GSE FLEX MODIFICATION WATERFALL WORKSHEET
A USER'S GUIDE

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I. Introduction

Loans owned or insured by Fannie Mae and Freddie Mac (collectively the "GSEs") are subject to loan modification programs. Since 2017, both GSEs have offered the Flex Modification. During the COVID-19 Pandemic, the GSEs created a variation on the Flex Modification for homeowners affected by the pandemic. This variation includes slightly different terms and eligibility criteria.

Mobilization for Justice's GSE Flex Modification Waterfall Worksheet analyzes homeowners for eligibility both under the traditional Flex Modification and under the Flex Modification using special rules for homeowners affected by the COVID-19 Pandemic. This Guide lays out the terms of those programs and instructions on how to use the Worksheet.

II. Loss Mitigation Covered by the Worksheet

The Worksheet covers the loan modification programs offered by the Fannie Mae and Freddie Mac. At the moment, this consists of the Flex Modification, which has been the standard GSE modification since 2017, and the Flex Modification with special terms for homeowners affected by the pandemic (herein "COVID Flex Modification"). The terms of the Flex Modification are set by the Fannie Mae and Freddie Mac Servicing Guides, while both GSEs have created the COVID Flex Modification through Lender Letters. The terms of the modifications do not differ between Fannie Mae and Freddie Mac loans.

A. Flex Modification

A Flex Modification consists of five steps: (1) capitalization of arrears, (2) setting a fixed interest rate, (3) extending the term of the loan, (4) forbearing principal and (5) testing for further principal forbearance.

At the outset, the servicer determines the unpaid principal balance by capitalizing allowable arrears, including accrued interest and allowable fees and costs.

After capitalizing arrears, the servicer must set a fixed interest rate. The resulting interest rate depends on the post-modification mark to market loan to value ratio ("MTMLTV") and the nature of the pre-modification interest rate. If the loan has a fixed interest rate, then the interest rate will not change if the MTMLTV is less than 80%; if the MTMLTV is more than 80%, then the interest rate will be set to the lesser of the contract rate and the GSE's standard modification rate. If the loan has a step rate or adjustable rate, then the outcome depends on whether or not the current rate is at the final rate or the cap rate. Loans that have reached the final or cap rate are treated in a manner identical to fixed rate loans. Loans that have not reached the final or cap rate have the interest rate set to the lesser of the GSE's standard modification rate and the final or cap rate.

After the rate is set, the term of the loan is extended to 480 months from the modification date.

In the first evaluation for principal forbearance, the Flex Modification Waterfall forbears the lesser of (1) the amount necessary to create an amortizing loan to value ratio of 100% and (2) 30% of the capitalized unpaid principal balance.

The second evaluation for principal forbearance depends on the length of the default. For loans that were more than 90 days delinquent at the time of the modification application, the Flex Modification Waterfall determines how much forbearance is necessary to create a 20% reduction in the monthly principal and interest payment. The Waterfall then forbears the lesser of (1) the amount of forbearance to create a 20% reduction in principal and interest payment, (2) the amount required to create an amortizing loan to value ratio of 80% and (3) 30% of unpaid principal balance.

For loans that were less than 90 days delinquent at the time of the modification application, the Flex Modification Waterfall determines the amount of forbearance needed to create a 40% housing expense to income ratio. The Waterfall then forbears the lesser of (1) the greater of: (a) the amount of forbearance needed to create a 40% housing expense to income ratio, and (b) the amount of forbearance to create a 20% reduction in principal and interest payment, (2) the amount required to create an amortizing loan to value ratio of 80% and (3) 30% of unpaid principal balance.

Even if the Flex Modification Waterfall is not able to create a 20% principal and interest reduction or reach the 40% HTI[1] target, the borrower will still be eligible provided that the modification results in a payment less than or equal to the pre-modification payment.

B. COVID Flex Modification

The COVID Flex Modification is only available to borrowers less than sixty days delinquent as of March 1, 2020. To receive a COVID Flex Modification, the homeowner must also be at least one month delinquent, but not more than eighteen months delinquent.

The COVID Flex Modification follows the regular Flex Modification with two important changes. First, homeowners are eligible for reduction of the interest rate down to the Fannie Mae or Freddie Mac modification rate regardless of the MTMLTV of the loan. Second, the COVID Flex Modification does not, under any circumstances, target an HTI ratio; it is completely insensitive to income.

III. Using the Worksheet

A. Overview

The Worksheet consists of three tabs: one tab of inputs and two tabs of outputs, one for

[1]HTI is the housing payment to income ratio. The housing payment is the first lien mortgage payment plus taxes, insurance and any homeowners' association dues.

each program. Within each of the tabs, the cells are color coded. Blue Cells must be filled in by the user. Yellow Cells indicate the cell is showing the result of a calculation. Green Cells indicate that the cell is showing the contents of another cell, often located on another tab. Purple Cells indicate that the cell is showing an important or final calculation result.

B. Waterfall Inputs

The inputs for the Worksheet are contained entirely on the "Inputs" tab. Inputs are sorted into Borrower Information and Mortgage Information. Borrower Information is only requested if the mortgage is delinquent for three or fewer months.

1. <u>Borrower Information</u>

Inputs related to the borrower and the property are found on the left side of the screen.

- *Timing of Employment Income* – provides six options as to when the borrower is paid to calculate monthly employment income.
    - *Weekly* – borrower is paid once a week.
    - *Biweekly* – borrower is paid once every two weeks.
    - *Bimonthly* – borrower is paid twice a month.
    - *Monthly* – borrower has a monthly pay figure.
    - *Annual* – borrower has an annual pay figure.
    - *YTD* – ("Year-To-Date") borrower has a figure showing total paid to-date over the year.
- *Enter Date of YTD* – only available if Timing of Employment Income is set to YTD. Date of YTD requires the pay date used in the YTD figure.
- *Employment Income* – borrower's gross employment income over the timeframe selected in Timing of Employment Income.

- *Contribution* – money provided on a monthly basis to the borrower from a non-borrower occupant for payment of the mortgage.
- *Untaxed Income* – monthly income that is not subject to federal income tax. Examples include SSI, SNAP, VA benefits and adoption assistance payments. The worksheet will automatically gross up untaxed income by 25%.
- *Fixed Income* – taxable income received on a monthly basis. Examples include SSA, SSD and pension payments.
- *Rental Income*
    - *Primary Residence* – income received from renting units in the primary residence. The worksheet will automatically adjust the rental income down by 25%.
    - *Rental Property* – income received from renting another, non-owner occupied property. The worksheet will automatically adjust the rental income down by 25% and subtract the PITIA on Rental.
    - *PITIA on Rental* – the housing cost of the rental property, when the borrower receives income from another, non-owner occupied property.

2. <u>Mortgage Information</u>

Inputs related to the mortgage are found on the right side of the inputs screen.

- *Owner Type* – requests the owner of the mortgage. The user selects from Fannie Mae or Freddie Mac.
- *Flex Mod Rate* – requests the current modification rate offered by the relevant GSE. You should be able to obtain the rate by following the link.
- *Estimated Value of Property* – requests the current fair market value of the property. This is used to calculate the amount of principal forbearance, if any.

- *Original Principal* – the amount of principal borrowed. If the loan was previously modified, enter the loan data from the modification.
- *Term in Months* – term of the loan in months.
- *Current Interest Rate* – the interest rate currently being charged on the loan.
- *Rate Type* – the type of loan product. The user can select either a Fixed Rate (set for the life of the loan), Adjustable Rate (adjusts based on an index) or Step Rate (changes through a series of preset rates).
- *Date of First Payment* – day that the first payment on the loan is due. This date is later than the date of origination.
- *Current Monthly P&I Payment* – available only when the mortgage has an adjustable or step rate. This cell requests the amount of monthly principal and interest payments currently due.
- *Amount of Principal Forbearance* – the amount of any non-interest-bearing balloon due at the maturity of the loan. For fully amortizing loans, this amount is zero.
- *Monthly Property Taxes* – amount of property taxes due on a monthly basis, corresponding to the "T" in PITIA.
- *Monthly Homeowner's Insurance* – cost of homeowner's insurance due on a monthly basis, corresponding to the second "I" in PITIA.
- *Monthly Association Fees* – cost of homeowner's association fees due on a monthly basis, corresponding to the "A" in PITIA.
- *UPB ("Unpaid Principal Balance") Information* – information the user has regarding the UPB, provides three options:
  - *Capitalized UPB* – user has both the UPB at the time of default and the arrears to be capitalized. Such capitalization would include interest arrears and bona fide foreclosure-related costs, but not late fees.
  - *UPB at Default* – user has both the UPB at the time of default, but not the

total capitalizable arrears. The worksheet will calculate interest arrears based on the amount of the UPB at Default and time since default, assuming a fixed interest rate.

  - *Default Date Only* – borrower only knows the default date. The worksheet will calculate UPB and interest arrears based on the amortization schedule of the mortgage, assuming a fixed rate thirty year amortization.
  - Note – both the UPB at Default and Default Date Only option calculate tax, insurance and association (collectively "TIA") arrears assuming a concurrent default and fixed costs. This creates three potential calculation inaccuracies. First, an inaccuracy will result if the TIA costs have changed since the default. Second, borrowers, especially those without escrow accounts, may continue to pay some of the TIA costs past the date on which they default of their mortgage. Finally, most TIA costs are not incurred monthly, creating a problem when the charges are evened out on a monthly basis. For example, a borrower who pays for a year of insurance and then defaults for 10 months will have no actual insurance arrears, but the worksheet will indicate the depleting value of the policy and show the borrower as having 10 months of insurance arrears. If the amount of TIA arrears is known and varies from the amount estimated by the worksheet, make adjustments in the foreclosure fees section to even out the numbers.

- *Default Date* – only appears when the user does not have the Capitalized UPB and asks the date of the first missed payment.
- *Allowable Fees and Costs* – only appears when the user does not have the Capitalized UPB and asks the amount of capitalizable fees and costs.

C. Waterfall Outputs

The Waterfall's outputs are divided between two tabs: the "Flex Mod" tab and the "COVID Flex" tab. The Flex Mod tab displays the relevant calculations for Flex Modifications, and the resulting modification terms if the loan is eligible. The COVID Flex tab displays the calculations for COVID Flex Modification, and the resulting modification terms if the loan is eligible. If the date of default is before January 1, 2020, or the loan has been in default for more than 18 months, the COVID Flex tab will display a message stating that the homeowner is ineligible.

IV. Waterfall Worksheet Example

A. Inputs

Borrower 1 financed the purchase of his home with a mortgage for $175,000.00 on January 5, 2015. Borrower 1's first payment was due on February 1, 2015. His mortgage has a fully-amortizing fixed interest rate of 5.0% and principal and interest payments of $939.44. Due to unemployment resulting from the pandemic, Borrower 1 fell behind in June 2020 with an unpaid principal balance at default of $160,000.00. Borrower 1's mortgage is a Fannie Mae mortgage, and his home is currently worth $250,000. Borrower 1 recently returned to work and would like a modification so that he can return to making his monthly mortgage payment. Because Borrower 1 is more than three months in default, the Worksheet does not ask for information about his income.

Waterfall Worksheet - Flex Modification (w COVID)
Run on: 10/6/2021

INPUTS

Cell Color Code

Requires Input	Linked Cell
Formula Cell	Result Cell

MORTGAGE INFORMATION

Owner Type	Fannie Mae
Fannie Mae Mod Rate	2.875%
Estimated Value of Property	$ 250,000.00

Loan Terms

Original Principal	$ 175,000.00
Term in Months	360
Current Interest Rate	5.000%
Rate Type	Fixed Rate
Date of First Payment	2/1/2015
Amount of Forbearance	$ -
Monthly Property Taxes	$ 238.00
Monthly Homeowner's Insurance	$ 79.00
Monthly Association Fees	$ -

Arrears and UPB

UPB Information:	UPB at Default
Enter UPB at Default:	$ 160,000.00
Estimate Arrears:	
Default Date	6/1/2020
Today's Date	10/6/2021
Total Months in Default	17
UPB at Default	$ 160,000.00
Taxes in Arrears	$ 4,046.00
Insurance Arrears	$ 1,343.00
Association Fee Arrears	$ -
Interest Arrears	$ 11,442.98
Monthly PITIA Payment	$ 1,256.44
Allowable Fees & Costs	$ 5,000.00
Total Eligible Arrears	$ 23,088.42

Mobilization for Justice Inc.'s Proprietary Waterfall Worksheet

B. Flex Modification

First, the Flex Modification analysis estimates Borrower 1's capitalized unpaid principal balance as $183,088.42

Next, the Worksheet determines the interest rate for the Flex Modification. Because Borrower 1 has a fixed rate loan, the modified interest rate depends on the MTMLTV of the loan. Here, the capitalized balance is $183,088.42 and the value is $250,000.00, so the MTMLTV is 73.24%. Because the loan has an MTMLTV of less than 80%, the Worksheet maintains a 5% interest rate. After extending the term of the loan to 480 months, the Worksheet calculates the amount of forbearance.

Initial forbearance in a Flex Modification is set to the lesser of (1) the amount needed to create a post-modification loan to value ratio of 100% and (2) 30% of the capitalized UPB. Here, the loan has an MTMLTV of less than 100% as a result, not forbearance is available at this stage.

Next, the Worksheet determines whether or not additional forbearance is necessary. Because Borrower 1 is over 90 days delinquent on his mortgage, the Flex Modification only attempts to determine whether or not additional forbearance is required to lower the monthly principal and interest payment by 20%. At a 5% interest rate over 40 years, Borrower 1 would need an amortizing balance of $155,859.69 to achieve a 20% reduction in his monthly principal and interest payment. Thus $27,228.72 of further forbearance is needed to meet that goal. However, the loan has already met the forbearance limit of having a MTMLTV below 80%. As a result, no forbearance is available.

After the completion of the waterfall, Borrower 1 is eligible for a modification with a principal balance of $183,088.42, an interest rate of 5% and a term of 480 months. He is not eligible for any principal forbearance. This creates a principal and interest payment of $882.85.

Waterfall Worksheet - Flex Modification (w COVID)
Run on: 10/6/2021

FANNIE MAE FLEX MODIFICATION

Cell Color Code

Requires Input	Linked Cell
Formula Cell	Result Cell

Gross Monthly Income	**$ 3,291.00**	

CURRENT MONTHLY PITIA AMOUNT

Principal & Interest	$ 939.44	
Taxes	$ 238.00	+
Insurance	$ 79.00	+
Association Fee	$ -	+
Monthly PITIA Payment	**$ 1,256.44**	
Remaining Term on Loan	279	months

STEP 1: CAPITALIZE THE ARREARAGE

Current Principal Balance	$ 160,000.00	+
Total Eligible Arrears	$ 23,088.42	
Unpaid Principal Balance	**$ 183,088.42**	

STEP 2: SET INTEREST RATE

Keep Current Rate:

Current Rate	**5.000%**
Result	**5.000%**

STEP 3: EXTEND THE TERM

New mortgage term	480	months

STEP 4: FORBEAR PRINCIPAL

Property value	$ 250,000.00
Capitalized UPB	$ 183,088.42
Post-Mod LTV	73.24%
Is post-mod LTV greater than 100%?	**NO**

Proceed to Step 5

New interest-bearing principal balance	$ 183,088.42

STEP 5: TEST FOR FURTHER FORBEARANCE

Borrower Over 90 Days in Default. Target P&I Reduction Only

Target Amortizing UPB for 20% P&I Reduction	$ 155,859.69
Additional Forbearance Needed For Target	$ 27,228.72

Forbearance Limits

MTMLTV at 80%	$ -
30% of Post-Mod UPB	$ 54,926.53
Additional Forbearance	$ -

MODIFICATION RESULTS

New P&I Payment	$ 882.85
New PITIA Payment	$ 1,199.85
New Principal Balance	$ 183,088.42
Principal Forbearance	$ -
New Interest Rate	5.000%
New Term	480

Mobilization for Justice Inc.'s Proprietary Waterfall Worksheet

C. COVID Flex Modification

First, the COVID Flex Modification analysis estimates Borrower 1's capitalized unpaid principal balance as $183,088.42

Next, the Worksheet determines the interest rate for the COVID Flex Modification. The interest rate analysis under the COVID Flex Modification waterfall is not sensitive to MTMLTV. Borrower 1 receives the Fannie Mae Modification Rate of 2.875% because it is less than his current interest rate. After extending the term of the loan to 480 months, the Worksheet calculates the amount of forbearance.

For the same reasons listed in the Flex Modification analysis, Borrower 1 is not eligible for any principal forbearance under the COVID Flex Modification waterfall.

After the completion of the waterfall, Borrower 1 is eligible for a modification with a principal balance of $183,088.42, an interest rate of 2.875% and a term of 480 months. He is not eligible for any principal forbearance. This creates a principal and interest payment of $642.31.

Waterfall Worksheet - Flex Modification (w COVID)
Run on: 10/6/2021

FANNIE MAE FLEX MODIFICATION

Cell Color Code

Requires Input	Linked Cell
Formula Cell	Result Cell

Gross Monthly Income	**$ 3,291.00**	

CURRENT MONTHLY PITIA AMOUNT

Principal & Interest	$ 939.44	
Taxes	$ 238.00	+
Insurance	$ 79.00	+
Association Fee	$ -	+
Monthly PITIA Payment	**$ 1,256.44**	
Remaining Term on Loan	279	months

STEP 1: CAPITALIZE THE ARREARAGE

Current Principal Balance	$ 160,000.00	+
Total Eligible Arrears	$ 23,088.42	
Unpaid Principal Balance	**$ 183,088.42**	

STEP 2: SET INTEREST RATE

Lesser of:

Fannie Mae Mod Rate	**2.875%**
Current Rate	**5.000%**
Result	**2.875%**

STEP 3: EXTEND THE TERM

New mortgage term	480	months

STEP 4: FORBEAR PRINCIPAL

Property value	$ 250,000.00
Capitalized UPB	$ 183,088.42
Post-Mod LTV	73.24%
Is post-mod LTV greater than 100%?	**NO**

Proceed to Step 5

New interest-bearing principal balance	$ 183,088.42

STEP 5: TEST FOR FURTHER FORBEARANCE

Target P&I Reduction

Target Amortizing UPB for 20% P&I Reduction	$ 214,227.84
Additional Forbearance Needed For Target	$ -

Forbearance Limits

MTMLTV at 80%	$ -
30% of Post-Mod UPB	$ 54,926.53
Additional Forbearance	$ -

MODIFICATION RESULTS

New P&I Payment	$ 642.31
New PITIA Payment	$ 959.31
New Principal Balance	$ 183,088.42
Principal Forbearance	$ -
New Interest Rate	2.875%
New Term	480

Mobilization for Justice Inc.'s Proprietary Waterfall Worksheet