Flex Modifications

Eligibility
- Only applies to Fannie Mae and Freddie Mac (GSEs) loans
- The home does not need to be owner occupied, but it can’t be abandoned.

Standard v. Flex Modifications
- Until they switch to Flex Modifications, servicers can continue to offer Standard Modifications.
- Servicers have the discretion to offer Flex Modifications earlier, but they must begin offering them no later than **October 1, 2017**.
- Once servicers switch to Flex Modifications, they can no longer offer Standard Modifications. It does not remain a secondary option. The Flex Modification will be the only modification available for GSE loans.

Application Process
- •The Borrower Response Package only applies to borrowers less than 90 days behind.
- •There is NO APPLICATION for the Flex Mod if the borrower is over 90 days in default.
- •If the borrower is over 90 days in default, the borrower is automatically reviewed for the Flex Modification.
- •There is no income test for affordability (DTI). Income only matters if the borrower is less than 90 days delinquent, and even then, it only affects the amount of forbearance.

Flex Modification Waterfall
(1) Capitalization of arrears;
(2) Setting a fixed interest rate;
(3) Extending the term of the loan; and
(4) Forbearing principal.

To run a Flex Modification Waterfall for your client, you can use Mobilization for Justice (MFJ)’s waterfall worksheet, available at http://mobilizationforjustice.org/projects/foreclosure-prevention-project/

Terms of the Flex Modification

Loan Term:

- The term is always extended to 480 months.

Interest Rate

- The resulting interest rate depends on 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 (HAMP mod) 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 the same as fixed rate loans.
- Loans that have not reached the final or cap rate have the interest rate set at the lesser of the GSE’s standard modification rate and the final or cap rate.
- Fannie Mae’s and Freddie Mac’s modification interest rates are available online.

Forbearance:

The first step is forbear 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 step moves toward a target forbearance amount until the modification hits the loan’s forbearance cap.

The target depends on the length of the mortgage default:

- For loans more than 90 days in default, the target is the amount of forbearance to create a 20% reduction in principal and interest payment
- For loans less than 90 days in default, the target is the greater of:
  (1) The amount of forbearance needed to create a 40% housing expense to income ratio, and
  (2) The amount of forbearance to create a 20% reduction in principal and interest payment.

The forbearance cap prevents the amount of forbearance from exceeding either:

(1) The amount required to create an amortizing loan to value ratio of 80%; or
(2) 30% of unpaid principal balance.