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Loss Mitigation – The MI Perspective

Today's Focus

- Pre-Foreclosure Loss Mitigation topics
- Home Retention vs. Foreclosure Prevention
- Illustrate the MI perspective with respect to Loss Mitigation
- Highlight some items unique to CMG MI
- Allow you access inside the mind of a Loss Mitigation Specialist at CMG MI

Home Retention Workouts

- The borrower remains in the home
- CMG MI’s primary initiative = Preservation of homeownership
- Loan Modification
- Payment Forbearance
- Repayment Plan
- CMG MI’s Pre-Claim Advance Program

Home Retention: Loan Modifications

- Require CMG MI approval (non-delegated)
  - Exception - FNMA/FHLMC loans
  - Reporting requirement still in effect
    - Track activity
    - Maintain data integrity
    - Billing effects of increased modified loan balance
- MOD's reviewed by CMG MI Underwriting Network
  - 24 - 48 hour turnaround time
  - 95% approval rate
    - Goal = preservation of homeownership
    - Risk is already on CMG MI's books
  - Re-work or Denial
    - Not sustainable
    - Borrower not committed to home/delay tactic
    - Non-claimable items rolled into the loan (late fees, second liens, other loan products, etc.)

Home Retention: Forbearance/Repayment Plans

- Excellent tool to provide short term payment relief
- Supported by CMG MI
- CMG MI approval is <u>not</u> required
  - Short term/temporary workouts
  - No permanent change to loan terms
  - No effect on risk in force
- No reporting requirement

Home Retention: Pre-Claim Advance Program

- What is a Pre-Claim Advance?
  - CMG MI will advance funds to assist borrowers to become and remain current on their loan
  - Designed to *supplement* a loan modification when the MOD alone cannot create a sustainable payment
  - Not designed to *replace* a loan modification. Exception: MOD not allowed due to strict investor guidelines (FHLB) or Pooling and Servicing Agreement limitations

Home Retention: Pre-Claim Advance Program

- When does it make sense?
  - Borrowers are cooperative and show commitment to the home (property cannot be listed for sale)
  - A loan modification alone is insufficient to cure the default
    - Ex: Two income household reduced to a single income
  - Failed NPV test (more expensive to modify the loan then to proceed with foreclosure)
  - Foreclosure is imminent
    - Late stage delinquency is not a requirement
    - Early intervention is key

Home Retention: Pre-Claim Advance Program

- How are the advanced funds applied to the loan?
  - The Servicer will indicate the intent for the funds at the time the request is made
  - Pre-Claim Advance disbursed by CMG MI in a single lump sum payment to the Servicer
  - Funds can be utilized to bring the loan current and cure the default
  - Funds can be held in escrow and used to subsidize the monthly payment
  - Funds <u>cannot</u> be used to write down or charge off principal

Home Retention: Pre-Claim Advance Program

- What is the catch?
  - CMG MI does not require the lender or the borrower to repay the Pre-Claim Advance
  - If the loan remains current, the Pre-Claim Advance was a success
  - In the event of a re-default and future claim settlement, the Pre-Claim Advance is deducted from the final claim settlement

Foreclosure Prevention Workouts

- The borrower does not remain in the home however foreclosure costs are avoided
- Home Retention strategies have been exhausted or are not feasible
- Validated hardship
- Pre-Foreclosure Sale (“Short Sale”)
- Deed in lieu of foreclosure (DIL)

Foreclosure Prevention: Pre-Foreclosure Sale (Short Sale)

Documentation:

- Letter of hardship
- Budget worksheet
- Paystubs
- Tax return
- Credit Report

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- Payoff statement
- Property value
- Sales contract
- Preliminary settlement statement

Foreclosure Prevention: Pre-Foreclosure Sale (Short Sale)

- Two part analysis
  - Sale
    - Is the sale at or reasonably close to fair market value?
    - Are the closing costs reasonable?
  - Hardship and financial position
    - Does the borrower *<u>currently</u>* have a hardship?
    - Does the default appear to be legitimate or strategic?
    - **Is a home preservation solution feasible?**
    - If a short sale is appropriate what will the borrowers financial position be after the sale?
    - Can the borrowers afford to participate in the mitigation of loss?

Foreclosure Prevention: Deed in lieu of foreclosure (DIL)

<u>Documentation:</u>

- Letter of hardship
- Budget worksheet
- Paystubs
- Tax return
- Credit Report

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- Payoff statement
- Property value
- Listing history

Foreclosure Prevention: Deed in lieu of foreclosure (DIL)

- Two part analysis
  - Estimated loss from a potential sale
    - Would a sale mitigate CMG MI's loss?
    - 90 day listing requirement
  - Hardship and financial position
    - Does the borrower *currently* have a severe hardship?
    - Severe hardship: Death, disability, terminal illness, BK
    - **Is a home preservation solution feasible?**
    - If a DIL is appropriate what will the borrowers financial position be after the sale?
    - Can the borrowers afford to participate in the mitigation of loss?

Promissory Notes:

- Required by many lenders and by CMG MI
- When is a promissory note required?
  - When the borrower clearly shows the financial ability to participate
  - Hardships are black, white, and 1,000 shades of gray
  - Must be fair and consistent across the board
  - Challenge in loss mitigation is applying a consistent logical framework to a wide variety of situations
  - Effective tool to negotiate and reach a compromise
- What is the borrowers response?
  - Varies from shock to acceptance
  - Wide variety of reactions from lenders
  - Servicers participation in the process is key

Promissory Notes:

- How is the note amount determined?
  - Primarily based on what the borrower can afford
  - Secondarily based on loss
- Why is a promissory note required?
  - Borrower has an obligation to pay
  - All parties to the transaction are collectively participating in the mitigation of loss
    - Lender
    - CMG MI
    - Borrower

Foreclosure vs. Loss Mitigation

- Does it ever make sense to proceed with foreclosure?
- Why not always avoid the expense of foreclosure and accept a DIL or a short sale? Isn't it better in the long run?
- CMG MI's opinion: No. There is a moral hazard that exists when you facilitate a strategic default to avoid foreclosure costs
- In the long run the entire market suffers
- Legal issues – ability to take action against the borrower or pursue deficiency judgment

Looking forward

- Positive economic factors
  - Increase in consumer spending
  - Unemployment < 9%
  - Low interest rates
  - Delinquent inventory peaked and declining
- Borrower/lender fatigue?
  - Modification volume dropping - loans have been modified and re-modified
  - Lull in home value appreciation
- More strategic defaults?

Thank you!