



MBA's NATIONAL MORTGAGE SERVICING
CONFERENCE & EXPO 2010
FEBRUARY 23-26, 2010, SAN DIEGO

Understanding MHA-Compliance Audits

Making Home Affordable – Compliance

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The logo consists of three stylized houses in blue and red above the text "MAKING HOME AFFORDABLE".

MAKING HOME AFFORDABLE

COMPLIANCE

***MHA-C is the Compliance Agent for the U.S. Treasury Department (Treasury).
The views expressed in this presentation are the views of the presenters and do not necessarily represent
positions of the Treasury.
Positions of the Treasury are arrived at only after extensive due process and deliberation.***

- MHA-C Roles & Responsibilities *Paul Heran*
- MHA-C Primary Processes
 - » Field Reviews
(Management Compliance Audits)
 - » Cash Incentive Payment Reviews
 - » Loan File Reviews *Vic O’Laughlen*
 - » NPV Reviews *Dane D’Alessandro*
- MHA-C Compliance Alerts *Vic & Dane*
- Summary *Paul*
- Q&A *All*

- Compliance Agent for HAMP responsible for evaluating and reporting to Treasury on participating (SPA signers) Mortgage Servicers' (non-GSE) HAMP compliance
- All announced MHA programs
 - » HAMP (first lien modifications)
 - » HAFA (short sales, deed-in-lieu of foreclosure)
 - » 2MP (second lien)
 - » More programs to come...
- MHA-C fulfills its responsibilities by performing:
 - » Field reviews
 - » File reviews
 - » NPV reviews
 - » Cash incentive payment reviews
 - » Other targeted reviews
- Provides Treasury with observations for Program and process improvements

- MHA-C reviews are designed to assess Servicer's processes and controls over HAMP processes, including but not limited to:
 - » Investor Outreach
 - » Borrower Solicitation/Eligibility Consideration
 - » Foreclosure Sale Suspension
 - » Document Processing
 - » NPV Modeling and Usage
 - » Modification Underwriting
 - Waterfall/NPV
 - Key decisional input – home value, debt, and income
 - » Governance Requirements
 - Controls and Related Certifications
 - ❖ Fraud controls
 - ❖ Quality Assurance,
 - ❖ Internal Controls
 - » Cash Incentive Remittance Processing
 - » Incentive applied to appropriate parties
 - » IR2 data integrity to ensure “correct” calculations / HAMP requirements

- Before the Review:
 - » Four weeks prior to audit date – Document Request
 - Policies and Procedures
 - Internal status reporting
 - Loan File selections
 - » Two weeks prior to audit date, required documentation returne
 - » MHA-C on site for approximately 5 days with approximately 5 to 7 personnel
 - » Require workspace and meeting rooms, phone, fax, copier, & Internet access

- During the Review, MHA-C will:
 - » Discuss policies and procedures over key processes
 - Solicitation, Eligibility Consideration, Investor Outreach, etc.
 - » Walk through key processes – Identify key controls
 - » Test effectiveness of identified key controls over key processes
 - » Hold closing conference to discuss observations and next steps

- After the Review:
 - » MHA-C conducts follow up on any open items
 - » MHA-C discusses observations with Treasury
 - Observations requiring Servicer response/action plan for correction
 - Observations not requiring Servicer response
 - » MHA-C issues report
 - » Written Servicer response required in 30 days

- Note that MHA-C will require:
 - » Copies of Policies and Procedures
 - » Access to systems, and copies of printouts of system data
 - » Copies of Management reports and other data
 - » Access to Internal Audit reports

- Objectives
 - » Evaluate incentives are applied to appropriate parties
 - » Assess data / calculations in IR2 fields are accurate
 - » Ensure IR2 information is consistency with loan file documentation
 - » Evaluate cash processing
 - Borrower in good standing

- Processes conducted off-site and on-site
 - » Off-Site
 - Obtain and review IR2 payment and related data
 - Targeted file review
 - » On-Site
 - Inquire and test processes
 - Targeted File Review
 - » Finalize results, discuss with Treasury, and deliver report to Servicer

- Second Look
 - » Assess Servicer processes to determine HAMP eligibility
 - » Evaluate investor participation and, where non-participant, outreach to investor seeking participation
 - » Assess processes to determine loans for HAMP eligibility and solicitation
 - » Assess suspension of foreclosure sales while borrower is considered for HAMP

- 1st Lien Permanent Loan File Review
 - » Evaluate adherence to HAMP eligibility requirements
 - » Assess accuracy of Waterfall and NPV calculations
 - » Assess underwriting and verification steps taken prior to converting Trial Mod to Final
 - » Assess whether structure and terms of HAMP Mod are consistent with requirements
 - » Assess whether proper Final Mod documentation is in place prior to finalizing Mod

- Second Look Process
 - » Request NPL book as of month-end
 - » Targeted file selection from NPL book
 - » Request electronic submission of specific files
 - » Review files and servicing history upon receipt
 - » Request additional information, as needed
 - » Finalize results, discuss with Treasury, and deliver to Servicer
 - Servicer-specific and composite averages for month

- First Look Process
 - » Targeted loan selection from IR2 completed modifications
 - » Request electronic submission of specific loan files and servicing notes
 - » Review files upon receipt
 - » Request additional information, as needed
 - » Finalize results, discuss with Treasury, and deliver to Servicer
 - Servicer-specific and composite averages for month

- NPV calculations critical to accurate HAMP decision
- Alternative methods for performing HAMP-defined NPV calculations
 - » Treasury Portal Model on HMPadmin.com
 - » Re-Coded Model
 - Requires advance MHA-C certification
 - » Proprietary Model
 - Requires advance MHA-C certification

- **NPV Re-Coded Models**
 - » MHA-C certifies model prior to use
 - » MHA-C periodically revalidates
 - On- and off-site reviews
 - Results must remain consistent with Treasury Portal Model
 - Model management practices and version control

- **Treasury NPV Portal Model on HMPadmin.com**
 - » MHA-C assesses Servicer data input policies and controls

Understanding requirements of the HAMP SPA

- Program requirements periodically updated and posted on HMPadmin.com
- Must ensure appropriate processes and controls are operative by **effective date**
- Program Administrator will periodically offer training on HAMP components and changes

Evaluating borrowers for HAMP loan modifications

- Must consider homeowner eligibility for HAMP Mod prior to execution of a Homeowner Displacement Transaction (e.g., foreclosure sale, short sale, or deed-in-lieu)
- Complete eligibility consideration generally cannot be accomplished without communication with borrower
- Required to suspend Homeowner Displacement Transaction
 - » MHA-C will assess adequacy of steps taken to avoid displacing borrower until borrower has been fully evaluated for HAMP
- Must have policies and procedures documenting practices that meet HAMP solicitation and eligibility requirements

Using and maintaining accurate data

- Data provided to Administrator and MHA-C must be accurate and reliable – Treasury and Servicer will receive reports of inaccurate or unreliable data
- Required to maintain internal controls over data integrity
- MHA-C will assess data accuracy

Removing legal prohibitions to HAMP requirements

- Required to consider all eligible loans unless prohibited by PSA or other investor agreements
- After evaluation, must use reasonable effort to contact investors to remove prohibitions and obtain waivers to execute modifications
- Recent Treasury guidance allows varying application of specific aspects of Waterfall process
- May not adjust 5-year fixed term, timing, and increments of step-up, or rate cap
- MHA-C will review outreach actions and documentation

Retaining documentation supporting compliance with HAMP guidelines

- Adequate documentation of steps taken to adhere to requirements include:
 - » Analysis of PSA or other agreements prohibiting HAMP implementation
 - » Portfolio analysis to determine HAMP eligibility
 - » Solicitation of borrower information
 - » Content and timing of required borrower notices
 - » Evaluation of eligible loans using HAMP-approved tools (e.g., Waterfall, NPV)
 - » Servicers must document foreclosure and other displacement actions are suspended until final HAMP eligibility evaluation is completed
- Missing or inadequate documentation will be considered non-compliant

Verification of income

- Requires full verification and documentation of borrower income prior to offering Trial Period Plan
 - » Applies to Trial Mods with Effective Date on or after 6/1/10
 - » This means Trial Mods initiated as early as 4/15/10 are subject to SD 10-01
 - » Initial Package documents:
 - Request for Modification and Affidavit (RMA) Form
 - Form 4506-T or 4506T-EZ and evidence of income

**Borrower eligibility
determination for
Active Trial Plans**

- If no executed Hardship Affidavit or completed Form 4506-T/ 4506T-EZ submitted, but all required Trial Period payments made and otherwise eligible for a Mod (including submission of most recent tax return in lieu of submitted IRS Forms), Servicer may:
 - » Approve Mod
 - » Send Hardship Affidavit or Form 4506-T / 4506T- EZ with Mod Agreement to the borrower
 - » Instruct borrower to execute and return all documents as condition of Permanent HAMP Mod
- If a borrower is ineligible, Servicer must:
 - Consider borrower for other available foreclosure prevention alternatives
 - Send borrower appropriate Borrower Notice (SD 09-08)

**NPV model testing
for verified income**

- For Trial Plans with Effective Dates before 6/1/10, allows option to not reevaluate loan using NPV model, subject to investor agreement
- Detailed versioning requirements included in Base NPV Model Documentation on HMPadmin.com

**All NPV runs
logged and
available for
review**

- Must maintain detailed transaction logs of all NPV model runs
 - » Including all inputs, assumptions, and results
 - » The Treasury Portal retains this data for NPV tests

Hold key inputs constant across multiple NPV runs where a Trial Mod was established using stated income

(FAQ #56)

- Must hold all NPV inputs constant across runs for same loan
 - » Except borrower-reported (income) information & updated Mod terms (from Waterfall) based on updated income
- Key inputs (i.e., UPB, LTV, FICO, PMMS rate) will change over time in loss mitigation system, but Servicer cannot pull latest inputs when re-running loan
- Both “NPV Run Date” and “Data Collection Date” refer only to initial NPV run and data collected to establish Trial Mod and cannot be changed in subsequent runs
- Once NPV is re-run within 30 days after receiving documented borrower income, it cannot be re-run further (e.g., following additional Waterfall runs to set Final Mod terms)

**Multiple NPV runs
(for Trial Mods
established with
stated income)**

- Must re-run borrower on same major version of NPV model (v3.0, v1.0), including same Supplemental Data Tables and PMMS rate

MHA-C Compliance Alert: For Servicers with NPV Implementations

Weekly PMMS Rate implementation

- Must implement new weekly Freddie Mac PMMS rate into recoded NPV models at 12:01 AM EST the day after it is released

**Waterfall guidance
– Input for NPV**

***Interest Rate
Increments &
Term Extension
Increments***

- In Waterfall, reduce interest rate in 1/8th percent increments
- Do not round pre-modification interest rate first
- Begin with un-rounded rate and reduce by 1/8th percent increments until target monthly mortgage payment is achieved or next increment would reduce rate below 2%
- Then reduce rate by less-than-1/8th percent increment to exactly 2% with no term extension
- If additional one-month term extension causes the DTI to fall below 31 percent, Servicer may – *but is not required* – to make additional extension of term
- Term extension steps must be made in one-month (not one-year) increments

- **Read** the SPA, SDs, and FAQs
 - » Very Complex Program
 - Know what you signed on for
 - » MHA-C audits to the SPA, SDs, and FAQs
 - No surprises
- **Complete** PSA Reviews and Investor Outreach
- **Implement** Required Governance
 - » Internal Controls, including Fraud Controls and Quality Assurance
 - » Certification Procedures
- **Stop** Foreclosure Sales and other Displacement Transactions
 - » Control assuring solicitation/eligibility consideration prior to foreclosure
 - » Document performance of solicitation/eligibility consideration
- **Document** your HAMP Policies and Procedures and all HAMP-related decisions



Questions...