

Supplemental Directive 10-03

March 26, 2010

Home Affordable Modification Program – Modifications of Loans Insured by the Federal Housing Administration (FHA)

Background

In Supplemental Directive 09-01, the Treasury Department (Treasury) announced the eligibility, underwriting and servicing requirements for the Home Affordable Modification Program (HAMP). Under HAMP, servicers apply a uniform loan modification process to provide eligible borrowers with sustainable monthly payments for their first lien mortgage loans. At that time, loans insured, guaranteed or held by a federal government agency such as the Federal Housing Administration (FHA) were addressed as potentially eligible for modification under HAMP.

In July 2009, FHA launched the FHA-Home Affordable Modification Program (FHA-HAMP) to provide additional assistance to borrowers with FHA insured loans who are unable to meet their mortgages payments through FHA's Mortgagee Letter 2009-23. Similar to the Treasury program, FHA-HAMP provides borrowers with an affordable monthly payment equal to 31 percent of their gross monthly income and requires the borrower to complete a three-month trial payment plan before the loan is permanently modified. The effective date of FHA-HAMP was August 15, 2009.

This Supplemental Directive provides guidance for pay-for-performance compensation for borrowers and pay-for-success compensation to servicers from Treasury for FHA insured first lien mortgages that are not owned or guaranteed by Fannie Mae or Freddie Mac (Non-GSE Mortgages) that are modified under FHA-HAMP on or after August 15, 2009 (Treasury FHA-HAMP). Servicers of FHA mortgage loans that are owned or guaranteed by Fannie Mae or Freddie Mac should refer to relevant guidance issued by the applicable GSE.

This Supplemental Directive covers the following topics:

- Eligibility and Underwriting
- Participation and Incentive Compensation
- Data Collection and Reporting
- Compliance

Eligibility and Underwriting

The guidance in ML 2009-23, including any attachments and Questions and Answers, and Mortgage Letters 2009-35, 2009-39, 2010-04 and 2010-11 are incorporated by reference into this Supplemental Directive. Servicers should consult only these Mortgage Letters and other existing or future guidance issued by FHA for requirements related to eligibility, underwriting and administration of FHA-HAMP (hereafter referred to as FHA-HAMP Mortgage Letters) with the exception of the specific requirements of Treasury FHA-HAMP. In addition to any guidance provided by FHA, to be eligible for Treasury FHA-HAMP, the first lien mortgage loan must have been originated on or before January 1, 2009 and the servicer must be in receipt of the borrower's first trial payment by December 31, 2012.

Participation and Incentive Compensation

Under Treasury FHA-HAMP, a servicer must execute a Servicer Participation Agreement (SPA) and related documents with Fannie Mae in its capacity as financial agent for the United States (as designated by Treasury) on or before October 3, 2010. Servicers that have previously executed a HAMP SPA will be required to execute an Amended and Restated SPA or an additional Service Schedule that includes Treasury FHA-HAMP, as applicable.

Incentive Compensation

No incentives of any kind will be paid if (i) the servicer has not executed the SPA, (ii) the borrower does not meet the basic eligibility qualifications for FHA-HAMP and Treasury FHA-HAMP, or (iii) the borrower is no longer in good standing under the program.

Servicer Pay-for-Success Compensation

If a borrower's monthly mortgage payment (principal, interest, taxes, all related property insurance and homeowner's or condominium association fees and mortgage insurance) is reduced through FHA-HAMP by six percent or more, a servicer will be eligible to receive an annual "pay for success" fee for a period of three years. The fee will be equal to the lesser of: (i) \$1,000 (\$83.33/month), or (ii) one-half of the reduction in the borrower's annualized monthly payment. The "pay for success" fee will accrue monthly and be payable annually for each of the first three years in the month of the anniversary of the first trial payment due date.

Borrower Pay-for-Performance Compensation

If a borrower's monthly mortgage payment (principal, interest, taxes, all related property insurance and homeowner's or condominium association fees and mortgage insurance) is reduced through FHA-HAMP by six percent or more, the borrower is eligible for annual "pay for performance" principal balance reduction payment equal to the lesser of: (i) \$1,000 (\$83.33/month), or (ii) one-half of the reduction in the borrower's annualized monthly payment for each month a timely payment is made for up to five years. The "pay for performance" principal balance reduction payment will accrue monthly as long as the borrower is current and makes his or her monthly payment on time (the payment is made by the last day of the month in which the payment is due), and will be applied annually for each of the first five years in the month of the anniversary of the first trial payment due date. This payment will be paid to the

mortgage servicer to be applied first towards reducing the interest bearing unpaid principal balance on the mortgage loan and then to any principal forbearance amount (if applicable).

Loss of Good Standing

If, following a successful trial period, a borrower defaults on a loan modification executed under Treasury FHA-HAMP (three monthly payments are due and unpaid on the last day of the third month), the loan is no longer considered to be in “good standing.” Once lost, good standing cannot be restored even if the borrower subsequently cures the default. A loan that is not in good standing is not eligible to receive borrower or servicer incentives and reimbursements and these payments will no longer accrue for that mortgage.

In the event a borrower defaults, the servicer must work with the borrower to cure the modified loan, or if that is not feasible, evaluate the borrower for any other available loss mitigation alternatives including pre-foreclosure short sales and deeds-in-lieu of foreclosure prior to commencing foreclosure proceedings. The servicer must retain documentation of its consideration of the borrower for other loss mitigation alternatives.

Program Participation Cap

The amount of funds available to pay servicer and borrower compensation in connection with each servicer’s Treasury FHA-HAMP modifications will be capped pursuant to each servicer’s SPA (Program Participation Cap). Treasury will establish each servicer’s initial Program Participation Cap by estimating the number of FHA-HAMP modifications expected to be performed by each servicer during the term of this program. The Program Participation Cap could be adjusted based on Treasury’s full book analysis of the servicer’s loans.

The funds remaining available for a servicer’s modifications under that servicer’s Program Participation Cap will be reduced by amounts paid for the maximum amount of compensation payments potentially payable with respect to each FHA-HAMP modification upon the modification becoming effective. In the event the compensation actually paid with respect to a Treasury FHA-HAMP modification is less than the maximum amount of compensation payments potentially payable, the funds remaining available for a servicer’s modifications under Treasury FHA-HAMP will be increased by the difference between such amounts.

Treasury may, from time to time and in its sole discretion, revise a servicer’s Program Participation Cap. Fannie Mae will provide written notification to a servicer of all changes made to the servicer’s Program Participation Cap. Once a servicer’s Program Participation Cap is reached, a servicer may continue to modify FHA loans in accordance with FHA guidelines; however, no payments will be made by Treasury. If the servicer is also participating in HAMP for non-FHA loans or other programs where Treasury incentives are capped, the Treasury FHA-HAMP Program Participation Cap will be added to the servicer’s existing Program Participation Cap and will be fungible between the programs.

Data Collection and Reporting

Each servicer will be required to register with Fannie Mae to participate in Treasury FHA-HAMP. Fannie Mae will provide a Treasury FHA-HAMP Registration Form to facilitate

registration. In addition, servicers will be required to provide periodic Treasury FHA-HAMP loan level data to Fannie Mae using the Treasury system of record. The data must be accurate, complete, and in agreement with the servicer's records. Data should be reported by a servicer at the start of the modification trial period, during the modification trial period, at loan set up of the permanent modification and monthly after the modification is set up. The HAMP Data Dictionaries, accessible on the servicer web portal, www.hmpadmin.com, provide details of all the data fields that must be reported for HAMP. For Treasury FHA-HAMP, servicers will be required to report the majority of the data fields in the HAMP Data Dictionaries. However, certain data fields do not apply or the values will be modified to accommodate FHA loans. Exhibit A provides the list of data fields in the HAMP Data Dictionaries that are modified, not applicable or new for Treasury FHA-HAMP.

A reporting and payment process for Treasury FHA-HAMP will be available in 2010. In addition, a new Data Dictionary for Treasury FHA-HAMP will be available on www.hmpadmin.com prior to the reporting and payment process being deployed. Participating servicers should begin using the reporting process as soon as feasible upon notification of its availability, but in no event later than 60 days from notification of system availability.

Incentive compensation will accrue as described above for all Treasury FHA-HAMP modifications. However, servicer and borrower incentive payments will be made only following implementation of the reporting and payment process and the servicer commencing reporting.

Compliance

FHA and Treasury have agreed that each will perform certain compliance activities for Treasury FHA-HAMP. FHA will: (i) validate that each FHA Loan modified under FHA-HAMP is an eligible mortgage loan under the eligibility criteria set forth herein and in FHA-HAMP Mortgagee Letters; (ii) establish a process to ensure that FHA loans submitted to the Treasury system of record are properly modified under each of FHA's own proprietary modification program requirements and under Treasury FHA-HAMP requirements; (iii) notify Fannie Mae (acting as Treasury's financial agent) if any FHA loans previously entered into the Treasury system of record are no longer valid under FHA-HAMP; and (iv) validate the submission of each such FHA loan to the HUD Single Family Default Monitoring System (SFDMS). In addition, FHA will assess each servicer's compliance with all FHA-HAMP requirements, including such servicer's internal control program.

In its role as compliance agent for Treasury, Freddie Mac will perform, using statistical or non-statistical sampling as appropriate, in consultation with Treasury, the following compliance activities with respect to Treasury FHA-HAMP loans, using the Treasury system of record to determine the sample and as a basis for review: (A) review servicers' cash records to determine if the related FHA-HAMP loan has been current for the appropriate period of time; if such FHA-HAMP loan has been current, then Freddie Mac shall: (i) calculate the six percent requirement for the servicer pay-for-success compensation and identify and report any discrepancies within the data in the Treasury system of record; (ii) compare results of the six percent calculation with Fannie Mae's payment record for the servicer and identify and report any discrepancies; and (iii) determine if the borrower pay-for-performance compensation was appropriately applied to the

borrower's loan balance; and (B) if such FHA-HAMP loan was not current, Freddie Mac will report that FHA loan as a discrepancy.

Each servicer is required to develop, enforce and review on a quarterly basis for effectiveness an internal control program designed to: (i) ensure effective delivery of Services (as defined in the SPA) in connection with Treasury FHA-HAMP and compliance with applicable Treasury FHA-HAMP program documentation, including FHA-HAMP Mortgagee Letters and existing or future guidance issued by FHA for requirements related to eligibility, underwriting and administration of FHA-HAMP; (ii) effectively monitor and detect mortgage loan modification fraud; and (iii) effectively monitor compliance with applicable consumer protection and fair lending laws. The internal control program must include documentation of the control objectives for Treasury FHA-HAMP activities, the associated control techniques, and mechanisms for testing and validating the controls.

Each servicer is required to develop and execute a quality assurance program that includes either a statistically based (with a 95 percent confidence level) or a ten percent stratified sample of mortgage loans modified, drawn within 30-45 days of final modification and reported on within 30-45 days of review.

Each servicer is also required to provide FHA with access to all internal control reviews and reports that relate in whole or in part to modifications under FHA-HAMP performed by it and any external parties or consultants hired by such FHA Servicer to enable FHA to fulfill its compliance duties.

Exhibit A – Modified, Not Applicable and New Data Fields for Treasury FHA-HAMP

The data field descriptions in the table below refer to the corresponding reference identifiers in the HAMP Data Dictionary or HAMP Supplemental Directive 09-06 Data Dictionary.

Data Dictionary		Data Field Descriptions	
1	HAMP Data Dictionary	Modified Fields	<ul style="list-style-type: none"> • DD10 – Program Type/Campaign ID: Add a new value for FHA loans • DD68 – Escrow Payment Before Modification: Mortgage insurance should be included for FHA loans • DD30 - Attorney Fees Not in Escrow DD69 - Escrow Shortage for Advances DD124 –Other Advances: These values should be 0 for FHA loans • DD113 – Monthly Housing Expense Before Modification: Mortgage insurance should be included for FHA loans • DD142 – Product Before Modification: only the enumerations 1-ARM and 2 - Fixed apply to FHA loans • DD67 – Escrow Payment After Modification: Mortgage insurance should be included for FHA loans • DD112 – Monthly Housing Expense After Modification: Mortgage insurance should be included for FHA loans • DD136 – Principal Forbearance Amount: This field could be used to communicate the amount of the partial claim for FHA loans
		New Data Required	<ul style="list-style-type: none"> • FHA Servicer Number, FHA Case Number And FHA Partial Claim Amount will be collected; data fields will be defined as part of reporting and payment process system design and build
		Fields Not Required for FHA Loans	<ul style="list-style-type: none"> • DD119 - NPV Date • DD121 - NPV Model Result Amount Pre-mod • DD120 - NPV Model Result Amount Post-mod • DD134 – Principal and Interest Payment at 38% DTI • DD146 - Property Condition Code • DD157 - Property Valuation As is Value • DD158 - Property Valuation Date • DD159 - Property Valuation Method

Data Dictionary		Data Field Descriptions	
			<ul style="list-style-type: none"> • DD205 - Step - Interest Rate Step Number • DD208 - Step - Payment Effective Date • DD206 - Step - Note Rate • DD209 - Step - New Interest Rate - Step Duration • DD207 - Step - Principal and Interest Payment
2	HAMP Supplemental Directive 09-06 Data Dictionary	Schedule I - Identifying Info	<ul style="list-style-type: none"> • All fields are required except for the following: DD34 – Borrower Credit Score DD52 – Co-Borrower Credit Score DD122 – NPV Model Type Code
		Schedule II - Government Monitoring	<ul style="list-style-type: none"> • No changes for FHA loans
		Schedule III - NPV Model Inputs	<ul style="list-style-type: none"> • This data schedule is not required for FHA loans
		Schedule IV - Reason Code	<ul style="list-style-type: none"> • DD217 – Trial Fallout Reason Code: Of the 14 allowable values, only the enumerations 1 - Ineligible Mortgage and 14 - Trial Plan Default • DD218 – Trial Not Approved/Not Accepted Reason Code: This field is not required for FHA loans