



Flex Modification® Impacts on CRT

June 2024





Our Agenda

- 1. Loss Mitigation Waterfall**
- 2. CRT Modification Loss Treatment**
- 3. Enhanced Flex Modification Overview**
- 4. Side-by-Side Comparison of Terms**

Today's Speakers



Christian Valencia

Vice President

Single-Family CRT Capital Markets



Ben Gottheim

Vice President

Single-Family Servicing Policy

Loss Mitigation Waterfall



1.	Forbearance	Provides a temporary reduction or suspension of payments to give borrowers a specified period of time to improve their financial situation. No mod loss impact.
2.	Reinstatement	Provides the most desirable resolution for a temporary hardship. Reinstatement is the act of restoring a delinquent Mortgage to current status.
3.	Repayment Plan	Gives the borrower a defined period of time to reinstate the mortgage following a temporary hardship by paying normal regular payments plus an additional agreed upon amount in repayment of the delinquency.
4.	Payment Deferral*	Provides a relief option for borrowers who became delinquent due to a short-term hardship that has since been resolved. Past due payments are deferred (non-interest bearing) and will be due at maturity, payoff date, or upon transfer or sale of the mortgaged premises.
	COVID-19 Payment Deferral*	Leverages a similar concept to the Payment Deferral solution. An eligible borrower will be brought current by deferring delinquent amounts to create a non-interest bearing balance that will become due at the earlier of the mortgage maturity date, payoff date, or upon transfer or sale of the mortgaged premises.
	Disaster Payment Deferral*	As with the Payment Deferral and the COVID-19 Payment Deferral, under the terms of a Disaster Payment Deferral, brings an eligible borrower current by deferring delinquent amounts to create a non-interest bearing balance that will become due at the earlier of the mortgage maturity date, payoff date or upon transfer or sale of the mortgaged premises.
5.	Flex Modification	Provides an affordable modification that provides significant payment relief to eligible borrowers, leverages requirements of the Freddie Mac Standard and Streamlined Modifications.
6.	Applicable Credit Events	Includes such credit events as short sale, third-party sale, deed-in-lieu, REO disposition

Allocation of Modification Loss

- 1. Class B-3 Principal

- 2. Class B-2 Interest

- 3. Class B-2 Principal

- 4. Class B-1 Interest

- 5. Class B-1 Principal

- 6. Class M-2 Interest

- 7. Class M-2 Principal

- 8. Class M-1 Interest

- 9. Class M-1 Principal

- 10. Class A-1 Interest

- 11. Class A-1 Principal

Modification Hierarchy	Investor Impact	Borrower Impact
Term Extension	No impact	Loan term is extended to reduce borrower monthly payments
Interest Rate Reduction	Loss of interest from rate change	Reduces monthly payment
Principal Forbearance	Loss of interest from non-interest bearing amount	Suspension of mortgage payments for a specific period of time which is paid as a balloon payment upon termination of the loan

Modification Loss =	1	(+)	Modification Costs e.g. Interest Short Fall (Passed to investors on a monthly basis included in modification loss amount)
	2	(+)	Bankruptcy Cramdown Costs (Passed to investors at time of cramdown included in write down loss amount)

Note: For illustrative purposes only.

Enhanced Flex Modification Overview



- Current Flex Modification enhancements will be exclusively applied to the modification waterfall.
- Other Flex Modification requirements (e.g., eligibility, solicitation, documentation, etc.) will not be updated at this time, with the following minor exceptions:
 - 40% HTI ratio target for borrowers less than 90 days delinquent will be eliminated.
 - Slight adjustments to Exhibit 93 as necessary to accommodate the waterfall changes.
- **Increase Eligibility** – We are reducing the mark-to-market-loan-to-value (MTMLTV) threshold for loans to be eligible for principal forbearance and interest rate reduction to 50% MTMLTV (existing Flex Modification threshold is 80% MTMLTV – loans with lower MTMLTVs were ineligible for these concessions).
- **Equitability** - To achieve more equitable distribution of payment reduction, the enhanced Flex Modification applies each step in the waterfall incrementally until the 20% payment reduction target has been achieved. This helps to balance concessions while also providing for more consistent payment reduction distribution.

Side-by-Side Comparison of Terms



Updates to Flex Modification Waterfall Terms

Existing Flex Modification	New Flex Modification
Step 1 – Capitalize arrearages.	Step 1 – Capitalize arrearages.
Step 2 – If MTMLTV ratio is >80%, adjust the interest rate to the lower of Note Rate or Freddie Mac’s Modification Interest Rate.	Step 2 - Set the contractual interest rate (IR) as follows: <ul style="list-style-type: none"> • Fixed-rate mortgage (including an ARM or step rate that has reached its final IR) – use existing IR • ARM or step-rate that has not yet reached its final IR – set the interest rate to the greater of the current contractual rate, or the Modification Interest Rate, where the interest rate set must not exceed: <ul style="list-style-type: none"> ○ the final interest rate for the step-rate modification, or ○ the lifetime interest rate cap for the ARM.
Step 3 – Extend amortization term to 480 months.	Step 3 –Reduce IR <u>by 0.125% increments</u> until the Payment Reduction Target is achieved or the Modification Interest Rate is reached (rate does not increase if Modification Interest Rate is higher than the Note Rate).
Step 4 – If MTMLTV ratio is > 100%, incrementally defer interest-bearing principal until either deferral cap is reached (30%) or MTMLTV ratio = 100%.	Step 4 – If the Payment Reduction Target is not reached, extend amortization term <u>in monthly increments</u> until the earlier of, i) Payment Reduction Target is reached or, ii) 480 months.
Step 5 – If MTMLTV ratio is > 80% and 20% payment reduction target has not been reached, then incrementally defer interest-bearing principal until the earlier of, i) 20% payment reduction target is reached or, ii) deferral cap is reached (30% of UPB), or MTMLTV ratio = 80%.	Step 5 – If the Payment Reduction Target is not reached, incrementally defer interest-bearing principal until the earlier of, i) the payment reduction target is reached or, ii) deferral cap is reached (30% of UPB), or MTMLTV ratio = 50%.
Step 6 - Continue to forbear principal if the mortgage loan is less than 90 days delinquent when the borrower submitted a complete BRP until the earlier of, i) 40% HTI ratio is achieved or, ii) deferral cap is reached (30% of UPB), or MTMLTV ratio = 80%.	



Payment Reduction Target

The Servicer must incrementally apply the Flex Modification waterfall steps until the 20% payment reduction target is achieved.



Resources



Credit Risk Transfer

Kevin Cheng
Vice President
Kevin_cheng@freddiemac.com
(347) 226-1111

Christian Valencia
Vice President
Christian_Valencia@freddiemac.com
(571) 382-3727

Charlotte Gladwin
Senior Director
Charlotte_Gladwin@freddiemac.com
(571) 382-3732

Jeff Shue
Senior Director
Jeffrey_Shue@freddiemac.com
(571) 382-3023



Resources

In addition, we have additional resources readily available in the [CRT Resource Hub](#).



Questions?

Thank You

