Servicing Program Bulletin

October 3, 2012 **Program Bulletin #2012-10**

To: CalHFA Approved Lenders and Servicers

Replacement of CalHFA Loan Modification Program (CMP) with CMP 2.0

Effective immediately, CalHFA will broaden its assistance to reach more CalHFA borrowers, by replacing the existing CMP program with a new loan modification program called CMP 2.0. The CMP 2.0 is a simple, streamlined loss mitigation tool designed to help borrowers retain their home. Borrowers with CalHFA loans that are part of a Fannie Mae Mortgage-Backed Security are not covered by CalHFA's CMP 2.0 and should be referred to Fannie Mae's Home Affordable Modification Program for assistance.

The program consists of basic modification terms that can be easily implemented by servicers and CalHFA loan modification staff to reduce a borrower's monthly payment for a limited time period. This bulletin supersedes guidance on loan modifications contained in the CalHFA Servicers Guide, Section 10, page 3 and Section 6, page 11 as well as Program Bulletin #2009-12.

Property and Borrower Eligibility Criteria:
(all criteria below must be met)

- The mortgage is a first lien conventional.
- The program may include loans in foreclosure or in the process of some other form of loss mitigation activity.
- The subject property is the borrower's principal residence.
- The borrower has a documented financial hardship.
- The documentation to support income must not be more than ninety (90) days old as of the date of program eligibility.
- The property securing the mortgage loan must not be abandoned, vacant, condemned, or in a serious state of disrepair.
- Borrowers currently in bankruptcy are not eligible for the program.

Financial Hardship

CalHFA requires a financial hardship to be fully explained and documented. Examples of financial hardships include, but are not limited to:

- Involuntary loss of employment and borrower is currently unemployed.
- Temporary unemployment has caused a significant delinquency or new employment has resulted in less monthly income.
- Employer reduced borrower's pay (overtime eliminated, regular hours or base pay reduced).
- One of the borrowers' or wage earners' incomes has been eliminated due to death, incarceration, divorce or separation.
- One of the borrowers' or wage earners' incomes has been eliminated or reduced as a result of suffering a permanent or short-term disability or serious illness.
- Self-employed borrower has suffered a documentable decline in business earnings.
- Increase in monthly payment (CalHFA *interest only* PLUS^{SM} (IOP) adjustment)
- Disaster (natural or man-made) that adversely impacts a borrower's place of employment or property.

Verification of Income

The servicer is required to verify the borrower's income in accordance with the information shown on the "Loan Modification Review Checklist" (Attachment A). The borrower may qualify if his or her income verification demonstrates that the borrower's current monthly payment is over 31% of gross monthly income. For loans with Private Mortgage Insurance (PMI), the monthly surplus should be less than $1,500 based on the borrower's net monthly income (or the borrowers' combined net monthly income in the case of co-borrowers). Modification submissions outside these parameters will be submitted to the PMI Company by CalHFA underwriters for an exception if all other criteria have been met. CalHFA will review and analyze each potential modification on a case by case basis.

Rate and Term

All loan modifications will be fully amortizing. This is inclusive of a CalHFA *interest only* PLUS^{SM} (IOP) loan type. The floor interest rate will be 2%. The maximum term on a loan modification will be 40 years (480 months).

Principal Forgiveness

CalHFA will review the modification package to determine if principal forgiveness up to $40,000 is needed to get to an allowable loan-to-value ratio. Generally, forgiveness will be utilized in conjunction with Keep Your Home California's Principal Reduction Program. CalHFA will consider on a case by case basis predicated on Net Present Value (NPV) results.

Principal Forbearance

CalHFA will review the modification package to determine if principal forbearance up to 30% of the unpaid principal balance is needed to get to an allowable debt to income ratio. Generally, forbearance will be utilized in conjunction with Keep Your Home California's Principal Reduction Program. This principal forbearance will be non-interest bearing and collected at the time of payoff. CalHFA will consider on a case by case basis predicated on NPV results.

Modification Waterfall Steps and Payment Schedule

Fully Amortized Loan Programs (30 year and 40 year loans)

- Delinquent amounts (interest, escrow shortage and other reimbursable expenses) will be capitalized and added to the unpaid principal balance.
- CalHFA may elect to forgive principal in an effort to provide the borrower an opportunity to participate in Keep Your Home California's Principal Reduction Program allowing a reduced loan-to-value (LTV) ratio of 140% - 105% and an affordable debt to income (DTI) of 38%.
- Interest rate may be reduced down to a floor of 2.00% at the discretion of CalHFA.
- Reduced interest rate will be in effect for five (5) years from the date of approval, after which the reduced interest rate will be increased by 1% per year until the original Note rate is reached.
- Loan term may be extended up to 480 months (40 years) from the date of the modification.
- CalHFA may elect to forbear principal in an effort to provide the borrower an opportunity to participate in Keep Your Home California's Principal Reduction Program allowing an affordable debt to income (DTI) of 38%.
- Borrowers will be required at the time of modification to submit one (1) full modified monthly payment (in the form of a cashiers check) along with the signed CMP Agreement.
- Borrowers with PMI must have a monthly surplus income under $1,500. Exceptions will be reviewed on a case by case basis.
- Executed CMP Agreements may be recorded (see "Recording the CMP Agreement").

IOP loans will be modified into fully amortizing loans.

Waterfall Steps Example

This example shows the steps of the waterfall. Not all steps have to be taken if LTV and DTI targets are reached. Stop at the step where the results occur.

Original Loan Terms		Assumptions	
UPB	320,000	Current Income	2,000
Interest Rate	5.50%	Home Value	150,000
Remaining Term	326	Escrows	150
Current Payment	2,042.97		
Arrearages	5,500		

Targets			
Target LTV	140%	Target DTI	38.0%
Maximum UPB	210,000	Maximum P & I	610

CMP 2.0 Modification Steps

1 Capitalize Arrearages

*If none, go to step 2

EXAMPLE

Arrearages:	5,500
Revised UPB:	325,500

2 Determine KYHC PRP Payment

*If LTV is between 140% - 105% & DTI is 38% (post mod) this is a recast.

EXAMPLE

Total Amount Available:	100,000
Previously Used:	0.00
Current Loan LTV:	213.3%
Minimum PRP LTV:	105.0%
PRP Contribution:	100,000
Revised UPB:	225,500
Revised LTV	150%

3 Forgive Principal (required to get to 140% LTV)

*If LTV is between 140% - 105% & DTI is 38% (post mod) the underwriter will stop at this step after NPV review.

EXAMPLE

Forgiveness Amount	15,500
Revised UPB	210,000
Revised LTV	140%
Revised PITI	1,392.26
Revised DTI	69.6%

4 Reduce Interest Rate (required to get to 38% DTI)

*Once DTI is 38% (post mod) the underwriter will stop at that step.

EXAMPLE

Minimum Interest Rate	2.00%
Revised PITI	985.47
Revised DTI	49.27%

5 Extend Loan Term (required to get to 38% DTI)

*Once DTI is 38% (post mod) the underwriter will stop at that step.

EXAMPLE

Maximum Loan Term	480
Modified Loan Term	480
Revised PITI	785.93
Revised DTI	39.29%

6 Forbear Principal (required to get to 38% DTI)

*Once DTI is 38% (post mod) the underwriter will stop at that step.

EXAMPLE

Forbearance Amount	8,500
Revised UPB	201,500
Revised LTV	134%
Revised PITI	760.19
Revised DTI	38%

Escrow Accounts

In addition, servicers must verify that all real estate taxes and assessments are current, especially those for manufactured homes taxed as personal property, personal property taxes, condominium/HOA fees, utility assessments (such as water bills), ground rent and other assessments.

Servicers are encouraged to perform an escrow analysis prior to the commencement date of the modified loan. In the event the analysis identifies a shortage, the servicer must take steps to eliminate the shortage including collecting funds from the borrower, advancing funds and capitalizing third party advances. Any actions taken by the servicer to eliminate the escrow shortage must be in compliance with applicable laws.

Projections

If a borrower is current, the borrower should remain current for the time period up to the projected commencement date. If the borrower is not able to remain current due to a hardship, the specific reason should be in the collection notes. If the borrower was deemed ineligible for Keep Your Home California assistance, please provide us the specific reason for the decline. If the borrower has been deemed ineligible for the Principal Reduction Program (PRP) assistance, the borrower should reapply for the Mortgage Reinstatement Assistance Program (MRAP). For further guidance on the Keep Your Home California programs go to www.KeepYourHomeCalifornia.org. A regular modification projection should include due date, remaining term, UPB, delinquent interest, foreclosure fees/corp. advances, escrow advances/shortage, KYHC property value (if applicable) & KYHC PRP or MRAP assistance (if any).

Recasts

Servicers should complete a projection based on a shorter turnaround time of 30 - 45 days. CalHFA is not requiring servicers to submit a loan modification package for review. Your projection should include the due date, remaining term, UPB, delinquent interest, foreclosure fees/corp. advances, escrow advances/shortage, KYHC property value, gross income, net income, debt related expenses, KYHC PRP assistance & payment breakdown (PITI). CalHFA will provide the servicer our Recast Modification Agreement which must be completed and approved by CalHFA prior to sending to the borrower for execution. Servicer is required to return the original signed modification agreement and Servicer Reimbursement Form to CalHFA at:

California Housing Finance Agency
Attn: Loan Modification – Underwriting
1040 Riverside Parkway, Suite 110
West Sacramento, CA 95605

Review the CMP Request

Servicer is required to submit a completed loan modification package with all documentation outlined on the "Loan Modification Review Checklist" (Attachment A). You do not need to submit a package on Keep Your Home California recasts. The Servicer is encouraged to advise borrowers to seek advice from a tax professional as there may be tax consequences resulting from changed interest rates, principal reductions and principal forgiveness. Servicers should mail or fax the completed packages to:

California Housing Finance Agency
Attn: Loan Modification – Underwriting
1040 Riverside Parkway, Suite 110
West Sacramento, CA 95605
Fax: 916.326.6423

Upon receipt of a completed package, CalHFA will review for compliance with CalHFA Loan Modification guidelines. CalHFA reserves the right to request additional documentation as deemed appropriate.

Mortgage Insurer Approval

The CalHFA Loss Mitigation Unit will obtain approval of modification requests from the mortgage insurer.

Keep Your Home California Assistance

Servicers of CalHFA loans are required to participate in all Keep Your Home California assistance programs. This Keep Your Home California assistance works in conjunction with the CMP 2.0 program. Borrowers who are deemed ineligible for assistance through Keep Your Home California should still be reviewed for a modification.

Executing the CMP Agreement

The borrower is required to return the signed CMP Agreement to the servicer along with the first payment at the proposed new payment amount in the form of a cashier's check within seven (7) calendar days after the CMP Agreement is sent by the servicer. The servicer will review the modification file to ensure compliance with the CMP and forward the CMP Agreement to CalHFA, Attention: Loan Modification – Underwriting. Once CalHFA approves and executes the CMP Agreement, CalHFA will notify the servicer to process the payment and record the returned CMP Agreement, if applicable. (See "Recording the CMP Agreement" below). The form of the CMP Agreement may not be modified unless a servicer obtains CalHFA's prior written consent. After the CMP Agreement is executed (and recorded, if applicable), the servicer will send to CalHFA, Attention: Loan Modification – Underwriting, the original CMP Agreement and a signed statement that the loan is now current as of the commencement date of the modification.

Recording the CMP Agreement and Other Liens

For all mortgage loans that are modified pursuant to the CMP, the servicer must take the necessary steps to ensure that the modified mortgage loan retains its first lien position and is fully enforceable, including a review of a current title report. Where a junior lien is held by a private (non-government) entity, the CMP Agreement must be recorded, a subordination agreement obtained and a title endorsement issued to the original lender loan policy. These requirements do not apply where junior liens are held by a state or local government agency. Where a junior lien is held by a government agency, the servicer must send written notification to the government agency informing them of the CalHFA loan modification.

Incentive Fees

CalHFA will pay an incentive fee to the servicer for conventional loans in the amount of $100 for recasting a loan (with or without principal forgiveness) and $500 for a modification after the borrower and CalHFA execute the CMP Agreement and the initial modified payment has been received. The servicer incentive will be submitted to Accounting on your behalf upon receipt of the original executed agreement. The servicer does not need to claim this incentive. Reminder: Modifications completed under Federal HAMP or FHA HAMP are not eligible for the CMP incentive.

Reminders

Servicers are reminded to mail or fax the completed packages to:

California Housing Finance Agency
Attn: Loan Modification – Underwriting
1040 Riverside Parkway, Suite 110
West Sacramento, CA 95605
Fax: 916.326.6423

Thank you for your continued support of CalHFA loan programs. With your assistance, many low and moderate income families who are facing foreclosure may retain their homes.

For questions about this bulletin, contact CalHFA Loan Modification – Underwriting:

Phone 916.373.2500
Fax 916.326.6423
Email loanmod@calhfa.ca.gov

Attachment

Cal HFA SM California Housing Finance Agency

Attachment A

KYHC-CMP Loan Modification Review Checklist & Stacking Order

	Investor #:	**KYHC Homeowner ID#:**
Check Box	**Prepare Loan Modification Package on the right side of legal-sized folder**	
	___ KYHC Recast only ___ KYHC MRAP only, MRAP $_______ ___ KYHC PRP only, PRP $__________	____ FHA HAMP Ineligible ____ Federal HAMP Ineligible ____ KYHC ineligible (per KYHC) KYHC Ineligible Reason ____________________
	Recast projection showing the following: due date, remaining term, UPB, delinquent interest, foreclosure fees/corp. advances, escrow advances/shortage, KYHC property value, gross income, net income, debt related expenses, KYHC PRP assistance & payment breakdown (PITI) *These projections should be no shorter than 30 – 45 DAYS from submission to allow for review.* **Modification projection** showing the following: due date, remaining term, UPB, delinquent interest, foreclosure fees/corp. advances, escrow advances/shortage, KYHC property value (if applicable) & KYHC PRP or MRAP assistance (if any). *These projections should be no shorter than 90 DAYS from submission to allow for review.*	
	Below are items NOT needed if “KYHC Recast only” is checked above	
	Twelve (12) month payment history (from loan servicer)	
	Hardship letter explaining the reason for the delinquency with supporting documentation to verify hardship. Documentation of supporting hardship must be less than 90 days old as of the date the information is submitted to the servicer.	
	Borrower(s) to provide a list of all personal expenditures (i.e. credit cards, loans, groceries, utilities, child care, insurance, gasoline, etc.)	
	Credit report (for all borrowers)	
	Verification of income [last two (2) months computer-generated pay stubs with YTD income]	
	Verification of all supplemental income, if applicable	
	Most recent two (2) years federal tax returns including all schedules and k-1s (if applicable). If a borrower is self-employed, provide two (2) years business tax returns and YTD Profit and Loss Statement and Balance Sheet.	
	Verification of deposit [last two (2) months bank statements]	
	Verification of owner occupancy	
	Below are items NOT needed at submission but necessary prior to Loan Modification closing	
	Verbal verification of employment. To be completed no more than five (5) days prior to date of the modification agreement and first payment sent to CalHFA	
	Signed IRS Form 4506-T (Request for Transcript of Tax Return)	
	Current preliminary title report (lot book is acceptable)	

Loan modifications will be reviewed for final approval upon receipt of a completed package, which contains all the required documents. Delivery of incomplete and/or fraudulent information may result in program ineligibility.