

Supplemental Directive 14-02***April 22, 2014******Making Home Affordable[®] Program – Administrative Clarifications***

In February 2009, the Obama Administration introduced the Making Home Affordable (MHA) Program, a plan to stabilize the housing market and help struggling homeowners get relief and avoid foreclosure. In March 2009, the U.S. Department of the Treasury (Treasury) issued uniform guidance for loan modifications by participants in MHA across the mortgage industry and subsequently updated and expanded that guidance. On March 3, 2014, Treasury issued version 4.4 of the Making Home Affordable Program Handbook for Servicers of Non-GSE Mortgages (*Handbook*), a consolidated resource for guidance related to the MHA Program for mortgage loans that are not owned or guaranteed by Fannie Mae and Freddie Mac (Non-GSE Mortgages).

This Supplemental Directive provides administrative updates and clarifications to the Home Affordable Modification Program[®] (HAMP) and the Second Lien Modification ProgramSM (2MP). Servicers that are subject to the terms of a Servicer Participation Agreement and related documents (SPA) must follow the guidance set forth in this Supplemental Directive. This Supplemental Directive amends and supersedes the notated portions of the *Handbook*, and except as stated herein, is effective July 1, 2014.

This guidance does not apply to mortgage loans that are owned or guaranteed by Fannie Mae or Freddie Mac, or insured or guaranteed by the Veterans Administration, the Department of Agriculture's Rural Housing Service (RHS) or the Federal Housing Administration (FHA).

This Supplemental Directive covers the following topics:

- Assistance for Borrowers with Limited English Proficiency
- HAMP Tier 2 Updates
- Post-Modification Counseling Updates
- Notice of Interest Rate Step-Up Updates

Assistance for Borrowers with Limited English Proficiency

Section 4.2 of Chapter I of the *Handbook* requires servicers subject to Section 4 to develop and implement a policy for relationship managers that includes a provision for providing effective relationship management to borrowers whose primary language is a language other than English. This Supplemental Directive clarifies that such servicers must ensure that its staff is able to effectively communicate with all borrowers, including borrowers with limited English proficiency. Servicers may either employ multilingual staff that can effectively communicate with such borrowers in their primary language, or engage an outside vendor who can provide interpretation services at no cost to the borrower. Treasury encourages all servicers that are subject to a SPA to adopt this guidance.

HAMP Tier 2 Updates

Interest Rate Adjustment

As described in Section 6.3.2.2 of Chapter II of the *Handbook*, under Step 2 of the HAMP Tier 2 Standard Modification Waterfall, the NPV model adjusts the interest rate to a fixed rate based on the weekly Freddie Mac Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed rate conforming loans rounded up to the nearest 0.125 percent plus a risk adjustment (currently 50 basis points). With this Supplemental Directive, Treasury is notifying servicers that the risk adjustment is reduced to zero basis points.

Post Modification Principal and Interest Payment

Section 6.3.3 of Chapter II of the *Handbook* provides that the modified principal and interest payment under HAMP Tier 2 must be at least 10 percent less than the pre-modification principal and interest payment in effect at the time of HAMP Tier 2 consideration (as well as under a failed HAMP Tier 1 trial period plan). If this is not achieved, the loan is not eligible for a HAMP Tier 2 modification. This Supplemental Directive amends this requirement such that the modified principal and interest payment under HAMP Tier 2 must not be greater than the pre-modification principal and interest payment in effect at the time of HAMP Tier 2 consideration. The NPV model will calculate whether the modified principal and interest payment is less than or equal to the pre-modification principal and interest payment in effect at the time of HAMP Tier 2 consideration. Additionally, if the servicer is considering a loan for HAMP Tier 2 that defaulted on a HAMP Tier 1 trial period plan, the servicer must verify that the modified principal and interest payment under HAMP Tier 2 is not greater than the principal and interest payment under the failed HAMP Tier 1 trial period plan. If the modified principal and interest payment is greater than the pre-modification principal and interest payment, the loan is not eligible for modification under HAMP Tier 2 and the servicer must consider the borrower for alternative loss mitigation options.

Notwithstanding the foregoing, servicers may establish a minimum principal and interest payment reduction requirement for HAMP Tier 2 (Servicer's HAMP Tier 2 Minimum Payment Reduction), provided a reduction of no more than 10 percent is required. Each servicer that elects to establish a minimum principal and interest payment reduction requirement must, by July 1, 2014, have a written policy describing the requirement and must notify the Program Administrator of the Servicer's HAMP Tier 2 Minimum Payment Reduction requirement. In addition, such servicers must notify the Program Administrator of any change to the Servicer's HAMP Tier 2 Minimum Payment Reduction requirement no later than 15 calendar days prior to the change. The policy must be applied consistently for all similarly situated borrowers.

HAMP Tier 2 Modification Prior to Loss of Good Standing

Section 9.4 of Chapter II of the *Handbook* provides that a loan permanently modified under HAMP Tier 1 that loses good standing may be eligible to receive a HAMP Tier 2 modification on the earlier of (i) the date that is 12 months after the HAMP Tier 1 Modification Effective Date

or (ii) following a change in circumstance. This Supplemental Directive provides an additional instance that a loan permanently modified under HAMP Tier 1 may be eligible to receive a HAMP Tier 2 modification prior to the loss of good standing if more than five years have passed since the HAMP Tier 1 Modification Effective Date. Updated HAMP payment processes implementing this guidance are currently under development by the Program Administrator. Servicers will be advised of how to board a HAMP Tier 2 modification prior to the loss of good standing when the updated processes become available.

Priority of HAMP

Section 9.4 of Chapter II of the *Handbook* also provides that a servicer may not re-modify a loan that has received a HAMP permanent modification until either (i) the loan has lost good standing or (ii) more than five years has passed since the effective date of the permanent modification. This Supplemental Directive clarifies that, in both instances, a loan permanently modified under HAMP Tier 1 must be considered for HAMP Tier 2 prior to consideration for other loss mitigation alternatives.

Post-Modification Counseling Updates

Transfer of Servicing of Loans Eligible for Post-Modification Counseling

Section 6.7 of Chapter II of the *Handbook*, requires certain servicers to offer financial counseling to certain borrowers who have received a trial period plan or permanent modification under HAMP. In particular, servicers are required to offer financial counseling to each borrower (i) with a trial period plan effective date on or after March 1, 2014, (ii) identified by the servicer as a “Risk of Default Borrower”, or (iii) whose mortgage loan is in a HAMP permanent modification in good standing who contacts the servicer with concerns about their ability to make the modified mortgage payment.

Except as noted below, this guidance is effective immediately.

Obligations of Transferor Servicers

This Supplemental Directive provides that a servicer may discontinue the solicitation efforts required under Section 6.7 as of the effective date on which the assignment and assumption of the rights and obligations of a loan is transferred (or such earlier date on which the population of loans to be transferred is finalized). This includes efforts to contact the borrower by phone and by mail, and whether directly by the servicer or through the servicer’s vendor.

If a borrower has accepted an offer of financial counseling or is in counseling on or before the effective date of the servicing transfer, the transferor servicer must provide the full financial counseling engagement offered to the borrower and described in Section 6.7, notwithstanding that servicing of the loan will be transferred to another servicer. For the purpose of the guidance in Section 6.7, a borrower is deemed to have “accepted” the offer of financial counseling when the borrower has scheduled an appointment with the servicer’s selected financial counseling vendor. A transferor servicer may not use a transfer to circumvent its existing obligations. The

transferor servicer must, prior to the effective date of the servicing transfer, whether directly by the servicer or through the servicer's vendor, communicate to a borrower who has either accepted the offer of financial counseling or is in counseling, that the borrower may continue the financial counseling with the existing financial counselor even after the loan is transferred.

Effective August 1, 2014, the transferor servicer must send a written notice no later than 15 calendar days prior to the effective date on which the assignment and assumption of the rights and obligations of a loan is transferred (or such earlier date on which the population of loans to be transferred is finalized), to any borrower whose loan will be included in a transfer and who has not yet accepted an offer of financial counseling. The notice must specify the date by which the borrower must schedule an appointment with the financial counseling vendor of the transferor servicer, and explain that the offer of financial counseling provided by the transferor servicer will expire if the appointment is not scheduled by such date. The notice required under this guidance need not be a separate notice and may be included with or incorporated into another notice sent to the borrower from the transferor servicer prior to the transfer.

Notwithstanding the foregoing, a transferor servicer and transferee servicer may agree that the transferee servicer will provide the financial counseling described in Section 6.7 if such agreement is expressly included in the applicable servicing transfer agreement, and provided the borrower is able to complete the full counseling engagement with the same financial counselor without interruption. Transferor and transferee servicers who elect this option must maintain evidence of compliance with this provision.

Obligations of Transferee Servicers

This Supplemental Directive provides that a transferee servicer that is subject to the guidance under Section 6.7 of Chapter II of the *Handbook*, and who acquires a loan that is in a trial period plan at the time of transfer, must send written notice and use reasonable efforts to contact the borrower to offer financial counseling if the effective date of the servicing transfer is less than 90 days after the trial period plan effective date. In this instance, within 30 calendar days of the effective date of the servicing transfer, the transferee servicer must commence reasonable efforts to contact the borrower or must send its designated vendor an inclusion file of such borrowers, and require its vendor to use reasonable efforts to contact the borrower within 30 calendar days of their receipt of the file.

Solicitation of Borrowers

Sections 6.7.1.1 and 6.7.1.2 of Chapter II of the *Handbook* require servicers to provide written notice to borrowers entering a trial period plan and those identified as Risk of Default Borrowers (as defined in Section 6.7.1.2), informing them of the financial counseling services available and the contact information for the servicer's chosen HUD-approved housing counseling agency. A model notice is available on www.HMPAdmin.com. Servicers are encouraged, but not required, to use the model notice to inform borrowers of the financial counseling services available to them. With respect to such notice being included in the envelope with the trial period plan notice, servicers are encouraged, but not required, to provide the solicitation for counseling as a

separate notice in the envelope, rather than incorporating such information into the trial period plan notice.

Financial Counseling Reports

Section 6.7.2 of Chapter II of the *Handbook* requires servicers to maintain reports of how many borrowers (i) are offered financial counseling, (ii) accept financial counseling, and (iii) complete a full financial counseling engagement. This Supplemental Directive amends this guidance to clarify that servicers are required to maintain reports of how many borrowers started, rather than accepted, financial counseling.

Notice of Interest Rate Step-Up Updates

Section 9.7 of Chapter II of the *Handbook* requires servicers to provide notice to borrowers of any interest rate step-ups that will occur as the HAMP Tier 1 modifications reach the end of their initial five-year terms at least 120 calendar days, but no more than 240 calendar days, before the first payment is due at the first adjusted level. This Supplemental Directive amends this guidance to require that an additional notice must be sent 60-75 calendar days before the first payment is due at the first adjusted level. Servicers are not required to send this second notice if the first step-up is scheduled to occur within 60 days after the effective date of this Supplemental Directive, but may do so at their discretion. The notice requirement for subsequent adjusted levels is unchanged.

This Supplemental Directive also extends the foregoing guidance to 2MP. Servicers must provide similar notice to borrowers of any interest rate step-ups that will occur as the 2MP modifications reach the end of their initial five-year terms before the first payment is due at the first adjusted level and at subsequent adjusted levels in the time periods provided under Section 9.7 of Chapter II. As it relates to 2MP, such notices must include:

- A statement that the interest rate on the second lien will reset at the then-current interest rate on the modified first lien (or at a lower rate of interest, if applicable), and will reset on the same terms and schedule as the modified first lien (or at a more gradual schedule, if applicable) until it reaches the interest rate cap of the modified first lien, at which time it is fixed for the remaining life of the loan;
- The amount and effective date of the interest rate increase and the amount and due date of the borrower's first increased monthly payment at the new adjusted level;
- A table with the payment schedule outlining future interest rates, monthly payment amounts and the dates that these are effective; and
- A telephone number at the servicer for the borrower to call with questions or concerns about their new payment, and telephone number for the HOPE™ Hotline.

This Supplemental Directive also provides that servicers subject to the counseling requirement of Section 6.7 of Chapter II of the *Handbook* may provide the contact information of the servicer's selected HUD-approved housing counseling agency in the rate reset notice, instead of the telephone number for the HOPE™ Hotline that is required by Section 9.7 of Chapter II.

A model notice is available on www.HMPAdmin.com. Servicers are encouraged, but not required, to use the model notice to inform borrowers of interest rate step-ups.

EXHIBIT A
MHA HANDBOOK MAPPING

I. NEW HANDBOOK SECTIONS

A new Section 6.7.3 of Chapter II is inserted in its entirety as follows:

6.7.3 Transfer of Servicing of Loans Eligible for Post-Modification Counseling

6.7.3.1 Obligations of Transferor Servicers

A servicer may discontinue the solicitation efforts required under Sections 6.7.1.1 and 6.7.1.2 as of the effective date on which the assignment and assumption of the rights and obligations of a loan is transferred (or such earlier date on which the population of loans to be transferred is finalized). This includes efforts to contact the borrower by phone and by mail, and whether directly by the servicer or through the servicer's vendor.

If a borrower has accepted an offer of financial counseling or is in counseling on or before the effective date of the servicing transfer, the transferor servicer must provide the full financial counseling engagement offered to the borrower, notwithstanding that servicing of the loan will be transferred to another servicer. A transferor servicer may not use a transfer to circumvent its existing obligations. The transferor servicer must, prior to the effective date of the servicing transfer, whether directly by the servicer or through the servicer's vendor, communicate to a borrower who has either accepted the offer of financial counseling or is in counseling, that the borrower may continue the financial counseling with the existing financial counselor even after the loan is transferred.

Effective August 1, 2014, the transferor servicer must send a written notice no later than 15 calendar days prior to the effective date on which the assignment and assumption of the rights and obligations of a loan is transferred (or such earlier date on which the population of loans to be transferred is finalized), to any borrower whose loan will be included in a transfer and who has not yet accepted an offer of financial counseling. The notice must specify the date by which the borrower must schedule an appointment with the financial counseling vendor of the transferor servicer, and explain that the offer of financial counseling provided by the transferor servicer will expire if the appointment is not scheduled by such date. The notice required under this Section need not be a separate notice and may be included with or incorporated into another notice sent to the borrower from the transferor servicer prior to the transfer.

Notwithstanding the foregoing, a transferor servicer and transferee servicer may agree that the transferee servicer will provide the financial counseling described in Section 6.7 (including all subsections) if such agreement is expressly included in the applicable servicing transfer agreement, and provided the borrower is able to complete the full counseling engagement with the same financial counselor without interruption. Transferor and transferee servicers who elect this option must maintain evidence of compliance with this provision.

6.7.3.2 Obligations of Transferee Servicers

A transferee servicer that is subject to the guidance under Section 6.7, and who acquires a loan that is in a trial period plan at the time of transfer, must send written notice and use reasonable efforts to contact the borrower to offer financial counseling if the effective date of the servicing transfer is less than 90 days after the trial period plan effective date. In this instance, within 30 calendar days of the effective date of the servicing transfer, the transferee servicer must commence reasonable efforts to contact the borrower or must send its designated vendor an inclusion file of such borrowers, and require its vendor to use reasonable efforts to contact the borrower within 30 calendar days of their receipt of the file.

II. CONFORMING CHANGES TO EXISTING HANDBOOK SECTIONS

The following guidance amends and supersedes the notated portion of the Handbook. Changed or new text is indicated in italics. Text that has been lined out has been deleted.

A. Section 2.2 of Chapter I is amended to add the following text after the 3rd bullet:

- *For loans where the servicer's post-modification counseling obligations have been transferred, evidence that the transferor servicer and transferee servicer expressly agreed that the transferee servicer will provide the counseling and that the borrower's counseling engagement continued without interruption in accordance with Section 6.7.3.1 of Chapter II.*

B. The 9th subbullet of the 14th bullet of Section 2.2 of Chapter I is amended as follows:

- ~~Evidence that the borrower's monthly P&I payment is reduced by at least 10 percent under HAMP Tier 2 from the borrower's monthly P&I payment in effect at the time of consideration for HAMP Tier 2, or if applicable, from the P&I payment under the HAMP Tier 1 TPP Policies related to a servicer's establishment of a minimum principal and interest payment reduction requirement for HAMP Tier 2;~~

C. The 38th bullet of Section 2.2 of Chapter I is amended as follows:

- All policies and procedures related to the servicer's implementation, processes, controls and training related to the relationship manager position, including the appropriate caseload levels, *including those containing provisions to ensure effective communication with those borrowers with limited English proficiency.*

D. Section 4.2 of Chapter I is amended as follows:

Each servicer must develop and implement a policy that identifies experience and training requirements for the relationship manager position and the appropriate caseload levels to ensure that relationship managers can successfully fulfill the requirements of this Section 4. The policy must include a provision for providing effective relationship management to borrowers whose primary language is other than English. *Servicers must ensure that its staff is able to effectively*

communicate with all borrowers, including borrowers with limited English proficiency, and may either employ multilingual staff that can effectively communicate with such borrowers in their primary language, or engage an outside vendor who can provide interpretation services at no cost to the borrower. Treasury encourages all servicers that are subject to a SPA to adopt this guidance related to effectively communicating with all borrowers.

The relationship manager must be supported by an organizational structure that is capable of carrying out the relationship manager's responsibilities described in this Section 4 when the relationship manager is not available. In the event the caseload distribution necessitates re-assignment of a relationship manager, the servicer may do so, provided that it is in accordance with the servicer's policy on caseload management, and written notification of changed contact information is provided to the borrower within five business days of assignment of the new relationship manager in accordance with Section 4.

E. Section 6.3.2.2 of Chapter II is amended as follows:

In the second step, the NPV model adjusts the interest rate to the current "Tier 2 Rate" which will be a fixed rate based on the weekly PMMS Rate (defined in Section 9.3.6) for 30 year fixed rate conforming loans, rounded up to the nearest 0.125 percent plus a risk adjustment expressed in basis points (~~at the time of this printing, 50 basis points~~ *zero basis points, as of July 1, 2014*). Treasury will notify servicers of any changes to the risk adjustment.

F. Section 6.3.3 of Chapter II is amended as follows:

6.3.3 HAMP Tier 2 ~~Minimum Reduction in P&I~~ *Post-Modification Principal and Interest Payment*

*A HAMP Tier 2 modification with a post-modification principal and interest payment that is greater than the pre-modification principal and interest payment is prohibited. After calculation of the modified payment terms under the HAMP Tier 2 standard modification waterfall, the NPV model will calculate whether the modified principal and interest (P&I) payment represents a reduction of at least 10 percent compared to is less than or equal to the pre-modification monthly principal and interest P&I payment in effect at the time of consideration for HAMP Tier 2 consideration. Additionally, if the servicer is considering a loan for HAMP Tier 2 that defaulted on a HAMP Tier 1 TPP, the servicer must verify that the modified principal and interest P&I payment under HAMP Tier 2 ~~must be at least 10 percent less~~ *is less than or equal to the principal and interest P&I payment under the failed HAMP Tier 1 TPP.**

If the modified principal and interest P&I payment fails to satisfy such guidelines, as applicable, ~~the servicer must send the borrower a Non-Approval Notice (see Section 2.3.2) and consider the borrower for alternative loss mitigation options in accordance with Section 8.7.~~ the loan is not eligible for a HAMP Tier 2 modification and the servicer must consider the borrower for alternative loss mitigation options.

Notwithstanding the foregoing, servicers may establish a minimum principal and interest payment reduction requirement for HAMP Tier 2 (Servicer's HAMP Tier 2 Minimum Payment

Reduction), provided a reduction of no more than 10 percent is required. Each servicer that elects to establish a minimum principal and interest payment reduction requirement must, by July 1, 2014, have a written policy describing the requirement and must notify the Program Administrator of the Servicer's HAMP Tier 2 Minimum Payment Reduction requirement. In addition, such servicers must notify the Program Administrator of any change to the Servicer's HAMP Tier 2 Minimum Payment Reduction requirement no later than 15 calendar days prior to the change. The policy must be applied consistently for all similarly situated borrowers.

G. The second paragraph of Section 6.7.1.1 of Chapter II is amended as follows:

Servicers must provide written notice to borrowers entering a TPP on or after March 1, 2014 informing them of the financial counseling services available to them and the contact information for the servicer's chosen HUD-approved housing counseling agency. *A model notice is available on HMPAdmin.com. Servicers are encouraged but not required to use the model notice to inform borrowers of the financial counseling services available to them.* Servicers should include this notice in the envelope with the TPP Notice when it is sent to the borrower- *and are encouraged, but not required, to provide such solicitation as a separate notice, rather than incorporating such information into the TPP Notice.* In addition, a reasonable effort must be made to contact the borrower directly. For purposes of this Section, a "reasonable effort" consists of a minimum of four telephone calls to the last known phone numbers of record at different times of the day over at least 30 calendar days; provided, however, that efforts to contact the borrower may be halted before making four telephone calls when the borrower has been successfully contacted and has either accepted or declined the offer of financial counseling. *For the purpose of the guidance in Section 6.7 (including all subsections), a borrower is deemed to have "accepted" the offer of financial counseling when the borrower has scheduled an appointment with the servicer's selected financial counseling vendor.* Servicers must use one of the following two methods of contacting borrowers entering new HAMP TPPs:

H. Section 6.7.1.2 of Chapter II is amended as follows:

Each month, or more frequently if the servicer chooses, the servicer will send its designated HUD-approved housing counseling agency an inclusion file of Risk of Default Borrowers identified that month and require the HUD-approved housing counseling agency to commence within 30 days of receipt of the inclusion file to use reasonable efforts (as defined in Section 6.7.1.1) to contact each identified Risk of Default Borrower. In addition, each Risk of Default Borrower identified by the servicer must be sent written notice referring them to the HUD-approved housing counseling agency and including the HUD-approved housing counseling agency's contact information. The letter should also provide contact information at the servicer where the borrower can call if they have any questions. *A model notice is available on www.HMPAdmin.com. Servicers are encouraged, but not required, to use the model notice to inform borrowers of the financial counseling services available to them.*

I. Section 6.7.2 of Chapter II is amended as follows:

Servicers are required to maintain reports of how many borrowers (i) are offered financial counseling pursuant to Section 6.7, (ii) ~~accept~~*-started* such financial counseling, and (iii)

complete a full financial counseling engagement as described above, all of which must be provided to Treasury and its agents upon request. Servicers must also maintain such information as is necessary to monitor the borrower's performance under the modified loan after having received the financial counseling described above.

J. The third paragraph of Section 8.3 of Chapter II is amended as follows:

Borrowers who do not make current trial period payments are considered to have failed the trial period for that loan. For TPPs with effective dates on or after June 1, 2010, "current" is defined as the borrower having made each trial period payment by the last day of the month in which it is due. For TPPs with effective dates before June 1, 2010, "current" is defined as the borrower having made all trial period payments by the last day of the final month of the trial period. A borrower that fails to make current trial period payments for a HAMP Tier 2 TPP is not eligible for a HAMP Tier 2 permanent modification of that loan. A borrower that fails to make current trial period payments for a HAMP Tier 1 TPP is not eligible for a HAMP Tier 1 permanent modification of that loan, but the loan may be eligible for HAMP Tier 2 if ~~the modified P&I payment under HAMP Tier 2 is at least 10% less than the P&I payment under the HAMP Tier 1 TPP and the other HAMP Tier 2 eligibility and underwriting criteria are satisfied.~~

K. Section 9.4 of Chapter II is amended as follows:

If a borrower defaults on a loan modification executed under HAMP (delinquent by the equivalent of three full monthly payments at the end of the month in which the last of the three delinquent payments was due), 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, servicer or investor incentives and reimbursements and these payments will no longer accrue for that loan. A loan permanently modified under HAMP Tier 2 that loses good standing is not eligible for another HAMP modification of that loan. A loan permanently modified under HAMP Tier 1 that loses good standing may be eligible to receive a HAMP Tier 2 modification on the earlier of (i) the date is 12 months after the HAMP Tier 1 Modification Effective Date or (ii) following a change in circumstance. *A loan permanently modified under HAMP Tier 1 may also be eligible to receive a HAMP Tier 2 modification prior to the loss of good standing if more than five years have passed since the HAMP Tier 1 Modification Effective Date. Updated HAMP payment processes implementing this guidance are currently under development by the Program Administrator. Servicers will be advised of how to board a HAMP Tier 2 modification prior to the loss of good standing when the updated processes become available.*

Absent a change in circumstance, a servicer is not required to re-evaluate a loan for HAMP Tier 1 if the loan was evaluated for HAMP Tier 1 prior to June 1, 2012 and determined to be ineligible. However, upon receipt of a request from the borrower whose loan was evaluated for HAMP Tier 1 prior to June 1, 2012 and determined to be ineligible, the servicer is required to evaluate that loan for HAMP Tier 2 without requiring the borrower to demonstrate a change in circumstance. Servicers must have an internal written policy which defines what they consider a change in circumstance, which policy must be consistently applied for all similarly situated borrowers.

A servicer may not re-modify a loan that has received a HAMP permanent modification until either (i) the loan has lost good standing or (ii) more than five years has passed since the effective date of the permanent modification. *In both instances, a loan permanently modified under HAMP Tier 1 must be considered for HAMP Tier 2 prior to consideration for other loss mitigation alternatives.*

~~Notwithstanding this prohibition,~~ A servicer may apply a principal curtailment at any time following a HAMP modification. Additionally, servicers may not refer a loan with a HAMP permanent modification to foreclosure until the loan has lost good standing. In the event a borrower defaults on the modified loan, the servicer must work with the borrower to cure the modified loan. If this is not possible the servicer must evaluate the borrower for any other loss mitigation alternatives, e.g., HAFA, prior to commencing foreclosure proceedings. In any event, a servicer cannot refer a HAMP-modified first lien to foreclosure until the loan loses good standing under HAMP.

L. Section 9.7 of Chapter II is amended as follows:

Servicers must provide notice to borrowers of any interest rate step-ups that will occur as the HAMP Tier 1 modifications reach the end of their initial five-year terms. Servicers must provide notice to HAMP borrowers at least 120 calendar days, but no more than 240 calendar days, before the first payment is due at the first adjusted level. *An additional notice must be sent 60-75 calendar days before the first payment is due at the first adjusted level. Servicers are not required to send this second notice if the first step-up is scheduled to occur within 60 days after July 1, 2014, but may do so at their discretion.* ~~Each~~ For subsequent adjustments, notice must be sent at least 60 calendar days, but no more than 120 calendar days, before the first payment is due at ~~each~~ the subsequent adjusted level. All notices must include:

- A statement, similar to what was provided in the trial period plan, that (i) pursuant to the terms of the modification agreement, at the end of the fifth year, the interest rate will increase by 1% per year until it reaches a cap, which was the market rate of interest being charged by mortgage lenders on the day the modification agreement was prepared (the Freddie Mac Primary Mortgage Market Survey® rate for 30-year fixed-rate conforming mortgages), (ii) once the interest rate reaches the cap, it will be fixed for the remaining life of the loan, and (iii) the monthly payment includes an escrow for property taxes, hazard insurance and other escrowed expenses, which, if they increase, will increase the monthly payment as well;
- The amount and effective date of the interest rate increase and the amount and due date of the borrower's first increased monthly payment at the new adjusted level;
- A table with the payment schedule, similar to the table included in Section 3.C of the borrower's modification agreement, which outlines the future interest rates, and monthly payment amounts (identifying principal and interest, and escrows) and the dates that these are effective;
- An explanation of how the new payment is determined; and

- A telephone number at the servicer for the borrower to call if they have questions or concerns about their new payments, and the telephone number for the HOPE™ Hotline, in accordance with Section 2.3.1. *Servicers that are subject to Section 6.7 of Chapter II may provide the contact information of the servicer's chosen HUD-approved housing counseling agency in the notice, instead of the telephone number for the HOPE™ Hotline.*

A model notice is available on HMPadmin.com. Servicers are encouraged, but not required, to use the model notice to inform borrowers of interest rate step-ups.

M. Section 7.6 of Chapter V is amended as follows:

7.6 ~~Reserved~~ Borrower Notice of Interest Rate Step-Ups

Servicers must provide notice to borrowers of any interest rate step-ups that will occur as 2MP modifications reach the end of their initial five-year terms. Servicers must provide notice to 2MP borrowers at least 120 calendar days, but no more than 240 calendar days, before the first payment is due at the first adjusted level. An additional notice must be sent 60-75 calendar days before the first payment is due at the first adjusted level. For subsequent adjustments, notice must be sent at least 60 calendar days, but no more than 120 calendar days, before the first payment is due at the subsequent adjusted level. All notices must include:

- *A statement that the interest rate on the second lien will reset at the then-current interest rate on the modified first lien (or at a lower rate of interest, if applicable), and will reset on the same terms and schedule as the modified first lien (or at a more gradual schedule, if applicable) until it reaches the interest rate cap of the modified first lien, at which time it is fixed for the remaining life of the loan;*
- *The amount and effective date of the interest rate increase and the amount and due date of the borrower's first increased monthly payment at the new adjusted level;*
- *A table with the payment schedule outlining future interest rates, monthly payment amounts and the dates that these are effective; and*
- *A telephone number at the servicer for the borrower to call with questions or concerns about their new payment, and telephone number for the HOPE™ Hotline.*