Supplemental Directive 09-04 *July 31, 2009*

Home Affordable Modification Program – Home Price Decline Protection Incentives

Background

In Supplemental Directive 09-01, the Treasury Department (Treasury) announced the eligibility, underwriting and servicing requirements for the Home Affordable Modification Program (HAMP). Under HAMP, servicers apply a uniform loan modification process to provide eligible borrowers with sustainable monthly payments for their first lien mortgage loans. This Supplemental Directive introduces the Home Price Decline Protection (HPDP) incentives, an initiative designed to encourage modification of loans in markets hardest hit by falling home prices. The HPDP initiative provides investors with additional incentives for HAMP modifications of loans on properties located in areas where home prices have recently declined and where investors are concerned that price declines may persist. HPDP incentive payments will be linked to the rate of recent home price decline in a local housing market, as well as the unpaid principal balance and mark-to-market loan-to-value ratio of the mortgage loan.

Mortgage loans that are owned or guaranteed by Fannie Mae or Freddie Mac are not eligible for HPDP incentive compensation.

This Supplemental Directive covers the following topics:

- Eligibility
- HPDP Calculation
- Incentive Compensation
- Compliance

Eligibility

A mortgage loan must have been modified under HAMP for the related investor to be eligible for HPDP incentive payments. HPDP incentive payments will be made only with respect to HAMP modifications with NPV Dates (defined below) on or after September 1, 2009. No incentives of any kind will be paid if (i) the servicer has not executed a Servicer Participation Agreement to participate in HAMP, (ii) the borrower did not successfully complete the trial period and execute a HAMP modification agreement or (iii) the HAMP modification did not reduce the borrower's monthly mortgage payment by at least six percent.

Further, HPDP incentive compensation will discontinue if (i) the borrower loses good standing under HAMP or (ii) the mortgage loan is paid in full. As described in Supplemental Directive

09-01, a borrower loses good standing under HAMP if he or she misses three payments on a HAMP modification (three payments are due and unpaid on the last day of the third month).

HPDP Calculation

The HPDP incentive payments to be paid by Treasury are calculated based upon the following three characteristics of the mortgage loan receiving a HAMP modification:

(i) an estimate of the cumulative projected home price decline over the next year, as measured by changes in the home price index over the previous two quarters in the applicable local market (MSA or non-MSA region) in which the related mortgaged property is located;
(ii) the unpaid principal balance (UPB) of the mortgage loan prior to modification under HAMP; and
(iii) the mark-to-market loan-to-value ratio (MTM-LTV) of the mortgage loan based on the UPB of the mortgage loan prior to modification under HAMP.

The first characteristic of the HPDP incentive payment calculation, the cumulative projected home price decline over the next year, expressed in percentage points (projected home price decline), is related to recent momentum in local market home prices. The projection is calculated from the percentage changes in the local home price index in the most recent previous two quarters for which data is available.

A table of home price index values for each local market (Home Price Index Table) is provided at www.HMPadmin.com. The Home Price Index Table will be updated quarterly, and the updated values will be effective for the following calendar quarter.

The second characteristic, the UPB of the mortgage loan prior to modification under HAMP, involves assignment of the loan to one of five UPB quintiles. The quintile assignments determine the dollar payment per percentage point of projected price decline by UPB. Quintile assignments will not change over the course of the program. A listing of UPB quintile assignments by UPB ranges is provided in Exhibit A to this Supplemental Directive.

The third characteristic, the MTM-LTV of the mortgage loan based on the UPB of the mortgage loan prior to modification under HAMP, further affects HPDP incentive payments by applying a weighting factor to the payment. HPDP incentive payments will be weighted according to a mortgage loan's MTM-LTV in accordance with Exhibit B to this Supplemental Directive.

Exhibit C to this Supplemental Directive provides an example calculation of the HPDP incentive payment for a hypothetical mortgage loan modified under HAMP.

Fannie Mae will determine the potential HPDP incentive payable for a HAMP modification as of the date the NPV model initially is run by the servicer to evaluate the borrower's eligibility to receive a HAMP offer (NPV Date). The NPV Date for determining the potential HPDP incentive payment is the same date that the servicer must report in the NPV Date data field as part of the trial period set up file for the mortgage loan.

The HPDP incentive payment is an input in version 3.0 of the base NPV model, the details of which will be made available in early August 2009. The base NPV model will access the proper HPDP incentive payment for each NPV calculation, so servicers that use the base NPV model via www.HMPadmin.com will not need to take any action with respect to the HPDP incentive payment. Servicers that integrate the base NPV model into their systems or customize the NPV model in accordance with HAMP requirements are responsible for ensuring that they incorporate the required HPDP determination functionality into their version of the NPV model. The HPDP incentive payment amount used for a mortgage loan in the NPV model on the NPV Date used to determine the borrower's HAMP eligibility should be used in any subsequent runs of the NPV model for that mortgage loan.

Specific details regarding the use of the HPDP incentive payment in the NPV model will be provided in the model documentation for version 3.0 of the base NPV model. Version 3.0 of the base NPV model will not be released for use on www.HMPadmin.com until September 1, 2009, and servicers integrating or customizing the model may not use version 3.0 of the NPV model until September 1, 2009.

Incentive Compensation

The potential HPDP incentive payable for a HAMP modification will accrue over a two-year period. An investor will accrue 1/24th of the total HPDP incentive payment for every month in which the borrower remains in good standing under HAMP. The accrued HPDP incentive payments to the investor will include payments for each trial period month. However, if the trial period is not completed successfully, no HPDP incentives will be paid to an investor. HPDP incentive payments will cease to accrue once a borrower loses good standing under HAMP or is paid in full. However, investors will be entitled to all accrued but unpaid HPDP incentive payments.

Payments of accrued HPDP incentives will be made on an annual basis on each of the first anniversary and the second anniversary of the date on which the first trial period payment is due under the Trial Period Plan.

The amount of funds available to pay HPDP and all other incentive compensation in connection with each servicer's HAMP modifications will be capped pursuant to each servicer's Servicer Participation Agreement (Program Participation Cap). Treasury will establish each servicer's initial Program Participation Cap by estimating the number of modifications expected to be performed by each servicer during the term of HAMP. The Program Participation Cap can be adjusted based on subsequent re-estimation of the number of HAMP modifications the servicer is expected to perform during the term of HAMP.

The funds remaining available for a servicer's modifications under that servicer's Program Participation Cap will be reduced by the maximum amount of incentive payments, including HPDP, potentially payable with respect to each HAMP modification upon entering into a trial period. In the event the HPDP or other incentive payments actually paid with respect to a HAMP modification are less than the maximum amount potentially payable, the funds remaining available for a servicer’s HAMP modifications will be increased by the difference between such amounts.

Treasury may, from time to time and in its sole discretion, revise a servicer’s Program Participation Cap. Fannie Mae will provide written notification to a servicer of all changes made to the servicer’s Program Participation Cap. Once a servicer’s Program Participation Cap is reached, no HPDP or other incentive payments will be made with respect to any new HAMP modifications.

Compliance

Treasury has selected Freddie Mac to serve as its compliance agent for the HAMP. In its role as compliance agent, Freddie Mac will utilize Freddie Mac employees and contractors to conduct independent compliance assessments of the HPDP in conjunction with the HAMP as outlined in Supplemental Directive 09-01.

EXHIBIT A
UPB QUINTILE BASE AMOUNTS

Quintile	UPB Prior to Modification	Quintile Payment per Percentage Point Decline in House Price Index
1	$0 – $73,000	$200
2	greater than $73,000 – $116,000	$300
3	greater than $116,000 – $169,000	$400
4	greater than $169,000 – $259,000	$500
5	greater than $259,000	$600

EXHIBIT B
MTM-LTV WEIGHTING FACTORS

MTM-LTV (based on UPB prior to modification)	Weighting Factor
less than 70%	0
at least 70% but less than 80%	1/3
at least 80% but less than 90%	2/3
90% or greater	1

EXHIBIT C
EXAMPLE HPDP CALCULATION

This example illustrates the calculation of the HPDP incentive payment for a hypothetical mortgage loan modified under HAMP. The HPDP incentive payment is calculated by multiplying the MTM-LTV weighting factor by the UPB quintile amount, and then multiplying the result by the projected home price decline.

Assume for a hypothetical mortgage loan being modified under HAMP:

- the NPV Date for the HAMP modification is September 1, 2009;
- the projected home price decline value based on the Home Price Index Table is 10;
- the UPB is $110,000, which results in a quintile assignment of 2, and, as a result, a quintile base amount of $300; and
- the loan's MTM-LTV is 85%, which results in a weighting factor of 2/3.

The resulting total HPDP incentive payment potentially payable to an investor over a two-year period relating to a HAMP modification of this hypothetical mortgage loan would be:

HPD Value * UPB Quintile Payment * MTM-LTV Weighting Factor

10 * $300 * 2/3 = $2,000

If the borrower of this hypothetical mortgage loan above has a first trial period payment due date in October 2009, successfully completes the trial period and then loses good standing in December 2010, the investor would be paid 12/24 of the total HPDP incentive payment, or $1,000, on October 1, 2010, and 2/24 of the total HPDP incentive payment, or $166.67, on October 1, 2011.