

*Supplemental Directive 17-01**April 14, 2017****Making Home Affordable Program – Non-Performing and Re-Performing Loan Sales of GSE HAMP Loans and Administrative Clarifications***

In February 2009, the Obama Administration introduced the Making Home Affordable (MHA) Program to stabilize the housing market and 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. Section 709(b) of the Consolidated Appropriations Act, 2016, P.L. 114-113 (Act), signed into law on December 18, 2015, provided that the MHA Program would terminate on December 31, 2016, except with respect to certain loan modification applications made before such date. On May 26, 2016, Treasury issued version 5.1 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, securitized or guaranteed by Fannie Mae or Freddie Mac (Non-GSE Mortgages).

This Supplemental Directive provides guidance to servicers regarding GSE HAMP Loans (as defined in the *Handbook*) sold as part of either a non-performing or re-performing loan sale (NPL Sale or RPL Sale, respectively) and the eligibility of such loans to receive financial incentives through the Troubled Asset Relief Program (TARP). In addition, this Supplemental Directive provides administrative updates and clarifications to the Home Affordable Modification ProgramSM (HAMP[®]) and the Second Lien Modification ProgramSM (2MPSM). 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 does not apply to mortgage loans that are insured or guaranteed by the Department of Veterans Affairs, the Department of Agriculture's Rural Housing Service or the Federal Housing Administration and, except as stated herein, mortgage loans that are owned, securitized or guaranteed by Fannie Mae or Freddie Mac (each, a GSE).

This Supplemental Directive amends and supersedes the notated portions of the *Handbook* and is effective immediately.

This Supplemental Directive covers the following topics:

- NPL and RPL Sales of GSE HAMP Loans
- Evaluation Upon Submission of an Initial Package
- Streamline HAMP Affidavit
- Financial Counseling – Solicitation of Borrowers
- Base NPV Model
- Principal Curtailments Following Modification

NPL and RPL Loan Sales of GSE HAMP Loans

NPL Sales

With respect to a GSE Loan that was (i) transferred as part of an NPL Sale, and (ii) in an active GSE HAMP trial as of the closing date of the NPL Sale, the loan is eligible to receive incentives applicable to Non-GSE Loans in accordance with the terms and conditions set forth in the SPA and the *Handbook*, provided that the subject loan (a) was serviced by a servicer subject to a SPA at the time of the closing date of the NPL Sale, (b) was permanently modified on or after the closing date of the NPL Sale, and (c) meets all requirements set forth in Section 13.4 of Chapter II of the *Handbook*, including, but not limited to, delivery of the Dodd-Frank Certification.

RPL Sales

With respect to a GSE Loan that was (i) transferred as part of an RPL Sale, and (ii) in an active GSE HAMP trial or modification as of the closing date of the RPL Sale:

- If permanently modified *on or after* the closing date of the RPL Sale, the loan is eligible to receive incentives applicable to Non-GSE Loans in accordance with the terms and conditions set forth in the SPA and the *Handbook*, provided that (a) immediately following the RPL Sale, the subject loan is serviced by a servicer subject to a SPA, and (b) the subject loan meets all requirements set forth in Section 13.4 of Chapter II of the *Handbook*, including, but not limited to, delivery of the Dodd-Frank Certification.
- If permanently modified *before* the closing date of the RPL Sale, the loan is eligible to receive a \$5,000 pay for performance incentive with respect to the Sixth Anniversary Date in accordance with the terms and conditions set forth in the SPA and the *Handbook*, provided that (a) immediately following the RPL Sale, the loan is serviced by a servicer subject to a SPA, and (b) the GSE has directed the servicer to continue reporting the loan as a GSE HAMP Loan in the HAMP Reporting Tool, following the RPL Sale closing date.

- All other loans will not be eligible to receive financial incentives through TARP from and after the closing date of the RPL Sale.

Interactions with 2MP

With respect to a 2MP modification for which the corresponding GSE first lien loan (i) was transferred as part of an NPL or RPL Sale, and (ii) will not be eligible for financial incentives under TARP, such 2MP modification will not be eligible for financial incentives under the SPA, from and after the closing date of the NPL or RPL Sale, as applicable. For the sake of clarity, the foregoing applies with respect to first lien loans that were permanently modified under GSE HAMP, as well as first lien loans that received GSE Standard Modifications.

Evaluation upon Submission of an Initial Package

As set forth in Section 1.1 of Chapter II of the *Handbook*, in order to be eligible for HAMP, a borrower must submit an Initial Package (as defined in Section 4) on or before December 30, 2016 and the Modification Effective Date must be on or before December 1, 2017. This Supplemental Directive clarifies that a borrower must have submitted all four components of the Initial Package (as specified in Section 4) by December 30, 2016, however, to the extent necessary, a servicer may request additional documentation with respect to one or more components (e.g., additional income documentation) which the borrower may provide after December 30, 2016 and still be deemed to have met basic HAMP eligibility criteria with respect to the program cut-off date. Similarly, if the four components of an Initial Package are submitted on or before December 30, 2016 but the servicer determines that a replacement document is required to correct errors, omissions or defects, the servicer must send the borrower an Incomplete Information Notice (in accordance with Section 4.5) and exercise reasonable diligence to obtain such replacement document in order for the borrower to be evaluated for HAMP.

Streamline HAMP Affidavit

Section 9 of Chapter II of the *Handbook* states that a borrower in a Streamline HAMP trial period plan cannot convert to a permanent modification without providing the executed Streamline HAMP Affidavit or an executed Request for Mortgage Assistance (RMA) that is submitted by the borrower during the Streamline HAMP trial period plan as part of an Initial Package in order to be evaluated for HAMP. Further, Section 2.4.2 provides that, in the event a servicer receives an executed RMA from a borrower after acceptance of a Streamline HAMP trial period plan, before sending the Streamline HAMP Documents to the borrower for signature, the servicer does not have to send the Streamline HAMP Affidavit with the Streamline HAMP Modification Agreement.

This Supplemental Directive provides that a servicer may accept an executed Dodd-Frank Certification and Hardship Affidavit (or, alternatively, a signed and fully completed RMA incorporating those two documents) that was previously submitted by a borrower in place of a separate Streamline HAMP Affidavit, if, in the servicer's good business judgment, the borrower

still has a financial hardship and does not have sufficient liquid assets to make monthly mortgage payments. If a borrower previously submitted the aforementioned documents but ultimately was denied for HAMP and/or the servicer issued a Non-Approval Notice in connection with the receipt of such documentation, the servicer must obtain a new Dodd-Frank Certification or a new Hardship Affidavit which incorporates such Certification.

Financial Counseling – Solicitation of Borrowers

Section 6.7.1.3 of Chapter II of the *Handbook* requires certain servicers to periodically send their designated HUD-approved housing counseling agencies an updated inclusion file of Risk of Default Borrowers. Within 30 days of receipt of the inclusion file, the counseling agency must commence reasonable efforts (as defined in Section 6.7.1.1) to contact each identified Risk of Default Borrower.

This Supplemental Directive allows servicers to perform the reasonable efforts solicitation of Risk of Default borrowers using in-house resources, rather than outsourcing such efforts to the counseling agency. Upon Right Party Contact, the servicer must conduct a warm transfer of such borrowers to the counseling agency, with the borrower's agreement. In addition, servicers must also continue to offer counseling to those borrowers who contact the servicer with concern regarding their ability to make their modified payments.

Base NPV Model

Section 7.1.1 of Chapter II of the Handbook states that access to the MHA Base NPV Model (Base NPV Model) software tool on www.HMPadmin.com will end on May 1, 2018. In addition, Section 7.2 of Chapter II states that, from time to time, Treasury releases updates to the Base NPV Model and requires all servicers to use the most recent version. The guidance also specifies that the final update to the Base NPV Model will be released in March 2017, except that the PMMS rate will continue to be updated through September 30, 2017.

In order to support data collection efforts extending beyond June 30, 2017, this Supplemental Directive revises the previous guidance to state that the final update to the Base NPV Model will now be released in June 2017. Re-coded versions of the NPV model must remain compliant with any updates made to the Base NPV Model through such date. Servicers may continue to use the Base NPV Model software tool until May 1, 2018 provided the NPV inputs are on or before September 30, 2017.

Principal Curtailments Following Modification

With respect to a loan with principal forbearance, Section 9.6 of Chapter II of the *Handbook* instructs servicers to apply a principal curtailment received from or on behalf of a borrower to the principal forbearance portion if the principal curtailment amount is greater than or equal to the interest-bearing unpaid principal balance. Such action eliminates the possibility of a curtailment paying off (and satisfying) the interest-bearing portion of the unpaid principal

balance, which would otherwise cause the entire loan to become due and payable, including the principal forbearance portion owed as a balloon payment.

Supplemental Directive 17-01 expands this guidance by instructing servicers to also apply a curtailment received from or on behalf of a borrower (including, but not limited to, the pay for performance principal balance reduction payment of \$5,000 with respect to the Sixth Year Anniversary Date) to the principal forbearance portion of a loan if application of the curtailment to the interest-bearing unpaid principal balance would accelerate pay-off of the remaining unpaid principal balance in 12 months or less.

EXHIBIT A
MHA HANDBOOK MAPPING

I. NEW HANDBOOK SECTION

A. A new Section 13.5 of Chapter II is inserted in its entirety as follows:

13.5 Non-Performing Loan (NPL) Sales and Re-Performing Loan (RPL) Sales of GSE HAMP Loans

13.5.1 NPL Sales

With respect to a GSE Loan that was (i) transferred as part of an NPL Sale, and (ii) in an active GSE HAMP trial as of the closing date of the NPL Sale, the loan is eligible to receive incentives applicable to Non-GSE Loans in accordance with the terms and conditions set forth in the SPA and the *Handbook*, provided that the subject loan (a) was serviced by a servicer subject to a SPA at the time of the closing date of the NPL Sale, (b) was permanently modified on or after the closing date of the NPL Sale, and (c) meets all requirements set forth in Section 13.4 of Chapter II of the *Handbook*, including, but not limited to, delivery of the Dodd-Frank Certification.

13.5.2 RPL Sales

With respect to a GSE Loan that was (i) transferred as part of an RPL Sale, and (ii) in an active GSE HAMP trial or modification as of the closing date of the RPL Sale:

- If permanently modified *on or after* the closing date of the RPL Sale, the loan is eligible to receive incentives applicable to Non-GSE Loans in accordance with the terms and conditions set forth in the SPA and the *Handbook*, provided that (a) immediately following the RPL Sale, the subject loan is serviced by a servicer subject to a SPA, and (b) the subject loan meets all requirements set forth in Section 13.4 of Chapter II of the *Handbook*, including, but not limited to, delivery of the Dodd-Frank Certification.
- If permanently modified *before* the closing date of the RPL Sale, the loan is eligible to receive a \$5,000 pay for performance incentive with respect to the Sixth Anniversary Date in accordance with the terms and conditions set forth in the SPA and the *Handbook*, provided that (a) immediately following the RPL Sale, the loan is serviced by a servicer subject to a SPA, and (b) the GSE has directed the servicer to continue reporting the loan as a GSE HAMP Loan in the HAMP Reporting Tool, following the RPL Sale closing date.
- All other loans will not be eligible to receive financial incentives through TARP from and after the closing date of the RPL Sale.

13.5.3 Interactions with 2MP

With respect to a 2MP modification for which the corresponding GSE first lien loan (i) was transferred as part of an NPL or RPL Sale, and (ii) will not be eligible for financial incentives under TARP, such 2MP modification will not be eligible for financial incentives under the SPA, from and after the closing date of the NPL or RPL Sale, as applicable. For the sake of clarity, the foregoing applies with respect to first lien loans that were permanently modified under GSE HAMP, as well as first lien loans that received GSE Standard Modifications.

II. 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. A sentence is added to the end of the fourth paragraph of Section 2.4.2 of Chapter II as follows:

In the event the servicer receives the executed Streamline HAMP Affidavit or receives an executed RMA from the borrower after acceptance of the Streamline HAMP TPP, in either case, before sending the Streamline HAMP Documents to the borrower for signature, the servicer does not have to send the Streamline HAMP Affidavit with the Streamline HAMP Modification Agreement. *A servicer may also accept an executed Dodd-Frank Certification and Hardship Affidavit (or, alternatively, a signed and fully completed RMA incorporating those two documents) that was previously submitted by a borrower in place of a separate Streamline HAMP Affidavit, if, in the servicer's good business judgment, the borrower still has a financial hardship and does not have sufficient liquid assets to make monthly mortgage payments. If a borrower previously submitted the aforementioned documents but ultimately was denied for HAMP and/or the servicer issued a Non-Approval Notice in connection with the receipt of such documentation, the servicer must obtain a new Dodd-Frank Certification or a new Hardship Affidavit which incorporates such Certification.*

B. Section 4 of Chapter II is amended to insert the following as a new paragraph after the last bullet:

In order to be eligible for HAMP, a borrower must have submitted all four components of the Initial Package by December 30, 2016. To the extent necessary, however, a servicer may request additional documentation with respect to one or more components (e.g., additional income documentation) which the borrower may provide after December 30, 2016 and still be deemed to have met basic HAMP eligibility criteria (as specified in Section 1.1 of Chapter II) with respect to the program cut-off date. Similarly, if the four components of an Initial Package are submitted on or before December 30, 2016 but the servicer determines that a replacement document is required to correct errors, omissions or defects, the servicer must send the borrower an Incomplete Information Notice (in accordance with Section 4.5) and exercise reasonable diligence to obtain such replacement document in order for the borrower to be evaluated for HAMP.

C. A new paragraph is added to the end of Section 6.7.1.2 of Chapter II as follows:

Servicers may perform the reasonable efforts solicitation of Risk of Default borrowers using in-house resources, rather than outsourcing such efforts to the counseling agency. Upon Right Party Contact, the servicer must conduct a warm transfer of such borrowers to the counseling agency, with the borrower's agreement. In addition, servicers must also continue to offer counseling to those borrowers who contact the servicer with concern regarding their ability to make their modified payments.

D. The last paragraph of Section 7.1.1 of Chapter II is amended as follows:

Access to the Base NPV Model will end on May 1, 2018. Servicers may continue use the Base NPV Model software tool until this date, provided the NPV inputs are on or before September 30, 2017

E. Section 7.2 of Chapter II is amended as follows:

From time to time Treasury releases updates to the Base NPV Model. All servicers are required to use the most recent version and loans being evaluated for HAMP for the first time will be tested using the latest available Base NPV Model version. Loans subject to a re-evaluation must be tested using the same NPV version and inputs used for the initial NPV test in accordance with Section 7.6.1 and 7.7. *In order to support data collection efforts extending beyond June 30, 2017, the final update to the Base NPV Model will be released in ~~March~~ June 2017, except that the PMMS rate will continue to be updated through September 30, 2017. Re-coded versions of the NPV model must remain compliant with any updates made to the Base NPV Model through such date.*

F. The first paragraph of Section 9 of Chapter II is amended as follows:

A borrower in a TPP may receive a permanent modification as long as the servicer has received all required trial period payments timely and all other required documentation from the borrower, including a fully executed Modification Agreement. In addition, a borrower in a Streamline HAMP TPP cannot convert to a permanent modification without providing the executed Streamline HAMP Affidavit (the form of which is available on www.HMPAdmin.com) or an executed RMA that is submitted by the borrower during the Streamline HAMP TPP as part of an Initial Package in order to be evaluated for HAMP. A servicer may, however, accept an executed Dodd-Frank Certification and Hardship Affidavit (or, alternatively, a signed and fully completed RMA incorporating those two documents) that was previously submitted by a borrower in place of a separate Streamline HAMP Affidavit, if, in the servicer's good business judgment, the borrower still has a financial hardship and does not have sufficient liquid assets to make monthly mortgage payments. If a borrower previously submitted the aforementioned documents but ultimately was denied for HAMP and/or the servicer issued a Non-Approval Notice in

connection with the receipt of such documentation, the servicer must obtain a new Dodd-Frank Certification or a new Hardship Affidavit which incorporates such Certification.

G. Section 9.6 of Chapter II is amended as follows:

If a principal curtailment is received from or on behalf of the borrower on a loan that has a principal forbearance, servicers are instructed to apply the principal curtailment to the interest bearing UPB. If, however, the principal curtailment amount is greater than or equal to the interest bearing UPB, then the curtailment should be first be applied to the principal forbearance portion. If the curtailment satisfies the principal forbearance portion, any remaining funds should then be applied to the interest bearing UPB. This eliminates the possibility of a curtailment paying off (and satisfying) the interest-bearing portion of the UPB, which would *otherwise* cause the entire loan to become due and payable ~~and force the borrower to pay off~~, including the principal forbearance portion of the loan balance owed as a balloon payment.

If a principal curtailment (*including, but not limited to, the pay for performance principal balance reduction payment of \$5,000 with respect to the Sixth Year Anniversary Date*) is received from or on behalf of the borrower on a loan that has a principal forbearance, servicers are instructed to apply the principal curtailment to the interest-bearing UPB. If, however, the principal curtailment amount is greater than or equal to the interest-bearing UPB, *or if application of the curtailment to the interest-bearing UPB would accelerate pay-off of the remaining UPB in 12 months or less*, then the curtailment should be first be applied to the principal forbearance portion.