

Supplemental Directive 13-05

July 30, 2013

Making Home Affordable[®] Program – Update to the Second Lien Modification ProgramSM and Interactions with Hardest Hit Fund Programs

In February 2009, the Obama Administration introduced the Making Home Affordable (MHA) Program to stabilize the housing market and to help struggling homeowners obtain 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 to include the Second Lien Modification Program (2MP). 2MP, together with the Home Affordable Modification Program (HAMP[®]) create a comprehensive solution to help borrowers achieve greater affordability by lowering payments on both first and second lien mortgage loans. On May 1, 2013, Treasury issued version 4.2 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 updates to 2MP and amends and supersedes the notated portions of the *Handbook*. This Supplemental Directive also provides guidance for enhancing the result under the net present value (NPV) analysis for loans modified under HAMP Tier 2 with contributions from the Housing Finance Agency (HFA) Innovation Fund for the Hardest Hit Housing Markets (HHF) to servicers that participate in an HHF program. Except as stated herein, this Supplemental Directive is effective September 16, 2013.

This guidance applies to servicers that are subject to the terms of a servicer participation agreement and related documents (SPA), and that have executed a schedule for 2MP participation. This guidance does not apply to mortgage loans that are owned or guaranteed by Fannie Mae or Freddie Mac (GSEs) (except as noted herein), 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:

- Matching Second Liens to First Lien GSE Standard Modifications
- Dodd-Frank Certification Requirement for 2MP
- Incorporating HFA Payments into the NPV Result for HAMP Tier 2
- *Handbook* Mapping Clean-Up

Matching Second Liens to First Lien GSE Standard Modifications

As provided in Section 1 of Chapter V of the *Handbook*, under 2MP, when a borrower's first lien is modified under HAMP and the servicer of the corresponding second lien is a 2MP participant, the 2MP servicer must offer to modify or extinguish the borrower's second lien according to a defined protocol. Under the existing process, first liens modified under HAMP Tier 1 and HAMP Tier 2, as well as first liens that are owned or guaranteed by the GSEs and modified under HAMP (GSE HAMP) are included. Although modifications under GSE HAMP do not incorporate HAMP Tier 2, the GSEs require servicers of first lien GSE loans to modify those loans using standard modification terms that are substantially similar to the modification terms for first liens modified under HAMP Tier 2. Certain of these loans are identified as having been modified under the standard modification (each a GSE Standard Modification).

This Supplemental Directive (i) expands 2MP guidance to include qualifying first liens that have been modified under the GSE Standard Modification requirements, and (ii) provides that when a borrower's first lien is modified under GSE Standard Modification requirements and the lien satisfies the HAMP eligibility criteria in Section 1, the second paragraph of Section 6.1 (at the Expanded Acceptable DTI Range) and Section 6.3.3 of Chapter II of the *Handbook*, the 2MP servicer must offer to modify or extinguish the borrower's second lien under 2MP in accordance with the guidance set forth in Chapter V of the *Handbook*.

Servicers of GSE loans are not required to provide data on GSE Standard Modifications directly to LPS, Treasury or the Program Administrator for the purpose of matching. Such data will be provided by the GSEs.

This guidance does not apply to loans modified under the GSE Streamlined Modification process.

Reliance on First Lien Data

The LPS match file will include qualifying first liens that have been modified under the GSE Standard Modification, and consistent with the process described in Section 4.1.1 of Chapter V of the *Handbook*, LPS will provide matching information to 2MP servicers via the same secure transmission. The LPS match file will indicate whether the matched first lien is a HAMP Modification, HAMP GSE Modification, or a GSE Standard Modification.

As provided in Section 4.3 of Chapter V of the *Handbook*, 2MP servicers may rely on the first lien information provided by LPS at the time of the 2MP offer without additional verification. If the 2MP servicer has questions or concerns regarding attributes of a GSE Standard Modification that are material to the terms of an individual 2MP modification (e.g., forbearance percentage, term after modification), the 2MP servicer should notify the Program Administrator via secure e-mail at support@HMPadmin.com so the Program Administrator can be involved in the resolution of the issue. 2MP servicers can reasonably conclude that when a first lien modified under the GSE Standard Modification appears on the LPS match file, it satisfies the eligibility criteria in Section 1, the second paragraph of Section 6.1 (at the Expanded Acceptable DTI Range) and Section 6.3.3 of Chapter II of the *Handbook*; except that if the property is not

occupied by the borrower as his or her principal residence, servicers must obtain a completed Rental Property Certification from the borrower(s). A standalone Rental Property Certification that servicers can use for this purpose will be posted on HMPAdmin.com.

In some cases, information in the LPS database may not identify a match between a qualifying first lien and a corresponding eligible second lien. In accordance with existing guidance in Section 4.1.2 of Chapter V of the *Handbook*, participating 2MP servicers may offer and report a valid 2MP modification when the servicer identifies the match, even if the match is not reflected in the LPS system. In such case, the 2MP servicer must verify that the first lien modified under the GSE Standard Modification satisfies the eligibility criteria in Section 1, the second paragraph of Section 6.1 (at the Expanded Acceptable DTI Range) and Section 6.3.3 of Chapter II of the *Handbook*. In addition, if the property is not occupied by the borrower as his or her principal residence, servicers must obtain a completed Rental Property Certification from the borrower(s).

2MP Timing for GSE Standard Modification Matches

2MP servicers must offer a 2MP trial period or 2MP modification, as applicable, to any eligible second lien borrower whose first lien was permanently modified under the GSE Standard Modification and remains in good standing. A 2MP servicer must offer 2MP no later than 150 calendar days from “The Date of First Match” in the first match file provided by LPS containing matches to GSE Standard Modifications. For all subsequent match files provided by LPS, a 2MP servicer must offer 2MP no later than 60 calendar days from “The Date of First Match” in the file for the related GSE Standard Modification.

In accordance with Section 4.2.2 of Chapter V of the *Handbook*, if a servicer chooses to offer a 2MP modification outside of the LPS process, the servicer must offer 2MP no later than 60 calendar days after the effective date of the related GSE Standard Modification or the date the appropriate documentation is obtained and verified, as applicable.

GSE Standard Modification Interaction with GSE HAMP

As provided in Section 4.2 of Chapter V of the *Handbook*, if a GSE HAMP modified first lien loses good standing prior to the 2MP permanent modification becoming effective, the second lien is not eligible for 2MP and the 2MP servicer is not required to offer a 2MP modification to the borrower. If however the same first lien loan is subsequently modified as a GSE Standard Modification, the servicer will be required to offer a 2MP that corresponds to the terms of the GSE Standard Modification.

If a 2MP permanent modification is associated with a first lien GSE HAMP modification that loses good standing, the 2MP modification is no longer eligible for incentives under 2MP. The expansion of this 2MP guidance enables a 2MP modification that is no longer receiving incentives because the borrower lost good standing on a GSE HAMP modification to be reinstated if the first mortgage lien is subsequently modified under the GSE Standard Modification. As provided in Section 5.5 of Chapter V of the *Handbook*, the 2MP servicer will be notified by the LPS matching facility that the first lien has been re-modified and the servicer must resume 2MP monthly reporting in the HAMP Reporting Tool. Servicers will not be

required to re-modify a 2MP permanent modification to match the terms of the GSE Standard Modification; all prior terms of the 2MP modification apply. Upon receipt of the 2MP monthly report by the Program Administrator, incentive payments will resume and a true-up of incentives unpaid during the interim will be calculated and paid as appropriate.

This guidance is consistent with existing guidance for 2MP when a Non-GSE Mortgage modified under HAMP Tier 1 loses good standing but is subsequently modified under HAMP Tier 2.

Dodd-Frank Certification Requirement for 2MP

The following guidance is effective immediately.

Certification of compliance with Section 1481(d) of the Dodd Frank Wall Street Reform and Credit Protection Act (Pub. L. 111-203) (Dodd-Frank Certification) is a requirement for Non-GSE Mortgages modified under HAMP and 2MP. Under Section 1.7 of Chapter I of the *Handbook*, if a 2MP servicer cannot verify that a completed Dodd-Frank Certification was obtained from the borrower(s) in connection with the related HAMP-modified first lien, the 2MP servicer is required to obtain a completed Dodd-Frank Certification from the borrower. This Supplemental Directive amends that guidance to provide that, when a matched first lien is identified as “HAMP Modification” (rather than a HAMP GSE Modification or a GSE Standard Modification) in the LPS match file, 2MP servicers may reasonably conclude that the Dodd-Frank Certification was obtained in connection with that first lien, to the extent required under the *Handbook*, and are no longer required to verify that it has been obtained.

When a matched first lien is identified as a “HAMP GSE Modification” or a “GSE Standard Modification” in the LPS match file, 2MP servicers are required to obtain a completed Dodd-Frank Certification because the lien being modified under 2MP is a non-GSE second lien. As provided in Section 2.8.2 of Chapter I of the *Handbook*, Dodd-Frank Certification compliance will be conducted on 2MP modifications with corresponding GSE first lien modifications, and this includes GSE HAMP and the GSE Standard Modifications.

Incorporating HFA Payments into the NPV Result for HAMP Tier 2

Some HHF programs provide targeted assistance to borrowers who are not HAMP eligible because the proposed modification is NPV negative. These HHF programs hope to make modifications NPV positive by providing upfront principal reduction. However, the Base NPV Model does not evaluate the impact of principal reduction payments made by a third party on investor cash flows. Chapter VIII of the *Handbook* provides guidance on how to incorporate HFA payments to create a positive NPV result for HAMP Tier 1. Servicers working with HHF programs to find an amount of principal reduction that will produce an NPV positive result for HAMP may be required to iteratively increase the HHF contribution amount. In addition, for HAMP Tier 2, the post-modification monthly mortgage payment ratio must fall within the Expanded Acceptable DTI Range, or the Servicer’s DTI Range if different. This Supplemental Directive provides guidance on how to incorporate HFA payments to create a positive NPV result for HAMP Tier 2.

In evaluating for HAMP Tier 2 –

- **Determine Capitalized UPB:** Similar to the steps of the standard or alternative modification waterfall, servicers should first capitalize allowable costs into the pre-modification UPB.
- **Run the NPV Test:** Servicers will use only the input fields for the standard modification waterfall (not the alternative modification waterfall) in testing for HHF principal reduction. The servicer should enter the capitalized UPB into the NPV model. The servicer should also enter all principal reduction associated with the modification – including PRA reduction, HHF reduction, and any investor match for HHF reduction – into the appropriate input field as indicated in the Base NPV Model Documentation. The model will calculate the interest rate, term and forbearance in accordance with the Tier 2 Standard Modification Waterfall described in Section 6.3.2 of Chapter II of the *Handbook*.
- **Calculate NPV:** Because the Base NPV Model does not evaluate the impact of principal reduction payments made by a third party on investor cash flows, after the NPV evaluation, the servicer must add the amount of the HHF reduction to the NPV result to determine the cash flow to the investor. Any principal reduction contributions from the investor should not be added to the NPV result.

Handbook Mapping Clean-Up

Section 9.2.3 of Chapter V of the *Handbook*, which requires servicers to report certain information for 2MP modifications that were not approved, approved but not accepted, or approved but failed the 2MP trial period, is deleted to reflect that this reporting capability does not exist in the HAMP Reporting Tool.

**EXHIBIT A
MHA HANDBOOK MAPPING**

CONFORMING CHANGES TO EXISTING HANDBOOK SECTIONS

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

A. The second row of the table under Section 1.7 of Chapter I is amended as follows:

2MP	If not obtained in connection with related HAMP evaluation obtain completed Dodd-Frank Certification prior to permanent 2MP modification or extinguishment	If not obtained in connection with the related <i>first lien HAMP evaluation</i> , <i>modification is identified as a HAMP GSE Modification or GSE Standard Modification in the LPS match file</i> , obtain completed Dodd-Frank Certification prior to 2MP trial period plan or prior to permanent 2MP modification or prior to extinguishment, as applicable*
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B. The first sentence of the fifth paragraph of Section 1.7 of Chapter I is amended as follows:

**When a matched first lien is identified as a HAMP Modification (rather than a HAMP GSE Modification or a GSE Standard Modification) in the LPS match file, 2MP servicers may reasonably conclude that the Dodd-Frank Certification was obtained in connection with that first lien as required by this guidance, and is not required to verify that it has been obtained. ~~As described above, if a 2MP servicer cannot verify that a completed Dodd-Frank Certification was obtained in connection with the related HAMP modified first lien, the 2MP servicer is required to obtain a completed Dodd-Frank Certification.~~*

C. The first paragraph of Section 1 of Chapter V is amended as follows:

This Chapter provides guidance on the Second Lien Modification Program (2MP), which is designed to work in tandem with HAMP. Together, HAMP and 2MP create a comprehensive solution to help borrowers achieve greater affordability by lowering payments on both first lien and second lien mortgage loans. Under 2MP, when a borrower’s first lien is modified under ~~either HAMP Tier 1, or HAMP Tier 2~~, or pursuant to certain GSE requirements that servicers modify first lien GSE loans with using standard modification terms that are substantially similar to the modification terms for first lien modified under HAMP Tier 2 (GSE Standard

Modification), and the servicer of the corresponding second lien is a 2MP participant, that servicer must offer to modify the borrower’s second lien according to a defined protocol, to accept a lump sum payment from Treasury in exchange for full extinguishment of the second lien, or to accept a lump sum payment from Treasury in exchange for a partial extinguishment and modify the remaining borrower’s second lien according to a defined protocol.

D. The second row of the table under Section 3.1 of Chapter V is amended as follows:

First lien HAMP modified <i>under HAMP or GSE Standard Modification</i>	The mortgage loan is a second lien mortgage loan with a corresponding first lien mortgage loan that has received a permanent HAMP modification, <i>or a GSE Standard Modification that satisfies the HAMP eligibility criteria in Section 1, the second paragraph of Section 6.1 (at the Expanded Acceptable DTI Range) and Section 6.3.3 of Chapter II</i> , and is in good standing. <i>This guidance does not apply to loans modified under the GSE Streamlined Modification process.</i>
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E. The final row of the table under Section 3.1 of Chapter V is amended as follows (Note – the original text that is being amended can be found in Exhibit A, Paragraph II(S) of Supplemental Directive 13-04):

Program cut off date	The servicer must receive notification of a match with a permanent first lien modification that satisfies the eligibility criteria for under HAMP in Section 1 of Chapter II , <i>or a GSE Standard Modification that satisfies the HAMP eligibility criteria in Section 1, the second paragraph of Section 6.1 (at the Expanded Acceptable DTI Range) and Section 6.3.3 of Chapter II</i> and the 2MP Modification Effective Date is on or before September 30, 2016. Servicers may reasonably conclude that when a first lien appears on the LPS match file as permanently modified it satisfies such eligibility criteria.
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F. Section 3.3 of Chapter V is amended as follows:

3.3 Borrower Notice for 2MP

When a servicer had contact with a borrower in connection with a potential 2MP modification, the borrower is evaluated for 2MP and the borrower is not offered a 2MP modification, the 2MP servicer must mail a notice to the borrower no later than 10 business days following the date of the 2MP servicer’s determination that a modification will not be offered. The notice must describe the reason(s) why the borrower is not eligible for a 2MP modification, ~~and the reason(s)~~

~~should relate to one or more of the reason codes required to be reported by the 2MP servicer to the Program Administrator pursuant to Section 9.2.3.~~ Such notices may be sent electronically only if the borrower has previously agreed to exchange correspondence relating to the modification with the 2MP servicer electronically. The content of the notice to the borrower may vary depending on the information intended to be conveyed or the determination made by the 2MP servicer. All notices must be written in clear, non-technical language, with acronyms and industry terms explained in a manner that is easily understandable.

G. Section 4 of Chapter V is amended as follows:

4 2MP Process

When a borrower's first lien is modified under HAMP *or a qualifying GSE Standard Modification*, the 2MP servicer must offer to modify or extinguish the corresponding second lien according to the steps outlined in Section 5. In addition, if the borrower's first lien is modified under HAMP *or a qualifying GSE Standard Modification*, the 2MP servicer must dismiss any outstanding foreclosure action on the borrower's second lien. If the 2MP servicer is evaluating a borrower for 2MP and for its own second lien proprietary modification program, the 2MP servicer must offer 2MP first (or at least simultaneously) with the second lien proprietary modification, regardless of the terms of the second lien proprietary modification. If the 2MP servicer already has modified the borrower's second lien with a proprietary modification, the 2MP servicer should still make a 2MP offer.

4.1 Matching Second Liens to HAMP First Liens

4.1.1 LPS Matching

To facilitate the communication of ~~HAMP~~ modification information ~~between HAMP and~~ to 2MP servicers, Lender Processing Services' Applied Analytics Division (LPS) has built and is maintaining a database of second liens that may be eligible under 2MP. Information from the database will be used to match first and second liens and to notify 2MP servicers of the ~~HAMP~~ modification status and details necessary for the 2MP servicer to offer a 2MP modification to the borrower. LPS will provide matching information to 2MP servicers via a secure transmission. 2MP servicers must enter into a contract directly with LPS to facilitate this program and will be required to pay a one-time set up fee and nominal transaction fees for each second lien matched, regardless of whether a 2MP modification is completed.

As part of its contract with LPS, a 2MP servicer will agree to provide the following categories of information on all eligible second liens loans that it services to LPS for matching:

- Loan Identifying Information
- Borrower/Co-Borrower Identifying Data
- Property Identifying Data
- 2MP Servicer Contact Information

If the 2MP servicer identifies matching first and second liens on its own system, it should work with LPS so that the required loan information is accurately reflected in the LPS database. In addition, the 2MP servicer must provide monthly updates of this information to LPS. The information provided to LPS will be used for matching first and second liens to facilitate 2MP modifications and for program analysis and reporting.

The LPS match file will also include qualifying first liens that have been modified under the GSE Standard Modification. The LPS match file will indicate whether the matched first lien is a HAMP Modification, HAMP GSE Modification, or a GSE Standard Modification. Servicers of GSE loans are not required to provide data on GSE Standard Modifications directly to LPS, Treasury, or the Program Administrator. Such data will be provided by the GSEs. 2MP servicers can reasonably conclude that when a first lien modified under the GSE Standard Modification appears on the LPS match file, it satisfies the eligibility criteria in Section 1, the second paragraph of Section 6.1 (at the Expanded Acceptable DTI Range) and Section 6.3.3 of Chapter II; except that if the property is not occupied by the borrower as his or her principal residence, servicers must obtain a completed Rental Property Certification from the borrower(s). A standalone Rental Property Certification that servicers can use for this purpose is posted on HMPadmin.com.

A “multiple subordinate lien match” will be deemed to exist when there are multiple second lien matches for a single ~~HAMP~~-modified first lien. LPS will identify multiple matches that are discovered during the regular match process and will provide certain limited information to the 2MP servicer.

A “probable lien match” will be deemed to exist for a ~~HAMP~~-modified first lien and second lien where the property addresses for both loans are not an exact match but the social security numbers of the borrowers and the property zip codes are the same for both liens.

4.1.2 Enhanced Matching Capabilities

In some cases, information in the LPS database may not identify a match between a first lien ~~HAMP~~-modification and corresponding eligible second lien, but the 2MP servicer may have sufficient information to identify a match. A 2MP servicer may direct LPS to match a second lien to a ~~HAMP~~-modified first lien where the 2MP servicer is confident that the first and second lien should be matched because the 2MP servicer obtains sufficient documentation of the ~~HAMP~~ modification from (1) the probable lien matches that LPS provided or (2) sources independent of LPS (e.g., the 2MP servicer itself, if the 2MP servicer services both the first and second liens, or reliable borrower communications or direct communications with the ~~HAMP~~-first lien servicer).

In addition, to facilitate modifications, the HAMP Reporting Tool has been updated to allow reporting of valid 2MP modifications for which the corresponding first lien match was not confirmed through LPS. Therefore, participating 2MP servicers may offer and report a 2MP modification when the servicer identifies the match, even if the match is not reflected in the LPS system.

If servicers choose to offer and report 2MP modifications outside of the LPS process, the 2MP servicer must be able to provide sufficient documentation that the borrower is entitled to the 2MP modification being offered. Such documentation includes a copy of the fully executed ~~HAMP~~ modification agreement, and the information that must match includes, at a minimum, borrower name(s), social security number(s), property address and the first lien loan number. For servicer identified matches where the servicer services both the first and second liens, the servicer can rely on the executed ~~HAMP~~ modification documents in the servicer's possession and the servicer must verify the ~~HAMP~~-modified first lien's good standing. For servicer-identified matches where the 2MP servicer does not service the first lien, the 2MP servicer can rely on a copy of the executed ~~HAMP~~ modification agreement obtained from the first lien servicer and verification from the first lien servicer of the ~~HAMP~~-modified first lien's good standing. *In addition, in the case of GSE Standard Modifications, the 2MP servicer must verify that the first lien modified under the GSE Standard Modification satisfies the eligibility criteria in Section 1, the second paragraph of Section 6.1 (at the Expanded Acceptable DTI Range) and Section 6.3.3 of Chapter II of the Handbook, and if the property is not occupied by the borrower as his or her principal residence, the 2MP servicer must obtain a completed Rental Property Certification from the borrower(s).* ~~Under the modification agreement and the RMA, borrowers have consented to the disclosure of their personal information and the terms of their modification agreement to servicers of both their first and second lien loans.~~

All copies of documents validating the match of the first and second liens must be placed in the borrower's mortgage loan file and/or servicing system along with a record of the terms of the ~~HAMP~~ modification at the time the 2MP offer was sent to the borrower. Additionally, any communication with the first lien servicer where the 2MP servicer is not the servicer of the first lien, including discussions about the first lien modification and the first lien servicer contact information, must also be noted in the borrower's loan file and/or servicing system. Servicers must make this information available to MHA-C upon request.

4.2 2MP Timing

The modification of a second lien may not become effective unless and until (i) the modification of a corresponding first lien becomes effective ~~under HAMP~~ and, when applicable, (ii) the borrower has made all required 2MP trial period payments. In addition, if the ~~HAMP~~-modified first lien loses good standing prior to the 2MP modification becoming effective, the *second lien is not eligible for 2MP and the 2MP servicer is not required to offer a 2MP modification to the borrower.* If however, the same first lien loan is subsequently modified under HAMP Tier 2 *or the GSE Standard Modification, as applicable*, the servicer will be required to offer a 2MP that corresponds to the terms of the ~~HAMP Tier 2 subsequent~~ modification.

4.2.1 LPS Matches

In cases of a match through the LPS process, a 2MP servicer must offer a 2MP trial period or 2MP modification, as applicable, to any *eligible* second lien borrower no later than:

- For the first match file provided by LPS after the 2MP servicer goes into production with LPS, 120 calendar days from the date the servicer receives the notification of a match from LPS of the related permanent HAMP modification.
- For all subsequent match files provided by LPS, 60 calendar days from the date the 2MP servicer receives the notification of a match from LPS of the related permanent HAMP modification.
- For all match files where a borrower is in a bankruptcy, 60 calendar days from the later of (1) the date the borrower, the borrower’s counsel or the bankruptcy trustee requests consideration for a 2MP modification and (2) the date the 2MP servicer receives the notification of a match from LPS of the related permanent HAMP modification. The servicer must work with the borrower or borrower’s counsel to obtain any court and/or trustee approvals required in accordance with local court rules and procedures and should extend time frames as necessary to accommodate dates in obtaining the approvals.

A 2MP servicer must offer 2MP no later than 150 calendar days from “The Date of First Match” in the first match file provided by LPS containing a match to a GSE Standard Modification. For all subsequent match files provided by LPS, a 2MP servicer must offer 2MP no later than 60 calendar days from “The Date of First Match” in the file for the related GSE Standard Modification.

Servicers are not required to offer 2MP trial periods or modifications for probable lien matches which the servicer has not confirmed with LPS the probable lien match. 2MP servicers must record the date when they obtained information from LPS to use for the modification.

4.2.2 Matches Outside the LPS Process

If a servicer chooses to offer a 2MP modification outside of the LPS process where the servicer services both the first and second liens, the servicer must offer a 2MP trial period or 2MP modification, as applicable, to the borrower no later than 60 calendar days after the effective date of the related permanent ~~HAMP~~ modification.

If a servicer chooses to offer a 2MP modification outside of the LPS process where the 2MP servicer does not service the first lien, the 2MP servicer must offer a 2MP trial period or 2MP modification, as applicable, to the borrower no later than 60 calendar days after the date the copy of the executed ~~HAMP~~ modification agreement *and other appropriate documentation* is obtained from the first lien servicer and verification from the first lien servicer of the HAMP modified first lien’s good standing.

For information on matches for a borrower in bankruptcy, refer to guidance in Section 4.2.1.

Servicers must record in the borrower’s mortgage loan file and/or the servicing system the date it receives the information from the first lien servicer.

4.3 Reliance on First Lien Data

The terms of the ~~HAMP~~-modification of the first lien will be used to determine the terms of the 2MP modification of the second lien. 2MP servicers are not required to verify any of the financial information provided by the borrower in connection with the ~~HAMP~~ *first lien* modification.

In general, modification of the first lien under HAMP confers a benefit on any associated second liens. Because the first lien was, as required by Section 1.1 of Chapter II, delinquent or in imminent default prior to receiving a permanent modification, 2MP servicers may reasonably conclude that default is foreseeable with respect to a related second lien. Therefore, it can be reasonably concluded that the combination of the modification of the first lien under HAMP and the second lien under 2MP will be NPV positive, and for that reason, the 2MP servicer is not required to perform an additional NPV analysis on the related second lien.

Furthermore, post-foreclosure recoveries of second liens, as a class, are likely to be de minimis if the first lien is delinquent or at risk of default. Accordingly, it is reasonable for 2MP servicers to conclude that modification of second lien mortgages in accordance with this guidance is likely to provide an anticipated recovery on the outstanding principal mortgage debt that, as a class, will exceed the anticipated recovery through foreclosure.

2MP servicers may rely on the first lien information provided by LPS at the time of the 2MP offer, even if the terms of the ~~HAMP~~-*first lien* modification subsequently are updated or corrected in the HAMP Reporting Tool. Servicers should retain a record from the match file of the terms of the ~~HAMP~~ modification at the time the 2MP offer is sent to the borrower and must make this information available to MHA-C upon request.

2MP servicers are not required to verify any of the financial information provided by the borrower in connection with the ~~HAMP~~ *first lien* modification. However, if the 2MP servicer has questions or concerns regarding attributes of a ~~HAMP~~-modified first lien that are material to the terms of an individual 2MP modification (e.g., forbearance percentage, forgiveness percentage, term after modification), the 2MP servicer should notify the Program Administrator via secure e-mail at support@HMPadmin.com so the Program Administrator can be involved in the resolution of the issue. 2MP servicers must include the following information relating to the second lien: servicer name, servicer number, contact name, phone number and e-mail address, loan number, borrower name and property address. 2MP servicers must also include the following information relating to the first lien information received in the match file: servicer name, servicer number, loan number, borrower name and property address, and identify the data that is being disputed. If the 2MP servicer has general questions or concerns regarding the match files maintained by LPS, the 2MP servicer should contact LPS.

4.4 Fraud

Unless there is evidence of fraud or misrepresentation, evidence that the ~~HAMP~~-modified first lien does not meet the basic eligibility requirements of HAMP or evidence that the property valuation provided is incorrect, there is no additional responsibility on the part of the 2MP

servicer to verify the information provided by the first lien servicer through LPS. If the 2MP servicer identifies such evidence, the 2MP servicer should not proceed with the 2MP modification and must notify the Program Administrator at Escalations@HMPAdmin.com and shall be given an opportunity to present such evidence.

H. The first paragraph of Section 5.1.2.1 is amended as follows:

In the second step, the 2MP servicer reduces the interest rate of the second lien to 1.0 percent. After five years, the interest rate on the second lien will reset at the then-current interest rate on the ~~HAMP~~-modified first lien. If applicable, following the initial interest rate reset, the interest rate of the modified second lien will reset on the same terms and schedule as the interest rate of the ~~HAMP~~-modified first lien. At any time, the 2MP servicer may, in its discretion, offer a rate of interest that is lower than the ~~HAMP~~-modified first lien.

I. The first paragraph of Section 5.1.2.2 is amended as follows:

In the second step, the 2MP servicer may, in accordance with investor and regulatory guidance, either (i) follow the procedure above to convert interest-only payments to amortizing payments at 1.0 percent interest, or (ii) retain the interest-only payment schedule and reduce the interest rate of the second lien to 2.0 percent. After five years, the interest rate on the second lien will reset at the then-current interest rate on the ~~HAMP~~-modified first lien. If applicable, following the initial rate reset, the interest rate of the modified second lien will reset on the same terms and schedule as the interest rate of the ~~HAMP~~-modified first lien. At any time, the 2MP servicer may, in its discretion, offer a rate of interest that is lower than the ~~HAMP~~-modified first lien.

J. The second paragraph of Section 5.1.2.3 is amended as follows:

In the alternative, and at the discretion of the 2MP servicer in accordance with investor guidelines, for the steps above in Sections 5.1.2.1, 5.1.2.2 or 5.1.2.3, the terms of the 2MP modification may include a more gradual interest rate step-up after five years. At no time may the interest rate on the modified second lien exceed the interest rate on the ~~HAMP~~-modified first lien.

K. Section 5.1.3.1 of Chapter V is amended as follows:

5.1.3.1 Step 3.A – For amortizing second liens (payment of both principal and interest)

In the third step, if the original term of the second lien is shorter than the remaining term of the ~~HAMP~~-modified first lien, the 2MP servicer extends the term of the second lien to match, at a minimum, the term of the ~~HAMP~~-modified first lien. The 2MP servicer must amortize the modified UPB of the second lien over the term of the modified second lien. If a term extension is not permitted under applicable investor guidelines or applicable law, but an extension of the amortization period is permissible, then the 2MP servicer must reamortize the second lien with a balloon payment due at maturity so that the new amortization period matches, at a minimum, either the amortization period or the term of the ~~HAMP~~-modified first lien. Subject to regulatory

and investor guidance, a 2MP servicer may extend the term or the amortization period of the second lien up to 40 years, regardless of the term or amortization period on the first lien.

L. Section 5.1.3.2 of Chapter V is amended as follows:

5.1.3.2 Step 3.B – For second liens with interest-only payments

In the third step, if the original term of the second lien is shorter than the remaining term of the ~~HAMP~~-modified first lien, the 2MP servicer extends the term of the second lien to match, at a minimum, the term of the ~~HAMP~~-modified first lien. The 2MP servicer must amortize the modified UPB of the second lien beginning at the time specified in the original second lien documents or after year five, whichever is later. If, however, the second lien is interest-only until the maturity date under the original loan documents and does not become amortizing, then amortization on the 2MP-modified second lien must begin after year five. If a term extension is not permitted under applicable investor guidelines or applicable law, but an extension of the amortization period is permissible, the 2MP servicer must reamortize the second lien with a balloon payment due at maturity so that the new amortization period matches, at a minimum, either the amortization period or the term of the modified first lien. Subject to regulatory and investor guidance, a 2MP servicer may extend the term or the amortization period of the second lien up to 40 years, regardless of the term or amortization period on the first lien.

M. Section 5.1.4 of Chapter V is amended as follows:

In the fourth step, if there was principal forbearance or forgiveness on the ~~HAMP~~-modified first lien, a 2MP servicer must forbear or forgive principal on the second lien in at least the same proportion; however, the 2MP servicer may, in its discretion and in accordance with investor guidelines, forbear or forgive more than the required proportionate amount. If the 2MP servicer has deferred accrued interest in lieu of capitalization in Section 5.1.1, the deferred amount will be in addition to any principal forbearance or forgiveness required under this Section 5.1.4. The 2MP servicer may, at its discretion and as permitted under applicable investor guidelines, choose to forgive any amounts that are required to be forborne. All principal forgiveness required or provided under 2MP will be applied at the time of the permanent 2MP modification and will not be deferred.

Example: The total UPB plus the forgiveness amount of the ~~HAMP~~-modified first lien on its Modification Effective Date is \$100,000, the amount of principal forbearance on the first lien is \$5,000 and the amount of principal forgiveness is \$5,000. Therefore, the 2MP servicer must forbear five percent of the second lien and must forgive five percent of the second lien. If the total UPB of the second lien on the Modification Effective Date is \$40,000, the 2MP servicer must forbear \$2,000 and must forgive \$2,000, or the 2MP servicer may elect to forgive a larger amount.

N. Section 5.3.1 of Chapter V is amended as follows:

When extinguishment is selected, the extinguishment of the second lien or any part thereof may not become effective unless and until the modification of the first lien becomes effective under

HAMP or GSE Standard Modification. The same timing requirements set forth in Section 4.2 apply to extinguishments.

O. Section 5.5 of Chapter V is amended as follows:

5.5 Re-modification Under HAMP Tier 2 or the GSE Standard Modification

If a 2MP modification is associated with a HAMP ~~Tier 1~~ modification that loses good standing, the loan with the 2MP modification is no longer eligible for incentives under 2MP. However, a 2MP modification that is no longer receiving incentives because the borrower lost good standing on a HAMP ~~Tier 1~~ modification may be reinstated if the first mortgage lien is subsequently modified under HAMP Tier 2 or the GSE Standard Modification, as applicable. In this instance the 2MP servicer will be notified by the LPS matching facility that the first lien has been re-modified and the servicer must resume 2MP monthly reporting in the HAMP reporting tool. Servicers will not be required to re-modify a 2MP permanent modification to match the terms of the HAMP Tier 2 modification or the GSE Standard Modification, all prior 2MP modification terms apply. Upon receipt of the 2MP monthly report by the Program Administrator, incentive payments will resume and a true-up of incentives unpaid during the interim will be calculated and paid as appropriate.

P. The second paragraph of Section 6 of Chapter V is amended as follows:

When a borrower is current on the existing second lien and the current contractual payment amount is equal to or greater than the monthly payment that will be due following the 2MP modification, a 2MP trial period is not required (unless a trial period is necessary to comply with applicable contractual obligations). The 2MP servicer and borrower may execute a modification of the second lien immediately following modification of the ~~HAMP-modified~~ first lien.

Q. The first paragraph of Section 6.1 of Chapter V is amended as follows:

The 2MP trial period must be three months in duration (or longer if necessary to comply with applicable contractual obligations). If the 2MP servicer does not service the first lien, the 2MP trial period may only begin after the *first lien* HAMP modification becomes effective. In cases where the 2MP servicer services both the first and second liens, at the servicer's option in accordance with investor guidelines, the 2MP trial period may run concurrently or overlap in time with the ~~HAMP~~ trial period for the related first lien. The 2MP trial period for the second lien may be longer than three months if it overlaps with the *first lien* ~~HAMP~~ trial period. If this occurs, the borrower must continue to make timely 2MP trial period payments throughout the 2MP trial period regardless of its length.

R. Section 7 of Chapter V is amended as follows:

The 2MP modification offer may not be made to the borrower until after the first lien permanent ~~HAMP~~ modification is effective. If the ~~HAMP-modified~~ first lien loses good standing while the second lien is in a 2MP trial period, the 2MP servicer is not required to offer a permanent 2MP modification to the borrower unless and until the ~~HAMP-modified~~ first lien is subsequently

remodified under HAMP Tier 2 or GSE Standard Modification, as applicable, and is in good standing.

S. Section 7.1 of Chapter V is amended as follows:

The 2MP servicer is responsible for ensuring that the final 2MP terms match the final terms of the ~~HAMP~~ modification of the related first lien. The borrower must sign the 2MP modification agreement within 30 calendar days from the date of the permanent 2MP modification offer. If the modification offer is not accepted by the borrower within 30 calendar days, the 2MP servicer may permanently withdraw the offer and will not be obligated to modify the second lien under 2MP.

T. Section 7.2 of Chapter V is amended as follows:

The 2MP permanent modification may not become effective unless and until (i) the modification of the corresponding first lien becomes effective under HAMP or GSE Standard Modification, and, when applicable (ii) the borrower has made all required 2MP trial period payments in accordance with Section 6.2. Subject to Section 5.5, the 2MP servicer is responsible for ensuring that the final 2MP terms match the final terms of the ~~HAMP~~ modification of the related first lien.

U. Section 7.3.3 of Chapter V is amended as follows:

All loans modified under 2MP must result in closed-end second liens. If the second lien is an open-end line of credit, 2MP servicers must terminate the borrower's ability to draw additional amounts on the credit line when the 2MP modification becomes effective. In addition, immediately upon notification that the first lien is entering a HAMP or GSE Standard Modification trial period or has been modified under HAMP or GSE Standard Modification, 2MP servicers should terminate the borrower's ability to draw additional amounts on open-end lines of credit if permitted by applicable law and the second lien loan documents. When terminating the borrower's ability to draw additional amounts under an open-end line of credit, the 2MP servicer must provide the borrower with disclosures in a manner consistent with applicable law.

V. The fourth paragraph of Section 11 of Chapter V is amended as follows:

As long as the ~~HAMP~~-modified first lien was in good standing and was not paid off as of the effective date of the 2MP modification or partial extinguishment (Modification or Extinguishment Effective Date), incentive compensation will be paid for 2MP modifications and partial extinguishments for the period between the Modification or Extinguishment Effective Date and the date the ~~HAMP~~-modified first lien loses good standing or is paid off. Furthermore, servicer and investors will be entitled to incentive compensation for 2MP full extinguishments when the servicer does not also service the ~~HAMP~~-modified first lien and as long as the 2MP servicer relied on the most recent LPS match file provided to the servicer before the effective date of the full extinguishment that indicated that the ~~HAMP~~-modified first lien was in good standing and not paid off, even if the ~~HAMP~~-modified first lien information is subsequently updated or corrected. Each servicer should retain in the servicing system and/or mortgage file the

most recent LPS match file on which the servicer relied to determine that the ~~HAMP~~-modified first lien was reported as in good standing and not paid off before the effective date of the full extinguishment.

W. The second paragraph of Section 11.1.2 of Chapter V is amended as follows:

If either the first or second lien loan ceases to be in good standing ~~under HAMP or 2MP, respectively~~, or either loan is paid in full, the 2MP servicer will forfeit any incentive payments that have accrued but are unpaid and will cease to be eligible for any further incentive payments after that time, even if the borrower subsequently cures his or her delinquency. However, if the ~~HAMP Tier 1~~-modified first lien is subsequently re-modified under HAMP Tier 2 *or GSE Standard Modification*, 2MP incentive compensation will resume and a true-up of incentives unpaid during the interim period between the HAMP Tier 1 and HAMP Tier 2 modifications, *or the GSE HAMP and GSE Standard Modification*, will be calculated and paid, as appropriate.

X. The fifth paragraph of Section 11.2 of Chapter V is amended as follows:

If the first or second lien loan ceases to be in good standing or either is paid in full, the borrower will forfeit any incentive payments that have accrued, but are unpaid, and will cease to be eligible for any further incentive payments after that time, even if the borrower subsequently cures his or her delinquency. However, if the ~~HAMP Tier 1~~-modified first lien is subsequently re-modified under HAMP Tier 2 *or GSE Standard Modification*, 2MP incentive compensation will resume and a true-up of incentives unpaid during the interim period between the HAMP Tier 1 and HAMP Tier 2 modifications, *or the GSE HAMP and GSE Standard Modification*, will be calculated and paid, as appropriate.

Y. Section 11.3 of Chapter V is amended as follows:

11.3 Investor Incentive Compensation

11.3.1 Payment Reduction Cost Share Incentive

Investors are entitled to payment reduction cost share compensation equal to 160 basis points multiplied by the unmodified UPB (less any partial principal forgiveness, if applicable) of the second lien, converted to a monthly rate. The calculation formula is:

- $160 \text{ basis points} \times \text{unmodified UPB (less any partial principal forgiveness, if applicable) of second lien} / 12.$

Payment reduction cost share compensation is paid monthly beginning the month following the month the permanent 2MP modification becomes effective. This compensation will be provided for up to five years as long as the *modified* first lien ~~modified under HAMP~~ remains in good standing and neither the first lien nor the second lien has been paid in full. However, if the ~~HAMP Tier 1~~-modified first lien is subsequently re-modified under HAMP Tier 2 *or GSE Standard Modification*, 2MP incentive compensation will resume and a true-up of incentives

unpaid during the interim period between the Tier 1 and Tier 2 modifications, *or the GSE HAMP and GSE Standard Modification*, will be calculated and paid, as appropriate.

11.3.2 Extinguishment Incentive

For purposes of determining the incentive payment to the investor for extinguishing a second lien, the 2MP servicer must know the borrower's combined loan-to-value (CLTV) ratio. The CLTV is the ratio of the current total UPB of the ~~HAMP~~-modified first lien and the current total UPB of the unmodified second lien divided by the property value obtained in connection with the permanent ~~HAMP~~ *first lien* modification. LPS will provide the 2MP servicer with the current total UPB of the ~~HAMP~~ modified first lien and the value of the property that secures the ~~HAMP~~-modified first lien in the second lien match notification.

Investors are entitled to compensation per dollar of UPB extinguished in CLTV range based on the table below.

2MP Compensation Per Dollar of UPB Extinguished in CLTV Range (Loans Less than or Equal to Six Months Past Due)		
<115%	115% to 140%	>140
0.42	0.30	0.20

Notwithstanding the foregoing, the investor will be paid \$0.12 per dollar of the UPB being extinguished for second mortgage liens that were greater than six months past due at any time during the 12 months prior to the date of extinguishment. Second lien extinguishment compensation is paid in the month following receipt by the Program Administrator of all required data relating to the second lien extinguishment. The 2MP servicer must represent and warrant that the second lien has been released in compliance with applicable laws when submitting a request for 2MP extinguishment payment.

Z. Section 9.2.3 of Chapter V is deleted in its entirety.

~~9.2.3 2MP Reason Codes~~

~~2MP servicers are required to provide to the Program Administrator, for all second liens for which 2MP modifications were not approved, approved but not accepted or approved but failed the 2MP trial period, the following categories of information:~~

- ~~• Loan Identifying Information~~
- ~~• Borrower/Co-Borrower Identifying Data~~
- ~~• Property Identifying Data~~
- ~~• Reason Code~~

AA. Sections 3 and 3.1 of Chapter VIII are amended as follows:

3 Interactions with HAMP

HHF programs may target assistance to borrowers who are not HAMP Tier 1-eligible because the proposed modification is NPV negative (as described in Section 7 of Chapter II). HFAs hope to

make modifications NPV positive for HAMP Tier 1 by providing assistance in the form of upfront principal reduction to enable the modification. Depending on the HHF program rules, the investor may be required to contribute to or match, on a dollar-for-dollar basis, this assistance. The Base NPV Model does not evaluate the impact of principal reduction payments made by a third party on investor cash flows. In order to estimate the impact of HHF principal reduction payments, servicers who participate in these types of programs should follow a different analysis protocol than that required for PRA or for HAMP Tier 1.

Generally, the NPV result will improve by an amount greater than the principal reduction contribution provided by the HHF. However, the precise contribution required to generate an NPV positive result for HAMP Tier 1 depends on individual loan and borrower characteristics and is difficult to predict. Servicers working with HHF programs to find an amount of principal reduction that will produce an NPV positive result for HAMP Tier 1 may be required to iteratively increase the HHF contribution amount. *In addition, for HAMP Tier 2, the post-modification monthly mortgage payment ratio must fall within the Expanded Acceptable DTI Range, or the Servicer's DTI Range if different.* HHF programs and servicers may wish to jointly establish a threshold NPV positive amount beyond which further testing is not required. HHF programs should provide written testing instructions to participating servicers detailing preferred iteration amounts and allowed thresholds. Such instructions must reflect a minimum contribution amount of \$1,000 and increases in increments of not less than \$1,000, up to the maximum amount established by the applicable HHF program. The last NPV run should reflect the final terms of the HAMP Tier 1 modification.

In evaluating for HAMP Tier 1 -

- **Generate the modification terms:** Similar to the steps of the standard or alternative modification waterfall, servicers should first capitalize allowable costs into the pre-modification UPB. Then servicers should subtract the projected amount of principal reduction, including any required investor contributions, to determine an adjusted UPB that should be used to calculate any interest rate, term, and forbearance changes required to achieve the 31 percent target monthly mortgage payment ratio.
- **Run the NPV Test:** Servicers will use only the input fields for the standard modification waterfall (*not the alternative modification waterfall*) in testing for HHF principal reduction. The servicer should enter into the NPV model the adjusted UPB, interest rate, term and forbearance generated by applying the guidance in the paragraph above. The servicer should enter all principal reduction associated with the modification – including PRA reduction, HHF reduction, and any investor match for HHF reduction – into the appropriate input field labeled “Principal Forgiveness Amount.” as indicated in the Base NPV Model Documentation.
- **Calculate NPV:** *Because the Base NPV Model does not evaluate the impact of principal reduction payments made by a third party on investor cash flows,* after the NPV evaluation, the servicer must add the amount of the HHF principal reduction payment to the NPV result to determine the cash flow to the investor. Any principal reduction contributions from the investor should not be added to the NPV result.

NOTE: Instructions for enhancing the NPV result for loans modified under HAMP Tier 2 will be provided at a later date.

In evaluating for HAMP Tier 2 –

- **Determine Capitalized UPB:** *Similar to the steps of the standard or alternative modification waterfall, servicers should first capitalize allowable costs into the pre-modification UPB.*
- **Run the NPV Test:** *Servicers will use only the input fields for the standard modification waterfall (not the alternative modification waterfall) in testing for HHF principal reduction. The servicer should enter the capitalized UPB into the NPV model. The servicer should also enter all principal reduction associated with the modification – including PRA reduction, HHF reduction, and any investor match for HHF reduction – into the appropriate input field as indicated in the Base NPV Model Documentation. The model will calculate the interest rate, term and forbearance in accordance with the Tier 2 Standard Modification Waterfall described in Section 6.3.2 of Chapter II.*
- **Calculate NPV:** *Because the Base NPV Model does not evaluate the impact of principal reduction payments made by a third party on investor cash flows, after the NPV evaluation, the servicer must add the amount of the HHF reduction to the NPV result to determine the cash flow to the investor. Any principal reduction contributions from the investor should not be added to the NPV result.*

3.1 Interactions with PRA

As detailed in the program guidance set forth in Section 6.4 of Chapter II, under PRA, servicers must evaluate every HAMP-eligible borrower with an LTV ratio greater than 115 percent for possible principal reduction by completing both the *applicable* standard modification waterfall and the *applicable* alternative modification waterfall that includes principal reduction. If as a result of this evaluation the servicer elects to offer principal reduction as part of a permanent modification, Treasury will pay principal reduction incentives to the investor. These incentives are in addition to any investor cost share or home price decline protection incentives the investor may be eligible to receive.

Several HHF programs are designed to assist borrowers whose homes are significantly underwater by providing principal reduction payments, which may or may not require a matching contribution from the first lien investor. Loans modified under HAMP that include HHF principal reduction are eligible for standard borrower, servicer and investor incentives, *as applicable*, as described in Section 13 of Chapter II.

Investors are not eligible to receive PRA incentives for any principal reduction contributions made as part of an HHF program with principal reduction. However, if the servicer agrees to provide a greater amount of principal reduction than is required under an HHF program, the investor may be eligible for PRA incentives if, after subtracting the total HHF principal reduction and any required investor match from the UPB after capitalization in accordance with

Section 6.3.1 of Chapter II, the adjusted LTV ratio is greater than 105 percent. If the adjusted LTV ratio is equal to or less than 105 percent, the loan is only eligible for PRA investor incentives for principal reduction down to 105 percent (as discussed in Section 13.3.4 of Chapter II).

HHF programs can be used to pay escrow shortages and reduce arrearages. If these amounts have been capitalized, the payments are treated as principal reduction.