HAMP Standard and Alternative Modification Waterfalls
Training Presentation for Servicers

Agenda

- Standard Modification Waterfall
- Alternative Modification Waterfall
- References & Resources
- Discussion & Questions

Standard Modification Waterfall
Standard Modification Waterfall

What Is it?
The standard modification waterfall is a stated order of successive steps that servicers must apply until the borrower's target monthly mortgage payment ratio is reduced to 31%.

STEP 1: Capitalization
STEP 2: Interest Rate Reduction
STEP 3: Term Extension
STEP 4: Principal Forbearance

When to Use It

HAMP Evaluation
Second to last trial payment
Start of permanent mod

Run Waterfall
Run the target monthly mortgage payment ratio.

Run SFR Test
Determine if the modification is reasonable by investor.

Run Waterfall
Based on updated loan characteristics. Do not run SFR test again. If SFR must be run because it is conjoined with the waterfall in the servicer's system, disregard SFR analysis.

Necessary Loan Information

Current UPB
Current Remaining Term
Monthly Gross Income
Current payment
Current interest rate
Standard Modification Waterfall

**Waterfall Steps**

1. **Capitalization**
   - The servicer must capitalize accrued interest, out-of-pocket escrow advances to third parties, and any required escrow advances that will be paid to third parties during the trial period.
   - Mortgage insurance payments that are due to should also be capitalized.
   - Late fees may not be capitalized!

2. **Interest Rate Reduction**
3. **Term Extension**
4. **Principal Forbearance**

Steps must be performed in sequence.

Servicers can capitalize advances for expenses incurred in performing servicing obligations related to the preservation of the secured property and enforcement of the mortgage.

- **Example:** foreclosure fees and costs.

However, these costs and expenses must:

- Be consistent with the security instrument.
- Be allowable under GSE guidelines.
- Not be prohibited by applicable law.
Gross Monthly Income $3,667.10
Desired PITIA @ 31% ($3667.10 x .31) $1,136.80
Taxes & Insurance $337.11
HOA Payment $100.00
Future Escrow Shortage Payment $10.00
Target Monthly Mortgage Payment $689.69

Original payment (Pre-modification) $1,774.61
Current payment $1,872.96
Remaining Term 284 months
Current Interest Rate 5.875%

Current UPB $274,965.19
Out-of-Pocket Escrow Advances $3,500.00
Projected Escrow Advance during trial period $1,000.00
Delinquent Interest $7,526.07
Late Fees $250.00
Adjusted Gross UPB $286,991.26

Gross Monthly Income $1,667.10
Desired PITIA @ 31% ($1667.10 x .31) $1,136.80
Taxes & Insurance $337.11
HOA Payment $100.00
Future Escrow Shortage Payment $10.00
Target Monthly Mortgage Payment $689.69

STEP 1 Capitalization Example Worksheet

Item

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current payment</td>
<td>$1,872.96</td>
</tr>
<tr>
<td>Taxes &amp; Insurance</td>
<td>$337.11</td>
</tr>
<tr>
<td>HOA Payment</td>
<td>$100.00</td>
</tr>
<tr>
<td>Future Escrow Shortage Payment</td>
<td>$10.00</td>
</tr>
<tr>
<td>Total PITIA</td>
<td>$2,320.07</td>
</tr>
<tr>
<td>Total PITIA payment</td>
<td>$2,320.07</td>
</tr>
<tr>
<td>Gross Monthly Income</td>
<td>$3,667.10</td>
</tr>
<tr>
<td>Current Monthly Mortgage Payment</td>
<td>63.3%</td>
</tr>
</tbody>
</table>

STEP 1 Capitalization - Monthly Mortgage Payment Ratio

Item

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current payment</td>
<td>$1,872.96</td>
</tr>
<tr>
<td>Taxes &amp; Insurance</td>
<td>$337.11</td>
</tr>
<tr>
<td>HOA Payment</td>
<td>$100.00</td>
</tr>
<tr>
<td>Future Escrow Shortage Payment</td>
<td>$10.00</td>
</tr>
<tr>
<td>Total PITIA</td>
<td>$2,320.07</td>
</tr>
<tr>
<td>Total PITIA payment</td>
<td>$2,320.07</td>
</tr>
<tr>
<td>Gross Monthly Income</td>
<td>$3,667.10</td>
</tr>
<tr>
<td>Current Monthly Mortgage Payment</td>
<td>63.3%</td>
</tr>
</tbody>
</table>

STEP 1 Capitalization Results and Evaluation

<table>
<thead>
<tr>
<th>Monthly Payment Ratio</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEP 1 Capitalization</td>
<td>63.3% $1,872.96</td>
</tr>
<tr>
<td>STEP 2 Interest Rate Reduction</td>
<td></td>
</tr>
<tr>
<td>STEP 3 Term Extension</td>
<td></td>
</tr>
<tr>
<td>STEP 4 Principal Forbearance</td>
<td></td>
</tr>
<tr>
<td>Target</td>
<td>31% $689.69</td>
</tr>
</tbody>
</table>

Proceed to STEP 2
Standard Modification Waterfall

STEP 2 Interest Rate Reduction

The servicer reduces the borrower's interest rate:

- In increments of 0.125% or 1/8 percent.
- Until the target monthly mortgage payment ratio is reached.
- Interest rate floor is 2%.
- Incentives will not be paid for reducing the rate lower than the 2% floor.
- If the resulting rate is below the Interest Rate Cap (Freddie Mac Primary Mortgage Market Survey, PMMS Rate), then the reduced rate will not increase for the first five years.

The ending rate does not have to be a multiple of one-eighth.

Interest Rate Reduction Scenario

<table>
<thead>
<tr>
<th>Current</th>
<th>Notes</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Gross UPB</td>
<td>$ 286,991.26</td>
<td></td>
</tr>
<tr>
<td>Current Interest Rate</td>
<td>5.875%</td>
<td></td>
</tr>
<tr>
<td>Current Term</td>
<td>284 months</td>
<td></td>
</tr>
<tr>
<td>Gross Monthly Income</td>
<td>$ 1,667.50</td>
<td></td>
</tr>
<tr>
<td>Desired PITI @ 31%</td>
<td>$ 1,136.80</td>
<td></td>
</tr>
<tr>
<td>Tax and Insurance</td>
<td>$ 337.11</td>
<td></td>
</tr>
<tr>
<td>HOA Payment</td>
<td>$ 100.00</td>
<td></td>
</tr>
<tr>
<td>Future Escrow Shortage</td>
<td>$ 10.00</td>
<td></td>
</tr>
<tr>
<td>Target Payment</td>
<td>$ 689.69</td>
<td></td>
</tr>
</tbody>
</table>

Use Current Interest Rate to calculate payments.

NEW INTEREST RATE: 2.0%

PROJECTED PAYMENT: $ 1,269.32

46.8%

Note: If the 31% target monthly mortgage payment ratio cannot be reached by lowering the interest rate to the 2% floor, then reduce the interest rate to the 2% floor and proceed to Step 3, Term Extension.

Interest Rate Results and Evaluation

<table>
<thead>
<tr>
<th>Monthly Payment Ratio</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEP 1 Capitalization</td>
<td>63.3% $ 1,872.96</td>
</tr>
<tr>
<td>STEP 2 Interest Rate Reduction</td>
<td>2% 46.8% $ 1,269.32</td>
</tr>
<tr>
<td>STEP 3 Term Extension</td>
<td></td>
</tr>
<tr>
<td>STEP 4 Principal Forbearance</td>
<td></td>
</tr>
<tr>
<td>Target</td>
<td>31% $ 689.69</td>
</tr>
</tbody>
</table>
Standard and Alternative Modification Waterfalls

### Standard Modification Waterfall

**STEP 3** Term Extension

The servicer extends the term:

- In one-month increments.
- Up to 480 months, which is the cap.
- As of the data collection date.

When the loan converts to a permanent modification, the term extension should be as of the modification effective date instead of the data collection date.

### Standard Modification Waterfall

**STEP 3** Term Extension - Special Considerations

Investors may not allow term extension due to:

- Pooling & Servicing Agreement (PSA)
- General Investor Servicing Agreement or Guideline

When this is the case, servicers should re-amortize the loan on an extended schedule of 480 months.

- The extended amortization schedule results in a balloon payment due at maturity.
- If re-amortization is prohibited, then servicers should skip this step and proceed to Step Four, Principal Forbearance.

### Standard Modification Waterfall

**STEP 3** Term Extension Scenario

<table>
<thead>
<tr>
<th>Current</th>
<th>Notes</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Gross UPB Amount</td>
<td>$286,991.26</td>
<td></td>
</tr>
<tr>
<td>New Interest Rate</td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td>Current Term</td>
<td>284 months</td>
<td></td>
</tr>
<tr>
<td>Gross Monthly Income</td>
<td>$3,667.10</td>
<td></td>
</tr>
<tr>
<td>Desired PITI@31%</td>
<td>$1,136.80</td>
<td></td>
</tr>
<tr>
<td>Tax and Insurance</td>
<td>$337.11</td>
<td></td>
</tr>
<tr>
<td>HOA Payment</td>
<td>$100.00</td>
<td></td>
</tr>
<tr>
<td>Future Income Shortage</td>
<td>$10.00</td>
<td></td>
</tr>
<tr>
<td>Target Payment</td>
<td>$689.69</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

- If extending the term to 480 months does NOT achieve the 31% target monthly mortgage payment ratio, or if the investor does NOT allow term extension or re-amortization, proceed to Step Four, Principal Forbearance.
### Standard Modification Waterfall

#### Principal Forbearance

The principal forbearance amount is:
- Non-interest bearing.
- Non-amortizing.
- Results in a balloon payment fully due and payable upon the earliest of the borrower’s transfer of the property, payoff of the interest bearing UPB, or at maturity of the mortgage loan.

#### Principal Forbearance Limits

With respect to both “positive” and “negative” NPV results, servicers are not required to, but may forbear more than the greater of:
- 30% of the UPB after Capitalization.
- An amount resulting in a modified interest bearing balance that would create a current MTMLTV equal to 100%.
### Principal Forbearance Scenario

<table>
<thead>
<tr>
<th>Current</th>
<th>Notes</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Gross UPB Amt</td>
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<td></td>
</tr>
<tr>
<td>NEW Interest Rate</td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td>Gross Monthly Income</td>
<td>$3,667.10</td>
<td></td>
</tr>
<tr>
<td>New PITI at 31%</td>
<td>$1,136.80</td>
<td></td>
</tr>
<tr>
<td>HOA Payment</td>
<td>$100.00</td>
<td></td>
</tr>
<tr>
<td>Target Payment</td>
<td>$689.69</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** The principal forbearance calculation assumes 2% interest and a term length of 480 months. If the investor does not allow term extensions, additional steps are necessary to calculate the correct forbearance amount.

### Principal Forbearance Results and Evaluation

<table>
<thead>
<tr>
<th></th>
<th>Monthly Payment Ratio</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STEP 1</strong> Capitalization</td>
<td>63.3%</td>
<td>$1,872.96</td>
</tr>
<tr>
<td><strong>STEP 2</strong> Interest Rate Reduction</td>
<td>2%</td>
<td>46.8%</td>
</tr>
<tr>
<td><strong>STEP 3</strong> Term Extension</td>
<td>480 Months</td>
<td>35.8%</td>
</tr>
<tr>
<td><strong>STEP 4</strong> Principal Forbearance</td>
<td>$59,239.41</td>
<td>31%</td>
</tr>
<tr>
<td>Target</td>
<td>31%</td>
<td><strong>$689.69</strong></td>
</tr>
</tbody>
</table>

### Standard Modification Waterfall

**Special Considerations**

Servicers may provide borrowers with more favorable modification terms than required by HAMP. Deviations from the Standard Waterfall must be noted in the servicing system or mortgage file.

Acceptable deviations may include:

- Interest rate does not increase after five years or is reduced to less than 2.0 percent.
- Additional principal forbearance is substituted for term extension.
- Reducing the monthly mortgage payment ratio lower than 31%.

Incentive payments will be based on only the terms that reflect the Standard Modification Waterfall and the target monthly mortgage payment ratio.
Servicers may partially perform or skip a step in the Waterfall due to restrictions from a:
- Pooling & Servicing Agreement (PSA).
- General Investor Servicing Agreement or Guideline.
Servicers should document in the loan file:
- Source of the restriction.
- Proof of reasonable efforts to seek a waiver.
- Evidence of approval or denial from the investor.
Servicers should skip any step that is restricted by a PSA or servicing agreement and continue running the waterfall.

**Standard Modification Waterfall**

**Restrictions on Waterfall Steps**

Servicers should document in the loan file:

- Source of the restriction.
- Proof of reasonable efforts to seek a waiver.
- Evidence of approval or denial from the investor.

Servicers should skip any step that is restricted by a PSA or servicing agreement and continue running the waterfall.

**Alternative Modification Waterfall**

**STEP 1**
Capitalization

**STEP 2**
Principal Reduction

**STEP 3**
Interest Rate Reduction

**STEP 4**
Term Extension

**STEP 5**
Principal Forbearance

What Is it?
The Alternative Modification Waterfall:

- Is applied in addition to the Standard Modification Waterfall for loans that have an MTMLTV ratio greater than 115%.
- Will determine whether reducing the MTMLTV to 115% will produce a positive NPV result.
- Can be used on any loan with an MTMLTV ratio greater than 105%.
- Is used to determine the target monthly mortgage payment ratio of 31%, once the MTMLTV is reduced to 115%.

### Capitalization

<table>
<thead>
<tr>
<th>STEP 1</th>
<th>Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current UPB</td>
<td>$274,965.19</td>
</tr>
<tr>
<td>- Out-of-Pocket Escrow Advances</td>
<td>$3,500.00</td>
</tr>
<tr>
<td>- Projected Escrow Advance during trial period</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>- Delinquent Interest</td>
<td>$7,526.07</td>
</tr>
<tr>
<td>- Late Fees</td>
<td>$250.00</td>
</tr>
<tr>
<td>Adjusted Gross UPB</td>
<td>$286,991.26</td>
</tr>
<tr>
<td>Gross Monthly Income</td>
<td>$3,667.10</td>
</tr>
<tr>
<td>- Desired PITIA @ 31% ($3667.10 x .31)</td>
<td>$1,136.80</td>
</tr>
<tr>
<td>Taxes &amp; Insurance</td>
<td>$397.12</td>
</tr>
<tr>
<td>HOA Payment</td>
<td>$100.00</td>
</tr>
<tr>
<td>Future Escrow/Shortage Payment</td>
<td>$10.00</td>
</tr>
<tr>
<td>Target monthly mortgage payment</td>
<td>$689.69</td>
</tr>
<tr>
<td>Original payment (Pre-modification)</td>
<td>$1,774.81</td>
</tr>
<tr>
<td>Current payment</td>
<td>$1,872.96</td>
</tr>
<tr>
<td>Remaining Term</td>
<td>284 months</td>
</tr>
<tr>
<td>Current Interest Rate</td>
<td>5.875%</td>
</tr>
</tbody>
</table>
Alternative Modification Waterfall

**STEP 2 Principal Reduction**

The current UPB is reduced by an amount necessary to reach either:
- An MTMLTV ratio equal to 115%, or
- A target monthly mortgage payment ratio of 31%.

The principal reduction amount:
- Is initially treated as a non-interest bearing principal forbearance.
- Is separate and exclusive of any other forbearance.
- Will be reduced over time if borrower remains in good standing.

Servicers are encouraged to offer principal reduction and must do so in accordance with their written PRA policy.

---

### Current Property Value
$210,000.00

### Adjusted Gross UPB
$286,991.26

### 115% MTMLTV UPB
$241,500.00

### Current Interest Rate
5.875%

### Current Term
284 months

### Gross Monthly Income
$3,667.10

### Desired PITI@31%
$1,136.80

### Tax and Insurance
$337.11

### HOA Payment
$100.00

### Future Escrow Shortage Payment
$10.00

### Target Payment (31%)
$689.69

**PrINCIPAl REDUCTION NEEDED TO REACH 115% MTMLTV**
$45,491.26

**NEW INTEREST BEARING UPB**
$241,500.00

---

**STEP 2 Principal Reduction**

### Note:
If the 31% target monthly mortgage payment ratio cannot be reached by reducing principal under Step 2, proceed to Step 3, Interest Rate Reduction.

---

### Current Interest Rate
5.875%

### Current Term
284 months

### Gross Monthly Income
$3,667.10

### Desired PITI@31%
$1,136.80

### Tax and Insurance
$337.11

### HOA Payment
$100.00

### Future Escrow Shortage Payment
$10.00

### Target Payment (31%)
$689.69

**NEW INTEREST BEARING UPB**
$241,500.00

**“WORKING” P & I PAYMENT**
$1,576.08

---

**STEP 3 Interest Rate Reduction**

### Adjusted Gross UPB Amount
$241,500.00

### Current Interest Rate
5.875%

### Current Term
284 months

### Gross Monthly Income
$3,667.10

### Desired PITI@31%
$1,136.80

### Tax and Insurance
$337.11

### HOA Payment
$100.00

### Future Escrow Shortage Payment
$10.00

### Target Payment (31%)
$689.69

**NEW INTEREST RATE**
2.0%

**PROJECTED PAYMENT**
$1,068.11

---

**STEP 3 Interest Rate Reduction**

### Note:
If the 31% target monthly mortgage payment ratio cannot be reached by lowering the interest rate to the 2% floor, reduce the interest rate to the 2% floor, then proceed to Step 4, Term Extension.
**STEP 4: Term Extension**

<table>
<thead>
<tr>
<th>Current Notes</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Gross UPB Amount</td>
<td>$286,991.26</td>
</tr>
<tr>
<td>New Interest Rate</td>
<td>2%</td>
</tr>
<tr>
<td>Current Term 284 months</td>
<td></td>
</tr>
<tr>
<td>Gross Monthly Income</td>
<td>$3,667.10</td>
</tr>
<tr>
<td>Desired PITI@31%</td>
<td>$1,136.80</td>
</tr>
<tr>
<td>Tax and Insurance</td>
<td>$377.11</td>
</tr>
<tr>
<td>HOA Payment</td>
<td>$100.00</td>
</tr>
<tr>
<td>Future Escrow Shortage Payment</td>
<td>$10.00</td>
</tr>
<tr>
<td>Target Payment</td>
<td>$689.69</td>
</tr>
</tbody>
</table>

*Note: If extending the term to 480 months does not achieve the 31% target monthly mortgage payment ratio, or if the investor does not allow term extension, proceed to Step 5, Principal Forbearance.*

**STEP 5: Principal Forbearance**

<table>
<thead>
<tr>
<th>Current Notes</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Gross UPB Amount</td>
<td>$286,991.26</td>
</tr>
<tr>
<td>New Interest Rate less Principal Reduction Amount</td>
<td>$241,500.00</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>5.875%</td>
</tr>
<tr>
<td>Loan Term 284 months</td>
<td></td>
</tr>
<tr>
<td>Gross Monthly Income</td>
<td>$3,667.10</td>
</tr>
<tr>
<td>Desired PITI@31%</td>
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<tr>
<td>Target Payment</td>
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</tr>
</tbody>
</table>

*Note: The principal forbearance calculation assumes 2% interest and a term length of 480 months. If the investor does not allow term extensions, additional steps are necessary to calculate the correct forbearance amount.*

**Alternative Waterfall Results and Evaluation**

<table>
<thead>
<tr>
<th>STEP</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Capitalization</td>
<td>$286,991.26</td>
</tr>
<tr>
<td>2</td>
<td>Principal Reduction</td>
<td>$45,491.26</td>
</tr>
<tr>
<td>3</td>
<td>Interest Rate Reduction</td>
<td>2.0%</td>
</tr>
<tr>
<td>4</td>
<td>Loan Term Extension</td>
<td>480 months</td>
</tr>
<tr>
<td>5</td>
<td>Principal Forbearance</td>
<td>$13,748.15</td>
</tr>
<tr>
<td>6</td>
<td>Interest Bearing UPB Amount</td>
<td>$227,751.85</td>
</tr>
<tr>
<td>7</td>
<td>Target Payment</td>
<td>$689.69</td>
</tr>
</tbody>
</table>

*Note: 31%**
Alternative Modification Waterfall

Variation

If principal is forgiven in an amount equal to or greater than 5% of the pre-modification UPB, servicers can:

- Elect not to reduce the interest rate all the way to the 2% floor before applying a term extension.
- Apply term extension prior to the interest rate reduction.

The interest rate must be fixed and treated as the modified rate.

NPV Test

Considerations

The NPV test must be run during HAMP evaluation after the waterfall(s) on all loans that are eligible.

The NPV test will yield a positive or negative result:

Positive NPV
- Servicer must offer the modification using the Standard Modification Waterfall.
- Servicer is encouraged to offer the modification using the Alternative Modification Waterfall.

Negative NPV
- Servicer has the option to perform the modification.

All information used for the NPV test should be as of the data collection date, which is the date the UPB and remaining term data was collected.

Summary

Standard Modification Waterfall
- Reduces the monthly mortgage payment to achieve a target monthly mortgage payment ratio of 31%
- Includes four steps

Alternative Modification Waterfall
- Includes Principal Reduction Alternative
- Demonstrates whether reducing principal will produce a positive NPV result for loans that have an MTMLTV ratio greater than 115%
- Includes five steps
References & Resources

References
Sections 6.3 – 6.6 of Chapter II of the MHA Handbook for Servicers of Non-GSE Mortgages (on HMPadmin.com)

Resources
HAMP Solution Center (HSC)
Phone: 1-866-939-4469
Email: support@HMPadmin.com
Email: Hamp_Integration_team@fanniemae.com
Website: www.HMPadmin.com

Discussion/Questions

Thank You