achieve an affordable payment in today's high-interest rate environment if payment reduction is needed. [5] We expect these trends to continue for the foreseeable future as borrowers with a COVID hardship remain eligible to receive COVID-related protections. Our industry is also preparing for a possible recession and an expected rise in unemployment throughout 2023.[6] Recently published FHFA data indicates that struggling borrowers also face non-COVID-related reasons for financial hardship. Moreover, recent origination data also demonstrates the affordability challenges many borrowers face. [7] Accordingly, we have already seen increasing delinquencies and can expect more in the year ahead.

Our industry's priority remains preserving equitable access to affordable and sustainable homeownership. As we shared in our response to the Consumer Financial Protection Bureau's (CFPB) Request for Information (RFI) Regarding Mortgage Refinance and Forbearances, we believe three principles that defined the industry's successful delivery of relief to borrowers throughout the COVID-19 pandemic should guide the decisions of policymakers regarding the future of loss mitigation. After more than two years of iterative policy implementation, policymakers should align efforts to design standard, simple and sustainable policy to create a loss mitigation experience that empowers borrowers.

As detailed below, we believe the following standard, simple and sustainable policy changes will be most helpful in today's difficult and evolving environment:

a. Expand the Payment Deferral for Borrowers with Short Term Hardships;
b. Allow Additional Principal Forbearance for Borrowers Whose Post-Modification Market-to-Market Loan-to-Value (MTMLTV) Ratio Is Less Than 80%;
c. Allow an Incremental Modification Term to Achieve the Target Payment;
d. Eliminate Barriers to Allow All Borrowers to Qualify for Interest Rate Reduction Modifications;

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[5] *See* Foreclosure Prevention and Refinance Report, FEDERAL HOUSING FINANCE AGENCY (October 2022), https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FPRR_3Q2022.pdf (78,432 borrowers remain in a forbearance according to FHFA's latest December 2022 report reflecting activity as of September 30, 2022), Mortgage Bankers Association, *November Loan Monitoring Survey*, Dec. 19, 2022, available at https://www.mba.org/news-and-research/newsroom/news/2022/12/19/share-of-mortgage-loans-in-forbearance-remains-flat-at-070-in-november- (showing an increasing number of forbearance), Black Knight, Mortgage Monitor October 2022 Report, Oct. 2022, available at https://www.blackknightinc.com/wp-content/uploads/2022/12/BKI_MM_Oct2022_Report.pdf (showing 119,000 GSE borrowers in forbearance as of November 2022).
[6] Mortgage Bankers Association, FOMC Commentary from MBA's Mike Fratantoni, (Dec. 14, 2022), available at https://www.mba.org/news-and-research/newsroom/news/2022/12/14/fomc-commentary-from-mbas-mike-fratantoni.
[7] Black Knight, *supra* note 5, Mortgage Bankers Association, *supra* note 6 (showing PTI ratios are now at 37%, representing a 64% increase from a year ago. The Debt-to-Income ratios for many First Time Homebuyers are also steadily increasing.).

I. Payment Deferral

a. Expand the Payment Deferral for Borrowers with Short Term Hardships

We urge FHFA to align the Payment Deferral with the COVID-19 and Disaster Payment Deferral. Specifically, the eligibility requirements for the Payment Deferral should be expanded to allow up to six (6) missed payments to qualify more borrowers as 'traditional' delinquencies begin to increase. The Payment Deferral's current requirement that a borrower, with one or two missed payments, must remain in a rolling status (i.e., the borrower has returned to making regular payments but is unable to reinstate their loan) for three months places an unnecessary barrier to resolving a borrower's delinquency. Given the success of the COVID-19 Payment Deferral, borrowers who can resume their regular payment should be given the opportunity to become current on their payments as quickly as possible. Requiring borrowers to remain delinquent and demonstrate affordability – like a trial payment plan – is not necessary and the requirement should be eliminated.

Expanding the Payment Deferral's restrictive eligibility criteria will help more borrowers who have resolved temporary hardships and can resume their original monthly payment, as the Payment Deferral was originally intended to do. First, as the industry and the national economy settle back into a more typical business cycle times, enhancing the eligibility criteria will preserve the Payment Deferral as a loss mitigation option for borrowers who proactively engage or otherwise establish contact with their servicers and seek a pause on their regular payment. To that end, much of the success of the pandemic was due to efforts by mortgage servicers to conduct exhaustive outreach efforts to engage and educate borrowers on available loss mitigation solutions, adjust processes, and make significant advancements in self-service technology to help borrowers request forbearance and post-forbearance options. Expanding the eligibility criteria for the Payment Deferral will allow more borrowers facing a temporary financial hardship to continue to take advantage of the Enterprises existing forbearance policy to request a pause in their payments or simply resolve their delinquency.

Positioning the Payment Deferral as an alternative to the modification limits potential costs to the Enterprises, as described below. Prior to the widespread use of the COVID-19 Payment Deferral and as FHFA historical data demonstrates, when the Payment Deferral was originally announced, a modification was the most common loss mitigation solution.[8] Importantly, expanding the Payment Deferral means fewer borrowers will be given a modification, an option borrowers may not need. Modifications are more appropriate for resolving longer or permanent hardships, including for instances of borrowers that need twelve (12) months of forbearance (i.e., curing greater outstanding delinquencies). We agree the payment deferral is more appropriate for borrowers who have recovered from a temporary hardship and should be preserved. Besides, expanding the Payment Deferral is also not expected to lead to less sustainable outcomes for borrowers. Performance data

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[8] While not directly at issue, we note here that Payment Deferral is appropriate as an alternative to a lump sum Reinstatement and a Repayment Plan for borrowers without surplus income. Repayment Plans, however, extend a borrower's delinquency and consistently demonstrate poorer performance when compared to a deferral or modification.

demonstrates that many borrowers who completed a streamlined COVID-19 Payment Deferral over the past two years remain current today.[9] Their performance compares favorably with loan modifications.

Throughout the pandemic, industry data consistently demonstrated that the COVID-19 Payment Deferral remained the most common post-forbearance home retention option.[10] Like the Enterprises' Modification, this flexibility should be available to borrowers recovering from all types of hardships, not just borrowers in emergency situations. As we expect a recession in 2023, mortgage servicers should be able to continue to offer borrowers the opportunity to resolve their temporary hardship quickly without any barriers. [11]

II. Enterprise Modification

a. Allow Additional Principal Forbearance for Borrowers with Less Than 80% MTMLTV Ratios

FHFA should allow borrowers to forbear additional principal beyond the current post-modification MTMLTV ratio of 80% to achieve the target payment. [12] Further, the Enterprises should permanently lower the current MTMLTV ratios within their existing modification policy and not just temporarily for COVID-19 related hardships. While other researchers have completed analysis [13], we support and encourage FHFA and the Enterprises to analyze internal data to identify the appropriate MTMLTV ratio that strikes the proper balance between providing substantial payment reduction to delinquent borrowers and managing the cost to the Enterprises. If accepted and announced, we encourage FHFA and the Enterprises to release their analysis that demonstrates the acceptable risk and quantifies the additional cost, like the Flex Modification's 2016 announcement.

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[9] *See* Mortgage Bankers Association, *November Loan Monitoring Survey*, Dec. 19, 2022, available at https://www.mba.org/news-and-research/newsroom/news/2022/12/19/share-of-mortgage-loans-in-forbearance-remains-flat-at-070-in-november-.

[10] *See* Mortgage Bankers Association, *November Loan Monitoring Survey*, Dec. 19, 2022, available at https://www.mba.org/news-and-research/newsroom/news/2022/12/19/share-of-mortgage-loans-in-forbearance-remains-flat-at-070-in-november- (showing the Deferral accounted for approximately 32% - 44% of the post-forbearance exit reasons every month. For November 22, Deferrals are 34.98% of the exit reasons. Generally, modifications account for 20% of the exit reasons. In November 2022, modifications accounted for 16.87% of the exit reasons.).

[11] See Mortgage Bankers Association, Re: Docket No. CFPB-2022-0059, CFPB Request for Information Regarding Mortgage Refinances and Forbearances, Nov. 28, 2022, available at https://www.regulations.gov/comment/CFPB-2022-0059-0116 (encouraging FHFA and the Enterprises to collaborate and engage with the CFPB to pursue rulemaking to amend Regulation X (12 CFR §1024.41(c)(2)). Regulatory flexibility is necessary to allow mortgage servicers to offer streamline Payment Deferrals to seriously delinquent borrowers beyond the COVID-19 pandemic.).

[12] *See* Appendix B (proposing edits to Step 5 of the Enterprises' Modification waterfall. To be clear, we are not promoting or suggesting that FHFA should eliminate the post-modification 30% UPB maximum cap currently in place.).

[13] *Making Forbearances More Effective to Keep More Borrowers in Their Homes*, FEDERAL RESERVE BANK OF PHILIDELPHIA (October 2022), https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/reports/22-09_tracking-resolutions-of-mortgage-forbearances-and-delinquencies.pdf.

In today's environment of high-interest rates, where a) the prevailing market interest rate is well above the note rate on most outstanding mortgages, and b) there has been significant home price appreciation, generally only one lever is available for many borrowers with equity to receive payment reduction. [14] That single lever is the requirement to extend a borrower's term length to 480 months (or 40 years). While home prices remain elevated and delinquencies increase, many borrowers may not be able to achieve the target payment reduction through a term extension to 480 months (or 40 years) alone. These borrowers are likely to have either more missed payment (i.e., longer-term hardships), or more recent originations, or a combination of both. The potential impact is clear. FHFA data indicates that 97% of the modifications completed in 2022 had an MTMLTV ratio of less than 80%. Additional principal forbearance is a readily available lever that can be managed responsibly and offered to borrowers by servicers easily where alternative solutions do not exist.

Importantly, allowing additional principal forbearance reinforces the importance of helping borrowers achieve a sustainable payment, while providing the GSEs with a lower cost resolution than foreclosure. Throughout the pandemic, the agencies collectively collaborated to ensure that borrowers were able to receive an affordable payment by meeting a targeted payment reduction of at least 20% of principal and interest. Historically, for FHFA and the Enterprises, data on modifications completed so far is promising. According to FHFA data, 87% of modifications completed in the first quarter of 2022 remain current six (6) months after completing a modification. [15] A term extension to 480 months (or 40-years) that does not achieve the target payment is not sustainable. We should prepare for the possibility that the national economy will head for a recession by providing solutions that offer more relief to borrowers, not less, and will help ensure that borrowers can sustain their new payments moving forward. As an industry, we should not consider pursuing modification alternatives that are less affordable and expose the GSEs to high redefault risks.

Additionally, action is necessary to prevent borrowers from being forced to sell their homes or proceed to foreclosure if the borrower is unable to achieve a lower payment with a modification. Even borrowers in strong equity positions may potentially be unable to afford alternative accommodations. As is widely known, the lack of affordable supply cripples the current housing market, and rents have increased significantly over the past two years. These trends will persist throughout the market for the foreseeable future and should not force consumers from their homes, especially when an alternative lever, principal forbearance, is readily available and can achieve the target payment with a lower cost

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[14] Contributing to the challenge, after the COVID-19 pandemic Refinance boom, many borrowers have note rates well below the current modification interest rate (6.875% as of December 15, 2022) that would typically help borrowers drive payment reduction. For instance, FHFA data shows that borrowers that received a modification that reduced the interest rate and extended the term of the loan were older vintages and likely had note rates at or above the prevailing modification interest rate, which was 3.125% one year ago. This flexibility allowed borrowers to capitalize greater arrearages to achieve an affordable payment.
[15] *See* Foreclosure Prevention and Refinance Report, FEDERAL HOUSING FINANCE AGENCY (October 2022), https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FPRR_3Q2022.pdf, *see also* MBA performance data of Fannie Mae and Freddie Mac loss mitigation throughout the COVID-19 pandemic from the Loan Monitoring Survey.

resolution for the GSEs than foreclosure. In these circumstances, borrowers should not receive only a nominal decrease in their payment and face heightened redefault and foreclosure risk if the target payment is not achieved.

Regarding costs to the Enterprises, the potential impact of allowing additional principal forbearance may be limited and will help maintain the Enterprises' goal of keeping the Flex Modification program NPV positive. First, in the short term, only 31% of the current forbearance population (approximately 24,000 borrowers) have received a forbearance term of 6 months or longer. That is, the potential impact may be limited and will not threaten the safety and soundness of the Enterprises. Additionally, while FHFA's own data suggests borrowers will retain strong equity positions for some time, home prices are already beginning to decelerate. [16] Home prices are local, and, as a result, some borrowers may be able to achieve the target payment within the existing parameters of the Enterprises' modification. Finally, at the loan level, while the cost may be additive to the level of risk the Enterprises are willing to accept, the goal is only to forbear the necessary amount to help borrowers achieve the target payment and return to reperformance. Please see Appendix A below on an analysis of the potential costs to the Enterprises. [17]

To conclude, as currently structured, the Enterprises' modification is undoubtedly most effective as a tool when borrowers have high MTMLTV ratios in a low-interest rate environment. Implementing adjustments is appropriate to respond effectively to the current environment and be prepared for the future. Helping borrowers in adverse markets to avoid foreclosure, even in large scale defaults, will maintain the Flex Modification as a cost-effective program for the Enterprises that will not require FHFA and the Enterprises to adversely inhibit access to credit elsewhere.

b. Allow an Incremental Modification Term to Achieve the Target Payment

FHFA should also implement an incremental modification term of up to 480 months (or 40 years) into the Enterprises' modification structure if it can achieve the target payment. Many borrowers may still receive more payment reduction than the target payment requires through the Enterprises' required term extension to 480 months (or 40 years) alone. In fact, borrowers often receive payment reduction greater than the 20% principal and interest target through the Flex Modification's many available levers of interest rate reduction, term extension, and principal forbearance (if necessary). FHFA's historical data supports this trend. While a 40-year modification term maximizes payment reduction and results in reduced rate of re-defaults, the current policy does not offer borrowers the opportunity to achieve an affordable payment at a term less than 480 months (or 40-years).

Term extensions to 480 months (or 40 years) have received much-renewed attention from the industry over the past two years. To align more closely with the Enterprises, the

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[16] Black Knight, Mortgage Monitor October 2022 Report, Oct. 2022, available at https://www.blackknightinc.com/wp-content/uploads/2022/12/BKI_MM_Oct2022_Report.pdf.
[17] *See* Appendix A: Enterprise Modification in Rising Rates (Two examples. Example 1 compares two loans with the same arrearage and the necessary payment reduction; Example 2 is a loan level detail comparing a borrower's payment and the additional cost to the GSEs).

government regulators (FHA, VA, USDA) also implemented extended modification terms to help borrowers impacted by COVID-19 achieve an affordable payment. While the industry supported those efforts to provide additional optionality to borrowers, the same concerns we expressed are relevant here. We encourage FHFA to introduce an incremental modification term beginning at 360 months and increasing incrementally up to 480 months **if** the combination of term extension to less than 480 months (or 40 years) and providing the lower of the contractual rate and the prevailing market rate can reach the payment reduction target. The result will be that term extensions to 480 months (or 40 years) and subsequent steps in the Modification calculation (including principal forbearance) are used only as the necessary next step(s) when borrowers cannot achieve the target payment with a short modification term.

Certainly, an extended term to 480 months (or 40-years) is preferable to a borrower losing their home; nonetheless, there are several clear reasons to include a thirty (30) year term as an option in the Flex Mod. First and foremost, borrowers may only want to extend their term to 480 months (or 40 years) if it is necessary to create an affordable payment. As currently structured, Flex Modification leaves them no choice. Second, for borrowers who intend to remain in their home for the long-term, a 480-month (or 40-year) term may unnecessarily add a greater cost to the loan by requiring borrowers to pay interest for a longer duration.[18] Throughout the pandemic our goal has been to preserve homeownership and allow borrowers to continue to build wealth. Unnecessarily requiring borrowers to extend the mortgage term to 480-months (or 40-years) needlessly slows their equity accumulation.

One takeaway from the pandemic was the importance of providing borrowers the opportunity to choose the best solution that resolves their financial hardship. Even though a borrower is likely to move or refinance their mortgage after completing a modification with a 480-month (or 40-year) term, borrowers should have greater control over and be empowered to decide their final loss mitigation solution. Mortgage servicers should be able to provide this optionality to all borrowers consistently.

c. Eliminate Barriers to Allow All Borrowers to Qualify for Interest Rate Reduction Modifications

Finally, FHFA should permanently eliminate MTMLTV ratios as the qualifying criteria for borrowers to receive an interest rate reduction modification.[19] Currently, borrowers with a

[18] *See* Mortgage Bankers Association and Housing Policy Council, Re: 40-Year Loan Modification COVID-19 Recovery Loss Mitigation Options, pg. 10, Oct. 27, 2022, available at https://www.mba.org/docs/default-source/uploadedfiles/mba-org/files/advocacy/10272021_letter_hpc-and-mba-40-year-fha-mod-comments.pdf?sfvrsn=9afaa98_1. (comparing the additional interest paid for a 30-year modification versus a 40-year modification. While the note rate for the 40-year modification was the prevailing market rate at the time, the result still shows the additional interest paid. It is indicative of a similar impact to a GSE borrower. For an Enterprise Modification, borrowers can continue to use their contractual rate and so would not be required to modify their loan to the modification rate).

[19] *See* Appendix B (The same qualifying criteria apply. Borrowers with MTMLTV ratios less than 80% are not eligible for interest rate reduction modifications. Instead, borrowers are required to maintain their existing contractual note rate.).

post-modification MTMLTV ratio of less than 80% must modify their loan at the existing contractual note rate, whereas borrowers with little to no equity are able to modify their loan to the lesser of the contractual note rate or the respective Enterprise modification interest rate. An exception for interest rate reduction regardless of MTMLTV is only in place for COVID-19 related hardships. Borrowers with equity and facing non-COVID related hardships are not permitted and will remain ineligible to receive this interest rate reduction, thus continuing to potentially rely on term extension alone to achieve an affordable payment. An emergency flexibility should not be necessary to offer assistance to borrowers, including those borrowers in strong equity positions.

Interest rate reduction has historically been the primary driver of helping borrowers achieve payment reduction. Nevertheless, it may be some time before interest rates decline enough to offer this valuable assistance to delinquent borrowers, even those with little to no equity today. Eventually though, interest rates will return to a level where borrowers with a post-modification MTMLTV ratio less than 80% will need to complete a modification but be unable to receive interest rate reduction. This shouldn't happen, and we should make the changes necessary now to ensure it does not.

The current waterfall places a barrier on borrowers with equity to receive an interest rate modification and diminishes the opportunity to help borrowers improve their financial position. FHFA's press release sums up the issue perfectly, "Allowing more families to qualify for an interest rate reduction will prevent unnecessary foreclosures, help strengthen the Enterprises' books of business, and make sustainable homeownership a reality for more families currently living with the uncertainty of forbearance." [20] We agree. Loss mitigation policy should not restrict access to potential solutions for borrowers. Accordingly, FHFA must eliminate the current MTMLTV barriers and allow all borrowers to potentially qualify for an interest rate reduction modification.

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In sum, we believe the industry's close collaboration with regulators and strong response to the COVID-19 pandemic merits consideration to implement several loss mitigation flexibilities to prepare for the next rise in defaults. Further improvements to already proven and existing solutions were vital to the success the industry saw throughout the COVID-19 pandemic to deliver effective relief to borrowers. Acting now to further adjust loss mitigation policies will help mortgage servicers maintain the necessary operational scalability before our industry is occupied with a sudden increase in delinquencies and deeper secondary market liquidity issues begin to emerge.

To that end, the expected result of helping borrowers "reperform" and stay in their homes to avoid foreclosure is safeguarding the Enterprises as a reliable source of liquidity and funding for the housing finance market throughout changing economic cycles. Accordingly,

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[20] *FHFA Expands Use of Interest Rate Reduction to Help Borrowers with a COVID-19 Hardship Reduce Their Monthly Mortgage Payment*, FEDERAL HOUSING FINANCE AGENCY, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Expands-Use-of-IRR-to-Help-Borrowers.aspx (June 30, 2021).

we encourage FHFA to responsibly expand the Payment Deferral and the Enterprises' Modification without adversely affecting future access to credit to compensate for any perceived added risk. Alternatively, MBA and our members stand ready to offer alternative suggestions, particularly regarding modification alternatives in a high-interest rate environment, if necessary.

We appreciate your consideration and the continued collaboration with the FHFA team. Should you have any questions or concerns, please contact Brendan Kelleher at Bkelleher@mba.org or (202) 557-2779.

Sincerely,

Pete Mills
Senior Vice President
Mortgage Bankers Association

Appendix A: Enterprise Modification Examples in Rising Rates

Example 1:[21] Borrower Comparison (20% P&I Reduction Target)

Note Rate	Remaining Term	Option	P&I Reduction	Deferred Principal
3%	28	Term Extension	12%	N/A
3%	28	Term Extension + Principal Forbearance	20%	9%
5%	28	Term Extension	2%	N/A
5%	28	Term Extension + Principal Forbearance	20%	18%
3%	23	Term Extension	22%	N/A
3%	23	Term Extension + Principal Forbearance	22%	0%
5%	23	Term Extension	11%	N/A
5%	23	Term Extension + Principal Forbearance	20%	10%

Example 2: Individual Borrower Unable to Achieve the Target Payment

Category	Pre-mod	<80% LTV Term Extension Only	< 80% LTV Additional Forbearance
Total UPB	$370,000.00	$400,000.00	$400,000.00
Interesting Bearing UPB	$370,000.00	$400,000.00	$364,035.83
Forborne UPB	-	-	$35,964.17
Amortization Term	336	480	480
Maturity Term	336	480	480
Initial Rate	3.000%	3.000%	3.000%
Terminal Rate (End of Step)	3.000%	3.000%	3.000%
Payment	**$1,628.99**	**$1,431.94**	**$1,303.19**
P&I Reduction	-	12%	20%

	Months	<80% LTV Term Extension Only	< 80% LTV Additional Forbearance
Payment Schedule	1	$1,431.94	$1,303.19
	61	$1,431.94	$1,303.19
	73	$1,431.94	$1,303.19
	85	$1,431.94	$1,303.19
	97	$1,431.94	$1,303.19
	109	$1,431.94	$1,303.19

Category	Enterprise Modification	Additional Forbearance (30% UPB Cap)
Payment Reduction Range	6% - 12%	20%
	11% - 18%	20%

[21] In this example, assume that both loans have the same arrearage (calculated at 18 months).

Remaining terms of 336 and 300 months		
Investor Cost Above FLEX Current rate of 3.000% and 5.000%	$0	$9,100 $23,000
Balloon at Maturity	$0	$36,000 - $60,000
Unpaid Balance @ 10 Years	$340,000 - $359,000	$345,000 - $365,000
10 Year - Lifetime Interest Cost Current rate of 3.000% and 5.000%	$111,000 - $287,000 $191,000 - $526,000	$101,000 - $261,000 $162,000 - $447,000
Customer Payment Change	0%	0%
Loan to Value After 5yrs (Base / Stress)	73% / 86%	73% / 87%

Appendix B: Proposed Changes to the Enterprises' Modification

Step	Servicer Action
1	Capitalize eligible arrearages.
2	Set the modification interest rate to a fixed rate ~~based on the requirements in the following table~~ 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 mortgage, then set the modified interest rate to the lesser of the (Enterprise) Modification Interest Rate or the borrower's contractual interest rate. If the mortgage loan is an ARM or step that has not reached it's final interest rate, then set the interest rate to the lesser of the (Enterprise) Modification rate, the final interest rate for the step rate modification, or the lifetime interest rate modification cap for the ARM.

~~**If the mortgage loan is…**~~	~~**Then the servicer must…**~~
~~a fixed rate, (including an ARM or step-rate that has reached its final interest rate) with a post-modification MTMLTV less than 80%~~	~~set the modified interest rate to the borrower's contractual interest rate.~~
~~a fixed rate, (including an ARM or step-rate that has reached its final interest rate) with a post-modification MTMLTV greater than or equal to 80%~~	~~set the modified interest rate to the lesser of~~ • ~~the Fannie Mae Modification Interest Rate, or~~ ~~the borrower's contractual interest rate.~~
~~an ARM or step-rate that has not reached its final interest rate~~	~~set the interest rate 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.~~

3	If 20% P&I payment reduction is not achieved, continue extending the term in [1-year] increments up to 480 months from the mortgage loan modification effective date until a 20% P&I payment reduction is achieved.
4	Forbear principal if the post-modification MTMLTV ratio is greater than 100%, in an amount that is the lesser of • an amount that would create a post-modification MTMLTV ratio of 100% using the interest-bearing UPB, or • 30% of the gross post-modification UPB of the mortgage loan.
5	Provide or increase principal forbearance until a 20% P&I payment reduction is achieved; however, the servicer must not forbear more than • an amount that would create a post-modification MTMLTV ratio less than ~~80%~~ (TBD) using the interest-bearing principal balance, or • 30% of the gross post-modification UPB of the mortgage loan.
6	Continue to forbear principal if the mortgage loan is less than 90 days past due when the borrower submitted a complete BRP until a 40% Housing Expense-to-Income Ratio (HTI) is achieved; however, the servicer 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.

Appendix C: Proposed Changes to the Payment Deferral

Determining Eligibility for a Payment Deferral
The mortgage loan must meet the following delinquency parameters: • As of the date of the evaluation, the mortgage loan must be ~~30 or 60 days~~ no more than 6 months delinquent ~~(i.e., the borrower is not past due for more than two full monthly contractual payment); and~~ • ~~Such delinquency status must have remained unchanged for at least three consecutive months, including the month of the evaluation.~~