NCSHA 2011 Awards

Category: Management Innovation
Sub-Category: Operations
Entry Name: The CDA Advance Claim Model

Maryland's Answer to HAMP

In 2010 the Maryland Department of Housing and Community Development's (DHCD) Community Development Administration (CDA) created a new Advance Claim Model loan modification program to help struggling borrowers stay in their homes by reducing their monthly mortgage payments to a more affordable level. The program is DHCD's version of HAMP and was created in response to CDA borrowers who wanted to participate in a program that offered loan modifications similar to the federal Home Affordable Modification Program (HAMP). DHCD's legal team determined that it could not participate in HAMP, which left the agency with few options to help borrowers make affordable modifications to their CDA loan, even when merited.

At the same time that DHCD wanted to be able to help its struggling borrowers, while balancing its fiduciary responsibilities to CDA's bondholders. In order to accomplish both objectives (i.e., help as many borrowers as possible while maintaining financial viability) DHCD looked to Private Mortgage Insurance (PMI) companies with the idea to seek their participation in any write-down of amortizing mortgages. The benefits of the new loan modification program were straightforward for all parties involved.

- PMI: lower claim payment and continued insurance premiums;
- CDA: maintain an affordable loan in the portfolio with continued PMI coverage;
- Homeowner: remains in their home with an affordable payment; and,
- Neighborhood: avoid a vacant property and stabilize home values.

The model DHCD developed is an innovative approach that is replicable for similar state Housing Finance Agencies (HFA) and other lenders. In its simplest form it quantifies the loss of going to foreclosure into a solution to modify the loan and make the "home affordable." Too much money, time, and effort is put into the foreclosure process and leaves families traumatized and neighborhoods in disrepair. Furthermore, it avoids the delays and costs of evicting the existing family to only replace them with a new family at a cost the original family could have afforded. This model short cuts the whole process, thus saving countless overall public and private dollars while sustaining neighborhoods and surrounding home values. At the same time it addresses any morale hazards by maintaining the borrower's full mortgage obligation intact, thus, maintaining potential financial upside for CDA and the PMIs. With an established front ratio of 33 percent of gross income it maintains an equitable system that is hard to abuse by any potential strategic defaulter.

Advance Claim Program Parameters

The proposed plan entails a first amortizing mortgage write-down by both the PMI and CDA. The mechanics of the write down are handled in a comprehensive Excel spreadsheet – parameters include:

- The amortizing mortgage will be written down to allow the borrowers to have a front-end debt-to-income (DTI) ratio of 33 percent, with a back-end ratio not to exceed 50 percent;
- The full 33 percent DTI will result in a payment that will fully go to the borrower's new, modified regular monthly PITI payment;
- A systematic and fair method to allocate the amortizing principal write-down between the PMI and CDA, which includes the following steps to determine the specific dollar amount that each entity will pay:
    1. An analysis of the expected claim and potential losses for the PMI and CDA (if no work-out were pursued) is calculated to determine the theoretical split of the principal reduction.
    2. The PMI maximum loss will be capped at 25 percent (or 71 percent of the 35 percent coverage); if the loan modification requires additional funds after the PMI reaches the 25 percent maximum, CDA will make payments up to a maximum of 120 percent of the expected loss.
    3. Both the PMI and CDA principal write-downs will become non-amortizing with repayment due upon sale or refinance; the PMI and CDA will share in the recovery based on the same percentage as shared in the principal write-down.

Samples of the comprehensive Excel spreadsheet template are shown in the attached exhibit. The Excel Advance Claim Model template makes it easy to get to the right loan modification decision and to efficiently convey the merits of the recommended solutions.

Rationale for Advance Claim Methodology

DHCD tried to develop a replicable HAMP model that could be transparent to the PMI and borrower. While the DHCD Advance Claim model spreadsheet calculates the effective interest rate for the borrower of their new payment (i.e., the interest rate based on their entire debt), it was determined that using interest rates as a method for modifying loans did not translate well financially to the PMIs to show the real costs to CDA. With this methodology the true *skin* in the game of CDA was more readily transparent. This helped expedite discussions with the PMIs who were reluctant to make large advance claims. Additionally, DHCD has used the tenets of the Advance Claim model to develop a second version, called Short Claim Model. The Short Claim model is used when the PMI's mortgage insurance premium on a particular loan is so expensive that the only way to successfully modify the loan is by removing the PMI coverage and creating an uninsured mortgage. This method is only used when an Advance Claim is not feasible.

Benefits of the Advance Claim to DHCD

The Advance Claim allows all stakeholders, including the PMIs, borrowers, and neighbors, to win. This by itself makes it a winner for DHCD; however, there are many other tangible benefits to this loan modification solution. The Advance Claim program:

- Provides financially-viable loan modification solutions to help DHCD keep as many CDA borrowers in their homes as possible while bringing significant PMI capital into the foreclosure prevention solution;
- Provides long-term positive net present value financial outcomes over foreclosure to CDA and the PMIs -- even if many borrowers re-default;
- Provides DHCD with a loan modification program similar to the federal HAMP, which reduces external criticism of DHCD and the state; and,

- Provides a transparent and quantifiable financial impact to DHCD that can be managed within its existing resources and represented to the PMIs as real *skin* in the game (i.e., both CDA and the PMI are using resources).

In addition, these innovative approaches are important to maintaining Credit Rating Agency (CRA) confidence with DHCD. In the most recent (April 2011) single family bond rating reports issued by Moody's and Fitch, the two CRAs recognized DHCD's ability to work with struggling borrowers.

- "Management has been proactive at mitigating program risks." (Moody's)
- "Management maintains significant flexibility in their ability to work with delinquent borrowers in an effort to limit losses on the portfolio…" (Fitch)

Results to Date

DHCD had to overcome the PMIs institutional perception that an Advance Claim of 25 percent (or 71 percent of their coverage) was too big. DHCD's discussions with the PMIs required continual focus on the larger benefits and goals of accepting this program. Ultimately, all of the PMIs accepted this model, with one giving DHCD delegated approval to modify loans. This has led to DHCD being able to approve 18 borrowers with an affordable loan modification that otherwise would not have been possible. Without the Advance Claim model all of these borrowers would have gone to foreclosure. The family stories are often compelling:

> *DHCD's first approval was given to a recently divorced single mother of three. As a teacher's assistant with minimal child support, this parent needed a more affordable payment to keep the family in their home. Since they lived in a modest home, the new mortgage payment was more financially sustainable than comparable area rental rates, and prevented a disruptive move that would potentially require her children to change schools and move away from their support system of neighbors and friends.*

Conclusion

The DHCD Advance Claim Model is a straightforward concept to help all stakeholders involved focus on the most important objectives during this recent economic recession and housing meltdown – keep families in their home with a financially viable and fair solution. Quite simply this model accomplishes these objectives -- it brings the lenders (CDA) and PMI funds to the table while maintaining a reasonable yet affordable payment for the homeowner. Additionally this model is replicable for other similar HFAs and lenders and is scalable to ensure maximum impact from its concept. It works remarkably well today and will continue to yield positive results to all for the foreseeable future.

MMP PMI Work-Out Loan Model Data Template

Servicer # CDA #

Borrower Name: [redacted] Loan #: [redacted]
Date of Analysis: 01/17/11 PMI: [redacted]
Underwriter Name:

	Front DTI	Back DTI	Surplus Net Inc	PMI Claim %	CDA Tolereance
MAJOR ADVANCE & SHORT CLAIM LOAN MOD ASSUMPTIONS ===>>	33.00%	50.00%	$100.00	25.00%	120.00%

Borrower and Current Loan Information

I. Borrower Information	Current	Revised	II. Original Loan Information			
Current Gross Income	$4,432.48	$4,432.48	Original Loan Payment Start Date			11/01/07
Current Net Pay	$3,108.93	$3,108.93	Purchase Price			$267,410
Current Mortgage Debt	$1,934.00	$1,958.00	Original Loan Amount			$267,410
Current Long-term Debt	$591.00	$591.00	Interest Only Loan (YES/NO)			YES
Front/Back DTI	44%/57%	44%/58%	Original Interest Only Term			60 months
Other Living Expenses	$631.00	$631.00	Original Amortization Term			360 months
Current Net Income	($47.07)	($71.07)	Original Interest Rate			7.125%
Available Savings/Retirement	$0.00	$0.00		Sch IO End	Sch Loan End	Loan Type
Available Suspense Acct Funds	$900.61			5-yr; 10/01/12	35-yr; 10/01/42	5/30 IO Mortg
III. Current Loan Info			**IV. Current Payment Info**			
Current Loan Balance	$267,233		Mortgage Payment			$1,587.75
Pay-through Date/# of Mon Delinq	04/01/10	9 months	Escrow Payments:		Current	Revised
Interest Arrearages	$12,693.60		Mortgage Ins		$0.00	$0.00
Escrow Shortage	$4,775.39	$2,770.00	Prop Taxes & Ins		$346.25	$370.25
Other Additional Arrearages	$0.00	$17,468.99	Other		$0.00	$0.00
Current Estimated Home Value	$160,446	60.00%	Total Escrow		$346.25	$370.25
Revised Monthly Escrow Payment	$370.25	$24.00	Total PITI Payment		$1,934.00	$1,958.00
Capitalized Legal Fees & Costs	$0.00	($2,559.61)	<== Current Escrow Balance			

Analysis Summary

	Work-out Scenarios				
			1	2	3
	Repayment Plan	Pre-claim Payment	Simple Modification	Advance Claim	Short Claim
Special Conditions	6 months	25.00%	IO		
New Front DTI %			FAIL: 46%	PASS: 33%	
New Back DTI %			FAIL: 59%	PASS: 46%	
New Net Income	FAIL: -$2,832	FAIL: -$139	FAIL: -$145	PASS: $424	
CDA Tolerance				PASS: 70%	
OVERALL WORK-OUT SCENARIO	FAIL	FAIL	FAIL	PASS	N/A

ELIGIBLE FOR THE ADVANCE CLAIM MODEL

Mortgagor Payment Summary

	Current (pre-modification)	Work-out Scenarios				
		Repayment Plan	Pre-claim Payment	Simple Modification	Advance Claim	Short Claim
Mortgage Payment	$1,587.75	$4,349.15	$1,586.70	$1,662.10	$1,092.47	
Escrow Payment	$346.25	$370.25	$370.25	$370.25	$370.25	
Total Mortgage Payment	**$1,934.00**	**$4,719.40**	**$1,956.95**	**$2,032.35**	**$1,462.72**	
Change in Mortgage Payment		*$2,785.40*	*$22.95*	*$98.35*	*($471.28)*	
% of Gross Income (Front DTI)	*43.63%*	*106.47%*	*44.15%*	*45.85%*	*33.00%*	
% of Gross Income (Back DTI)	*56.97%*	*119.81%*	*57.48%*	*59.18%*	*46.33%*	
Borrower Monthly Net Income	**($47.07)**	**($2,832.47)**	**($139.05)**	**($145.42)**	**$424.21**	

Analysis Details

			8.75%		Alternative PMI Claim Amount	
		6 months	25.00%	IO		
	Do Nothing *FC Benchmark*	Repayment Plan	Pre-claim Payment	Simple Modification	Advance Claim	Short Claim
Current Principal Balance	$267,233	$267,233	$267,233	$267,233	$267,233	$267,233
Current UPB	$284,702	$284,702	$284,702	$284,702	$284,702	$284,702
Capitalized Legal Fees & Costs		$0	$0	$0	$0	$0
Borrower Cash Infusion		$0	$0	$0	$0	$0
Application of Suspense Account Funds		$901	$901	$901	$901	$901
Work-out UPB		**$283,801**	**$283,801**	**$279,933**	**$286,675**	**$286,675**
Current/Expected Arrearage		$16,568	$16,568	$12,700	$19,442	$19,442
Total Expected Claim	$302,061				$302,061	$302,061
Total Cash Infusion/Loss	$173,899				$122,196	$158,318
% of Claim	57.57%				40.45%	52.41%
% of Current Princ Bal	65.07%				45.73%	59.24%
PMI Claim Payment/Loss	**$105,721**		$16,568		**$74,289**	**$75,515**
% of Expected Claim (PMI Payment)	*35.00%*		*5.82%*		*24.59%*	*25.00%*
% of Payment/Loss	60.79%				60.79%	47.70%
Savings (Cost) from "Do Nothing"					*$31,433*	*$30,206*
CDA Cash Payment/Loss	**$68,178**				**$47,908**	**$82,803**
% of Payment/Loss	39.21%				39.21%	52.30%
Savings (Cost) from "Do Nothing"					*$20,270*	*($14,625)*
New Mortgage Interest Rate		7.125%	7.125%	7.125%	7.125%	7.125%
New Mortgage Term		IO	IO	IO	379 months	379 months
Adjustments to Current Escrow		$24.00	$24.00	$24.00	$24.00	$24.00
Amortizing 1st Mortgage			$267,233	$279,933	$164,478.65	$128,356.80
Amortizing 2nd Mortgage				N/A	N/A	$36,121.56
Deferred 2nd/3rd Mortgage				N/A	$122,196.14	$122,196.43
Total Mortgages				**$279,933**	**$286,674.79**	**$286,674.79**
Affordable P&I Mortgage Payment					$1,092.47	$1,092.47
Affordable PITI Mortgage Payment					$1,462.72	$1,462.72
Monthly Arrearage Payment		$2,761.40				
Repayment Plan Payment		$4,719.40				
New Amort 1st Mortg Payment			$1,586.70	$1,662.10	$1,092.47	$852.55
New Amort 2nd Mortg Payment				N/A	N/A	$239.92
New Escrow Payment		$370.25	$370.25	$370.25	$370.25	$370.25
Total Mortgage Payment		$4,719.40	$1,956.95	$2,032.35	$1,462.72	$1,462.72
New Front DTI %				45.85%	33.00%	33.00%
New Back DTI %				59.18%	46.33%	46.33%
Increased (Decreased) Mortgage Payment		$2,785.40	$22.95	$98.35	($471.28)	($471.28)
Required Pre-claim Monthly Payment to PMI			$69.03			
New Net Income		($2,832.47)	($139.05)	($145.42)	$424.21	$424.21
		$0.00	*$0.00*	*$0.00*	*$0.00*	*$0.00*
CDA Tolerance *(1st Mortg Reduction to CDA Loss)*					70.27%	121.45%
CDA Tolereance w/ 100% 2nd Mortg Value						68.47%
CDA Tolereance w/ 80% 2nd Mortg Value						79.07%
CDA Tolereance w/ Cash Outlay (20% Cash for 2nd Mortg Value)						189.83%

Maryland Department of Housing and Community Development
Work-out (Advance/Short Claim) Summary

Scheduled (Original) Loan Information

Loan Name / Bogman #	[redacted]		
Original Loan Amount	$267,410.00	100.00% LTV	Original Purchase Price was $267,410
Loan Interest Rate		7.125%	
Loan Type	5/30 IO Mortgage		
Start and End Date	11/01/07	10/01/42	
Scheduled Loan Duration	35 years (420 months)		

Current Status

Current Mortgage Balance	$267,233.00	The current balance is prior to the arrearages being added
Remaining Scheduled Term	382 months	
Months Delinquent	**9 months**	NOTE: The Interest & Escrow Arrearage amounts below are thru the previous month; current month in work-out UPB
Interest & Escrow Arrearage	**$17,468.99**	Arrearages Include: 1) Interest = $12,693.60; 2) Escrow = $4,775.39; and, 3) Legal Costs = $0.00
Mortgage Payments		
Mortgage Payment (IO paymt)	$1,587.75	Scheduled amortizing P&I payment is $1,801.59
Escrow Payment	$346.25	Current payment shown; the revised escrow based on current analysis is $370.25
Total Monthly Mortg Payment	**$1,934.00**	This is the current PITI payment before work-out

Current Borrower Information

Monthly Income	**$4,432.48**	Based on current IO PITI of $1,934.00 the DTI is 43.63% (48.46% if in amortization stage)
Other Monthly Long-term Debt	**$591.00**	Based on PITI & other long-term debt the back-end ratio is 56.97%

Work-out Status

Princ Balance (adj for arrearages)		$284,701.99	Current Mortg Bal ($267,233) PLUS Current Arrearages ($17,469)
Princ Balance *(used in new mortgage)*		**$286,674.79**	ADDS 3 months of arrearages LESS 2 trial payments. ALSO - LESS Suspense Acct Funds and 75% of Avail Cash
Current Value (60% of pur price)	**$160,446**	166.56% LTV	LTV on the current bal (before arrearages); LTV w/ all arrearages is 178.67%

Claim Payment Scenarios

	Advance Claim		Short Claim - NOT ELIGIBLE	Est Losses from FC ("Do Nothing")		% of Est Loss
PMI Loss/Advance Claim	$74,288.52	60.79% of loss		$105,721.19	60.79% of loss	**Adv Clm: 70%**
CDA Loss/Mortg Reduction	$47,907.62	39.21% of loss		$68,178.10	39.21% of loss	**Adv Clm: 70%**
Total Loss/Mortgage Write-down	$122,196.14	100.00% of loss		$173,899.29	100.00% of loss	**Adv Clm: 70%**
Implied Impact on the Existing 7.125% Interest Rate	*Total Deferred Mortg* **2.485%**	*CDA Deferred Mortg* **4.823%**		*CDA Int Rate Chg (AC)* **-2.302%**		**AC: Clm PD 24.59% of DUE**

Loan Status After Advance/Short Claim

	Advance Claim		Short Claim - NOT ELIGIBLE	
Modified/New 1st Mortgage	**$164,478.65**	**102.51% LTV**		
New Amortizing 2nd Mortgage	N/A	N/A		
Modified/New "Soft" 3rd Mortgage	$122,196.14	76.16% LTV		
Total MMP Related Debt	**$286,674.79**	178.67% LTV		
First Payment and End Payment	04/01/11	10/01/42		Start Date is current month PLUS 3 months; same mortg end date
Interest Rate		7.125%		Same rate from original loan
Scheduled Loan Duration	31.58 years (379 months)			Based on the scheduled remaining term; 3 months to work-out payment start

Mortgage Payment After Advance/Short Claim

	Advance Claim		Short Claim - NOT ELIGIBLE	
Amortizing 1st Mortgage Payment	$1,092.47	24.65% of inc		
Amortizing 2nd Mortgage Payment	N/A	N/A		
Revised Escrow Payment	$370.25	8.35% of inc		
Total Monthly Payment	**$1,462.72**	**33.00% of inc**		**New PITI: REDUCED PAYMENT OF $471.28**
Long-term Monthly Debt	$591.00	13.33% of inc		
Total Monthly Long-term Debt	**$2,053.72**	46.33% of inc		New back-end ratio
Net Income	**$424.21**	$471.28 More Than Cur NI		Borrower's Net Pay Less All Debt Less All Expenses

Unpaid Principal Balance Analysis for ADVANCE CLAIM Work-out Start

Borrower Name: Andrew Backert (410527840)

Analysis Date: 01/17/11; Work-out Start Date (1st Payment): 04/01/11

Unpaid Princ Bal (UPB) Analysis:

Current Principal Balance	**$267,233.00**	Last Paid-in Date: 04/01/10
Interest Arrearages *(details below[1])*	$12,693.60	Arrearages: 05/01/10 thru 12/01/10
Escrow Shortages	$4,775.39	Per Bogman, as of: December 2010
Current Unpaid Principal Balance	**$284,701.99**	

UPB through Work-out Start

		Int/P&I Due	*Escrow Due*	*Total Due*
Current Unpaid Principal Balance	**$284,701.99**			
01/01/11 Interest Due + Escrow	$1,932.95	$1,586.70	$346.25	$1,932.95
02/01/11 Interest Due + Escrow	$1,932.95	$1,586.70	$346.25	$1,932.95
03/01/11 Interest Due + Escrow	$1,932.95	$1,586.70	$346.25	$1,932.95
02/01/11 Trial Payment	($1,462.72)	$1,092.47	$370.25	$1,462.72
03/01/11 Trial Payment	($1,462.72)	$1,092.47	$370.25	$1,462.72
Available Savings/Retirement	$0.00	Utilized to Reduce Work-out Princ Bal		
Available Suspense Account	($900.61)	Utilized to Reduce Work-out Princ Bal		
UPB Balance at Start of Work-out	**$286,674.79**	UPB at Work-out Start: 04/01/11		

Work-out Mortgage Recap

Amortizing Portion	**$164,478.65**	$1,092.47; amort 7.125% for 379 months
Non-Amortizing Portion	**$122,196.14**	Split 60.79% and 39.21% between MGIC and CDA
Total Mortgage Amount	**$286,674.79**	

[1] Current Interest Arrearages

Month 1	05/01/10	$1,586.70
Month 2	06/01/10	$1,586.70
Month 3	07/01/10	$1,586.70
Month 4	08/01/10	$1,586.70
Month 5	09/01/10	$1,586.70
Month 6	10/01/10	$1,586.70
Month 7	11/01/10	$1,586.70
Month 8	12/01/10	$1,586.70
Month 9		
Month 10		
Month 11		
Month 12		
Month 13		
Month 14		
Month 15		
Month 16		
Month 17		
Month 18		
Month 19		
Month 20		
Month 21		
Month 22		
Month 23		
Month 24		
Adj to Interest Charges		($0.00)
Total		**$12,693.60**

[redacted]

Re: [redacted]

Advance Claim Loan Modification (work-out analysis as of January 17, 2011)

[redacted]

The Maryland Department of Housing and Community Development (DHCD) has reviewed the application for an Advance Claim and modification of the loan payment terms on the loan referenced above. DHCD is pleased to inform you that we have approved the request with the following terms:

1. The mortgage insurer, MGIC, has agreed to pay the Community Development Administration (CDA) an Advance Claim in the amount of $74,288.52 to reduce the amortizing portion of the first mortgage.
2. CDA will make a payment to reduce the amortizing portion of the first mortgage principal balance in the amount of $47,907.62.
3. As of April 1, 2011 the amortizing principal balance of the first mortgage will change from the current balance of $267,233.00 to $164,478.65. CDA has approved a non-amortizing part of the first mortgage in the amount of $122,196.14, which includes total arrearages of $19,441.79.
4. The $19,441.79 arrearage includes $17,453.70 of interest and a $1,988.09 escrow shortage.
5. The total principal debt for both amortizing and non-amortizing portion of the first mortgage is $286,674.79.
6. The non-amortizing portion of the mortgage includes repayment to the mortgage insurer, MGIC, for the Advance Claim in the amount of $74,288.52 (60.79% of the non-amortizing portion) and repayment to CDA, the investor, for its payment to reduce the amortizing portion of the first mortgage in the amount of $47,907.62 (39.21% of the non-amortizing portion). All payments on the non-amortizing part will be remitted to CDA and CDA will distribute the appropriate portion to the mortgage insurer.
7. The terms of the non-amortizing principal balance in the amount of $122,196.14 are 0% interest rate, principal deferred and due upon sale, transfer, maturity date of the mortgage or refinance of the property.
8. The monthly mortgage payment (principal and interest) for the amortizing portion of the mortgage will be $1,092.47 based on a 7.125% interest rate for a term of 379 months. The escrow payment will be $370.25 per month for a total monthly payment of $1,462.72. This payment will start on April 1, 2011.
9. The mortgagor must make two trial payments in the amount of the new monthly payment of $1,462.72 on February 1, 2011 and March 1, 2011.
10. The maturity date of the original mortgage (October 1, 2042) will remain the same.
11. Mortgagor must sign and return documents within 5 days of receipt.
12. Bogman Application of Funds Instructions: the escrow shortage of $4,775.39 will be covered by these funding sources: 1) Borrower Cash: $0.00; 2) Suspense Account: $900.61; 3) Borrower Trial Payments: $2,925.44; and, 4) PMI Claim Payment: $949.34. The remaining funds of $121,246.80 will be applied to show an amortizing balance of $164,478.65, as: 1) Balance of Borrower Funds: $0.00; 2) Balance of PMI Claim Payment: $73,339.18; and, 3) CDA Claim Payment: $47,907.62.

The loan modification documents will be forwarded shortly. If you have any questions, please do not hesitate to call me at (410) 514-7588.

Sincerely,

Jean Mullen, Manager
Single Family Collections

Cc: Pat Kinlein, CDA Finance