General Default Policies

Workout Options Overview

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Introduction

This document outlines the hierarchy of workout options that may be offered to our customers for retention or liquidation.

Retention (keep the property):

- Home Affordable Modification Program (first for all except FHA, for which it is the last retention option)
- Repayment Plan (RPP) or Stipulated Repayment Plan (STIP)
- Special Forbearance (SF)/ Repay with a Balloon (MORT) / Disaster Moratorium
- Modification (MOD)
- HUD PC / VA Refunding

Liquidation (leave the property):

- Short Sale (SS)
- Deed in Lieu of foreclosure (DIL)

Home Affordable Modification Program (HAMP)

HAMP is a program designed for homeowners whose mortgage payment is unreasonably high for their income. The interest rate is lowered (to as low as two percent if necessary). Then, if more needs to be done, the term of the loan can be extended for up to 40 years. As a last resort, the balance may be reduced (to no less than the appraised value of the home) if the homeowner can realistically make a modified payment.

- First-lien loans originated on or before January 1, 2009.
- Property is not vacant or condemned.
- Property must be occupied by owner
- All borrowers must fully document income, including signed IRS Form 4506-T, two most recent pay stubs, and most recent tax return, and must sign an affidavit of financial hardship.
- The borrower must agree to set up an escrow account

- Housing costs (including principal, interest, property taxes and insurance) must exceed 31 percent of gross income.
- The unpaid balance of a single-family mortgage can't exceed $729,750.

Repayment Plan (RPP) or Stipulated Repayment Plan (STIP)

Due to a temporary hardship, the mortgagor(s) is unable to make their mortgage payment, but now has the financial ability to afford the monthly mortgage payment PLUS an additional amount each month to cure the delinquency.

Example. Mr. and Mrs. Jones were not able to make their mortgage payment for 3 months due to Mrs. Jones losing her job through a company lay off. Now, Mrs. Jones has found a new job and they have the ability to afford the regular $900 plus an additional $400 each month until the delinquency is cured.

- There is a substantial surplus.
- The repayment plan can bring the account current within 12 months.

If plan breaks and the loan is in Foreclosure, the stipulation is that the loan goes back into Foreclosure status at the point where it left off prior to the payment plan.

Moratorium (a.k.a. Repay Plan with a Balloon)

A moratorium is an option when the borrower experiences a temporary hardship.

Examples may include reduction of overtime, natural disasters that result in necessary repairs, or temporary loss of employment. This option allows the borrower to make regular mortgage payments, reduced payments, or suspends payments for a period of up to three (3) months. This period allows the borrower an opportunity to change their current situation. At the end of that period of time, the total amount due is required. In most cases, the borrower is unable to pay the total amount due and the other options are then explored.

- The borrower is less than 4 months delinquent.
- Has a temporary reduction/loss in income.
- Has a deficit, but may lead to another workout option.

Special Forbearance for FHA Loans (SF)

A special forbearance for FHA loans is a requirement for pre-approval of the Loan Modification.

The borrower is required to make regular payments for 3 to 4 months before the delinquent loan payments are Modified.

Loan Modification

A loan modification is an agreement between the mortgagor, Wells Fargo Home Mortgage, and the Investor that adjusts the original note in some way to help cure the delinquency.

In most cases, delinquent amounts are calculated back into the principal balance, minus a contribution amount the borrower is required to make toward any delinquency accounts. One or more changes are made to the loans maturity date, interest rate, and payment amount.

This options suits borrowers who are unable to reinstate their loan, but have proven the ability to maintain their regular monthly payment.

Partial Claim (HUD PC)

This option is only for borrowers that have an FHA loan. A partial claim is an advance made by HUD (Housing and Urban Development) to bring the account current. Upon approval from the negotiator, the mortgagor must sign a promissory note that will create a lien on the property in the name of HUD. This is a 0% interest free loan that is due and payable at the time any of the following occurs:

- Maturity date of the first mortgage.
- Satisfaction of the first note (refinance, sale of property).
- First mortgage is accelerated (foreclosure notice sent).
- Borrower vacates the property (rents out property or abandons property).

The advance only covers payment amounts (Principal, Interest, Taxes, and Insurance) not to exceed 12 months throughout the life of the loan. If the loan is in foreclosure and there are corporate recoverable fees and costs, the borrower must pay this amount in order to accept the partial claim. If the borrower is unable to pay this amount, other options may be explored.

VA Refunding

The mortgagor presents their hardship to the VA and the VA will consider restructuring the debt. In an approval situation, the VA will notify the servicer that they will pay the servicer their maximum claim to convey the property.

This may be an option if:

- Borrower has expressed a desire to retain the property.
- Borrower does not qualify for any other retention option.

Short Sale

A short sale is a workout program wherein the lender accepts less than the total payoff.

When the mortgagor's financial information shows an inability to afford their mortgage payments, they should be encouraged to sell their homes at realistic prices to avoid foreclosure. If they are unable to sell the home for a full payoff, the negotiator will analyze the data presented to determine if a short sale will mitigate the loss. The negotiator will do a cost analysis that will compare the losses to do a short sale vs. the costs of proceeding with a foreclosure.

Deed in Lieu of Foreclosure (DIL)

The primary objective of a Deed-in-Lieu is to assist the borrower in disposing of the subject property. It is a voluntary transfer of ownership from the mortgagor to the lender to satisfy the debt, but is contingent upon investor approval. Upon acceptance of the Deed-in-Lieu, the lender assumes the responsibilities and liabilities of ownership until the property is sold. If there is any risk of property ownership or any liens on the property, a Deed-in-Lieu is NOT an option for the mortgagor.