

HSBC Loss Mitigation Program Process Review Meeting

April 21, 2014



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Confidential

Agenda

- HSBC Loss Mitigation Program Updates
- HSBC Loan Modification Programs
- Hardship Application Document Requirements
- Other HSBC Assistance Programs
- Hardship Approval Customer Communication Process
 - Loss Mitigation Written Communication
 - Mortgage Servicing Specialist Phone Communication (SPOC)
 - 3rd Party Authorization Communication
- Open Questions and Discussion

HSBC Loss Mitigation Program Updates

- Overview and Background
- Commitment to Open Communication
 - Quarterly Updates and Check-in
 - Dedicated Team to respond to Counselor Questions & Concerns
 - Counselor Information Sheet
- Loan Modification Updates
 - Discontinued temporary/short term 6 month modification program in March 2014
 - Revised Foreclosure Reinstatement criteria for approved loan modification customers effective March 21, 2014.
 - Accounts in foreclosure will be reviewed for loan modification. HSBC requires a reinstatement payment equal to three (3) modification payments, due as a lump sum, within 30 days of the approval vs 40% of past due amount. In addition, Modification Agreements are required to be signed & returned prior to activation.

Loan Modification Program Highlights

- For our owned portfolios we continue to offer our long standing and well established internal loss mitigation and home preservation programs. (We continually monitor and look to improve all internal programs)
 - Current modification terms range from a minimum of 24 months to permanent modifications
 - Modification programs are available to all customers experiencing hardship, whether or not they are delinquent on their payments
 - Monthly payment reduction will always be a minimum of \$100 relief
 - Where a long-term, affordable modification payment can not be reached, specific reasons for a denial of the modification will be provided and alternate Loss Mitigation options will be provided including short sale and deed in lieu

Loan Modification Program Highlights

- **FAP II Modification Program** provides a more complete modification solution for customers experiencing hardship
 - Similar to HAMP, affordability is defined by a borrower's front-end debt-to-income (DTI) ratio based on verified gross income and the full mortgage payment including tax and insurance
 - FAP II leverages a program treatment waterfall to determine the best modification solution for which a borrower qualifies:
 - **Program #1 - Principal Write-Down Modification (PWD).** Payment is reduced by first **writing-off principal** (to mark-to-market LTV floor), then reducing interest rate (2% rate floor) and finally extending term (maximum 480 months). PWD program uses a 31% DTI ratio and is subject to an NPV evaluation
 - **Program #2 – 60 Month Fixed Rate Modification.** Structure is similar to the HAMP program. Payment is reduced by first lowering interest rate (2% rate floor), then extending term (maximum 480 months) and then deferring principal to the end of the loan term. After the 60 month fixed interest rate period, loans with a below market interest rate can step-up a maximum of 1% per year until the market rate is reached (PMMS rate). Program uses a 38% DTI (1st lien) and 10% DTI (2nd lien). **No NPV evaluation is performed**, eligibility for a permanent mod is based on borrower circumstances
 - **Program #3 – 24 Month Modification.** Payment is reduced by first lowering interest rate (2% rate floor), then extending term (maximum 480 months) and then deferring principal to the end of the loan term. Program uses a 38% DTI (1st lien) / 10% DTI (2nd lien) and is subject to an NPV evaluation
 - Escrow is required if the borrower has been delinquent on past taxes or receives a PWD or 60 month modification

Loan Modification Program Highlights

- **FAP I Modification Program** (represents less than 10% of portfolio):
 - FAP I is limited primarily to: active chapter 13 bankruptcy and post discharged chapter 7 bankruptcy, HELOC and balloon accounts
 - Affordability is based on target disposable income (borrower's disposable income is less than target disposable income)
 - Disposable income = net income of all borrowers on the note less 1st and 2nd lien mortgage payments (PITI), utilities, medical costs, alimony, child support cost and \$100 reduction for each dependent
 - Target disposable income is established at an MSA level and ranges from a minimum \$1200 to a maximum \$2700.
 - Modification treatment options include 24 month interest rate reductions and permanent interest rate reductions (based on borrower circumstances)



Hardship Application Document Requirements

Hardship Application Document Requirements

- Hardship Letter detailing reason for hardship
- Income Documents
 - Regular Pay –Two (2) sequential pay stubs dated within last sixty (60) calendar days from the date of the modification application. Pay stubs must include company name and address
 - SSI/Disability -Current year's award or benefit letter or one bank statement showing customer name and deposit line item within the last (60) calendar days from date of modification application
 - Pensions & Annuities – Pension/Annuities statement or one bank statement showing customer name and deposit line item within the last (60) calendar days from date of modification application
 - BFS - All pages of three (3) month's most recent bank statements or a complete tax return from the prior year, including schedule C or K
- Income Verification
 - Customer on Unemployment - Most recent pay stub or benefit letter dated within last sixty (60) calendar days from the date of the modification application.
 - Short or Long Term Disability - A copy of the disability statement or pay stub dated within last sixty (60) calendar days from date of modification application
 - Child Support - (**NOT** required to disclose on application) If the customer chooses to disclose this, a copy of the court order or a notarized letter from the ex-spouse
 - Rental Income – Tax return for the prior year with Schedule E or a copy of the lease if property is a new rental and customer has not filed prior year taxes



Other Assistance Programs

Other Assistance Programs

- **Restructures (re-aging process)**

- As part of HSBC's loss mitigation strategy, loans may be restructured in an effort to help the borrower catch up after a period of delinquency
- A restructure results in the resetting of contractual delinquency levels to current, but does not involve any changes to the go-forward contractual terms of the loan. When the restructure activity occurs, the remaining delinquent payments are moved to the end of the loan and are payable as a balloon payment at maturity
- Restructure activity may be executed as a stand-alone loss mitigation strategy (subject to eligibility and other terms) or in conjunction with an approved modification

- **Escrow**

- Subsequent enrollment of escrow is an option for customers with 1st mortgage that are on schedule-to-schedule documents (option is unavailable for HELOCs)

- **Short Sale and Deed in Lieu Options**

- Loan Modifications are not always the best option for every customer
- For customers who no longer can afford their home, relocation assistance may be available for customers who decide to pursue either a short sale or deed in lieu option



Loss Mitigation Written Communication Process

Loss Mitigation Written Communication

Letter Communication

Loss Mitigation Acknowledgement Letter	Acknowledges Loss Mit App. & Communicates add'l information required to complete Application	<ul style="list-style-type: none"> ▶ Acknowledgement of Hardship and clarifies specific documents the customer must fax to complete their loss mitigation application and missing docs if received. (provided within 3 to 5 days) ▶ Provides clear expectations on timelines and refers borrower to their Mortgage Servicing Specialist as their Single Point of Contact with a direct extension for any questions.
Letter of Incompleteness	Communicates add'l docs required to complete Application if additional docs are still not complete	<ul style="list-style-type: none"> ▶ Clarifies documents the customer must send to complete their loss mitigation application. Sent to borrower when docs are received. ▶ If doc package from borrower is completed, letter of confirmation of completed application will be sent to borrower advising that a decision will be provided within 30 days.
Acknowledgement of Complete App Letter	Confirms the application is complete and no additional documents needed	<ul style="list-style-type: none"> ▶ Sent to customers who submitted a complete application. ▶ Confirms the application is complete and provides a date in which a decision will be rendered. ▶ Prompts the customer to contact his or her MSS with any questions or concerns.
Loss Mitigation One Touch Letter	Loss Mitigation Decision Letter	<ul style="list-style-type: none"> ▶ All Completed applications will receive a One-Touch Letter (decision letter). Decision letters must be sent to the borrower within 30 days of completed application. Each letter provides: <ul style="list-style-type: none"> ▶ All loss mitigation options the borrower is approved for. ▶ Trial payment obligation and explanation of fulfillment. ▶ Notice of credit denial for options not approved. ▶ Explanation of Acceptance, Reject and Appeal process.
Modification Agreement	Contains terms and conditions of loan modification	<ul style="list-style-type: none"> ▶ Agreement more specific to the customer – modification type, detailed modification terms. ▶ Requires signed agreement to execute modification. ▶ Includes escrow, if applicable.
Alternative Option Agreement (DIL/SS)	Contains terms and conditions of alternative option agreement	<ul style="list-style-type: none"> ▶ Provides agreement of Alternative Option. ▶ Includes relocation offer, if applicable. ▶ Direction on timing and next steps.



Mortgage Servicing Specialist Phone Communication (SPOC)

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- In addition to the written correspondence, phone calls will be made to facilitate movement of the application through the process.
- Any customer that applies for a Loss Mitigation treatment is assigned a Single Point of Contact (SPOC).
- The application triggers a letter introducing their SPOC, and provides a direct extension for the customer to reach their SPOC.
- Any issues the customer encounters with the application process can be handled and resolved by their SPOC.
- Upon submission of a Loss Mitigation application, collection calls cease, and outbound calls are made to facilitate movement of the application through the process.
 - The SPOC will call the customer during the application stage if additional documents are needed to complete the underwriting review.
 - Approved Loss Mitigation applications are dialed by SPOC agents to review the terms and set up trial payments.
- Upon Loss Mitigation approval, a letter is sent communicating all approved options (Loan Mod, Short Sale, DIL).
- Loans in trial are followed through to either activation (successful trial) or denial (failed trial).
- Activated loans are monitored by SPOC to ensure continued ability to maintain payments before being released to non-SPOC flow.



3rd Party Authorization Communication

3rd Party Authorization Communication

- HSBC's Policy regarding 3rd party temporary authorization is to require the borrowers written authorization and is effective up to six (6) months from the date signed by the customer, unless a greater time period is noted.
- Submission of Modification Files by a 3rd party can be sent through the Counselor Loan Portal HOPE LoanPort www.hopeloanportal.org or can be sent via fax to 888-629-8590.
- HSBC's Policy is to continue with all customer communication (written and verbal).
- 3rd Parties interested in obtaining updates on a file have the following options
 - If file was submitted via Counselor Loan Portal, the portal is updated minimally every 10-days with the status of the modification application. The portal also allows direct electronic communication with the agent assigned to the modification request.
 - If the file was submitted via fax, a dedicated phone line only for Counselors and Legal Aide is provided, 877-415-4327.
 - If the customer is interested in obtaining an update, they would contact their assigned SPOC, a mortgage servicing specialist.
- Escalation of requests on modification applications can be sent to us.agency.escalation@us.hsbc.com . This email is monitored daily and responded to within 24 hours. An attached Counselor Contact sheet is provided for your convenience.



Open Questions and Discussion