CCFA – EPMI Business Requirements

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**Summary**

This document summarizes the severity modeling team’s understanding of EPMI business requirements based on Manish Borkar and Sandy Wyllie’s initial memo dated July 12th, 2018 and follow up feedback email dated August 16th, 2018.

In CCFA, EPMI will have two components – EPMI cancellation logic and expected EPMI revenue calculation. As such, the business requirements of each component are listed below separately.

**EPMI Cancellation**

Business Requirements

1. EPMI survival and EPMI benefits are not calculated for loans that are EPMI covered as of book date i.e. ***EPMI Coverage Percentage > 0*** as of book date
2. Automatically cancel EPMI at the sunset date for all loans that are current as of sunset date.
3. Maintain EPMI coverage for loans that are delinquent on the sunset date; maintain EPMI coverage until those loans become current loans.

That is:

**Where *t* = Liquidation Date**

**Please note that: both DQ\_Stock and Curr\_DQ\_Stock are outputs of the transition model. There is no need to recalculate them for EPMI.**

Key Assumptions

1. If the loan is modified before EPMI is cancelled there is **no change** to the sunset date.

Required CCFA Profile / Data Updates

1. Loan level sunset date needs to be added to the CCFA profile.

**Expected EPMI Revenue**

Business Requirements

1. Expected EPMI Revenue is calculated as:

Where

**Postmkwl Gross Loss REO = UPBLPI + EPMI Accrued Interest REO + EPMI FCL Cost REO + EPMI Disp Cost REO– Net Sales Revenue REO – Other Revenue – Makewhole Revenue**

**Percentage Payment Option REO = EPMI Coverage Percentage \* (UPBLPI + EPMI Accrued Interest REO + EPMI FCL Cost REO+ EPMI Disp Cost REO)**

**Postmkwl Gross Loss Non REO = UPBLPI + EPMI Accrued Interest Non REO + EPMI FCL Cost Non REO + EPMI Disp Cost Non REO– Net Sales Revenue Non REO – Other Revenue – Makewhole Revenue**

**Percentage Payment Option Non REO = EPMI Coverage Percentage \* (UPBLPI + EPMI Accrued Interest Non REO + EPMI FCL Cost Non REO+ EPMI Disp Cost Non REO)**

**EPMI Accrued Interest REO = EPMI Accrued Interest LPI to Liq + EPMI Accrued Interest Liq to Disp**

**EPMI Accrued Interest NonREO = EPMI Accrued Interest LPI to Liq**

**EPMI Accrued Interest LPI to Liq = UPBLPI \* [sum(EPMI\_PassthruAI\_Rate(i=t – EPMI\_FLC\_Months+1 to t), by i) /12]**

**EPMI Accrued Interest Liq to Disp = UPBLPI \* [sum(EPMI\_NoteAI\_Rate(j=t+1 to t + Disp Months), by j) / 12]**

**Where:**

**t is the liquidation date**

**EPMI\_PassthruAI\_Rate = min(noteRate – 0.0035, noteRate – servicing\_fee)**

**EPMI\_NoteAI\_Rate= min(noteRate, 6-month LIBOR + 0.0025)**

**noteRate is the loan’s annualized monthly note rate. Marked WAC in CCFA.**

**EPMI\_FCL\_Months = min(CCFA FCL Months, Fannie Mae posted FCL timeline)**

**EPMI FCL Cost = CCFA Foreclosure Cost model with EPMI FCL Months as an input**

**instead of CCFA FCL Months**

**EPMI Disp Cost = CCFA Disposition Cost model with EPMI FCL Months as an input**

**instead of CCFA FCL Months**

Key Assumptions

1. No conveyances – EPMI loans do not have a conveyance option.
2. No curtailments – EPMI cannot be curtailed
3. No Rescissions – EPMI cannot be rescinded
4. Time lag between disposition date to EPMI payment date is **7 months**
5. Foreclosure months are capped using posted foreclosure months as of book date. For cases where CCFA foreclosure months is greater than posted foreclosure months, EPMI Accrued Interest is calculated from LPI to LPI + maximum FCL months
6. For loans with Forbearance UPB as of book date – EPMI Accrued Interest is calculated on UPBLPI including the Forbearance UPB.

Required CCFA Profile / Data Updates

1. Allowable foreclosure time frames need to be added to CCFA.
2. Loan level EPMI coverage percentage needs to be added to the CCFA profile.

Additional Information concerning CCFA cash flow

1. Counter party haircut - for the REO portion of the EPMI revenue, we apply the counter party haircut ratio as of disposition time + 7 months. For non-REO, we apply the haircut ratio as of liquidation time + 7 months

**Appendix I – Additional Clarifications**

The EPMI requirements introduce a few calculations that cannot be done accurately using the current CCFA1.5 severity model configurations. With input from the business and SF analytics team, it was decided a simplifying assumption can be made for one of these calculations and CCFA1.5 severity model configurations will be updated to meet the needs of the other calculations.

Below is a list of EPMI requirements which cannot be precisely handled using the existing CCFA1.5 severity configurations. Also, the information provided by SF team and by the business are included in the email attached below. We also included the responses below (in green).



Required CCFA Severity Model Updates / Tweaks

1. Repair expense need to the capped $5000. Currently CCFA1.5 does not model this expense line separately. Appropriate treatment needs to be implemented.

SF analytics team indicated that no need to implement additional adjustment for this cap at this point.

1. Time-based expenses such as insurance, condo/HOA fees and taxes are limited to expenses incurred within the foreclosure months cap. Currently CCFA1.5 does not have limits on time-based expenses. Appropriate treatment needs to be implemented.

Capped FCL months will be used as input to EPMI AI, EPMI FCL cost and EPMI Disp cost.

<https://www.fanniemae.com/singlefamily/servicing-guide-exhibits>

https://www.fanniemae.com/content/guide\_exhibit/foreclosure-timeframes-compensatory-fees-allowable-delays.pdf

In addition to calculations that cannot be handled using the existing CCFA1.5 configurations, the EPMI requirements also introduce timelines that appear counterintuitive to the modelers. This question was raised and clarified with the business. Please see the details below.

Questions to Users

1. Since EPMI is post MKWL, that implies MKWL proceeds are known at the time the EPMI claim is filed. In that case, since it takes an average of 18 months to get MKWL proceeds, shouldn’t the EPMI timing be longer? If not, how is the EPMI claim calculated in reality? What kind of assumptions are made, if any?

Please see response from Scott Perry in the above attached email.

**Appendix II – Supporting Documents**











Table3: Long-Term Date Look Up Table:

|  |  |  |
| --- | --- | --- |
| **State** | **State Category** | **Long-term Start Date** |
| **AK** | **2** | 2020/12 |
| **AL** | **1** | 2020/12 |
| **AR** | **5** | 2020/12 |
| **AZ** | **4** | 2020/12 |
| **CA** | **6** | 2020/12 |
| **CO** | **8** | 2020/12 |
| **CT** | **9** | 2020/12 |
| **DC** | **11** | 2020/12 |
| **DE** | **10** | 2020/12 |
| **FL** | **12** | 2020/12 |
| **GA** | **13** | 2020/12 |
| **GU** | **66** | 2020/12 |
| **HI** | **15** | 2020/12 |
| **IA** | **19** | 2020/12 |
| **ID** | **16** | 2020/12 |
| **IL** | **17** | 2020/12 |
| **IN** | **18** | 2020/12 |
| **KS** | **20** | 2020/12 |
| **KY** | **21** | 2020/12 |
| **LA** | **22** | 2020/12 |
| **MA** | **25** | 2020/12 |
| **MD** | **24** | 2020/12 |
| **ME** | **23** | 2020/12 |
| **MI** | **26** | 2020/12 |
| **MN** | **27** | 2020/12 |
| **MO** | **29** | 2020/12 |
| **MS** | **28** | 2020/12 |
| **MT** | **30** | 2020/12 |
| **NC** | **37** | 2020/12 |
| **ND** | **38** | 2020/12 |
| **NE** | **31** | 2020/12 |
| **NH** | **33** | 2020/12 |
| **NJ** | **34** | 2030/12 |
| **NM** | **35** | 2020/12 |
| **NV** | **32** | 2020/12 |
| **NY** | **36** | 2030/12 |
| **OH** | **39** | 2020/12 |
| **OK** | **40** | 2020/12 |
| **OR** | **41** | 2020/12 |
| **PA** | **42** | 2020/12 |
| **PR** | **72** | 2020/12 |
| **RI** | **44** | 2020/12 |
| **SC** | **45** | 2020/12 |
| **SD** | **46** | 2020/12 |
| **TN** | **47** | 2020/12 |
| **TX** | **48** | 2020/12 |
| **UT** | **49** | 2020/12 |
| **VA** | **51** | 2020/12 |
| **VI** | **78** | 2020/12 |
| **VT** | **50** | 2020/12 |
| **WA** | **53** | 2020/12 |
| **WI** | **55** | 2020/12 |
| **WV** | **54** | 2020/12 |
| **WY** | **56** | 2020/12 |