

**HOPE NOW**  
**Mortgage Servicing Guidelines**  
**June 9, 2008**

## **HOPE NOW Participation**

Servicers that participate as active members of the HOPE NOW alliance are expected to and should support the following activities and principles, subject to their contractual, fiduciary and legal obligations with loan owners, master servicers, mortgage insurers and others. Nothing herein shall constitute an agreement enforceable against any Member Servicer, and there shall be no third party beneficiaries hereof.

### **1. Communication / Outreach**

- a) Member Servicers should send HOPE NOW outreach letters (on a monthly basis) using agreed upon criteria in accordance with the November 30, 2007 HOPE NOW criteria to troubled homeowners 60 days or greater past due, informing them of the option to seek counseling through a non profit agency (888-995-HOPE) and/or to contact their respective Member Servicer via a dedicated toll free number, to engage in a potential loss mitigation solution.
- b) Member Servicers should attempt to contact homeowners with subprime adjustable rate mortgages (ARM) and other homeowners with ARMs that have a probable risk of default 120 days in advance of reset.
- c) Member Servicers should participate in HOPE NOW sponsored local, state or regional 'face to face' events, based on market presence and size of loan portfolio, to offer loss mitigation options to distressed or troubled homeowners. Member Servicers with sizable market portfolios, who are not present or sufficiently staffed, should offer phone bank solutions and other communication innovations for homeowners to ensure reasonable wait times.
- d) Member Servicers agree to establish toll free hotlines, fax, and, subject to reasonable confidentiality encryption systems, email as direct ports of entry available to all HUD-certified housing counseling agencies and their counselors.
- e) Member Servicers should strive to maintain appropriate levels of staffing and other resources to accommodate reasonably anticipated volumes of inbound calls and loss mitigation requests from homeowners and authorized third party housing counseling agencies so that each Member Servicer's self-determined abandonment rate is less than 5%.

### **2. Reporting**

Member Servicers agree to track and report on performance (to a designated data aggregator) for the purposes of gauging industry progress towards reducing foreclosure volume and increasing loss mitigation options to distressed homeowners. Member Servicers remain committed to this process subject to appropriate confidentiality agreements being in place.

### 3. Loss Mitigation Options / Solutions for Preventing Foreclosure

a) Member Servicers should adopt and implement a streamlined loan modification process consistent with the American Securitization Forum (ASF) guidance dated December 6, 2007 as related to loans held in securitization trusts.

b) Upon contact with homeowners who are 90 days or greater past due, and in imminent danger of losing their home to foreclosure, Member Servicers should consider pausing the foreclosure process, when appropriate, for up to 30 days (or longer if necessary) to pursue a loss mitigation option where such an option may result in foreclosure prevention. An example of this pause process is the Project Lifeline program announced by HOPE NOW members in February, 2008.

c) Member Servicers should engage in the use of various loss mitigation options consistent with investor guidelines or approvals, or accepted servicing practices that may include:

(1) Forbearance – A temporary agreement which allows the homeowner to make partial or no payments for a period of time. The forbearance agreement is followed by a further evaluation of the loan and the homeowner’s circumstances to identify if there are any permanent workout options (i.e., repayment plan or modification). A forbearance agreement is commonly used when the homeowner is willing to pay, but is unable to do so because of a temporary and finite hardship.

(2) Repayment Plan - A verbal or written agreement where a delinquent homeowner resumes making regular monthly payments in addition to a portion of the past due payments to reinstate the loan to current status. If the homeowner is in bankruptcy, a repayment plan must be approved by the court.

(3) Modification – A written change to the terms of a homeowner’s mortgage to restructure monthly payments temporarily or permanently involving one or more of the following:

- (i) reducing the interest rate temporarily or permanently;
- (ii) on ARM loans, fixing the interest rate temporarily or permanently;
- (iii) extending the term of the loan;
- (iv) deferring past due amounts;

- (v) capitalizing past due amounts;
  - (vi) deferring principal causing a balloon payment to be due at maturity or some other date;
  - (vii) conditionally forgiving a portion of the debt; and
  - (viii) forgiving a portion of the debt.
- (4) Partial Claim -
- (i) HUD Partial Claim – A second mortgage, interest free, that is paid off at the time homeowner’s loan is paid off. This option allows up to 12 months of past due accrued mortgage payments to be included in the second mortgage. Available on FHA loans only.
  - (ii) Advance Claim – A loan provided by primary mortgage insurers to bring an insured homeowner’s mortgage current. The homeowner is obligated to repay this “advance claim” loan to the primary mortgage insurer directly or through the insurer’s designated servicer. In some instances, the mortgage insurer may not require repayment of advances.
  - (iii) Fannie Mae HomeSaver Advance -- A low interest rate loan provided by the first lien loan servicer to bring current a homeowner’s delinquent first lien loan. The loan is repaid over a 15 year term, with payment and interest accrual deferral during the first six months after the advance. Available only on most Fannie Mae-owned loans.
- (5) Short Sale – The Member Servicer or investor accommodates the homeowner’s sale of the property for less than the amount owed. Commonly used when a homeowner is experiencing a hardship and he or she obtains a bonafide and reasonably timed offer for current fair market value. Member Servicers may suspend foreclosure action for a reasonable period of time to allow the homeowner to review and close an approved transaction
- (6) Deed in Lieu of Foreclosure – The transfer of title to the property from the homeowner to the servicer as an alternative to foreclosure. Commonly used after a homeowner has attempted to

sell his or her property for fair market value for a period of time. Title must be clear and property must be in good condition.

#### **4. Performance Measures**

a) Member Servicers should transmit an acknowledgement of a request from a homeowner or authorized third party housing counselor seeking consideration or application for a loss mitigation option within 5 business days or less from receipt of request.

b) Either in the initial acknowledgement or through other timely and appropriate means, Member Servicers should provide homeowners, and if applicable, the authorized third party housing counselor, an outline of key elements of the loss mitigation request evaluation process including, as appropriate, the following:

- (1) The information that the homeowner may be asked to provide to facilitate evaluation of the loss mitigation request;
- (2) The third party approvals that could potentially be required in order to complete certain types of loss mitigation options;
- (3) A notification that during the loss mitigation evaluation process, the homeowner may continue to receive collection letters or notices from retained foreclosure attorneys or other representatives in the homeowner's state of residence;
- (4) A notification that the foreclosure process may still proceed during the period in which the loss mitigation option is being evaluated, but that the homeowner should continue to work with the Member Servicer to explore the requested loss mitigation option.

See attached exhibit A, sample communication.

c) For loans pending loss mitigation review, Member Servicers should communicate with the homeowner explaining the status of the review process if Member Servicers have not otherwise communicated with the homeowner during the prior 30 days. Status letters, emails or calls should communicate the current stage of the process to the homeowner.

d) Member Servicers should advise the homeowner, and if applicable, the authorized third party housing counselor, of their approval or denial for most loss mitigation options within 45 days from receipt of the application and required documentation from the homeowner and necessary third parties as described in exhibit B. Required documentation may include, without limitation, financial statements, tax returns, pay stubs, pay verifications, appraisals, and third party consents. Denials for loss mitigation to the homeowner should include a reason for denial.

e) Loans receiving loss mitigation approval should provide for affordability. Member Servicers should conduct an affordability analysis to determine what type of loss mitigation solution would result in a monthly payment that would be sustainable for the homeowner.

The affordability analysis should first consider the total monthly housing expense of the homeowner relative to income and whether an affordable monthly payment can be achieved to provide a reasonable amount of residual income for routine living expenses. Total current monthly obligations for non-housing debt (e.g., credit cards, auto loans) should also be reviewed. To the extent non-housing debt, when combined with the modified monthly housing expense, results in an unacceptable ratio of total debt relative to income, the homeowner will be required to make reasonable adjustments to non-housing expenses to qualify for a loan modification.

f) Member Servicers should monitor their loss mitigation inventory:

(1) to facilitate the application process of all required documentation requested by the Member Servicers;

(2) to prioritize and close applications for loss mitigation within the allotted time period specified by Member Servicers; and

(3) where necessary, withdraw loss mitigation considerations and loss mitigation offers if the homeowner does not provide necessary responses within reasonable time periods specified by the Member Servicer.

## **5. Subordination of Second Liens:**

Subject to applicable servicing agreement limitations, Member Servicers servicing second liens should re-subordinate their loans with respect to an existing first lien where the second lien holder's position is not worsened as a result of a refinance or loan modification. "Not worsened" should be understood to include the following transactions:

a) A refinancing where the new loan does not increase the first lien principal amount by more than reasonable closing costs and arrearages, and no cash is extracted by the homeowner.

b) A loan modification that lowers or maintains the monthly payment of the first lien via a term extension, rate reduction and/or principal write-down, and no cash is extracted by the homeowner.

Most securitization servicing agreements, however, will not permit subordination under a) and b) above if:

- (1) The resulting combined loan-to-value ratio of the new or revised mortgage loan is higher than the combined loan-to-value ratio prior to such transaction;
- (2) The interest rate on the new or revised loan is more than 2% (or other limitation specified by the servicing contract) higher than the existing interest rate; or
- (3) The new or revised loan is subject to negative amortization.

The aforementioned guidelines are designed to attempt to ensure that no homeowner loses the opportunity to keep his or her home, when

- the homeowner experiences financial hardship;
- the homeowner has applied for and submitted information necessary to be considered and potentially approved for a loss mitigation option; and
- the homeowner has the basic financial ability to afford his or her home.

These loss mitigation options offer balanced mortgage solutions that are affordable payment alternatives and in the best interest of the homeowner and the investor. Member Servicers should engage in these measures through teams of trained servicing staff which provide timely and professional responses to their customers.

Exhibit A  
(Sample 1)

John Doe  
123 Street  
Anywhere, USA

Dear Homeowner,

Congratulations! You have taken the first step necessary to save your home. Our records show you have applied for assistance with your monthly mortgage payments. We are here to help you review your personal financial situation to determine if a loan modification could provide the long term-sustainable solution you need to make your monthly mortgage payments. A loan modification helps you by extending the term of the loan and/or adjusting the interest rate to reduce the monthly payment due.

We know how important your home is to you, and that's why it is important to quickly find a solution. We ask that you work with us in providing the necessary documentation and that you fully understand the step-by-step process. Provided below are the steps and actions required to expedite the process.

Step 1 – Getting started – begins with requested documents. Once we receive the documentation requested (see below) you can expect to receive a final decision within 30 to 45 days.

This is the most important part of the process – because we can't begin the process of helping you without the documents and information necessary. The documents required are checked below:

- Proof of income: This could include W2's, pay stubs, or bank statements
- Hardship letter (including what happened that made you fall behind)
- Monthly Expenses
  - Utilities – heating, phone, gas/electric
  - Food expenses
  - Other debt – credit cards, personal loans, car payment, other mortgages
  - Medical expenses
  - Insurance

We ask that you immediately forward copies of the documentation requested above to the following:

Attention of: XXXXX

Address: XXXXX

Address: XXXXX



## Step 2 – We have the documents, now what?

We will review the information you submitted, and, if necessary, contact you to discuss any questions or clarifications needed. The total time to process information and review your application can take up to 45 days.

**IMPORTANT:** We want you to know that during the time your application is in review you will still receive letters and/or calls asking for your delinquent payments – this is normal. You should be aware that while you are applying for assistance, your loan is still considered late or past due and reported to credit bureaus as delinquent. This is why it is so important for you to provide the necessary documentation and answers needed as quickly as possible.

## Step 3 – Completing your application...

If your request is approved a final modification document will be mailed to you for your signature. The letter will detail the following:

- Terms of the modification
- The next payment date
- The new payment amount
- Any contribution required from the borrower (where applicable)

Please read the terms of the modification carefully and sign and return the agreement. Remember, we can't offer you a new payment amount until you've signed and returned the agreement.

We're here to help you so call us at anytime during the process if you have any questions. Remember, this is an easy process that starts and ends with you! Make sure you send your documents in on time and return any agreement right away so the modification can be completed.

Thank You!

Susie Smith  
Loss Mit Rep

1-800-123-4567

Exhibit A  
(Sample 2)

John Homeowner  
123 Street  
Anywhere, USA

Dear Homeowner,

We are pleased you have contacted us requesting assistance on your loan. While we cannot promise you assistance, we hope to find a solution that will help you, while still protecting the interests of the owner of the loan.

Following is the process that we intend to follow to consider your request.

- B. Step 1 - We need you to provide us with the following documents. You should send us all of these documents at one time to the following address:

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*[Insert documents required by each servicer]*

- Proof of income: This could include current W2's, pay stubs, or bank statements.
- An explanation of the reason for your request for assistance. If you can provide documentation of this reason, please send that as well.
- The period of time you believe you will not be able to make your regular monthly payments.
- Completed financial statement which is enclosed **[OR** A list of your monthly expenses:]
  - Utilities – heating, phone, gas/electric
  - Food
  - Car payment
  - Additional mortgages or other secured debt
  - Unsecured debt – credit cards and personal loans
  - Medical expenses
  - Insurance (i.e., medical, life, auto, homeowners/renters)
  - Transportation expenses (i.e., gasoline, mass transit)

We must receive ALL of this information before we can proceed with the next step. If we do not receive all of this information within 35 days from the date of this letter, we will remove your request from our process, and you then will have to start the whole process over again.

C. Step 2 - Review/Analysis

We will review the information you submitted. When necessary, we will obtain property appraisals, discuss the terms of a proposal with investors or mortgage insurance companies that have an interest in your mortgage, and obtain other third party documents. This may take \_\_\_\_ to \_\_\_\_ additional days.

D. Step 3 - Approval/Denial

After we obtain all information from you and the third parties, we will make a decision as to whether we are able to provide you with assistance. We hope to advise you of our decision within 45 days AFTER we receive all of your information and the information from the third parties. We will tell you whether or not we can propose a solution and if so, the terms of our proposal.

E. Step 4 - Execution

If our proposal requires you to sign new documents, we will send you the documents and request that you sign and return them with any payment required within a specified number of days. If you do not return the documents and payment by that date, our proposal will be void, and you will need to re-start the entire process again.

Please be aware that we are continuing our efforts to collect the amounts owing on your loan. Therefore, unless we have previously refused your payments, you should continue to make your monthly payments when they become due. You likely will continue to receive collection letters or notices from us or our attorneys. In addition, we may commence a foreclosure proceeding against the property that secures this loan. If we already have commenced a foreclosure proceeding, this proceeding will not be postponed unless we advise you in writing of such postponement.

Therefore, we urge you to send us all of the documents described above as soon as possible.

Very truly yours,

Exhibit B

SAMPLE LETTER TO HOMEOWNER FOR  
STATUS OF DEFAULT RESOLUTION

Dear Homeowner,

We are reviewing your request for assistance regarding your loan.

***INSERT IF MORE DATA REQUIRED (Choose those which are applicable):***

We still need you to provide the following documents:  
(List Documents)

We encourage you to provide these documents as soon as possible. If we do not receive these documents within \_\_\_\_ days from the date of this letter, we will remove your request from our process and you will need to start the process over if you want assistance.

We are waiting for third parties to provide us with additional information or consents.

Until we receive this information we are not able to make a decision regarding your request. Accordingly, please be aware that we are continuing our efforts to collect the amounts owed on your loan. You therefore may continue to receive collection letters or notices from us or our attorneys. In addition, we may commence a foreclosure proceeding against the property that secures this loan. If we already have commenced a foreclosure proceeding, this proceeding will not be postponed unless we advise you in writing of such postponement.

***INSERT IF ALL DATA RECEIVED.***

We have received all information that we believe we need at this time and we hope to make a decision within 45 days from the date we received all of the information. If we determine that we will need more information we will contact you. If you have not heard from us within the next 30 days please give us a call at the number below and refer to this letter.

**[CHOOSE APPLICABLE PARAGRAPH:]**

Please be aware that we are continuing our efforts to collect the amounts owed on your loan. You therefore may continue to receive collection letters or notices from us or our attorneys. In addition, we may commence a foreclosure proceeding against the property that secures this loan. If we already have commenced a foreclosure proceeding, this proceeding will not be postponed unless we advise you in writing of such postponement.

During this period you may continue to receive collection letters or notices from us or our attorneys. You may disregard those letters and notices. In addition, we have decided to postpone any foreclosure sale date on your property until \_\_\_\_\_(or do not provide

*date and explain that a new notice of the foreclosure sale date will be sent to them).*  
Therefore, if we have not completed a new agreement by that date we will proceed with the sale of the property on that date.

Very truly yours,

# Foreclosure Prevention Timeline

	Segment 1	Segment 2		Segment 3
	Customer Responsibility	Servicer Responsibility		Customer Responsibility
	Intake	Review / Analysis	Approval / Denial	Execution
Process	<p>At the time of delinquency or when default is imminent communication between the servicer and borrower is initiated. During this initial conversation the following information is gathered:</p> <ul style="list-style-type: none"> <li>• Proof of income: This could include W2's, pay stubs, or bank statements</li> <li>• Reason for default</li> <li>• Monthly expenses:</li> <li>• Utilities – heating, phone, gas/electric</li> <li>• Food</li> <li>• Unsecured debt – credit cards, personal loans, car payment, additional mortgages</li> <li>• Medical expenses</li> <li>• Insurance</li> </ul>	<p>The file is reviewed internally and approval or additional data is sought from:</p> <ul style="list-style-type: none"> <li>• GSE's</li> <li>• Mortgage Insurers</li> <li>• Investors</li> <li>• Trust Funds</li> <li>• Appraisers</li> </ul>	<p>Once approval is obtained for the modification a letter is sent to the borrower that includes the following information:</p> <ul style="list-style-type: none"> <li>• Terms of the proposal modification</li> <li>• Next payment due date</li> <li>• The new payment amount</li> <li>• Any contribution required from the borrower where applicable</li> </ul>	<p>Once a signed / executed modification agreement is received by the servicer it processes the documents, and notifies the investor of the modification, and the loan is reinstated.</p>
Running Time		30 – 45 days		
Customer Experience	<p>At the first sign of default or trouble in paying your mortgage, you are encouraged to call your servicer. During this phone call your servicer will gather information regarding monthly income and expenses. It is a good idea to have this information on hand when the phone call is made. Some documents to assist in this would be: bank statements, pay stubs, W2's, utility bills, credit card statements, etc. It is critical that all requested documents be submitted to the servicer as quickly as possible to make this process go smoothly.</p>	<p>Your servicer will review the information you submitted, and, when necessary, discuss the terms of a proposal with investors or mortgage insurance companies that have an interest in your mortgage and obtain additional data from third parties. The combined process of information gathering and review can take up to 60 days. The combined process of information gathering and review can take up to 60-75 days or more as it is dependent on you providing the servicer with all necessary information and the servicer obtaining additional information from third parties.</p>	<p>If you qualify for a modification, your servicer will receive approval from the necessary parties and modify the terms of the loan. Once this process is completed, a letter will be sent to you. This letter will include all the terms of the modification, the next payment date, the new payment amount, and notify you if any contribution is needed.</p>	<p>Congratulations! You have successfully completed the loss mitigation modification process. Please remember, should your circumstances change and you need additional assistance you should call your servicer.</p>

Servicers should advise the homeowner of its approval or denial for most loss mitigation options within 45 days from receipt of the required documentation from the homeowner and third parties.