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Chapter 1 Introduction

[Sample Client] is committed to the highest standards of federal consumer compliance and requires all management, employees, and third-party vendors to follow these policies and adhere to these standards.

1.1 Goals and Objectives

The standards set out in this policy represent minimum requirements based on applicable legal and regulatory guidance and apply throughout [Sample Client]'s operations. These requirements are intended to prevent [Sample Client], its employees, and third-party vendors from violating federal regulations related to mortgage banking and consumer compliance with respect to delinquency prevention and loss mitigation management.

1.2 Required Review

[Sample Client] requires this policy be reviewed no less than annually. The review shall include the compliance of this policy with current law, regulation or directive, the procedural implementation of this policy within the then-current scope of [Sample Client]'s business lines and operations, internal or external audit results received during the previous year, and then-current industry trends or regulatory guidance.

1.3 Applicability

The purpose of this policy is to implement consumer protection mechanisms as required by the United States statutes and related federal regulations administered by the Consumer Financial Protection Bureau (CFPB) and other prudential regulators as identified by the CFPB including the Board of Governors of the Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of the Comptroller of the Currency (OCC).

Wherever state or local regulations overlap and are stricter than the requirements set out in this policy, the more conservative approach shall be applied. If any applicable laws or prudential regulator requirements conflict with this policy, [Sample Client] must consult with the appropriate legal counsel to resolve the conflict and to set forth [Sample Client]'s policies and procedures for compliance.

Chapter 4 Loss Mitigation Overview

The goal of this policy is to successfully achieve the following:

- establish minimum loss mitigation standards
- guide the performance of loss mitigation personnel
- maximize portfolio performance
- minimize loss associated with delinquency, non-performance, and foreclosure

It is the intention of [Sample Client] that all loss mitigation policies and procedures are followed as directed to meet contractual obligations between [Sample Client] and its investors, agencies, mortgage insurers or other partners.

The policies of [Sample Client] are intended to support the efforts of borrowers in meeting their obligations, avoiding foreclosure and, when feasible, remaining in their homes. Loss mitigation personnel shall use appropriate tools and provide guidance deemed an appropriate means by which to avoid foreclosure, promote open and effective communication, and provide borrowers the opportunity to resolve legitimate disputes.

The specific timing, actions, and requirements relating to borrower contact, [Sample Client] foreclosure alternatives, and property preservation may be found in detail within this manual.

The CFPB recommends the following when considering a borrower's loss mitigation options:

- Accessibility: Ensuring consumers can easily obtain and use information about loss mitigation options, and can understand how to submit a request for loss mitigation review and receive a timely response regarding loss mitigation options.
- Affordability: When repayment plans or modifications are offered, ensuring they are generally designed to produce a payment and loan structure that is affordable under the borrower's circumstances.
- Sustainability: Ensuring loss mitigation options offered are designed to resolve the delinquency.
- Transparency: Ensuring all terms are clearly described in manners consumers understand so that consumers receive clear, concise information and rationales about loss mitigation decisions.

4.1 Mortgage Servicing Rules

The CFPB issued final rules to implement the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, which amended the Real Estate Settlement and Procedures Act (RESPA) of 1974 and the Truth in Lending Act (TILA) with regard to the servicing of residential mortgage loans. The CFPB further clarified RESPA and TILA servicing rules with an amendment effective January 10, 2014.

Chapter 5 Servicer Responsibilities

Under loss mitigation requirements for federally related mortgages, [Sample Client] must take the following actions:

- Work with borrowers to complete timely application for loss mitigation options.
- Acknowledge receipt of a complete loss mitigation application within five business days or notify borrowers of an incomplete application. For an incomplete application, [Sample Client] must inform borrowers of
  - the additional documents or information required to complete the application; and
  - the date by which the application must be complete in order to halt the foreclosure sale process which is generally within 30 days after [Sample Client] acknowledges receipt of the application.
- Evaluate complete and timely loss mitigation applications within 30 days for all loss mitigation options available to borrowers.
- For complete and timely applications of loss mitigation options, inform borrowers of
  - [Sample Client]'s offer of a loss mitigation option, if available;
  - the reasons for a denial of any loan modification options; and
  - if necessary, how to issue an appeal of denial.
- Evaluate timely appeals submitted by eligible borrowers by independent personnel, e.g., not the same personnel who evaluated the loss mitigation application.
- Refrain from beginning or completing the foreclosure process in certain circumstances when a borrower is being evaluated for loss mitigation options as required under the rule.

5.1 Early Default Indicators

Mortgage loans may be classified into risk categories, such as low risk, moderate risk or high risk, based upon a review of early default indicators. The resulting risk category may be determined by manual review or the use of an evaluation tool such as those offered by Freddie Mac, Fannie Mae, FHA, and others.

The following early default indicators may increase the likelihood of default:

- Payment history indicating previous payment defaults
- Multiple mortgages for multiple properties
- Little or negative home equity in a declining market
- Adjustable rate or graduated payment mortgages with upcoming rate adjustments

Chapter 6 Conventional Loss Mitigation Programs

[Sample Client] believes that it is very important to establish an open line of communication with a borrower early in the delinquency resolution process. It is important that borrowers understand that they are under no obligation to accept any offer. [Sample Client] must handle workouts that involve the borrower's relinquishing ownership of the property such as assumptions, pre-foreclosure sales or deeds-in-lieu of foreclosure carefully to ensure that the borrower's rights are fully protected.

Generally, when attempting to match a loss mitigation program to a borrower's situation, [Sample Client] must adhere to the following order of evaluation for available workout options.

6.1 Home Retention Options

[Sample Client] must first evaluate the borrower for eligibility for the following foreclosure alternatives.

6.1.1 Repayment Plan

If the borrower's hardship has been resolved, but the borrower does not have the means to reinstate the mortgage, [Sample Client] will consider a repayment plan. [Sample Client] may consider a repayment plan without receiving a completed Borrower Response Package as long as the loan is less than 90 days delinquent and the term of the repayment plan is less than six months.

[Sample Client] must execute a written repayment plan when

- the repayment plan is greater than three months; or
- a combination of a repayment plan and forbearance plan is granted, and
    - the combination is greater than 12 months; or
    - either the repayment plan or forbearance plan is greater than three months.

Any repayment plan exceeding 12 months must receive agency approval. A reinstatement lump sum payment of any remaining amounts due upon completion of a repayment plan may be required.

6.1.2 Forbearance

A forbearance agreement is an agreement between [Sample Client] and a delinquent borrower by which [Sample Client] agrees not to exercise its legal right to foreclose on a mortgage and the borrower agrees to a mortgage plan that will, over a specified period, bring the borrower current on his or her payments. This may include postponing, reducing or suspending payment due on a mortgage for a limited and specific time period. Typically, forbearance agreements are a viable solution for