THE FHA WATERFALL WORKSHEET

A User's Guide

March 24, 2017

Joseph Rebella

MFY Legal Services, Inc.

"Funded through the New York State Attorney General
Homeownership Protection Program"

MFY LEGAL SERVICES, INC., 299 Broadway, New York, NY 10007
212-417-3700 **www.mfy.org**

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I. About MFY's FHA Waterfall Worksheet

MFY's FHA Waterfall Worksheet (the "Worksheet") is designed to determine borrower eligibility for FHA home retention loss mitigation options based on the criteria set out in Mortgagee Letter 2016-14 and integrated into the Single Family Housing Policy Handbook, 4000.1. The Worksheet provides detailed information about potential outcomes and creates evidence of loss mitigation eligibility to oppose wrongful denials. The Worksheet does not substitute for an understanding of FHA guidelines. The Worksheet only runs the waterfall described in FHA's guidance. It does not consider other restrictions such as previous modifications, owner occupancy, etc. It also does not consider a borrower for loss mitigation options that do not require mathematical calculations, such as Special Forbearance.

The Worksheet is compatible with Excel 2007 and newer. It is not compatible with Excel 2003 or older. Unfortunately, these versions of Excel do not support the layers of conditional formatting on which the Worksheet relies.

The Worksheet is available at http://www.mfy.org/wp-content/uploads/Waterfall-Worksheet-FHA.xlsx. The Worksheet was created and is maintained by Joseph Rebella of MFY Legal Services, Inc. If you have any comments or questions regarding the Worksheet, you can contact Joseph Rebella by emailing jrebella@mfy.org.

II. Introduction to FHA Loss Mitigation

A. History and Functions of the Federal Housing Administration

Congress created FHA in 1934.[1] The FHA became a part of the Department of Housing and Urban Development's (HUD) Office of Housing in 1965.[2] The purpose of FHA is to

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[1] HUD – Federal Housing Administration, http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/fhahistory (last visited Mar. 21, 2017).
[2] *Id.*

encourage homeownership by relaxing some traditional underwriting principles and insuring lenders against the credit risks of FHA mortgages.[3] FHA is entirely self-funding and receives income from mortgage insurance premiums paid by the borrower.[4] It currently has 4.8 million insured single family mortgages in its portfolio.[5] Because FHA bears the credit risk of the loans it insures, FHA mortgages are subject to FHA's underwriting and loss mitigation guidance.

Unlike conventional loans, which are generally securitized into Freddie Mac, Fannie Mae or private label security pools, FHA-insured loans are almost always securitized into Ginnie Mae loan pools.[6] Ginnie Mae, the anthropomorphized name of the Government National Mortgage Association, is a wholly-owned government corporation within HUD that securitizes loans backed by FHA, the Department of Veterans Affairs Home Loan Program, the Office of Public and Indian Housing, and the U.S. Department of Agriculture Rural Development.[7] When it securitizes these loans, Ginnie Mae insures them with the full faith and credit of the United States.[8] Because the vast majority of FHA loans are securitized by Ginnie Mae, FHA origination and loss mitigation is shaped by Ginnie Mae's securitization policies. Many of the features that distinguish FHA-HAMP from other loan modification programs reflect requirements under Ginnie Mae's pooling regulations.

Advocates can determine if a borrower has an FHA insured loan by looking at the first page of the subject mortgage, on which an FHA case number will be labeled and boxed.

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[3] *Id.*
[4] *Id.*
[5] *Id.*
[6] See Ginnie Mae, FAQ, http://www.ginniemae.gov (select "FAQ", then enter "How are the Federal Housing Administration (FHA) and Ginnie Mae connected?" into the Keyword search box) (stating that Ginnie Mae securitizes "more than 98 percent of FHA mortgages") (last visited Mar. 23, 2017).
[7] Ginnie Mae, Single-Family Program, http://www.ginniemae.gov/products_programs/programs/Pages/single_family_program.aspx (last visited Mar. 23, 2017).
[8] Ginnie Mae, Mortgage-Back Securities (MBS) Guide § 1-6.

B. Sources of FHA Rules

Mortgagees are required to follow FHA's servicing guidelines, including its loss mitigation standards, and failure to do so can result in the imposition of civil penalties.[9] Depending on the date of origination, the language of the FHA mortgage may require compliance with HUD regulations, and the regulations themselves state that loss mitigation must be conducted prior to initiating a foreclosure action.[10] The details of FHA's loss mitigation programs are laid out in the FHA Single Family Housing Policy Handbook 4000.1.

III. FHA Loss Mitigation

FHA regulations and mortgagee letters require that lenders engage in loss mitigation. In fact, servicers must be proactive in soliciting delinquent borrowers for loss mitigation and must make affirmative efforts to cure a default. What follows is a description of FHA's home retention loss mitigation options. Non-retention options, such as deeds in lieu and pre-foreclosure sales, are not covered. This section begins with a review of the most significant FHA loss mitigation eligibility requirements and then turns to the loss mitigation programs themselves, offering a detailed account of each workout option.

A. FHA Loss Mitigation Eligibility Requirements

In addition to the economic eligibility requirements for each individual loss mitigation option, FHA loss mitigation provides several eligibility requirements. First, the property for which loss mitigation is sought must be borrower owned, and it must be the borrower's primary

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[9] 24 C.F.R. § 203.500 (2013).
[10] See 24 C.F.R. § 203.606 (2013).

residence.[11] FHA does not offer an analog to Treasury's HAMP's Tier 2 or the GSE Standard and Flex Modification programs, which allow modifications on rental properties.

Second, the mortgage must be at least 12 month old, as measured from the date of the first payment. Third, the borrower must have made four full payments on the loan. These two requirements do not apply to forbearance plans. Fourth, a borrower can only receive one modification in a two year period. Fifth, borrowers who defaulted on a trial payment plan can only reapply for a modification if there has been a change in their financial circumstances from the time they previously applied for a modification.

It is important to note one eligibility criterion that does not apply to FHA loans. The requirement that a loan be originated on or before January 1, 2009 applies only to loans reviewed for Treasury's (now-defunct) HAMP program.[12] No such rule appears in FHA guidance, and HUD states specifically that HAMP rules should not be used to address issues not covered by HUD's guidance.[13] The only impact of this rule will be on servicers, who will not be eligible for Treasury FHA-HAMP incentive payments for modifications on loans originated prior to the cutoff date.[14]

B. FHA Loss Mitigation Terms

The Market Rate is the interest rate charged on for FHA-HAMP modifications.[15] This rate is calculated by taking the 30 year Freddie Mac Weekly Primary Mortgage Market Survey

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[11] All descriptions of noneconomic criteria for FHA-HAMP are made with reference to FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.k(vi).
[12] Making Home Affordable Program, Handbook for Servicers of Non-GSE Mortgages, Ch. II, § 1.1.1 Basic HAMP Eligibility Criteria (version 4.3, 2013).
[13] HUD, Questions and Answers: ML 09-23 / FHA-Home Affordable Modification Program and Subsequent Guidance, at 1 (Sept. 12, 2012).
[14] Making Home Affordable Program, Handbook for Servicers of Non-GSE Mortgages, Ch. VI, § 2.1Treasury FHA-HAMP (version 4.3, 2013).
[15] FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.k(vi).

(PMMS) Rate,[16] adding a 25 basis points risk adjustment, and then rounding the result to the nearest 0.125%.[17] FHA does not offer the stepped rate mortgage available under Treasury's HAMP because such a mortgage would not conform to Ginnie Mae's mortgage requirements for fixed or adjustable rate mortgages.[18]

FHA-HAMP loan modifications are built around the borrower's target payment. The target payment is calculated through a series of steps. Briefly, one must begin by finding the following values: (1) 31% of gross income, (2) 80% of the current mortgage payment, and (3) 25% of gross income. Next, take the greater of (2) and (3), compare that value to (1), and take the lesser of the two.[19] This is the target payment.

FHA loss mitigation outcomes depend, in part, on the borrower's net and surplus incomes. Net income is the borrower's effective take home pay.[20] It can be calculated by subtracting payroll deductions from the borrower's gross monthly income. Surplus income is the amount of money that the borrower has after covering other obligations and living expenses.[21] It can be calculated by subtracting the borrower's out-of-pocket expenses from the borrower's net income. Because calculation of both surplus and net income requires extensive information about the borrower's expenses, evaluation for FHA loss mitigation, unlike Treasury's HAMP or GSE loss mitigation, may require the determination of a detailed monthly budget for the borrower.

[16] Found at http://www.freddiemac.com/pmms/.
[17] FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.k(vi).
[18] See Ginnie Mae, Mortgage-Back Securities (MBS) Guide § 24-2(A)(1)(c) (requiring that fixed rate mortgages maintain a constant rate); Ginnie Mae, Mortgage-Back Securities (MBS) Guide § 26-2, (A) (3) (requiring that adjustable rate mortgages be periodically adjusted to an index).
[19] FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.k(vi).
[20] FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.k(vi).
[21] FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.k(vi).

C. FHA Loss Mitigation Options

Effective March 1, 2017, FHA has changed its loss mitigation priority. Previously, borrowers were first evaluated for forbearance plans, and evaluated for a permanent modification only if ineligible for a forbearance plan.[22] Under the new rules, if the borrower shows a loss of income or increase in expenses, has a housing payment to income ratio above 31% and continuous income, then the borrower is evaluated for FHA-HAMP, even if the borrower would be otherwise eligible for a forbearance plan. Borrowers that cannot show a loss of income or increase of living expenses are not eligible for FHA-HAMP, and are instead evaluated for Formal or Informal Forbearance plans. Borrowers without continuous income are not eligible for FHA-HAMP and are evaluated for Special Forbearance plans. Borrowers with housing payment to income ratios at or below 31% may still be eligible for FHA-HAMP, but are first evaluated for a Formal Forbearance plan.

1. <u>Forbearance Plans</u>

FHA forbearance plans often function like repayment plans. The Informal Forbearance plan is an oral agreement allowing for a reduced or suspended payment for a period of 3 months or less; the Informal Forbearance Plan may provide specific terms for repayment of those arrears.[23] A Formal Forbearance plan is a written agreement lasting more than 3 months, but fewer than 6 months, and here too the borrower must pay off the arrears. To be eligible for a Formal Forbearance plan, 85% of the borrower's surplus income must be sufficient to cure the arrears within a six month period. Unlike all other FHA loss mitigation options, to qualify for an Informal or Formal Forbearance, a delinquent borrower need not show a loss of income or

[22] The complete loss mitigation option priority waterfall is available at FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.j(iii).
[23] All descriptions of FHA Formal and Informal forbearance plans are made with reference to FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.k(ii).

increase in expenses.

The Special Forbearance plan is the only form of FHA forbearance which does not require the borrower to bring the loan current. Special Forbearance plans are offered to borrowers who are unemployed, between three and twelve payments behind on their mortgage and not eligible for a permanent modification.[24] The plans must be in writing, reduce or suspend mortgage payments, allow for up to at least 12 months of relief, and the borrower must be evaluated at the end of the forbearance period for a loss mitigation option that will cure the default.[25]

2. FHA-HAMP

FHA-HAMP requires that the borrower have experienced a verifiable loss of income or increase in expenses.[26] FHA-HAMP also requires that the first payment on the loan was due at least a year prior to evaluation and that the borrower has made at least 4 payments. Borrowers must be in either default or imminent risk of default. Within FHA-HAMP, loss mitigation takes three distinct forms: the Stand-Alone Partial Claim, the Stand-Alone Loan Modification and a modification coupled with a Partial Claim.

The Partial Claim is unique to FHA loans. It is a credit insurance claim that HUD pays out to the lender under the terms of the FHA program to bring the loan current. Because the payment is in an amount less than the total insured mortgage balance, it is considered a "Partial Claim." A Partial Claim can be used to cover arrears, legal fees, foreclosure related costs, and principal deferment. It creates a second mortgage payable to HUD, on which no interest is charged, that comes due with the first mortgage or when the borrower no longer owns the

[24] FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.k(iv)
[25] *Id.*
[26] All descriptions of FHA-HAMP are made with reference to FHA Single Family Housing Policy Handbook 4000.1, § III.A.2.k(vi).

property. When a Partial Claim is awarded, the lender advances the funds to the borrower, and then HUD reimburses the lender and provides an incentive payment. The size of a Partial Claim is limited to 30% of the unpaid principal balance at the time the borrower defaulted less the amount of any previously awarded Partial Claim. If the mortgage arrears exceed the maximum Partial Claim amount, the borrower will be required to secure the funds necessary to pay the arrears not covered. Borrowers who are unable to do so will be found ineligible for FHA-HAMP. Under FHA-HAMP, arrears cannot be capitalized into a new loan balance.

A Stand-Alone Partial Claim is available where the terms of the mortgage are otherwise favorable, but the borrower needs help reinstating the mortgage. To qualify for a Stand-Alone Partial Claim, three conditions must be met: (1) the current interest rate on the loan is at or below the Market Rate; (2) borrower's current payment is at or below the target payment, which is defined below; and (3) the borrower meets all FHA-HAMP eligibility requirements. Given the requirements that the interest rate be low and the payments affordable, the Stand-Alone Partial Claim is likely designed to assist borrowers who have fallen behind on loans previously modified. A borrower who receives a Stand-Alone Partial claim will receive a Partial Claim in an amount sufficient to reinstate the mortgage. The terms of the mortgage will not be changed.

Borrowers who do not qualify for a Stand-Alone Partial Claim are evaluated for a Stand-Alone Loan Modification. A Stand-Alone Loan Modification is identical to a FHA Loan Modification. The arrears are capitalized, the term is extended to 360 months and the interest rate is set to the Market Rate. If this modification produces a payment at or below the borrower's target payment, then the borrower will receive this modification. If this modification is insufficient to reach the target payment, then the loan is evaluated under the next step of the waterfall.

In the next step, the available Partial Claim is used to write down the amortizing principal balance to the extent necessary to reach the target payment. If the Partial Claim remaining is sufficient, then the remaining interest- bearing principal balance is amortized over 30 years at the Market Rate. This calculation results in a payment at the borrower's target. If the remaining Partial Claim is insufficient, then the loan is evaluated under the last step of the waterfall.

The last step of the waterfall increases the monthly payment to an amount necessary to pay off the amortizing principal balance remaining after using the entire Partial Claim. FHA allows for a modification that creates a payment above the target, so long as it does not give the borrower a front-end DTI above 40%. DTI is calculated by dividing the borrower's total monthly payment (including taxes, insurance, MIP, and condo/HOA fees) by the borrower's gross monthly income. If a payment equal to 40% of the borrower's gross monthly income is insufficient to cover the amortizing principal balance, then the borrower is not eligible for FHA-HAMP.

IV. Using the FHA Waterfall Worksheet

A. Introduction

The FHA Waterfall Worksheet has been streamlined to two tabs: one with inputs and one with outputs. Within each of the tabs, the cells are color coded. Blue Cells must be filled in by the user. Yellow Cells indicate the cell is showing the result of a calculation. Green Cells indicate that the cell is showing the contents of another cell, often located on another tab. Purple Cells indicate that the cell is showing an important or final calculation result.

B. Waterfall Inputs

The inputs to the FHA Waterfall Worksheet are spread on two separate tabs, the "Budget" tab and the "Other Inputs" tab.

These income inputs consist of the following cells for both the borrower and a co-borrower. Users can leave the co-borrower inputs blank if there is only one borrower on the account.

- *Timing of Employment Income* – provides six options as to when the borrower is paid to calculate monthly employment income.
  - *Weekly* – borrower is paid once a week.
  - *Biweekly* – borrower is paid once every two weeks.
  - *Bimonthly* – borrower is paid twice a month.
  - *Monthly* – borrower has a monthly pay figure.
  - *Annual* – borrower has an annual pay figure.
  - *YTD* – ("Year-To-Date") borrower has a figure showing total paid to-date over the year.
- *Enter Date of YTD* – only available if Timing of Employment Income is set to YTD. Date of YTD requires the pay date used in the YTD figure.
- *Employment Income* – borrower's gross employment income over the timeframe selected in Timing of Employment Income.
- *Contribution* – money provided on a monthly basis to the borrower from a non-borrower occupant for payment of the mortgage.
- *Untaxed Income* – monthly income that is not subject to federal income tax. Examples include SSI, SNAP, VA benefits and adoption assistance payments. The worksheet will automatically gross up untaxed income by 25%.
- *Fixed Income* – taxable income received on a monthly basis. Examples include SSA, SSD and pension payments.

- *Rental Income* – income received from renting units in the primary residence. The worksheet will automatically adjust the rental income down by 25%.
- *Deductions from Paycheck* – the amount taken out of the borrower's paycheck over the timeframe selected above at Timing of Employment Income.

Monthly living expenses (aside from the mortgage expenses) are only requested in situations in which the amount of the borrower's surplus income will impact the loss mitigation option available. If the amount of surplus income will have no effect on the outcome, then the worksheet will state why the amount of expenses are irrelevant.

The mortgage information inputs consist of the following cells, all related to the mortgage account.

- *Loan Type* – the type of loan product. If the borrower has a fixed rate loan that amortizes evenly over the term of the loan, then select "Fixed Rate." If instead, the borrower has an adjustable rate mortgage, select "ARM."
- *Current Monthly P&I Payment* – available only when the mortgage has an adjustable rate, and "ARM" was selected above. This cell requests the amount of monthly principal and interest payments currently due.
- *Term* – term of the loan in months.
- *Current Interest Rate* – the interest rate currently being charged on the loan.
- *Date of First Payment* – day that the first payment on the loan is due. This date is later than the date of origination.
- *Monthly Property Taxes* – amount of property taxes due on a monthly basis, corresponding to the "T" in PITIA.
- *Monthly Homeowner's Insurance* – cost of homeowner's insurance due on a monthly basis, corresponding to the second "I" in PITIA.

- *Monthly Association Fees* – cost of homeowner's association fees due on a monthly basis, corresponding to the "A" in PITIA.
- *Known MIP?* – asks whether or not the user knows the borrower's current Mortgage Insurance Premium paid to FHA. If not, the Worksheet can estimate the MIP for loans originated before October 4, 2010.
- *Upfront MIP Financed?* – only appears when the MIP is not known. An upfront charge is assessed on FHA loans which can be paid outright at origination, or financed by rolling the charge into the principal balance. If it is financed, FHA will exclude the charge from the calculation of the loan amount that must be insured through MIP payments.
- *Original Value* – only appears when the MIP is not known and asks for the value of the home at the time of mortgage origination.
- *Original Interest Rate* – only appears when the MIP is not known and asks for the interest rate at the time of mortgage origination.
- *UPB ("Unpaid Principal Balance") Information* – information the user has regarding the UPB, provides three options:
    - *Capitalized UPB* – user has both the UPB at the time of default and the arrears to be capitalized. Such capitalization would include interest arrears and bona fide foreclosure-related costs, but not late fees.
    - *UPB at Default* – user has both the UPB at the time of default, but not the total capitalizable arrears. The worksheet will calculate interest arrears based on the amount of the UPB at Default and time since default, assuming a fixed interest rate.
    - *Default Date Only* – borrower only knows the default date. The worksheet will calculate UPB and interest arrears based on the amortization schedule of the mortgage, assuming a fixed rate thirty year

amortization.

- Note – both the UPB at Default and Default Date Only option calculate tax, insurance and association (collectively "TIA") arrears assuming a concurrent default and fixed costs. This creates three potential calculation inaccuracies. First, an inaccuracy will result if the TIA costs have changed since the default. Second, borrowers, especially those without escrow accounts, may continue to pay some of the TIA costs past the date on which they default of their mortgage. Finally, most TIA costs are not incurred monthly, creating a problem when the charges are evened out on a monthly basis. For example, a borrower who pays for a year of insurance and then defaults for 10 months will have no actual insurance arrears, but the worksheet will indicate the depleting value of the policy and show the borrower as having 10 months of insurance arrears. If the amount of TIA arrears is known and varies from the amount estimated by the worksheet, make adjustments in the foreclosure fees section to even out the numbers.

- *Default Date* – only appears when the user does not have the Capitalized UPB and asks the date of the first missed payment.
- *Allowable Fees and Costs* – only appears when the user does not have the Capitalized UPB and asks the amount of capitalizable fees and costs.
- *Freddie Mac PMMS 30yr Fixed* – requests the current Freddie Mac Primary Mortgage Market Survey for 30 year fixed rate loans. This rate is available by clicking the link on the input title.

- *Maximum Risk Adjustment* – the risk adjustment added to the PMMS to create the Market Rate. Currently, this number is 0.25%. The Worksheet will be updated if this changes.
- *Amount of Any Previous Partial Claim* – the total amount of any Partial Claims already granted on this mortgage.
- *UPB at the Time of Previous Partial Claim* – only appears at times when a previous Partial Claim has been entered. This requests the unpaid principal balance at the time that the first Partial Claim was made on the mortgage. The maximum Partial Claim amount is set at 30% of this figure.

B. Waterfall Outputs

The FHA Waterfall tab displays the relevant calculations described in this guide. In the bottom right corner, the results section summarizes the results of the waterfall. If the borrower is eligible for a modification, then it displays the expected post-modification PITIA payment, P&I payment, interest bearing principal balance, Partial Claim awarded, interest rate and term. If the borrower is not eligible for a modification, then the Worksheet will display the amount of gross monthly income required for a modification.

V. FHA Loss Mitigation Examples

The following examples use variations on a set of facts to demonstrate the differences between FHA's loss mitigation programs and illustrate use of the Worksheet.

A. FHA- HAMP Stand-Alone Partial Claim

Georges Morellet purchased his home for $210,000 on June 23, 2005 and financed the purchase using an FHA-insured mortgage for $200,000. At the closing, he paid the upfront mortgage insurance premium and a $10,000 down payment out of his savings. He opted for an adjustable rate mortgage tied to the six-month LIBOR. Although Mr. Morellet's interest rate began at 8.5%, it eventually dropped to 4.00%, the floor rate set in his mortgage. In 2014, Mr. Morellet lost his job and he began missing payments in June 2015. Fortunately, Mr. Morellet recently obtained a new, higher paying job. He earns a monthly income of $7,460.00. He pays $305 a month in property taxes and $128.50 a month for homeowner's insurance. By the time he defaulted on the loan, his monthly mortgage insurance premium had been removed from his account.

Because Mr. Morellet's front end DTI is below 31%, he must be evaluated for a Formal Forbearance plan before being evaluated for FHA-HAMP. As a result, the worksheet requests his monthly living expenses, which are $2,000.00. Applying 85% of his surplus income to the mortgage's arrears would require eight months to cure the default. Because the maximum term of a Formal Forbearance plan is six month, Mr. Morellet must be evaluated for FHA-HAMP.

The first step in FHA-HAMP is to identify the target payment. Here, Mr. Morellet's target is $1,865.00, which is 25% of his gross monthly income. The next step is to determine the maximum available Partial Claim. Because Mr. Morellet has not previously used a Partial Claim, his maximum Partial Claim is 30% of his unpaid principal balance at default, $50,472.02.

With this information on hand, the worksheet tests to see if Mr. Morellet is eligible for a Stand-Alone Partial Claim. To be eligible, Mr. Morellet must have (1) an interest rate at or below market, (2) a PITIA payment at or below his target, and (3) an available partial claim sufficient to pay off his arrears and fees. Mr. Morellet meets all three of these requirements: (1) his current interest rate of 4.00% is below the market rate of 4.5%; (2) his current PITIA of $1,447.50 is below his target payment of $1,865.00; and (3) his available partial claim of $50,472.02 is sufficient to reinstate his loan. As a result, Mr. Morellet receives a Partial Claim of $31,835.00.

Morellet

Run on: 3/23/2017

FHA WATERFALL INPUTS

Borrower Gross Monthly Income

Timing of Employment Income	Monthly
Employment Income	$ 7,460.00
Monthly Employment Income	$ 7,460.00
Contribution	
Untaxed Income	
SSI, Food Stamps, etc.	$ -
	$ -
Fixed Income	
SSA / SSD / Pension	$ -
Rental income	$ -
	$ -
Monthly Subtotal	$ 7,460.00

Co-Borrower Gross Monthly Income

Timing of Employment Income	
Employment Income	$ -
Monthly Employment Income	$ -
Fixed Income	
SSA / SSD / Pension	$ -
Untaxed Income	
SSI, Food Stamps, etc.	$ -
	$ -
Monthly Subtotal	$ -
Gross Monthly Income	$ 7,460.00

Expenses (If Necessary)

Expenses	$ 1,000.00

MORTGAGE INFORMATION

Loan Terms	
Loan Type	ARM
Current Monthly P&I Payment	$ 1,014.00
Original Principal	$ 200,000.00
Term (in months)	360
Current Interest Rate	4.000%
Date of First Payment	8/1/2005
Monthly Property Taxes	$ 305.00
Monthly Homeowner's Insurance	$ 128.50
Monthly Association Fees	$ -
Known MIP?	Yes
MIP	$ -
Principal & Interest	**$ 1,014.00**
PITIA	**$ 1,447.50**
Arrears and Unpaid Principal Balance	
UPB Information:	Only Default Date
Estimate Arrears and UPB at Default:	
Default Date	6/1/2015
Today's Date	3/23/2017
Total Months in Default	22
Est UPB at Default	$ 168,240.07
Taxes in Arrears	$ 6,710.00
Insurance Arrears	$ 2,827.00
Association Fee Arrears	$ -
Interest Arrears	$ 12,743.22
MIP Arrears	$ -
Allowable Fees & Costs	$ 5,000.00
Total Eligible Arrears	$ 27,280.22
Market Interest Rate	
Freddie Mac PMMS 30yr Fixed	4.30%
Maximum Risk Adjustment	0.25%
Market Rate (rounded to nearest 1/8)	**4.500%**
Previous Partial Claims	
Amount of Any Previous Partial Claims	$ -

Current with FAQ for ML 2016-14

MFY Legal Services, Inc.'s Proprietary FHA Waterfall Worksheet

Morellet
Run on: 3/23/2017

FHA WATERFALL

FORMAL FORBEARANCE

Is front-end DTI at or less than 31%?

Current Payment	$ 1,447.50
Gross Monthly Income	$ 7,460.00
Ratio	19.40%
Result	**Yes**

Continue

Is 85% surplus income sufficient to cure arrears in 6 months?

Arrears, fees, & costs	$ 27,280.22
85% of surplus income	$ 4,260.63
Months to cure arrears w/ of 85% surplus income	7
Result	**No**

Continue

FHA-HAMP

Calculate FHA HAMP Target Payment

1. 31% of gross monthly income	$ 2,312.60
2. 80% of current PITIA	$ 1,158.00
3. 25% of gross monthly income	$ 1,865.00
4. Take greater of 2 & 3	$ 1,865.00
5. Take lesser of 1 & 4	$ 1,865.00
Target payment	**$ 1,865.00**

Calculate Maximum Partial Claim

1. 30% UPB at Default	$ 50,472.02
2. Less previous partial claims	$ -
Maximum Partial Claim	$ 50,472.02

Stand-Alone Partial Claim Analysis

All three of the following must be true

Is interest rate at or below market?	Yes
Is PITIA payment at or below target?	Yes
Does Max PC exceed Missed Payments + Fees?	Yes
Result	**Yes**

Stand-Alone Partial Claim

Borrower eligibile for FHA-HAMP modification.

FHA LOSS MITIGATION RESULTS

Stand Alone Partial Claim

Monthly PITIA	$ 1,447.50
Monthly P&I	$ 1,014.00
Interest Bearing Principal	$ 163,675.30
Partial Claim	$ 31,845.00
Interest Rate	4.000%
Remaining Term	220

For questions or comments about this worksheet, please contact Joseph Rebella

Current with FAQ for ML 2016-14

MFY Legal Services, Inc.'s Proprietary FHA Waterfall Worksheet

B. FHA-HAMP Stand-Alone Loan Modification

Serge Valène purchased his home for $210,000 on June 23, 2005. He financed the purchase using an FHA-insured mortgage for $200,000. At the closing, Mr. Valène paid the upfront mortgage insurance premium and a $10,000 down payment out of his savings. Mr. Valène's first payment was due on August 1, 2005. His mortgage has a fixed interest rate of 8.5% and principal and interest payments of $1,537.83. Mr. Valène made his payments on time until June 2013, when he was laid off of his job. Recently, Mr. Valène obtained a new job, from which he earns approximately $5,876.70 a month. He also rents out a unit in his home for $1,600 a month. This gives Mr. Valène a gross income of $7,076.70. He pays $305 a month in property taxes and $128.50 a month for homeowner's insurance. At the time of default, his monthly mortgage insurance premium had been removed from his account.

Because Mr. Valène's front end debt to income ratio is below 31%, he must be evaluated for a Formal Forbearance plan before being evaluated for FHA-HAMP. But even without any living expenses beyond the mortgage itself, his income would be insufficient to cure the arrears within six months. So, the waterfall does not require him to enter his living expenses.

Because Mr. Valène's interest rate is above the Market Rate and his current payment is above his target payment, he is not eligible for a Stand-Alone Partial Claim. Accordingly, he is evaluated for a Stand-Alone Loan Modification. Here, capitalizing the arrears, setting the interest rate to the Market Rate and extending the term to 360 months produces a PITIA payment of $1,552.21. This is below Mr. Valène's target payment of $1,769.18. As a result, Mr. Valène receives the FHA-HAMP Stand-Alone Loan Modification.

Valene

Run on: 3/23/2017

FHA WATERFALL INPUTS

Borrower Gross Monthly Income

Timing of Employment Income	Monthly
Employment Income	$ 5,876.70
Monthly Employment Income	$ 5,876.70
Contribution	
Untaxed Income	
SSI, Food Stamps, etc.	$ -
	$ -
Fixed Income	
SSA / SSD / Pension	$ -
Rental income	$ 1,600.00
Reduced by 25%	$ 1,200.00
Monthly Subtotal	$ 7,076.70

Co-Borrower Gross Monthly Income

Timing of Employment Income	
Employment Income	$ -
Monthly Employment Income	$ -
Fixed Income	
SSA / SSD / Pension	$ -
Untaxed Income	
SSI, Food Stamps, etc.	$ -
	$ -
Monthly Subtotal	$ -
Gross Monthly Income	$ 7,076.70

Expenses (If Necessary)

Expenses Not Necessary, Not Enough Surplus Income for Repayment Plan

MORTGAGE INFORMATION

Loan Terms	
Loan Type	Fixed Rate
Original Principal	$ 200,000.00
Term (in months)	360
Current Interest Rate	8.500%
Date of First Payment	8/1/2005
Monthly Property Taxes	$ 305.00
Monthly Homeowner's Insurance	$ 128.50
Monthly Association Fees	$ -
Known MIP?	No
Upfront MIP Financed?	No
Original Value	$ 210,000.00
Estimated MIP	$ -
Principal & Interest	**$ 1,537.83**
PITIA	**$ 1,971.33**
Arrears and Unpaid Principal Balance	
UPB Information:	Only Default Date
Estimate Arrears and UPB at Default:	
Default Date	6/1/2015
Today's Date	3/23/2017
Total Months in Default	22
Est UPB at Default	$ 177,764.39
Taxes in Arrears	$ 6,710.00
Insurance Arrears	$ 2,827.00
Association Fee Arrears	$ -
Interest Arrears	$ 28,612.26
MIP Arrears	$ -
Allowable Fees & Costs	$ 5,000.00
Total Eligible Arrears	$ 43,149.26
Market Interest Rate	
Freddie Mac PMMS 30yr Fixed	4.30%
Maximum Risk Adjustment	0.25%
Market Rate (rounded to nearest 1/8)	**4.500%**
Previous Partial Claims	
Amount of Any Previous Partial Claims	$ -

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MFY Legal Services, Inc.'s Proprietary FHA Waterfall Worksheet

Valene
Run on: 3/23/2017

FHA WATERFALL

FORMAL FORBEARANCE

Is front-end DTI at or less than 31%?

Current Payment	$ 1,971.33
Gross Monthly Income	$ 7,076.70
Ratio	27.86%
Result	**Yes**

Continue

Is 85% surplus income sufficient to cure arrears in 6 months?

Arrears, fees, & costs	$ 43,149.26
85% of surplus income	$ 4,043.87
Months to cure arrears w/ of 85% surplus income	11
Result	**No**

Continue

FHA-HAMP

Calculate FHA HAMP Target Payment

1. 31% of gross monthly income	$ 2,193.78
2. 80% of current PITIA	$ 1,577.06
3. 25% of gross monthly income	$ 1,769.18
4. Take greater of 2 & 3	$ 1,769.18
5. Take lesser of 1 & 4	$ 1,769.18
Target payment	**$ 1,769.18**

Calculate Maximum Partial Claim

1. 30% UPB at Default	$ 53,329.32
2. Less previous partial claims	$ -
Maximum Partial Claim	$ 53,329.32

Stand-Alone Partial Claim Analysis

All three of the following must be true

Is interest rate at or below market?	No
Is PITIA payment at or below target?	No
Does Max PC exceed Missed Payments + Fees?	Yes
Result	**No**

Continue to Modification with Partial Claim

Stand-Alone FHA HAMP Modification Analysis

Will modification result in PITIA at or below target?

Target payment	$ 1,769.18
Modification Payment	$ 1,552.84
Result	**Yes**

Borrower eligibile for FHA-HAMP modification.

FHA LOSS MITIGATION RESULTS

Stand Alone FHA-HAMP Modification

Monthly PITIA	$ 1,552.84
Monthly P&I	$ 1,119.34
Interest Bearing Principal	$ 220,913.65
Partial Claim	$ -
Interest Rate	4.500%
Remaining Term	360

For questions or comments about this worksheet, please contact Joseph Rebella

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MFY Legal Services, Inc.'s Proprietary FHA Waterfall Worksheet

C. FHA-HAMP Loan Modification with Partial Claim

Simon Crubellier purchased his home for $210,000 on June 23, 2005. He financed the purchase using an FHA-insured mortgage for $200,000. At the closing, Mr. Crubellier paid the upfront mortgage insurance premium and a $10,000 down payment out of his savings. Mr. Crubellier's first payment was due on August 1, 2005. His mortgage has a fixed interest rate of 8.5% and principal and interest payments of $1,537.83. Mr. Crubellier made his payments on time until June 2015, when illness caused Mr. Crubellier to take leave from his job. Now back at work, Mr. Crubellier earns $3,876.70 a month in employment income. He also rents out a unit in his home for $1,600 a month. This gives Mr. Crubellier a gross income of $5,076.70. He pays $305 a month in property taxes and $128.50 a month for homeowner's insurance. At the time of default, his monthly mortgage insurance premium had been removed from his account.

Because Mr. Crubellier's front-end debt to income ratio is above 31%, he is immediately evaluated for FHA-HAMP. Mr. Crubellier's target payment is $1,573.78, 31% of his gross monthly income. He has a maximum partial claim of $54,287.80.

Because Mr. Crubellier's interest rate is above the market rate and his PITIA payment is above his target, he is not eligible for a Stand-Alone Partial Claim. The Worksheet then evaluates Mr. Crubellier for a Stand-Alone Loan Modification. Capitalizing the arrears, setting the interest rate to the Market Rate and extending the term to 360 months produces a PITIA payment of $1,675.29. Because this payment is more than Mr. Crubellier's target payment, he is not eligible for a Stand-Alone Loan Modification, and he must be evaluated for a Modification with a Partial Claim.

In a Modification with Partial Claim, the Partial Claim is applied to the capitalized UPB to reach the target payment. Here, in order to amortize the interest-bearing principal over 30 years at the Market Rate with his target payment, Mr. Crubellier needs $20,033.83 in principal forbearance. This amount is well under Mr. Crubellier's maximum Partial Claim of $54,287.80. As a result, he receives a modification with a $20,033.83 Partial Claim. His payment going forward is his target payment.

Crubellier

Run on: 3/23/2017

FHA WATERFALL INPUTS

Borrower Gross Monthly Income

Timing of Employment Income	Monthly
Employment Income	$ 3,876.70
Monthly Employment Income	$ 3,876.70
Contribution	
Untaxed Income	
SSI, Food Stamps, etc.	$ -
	$ -
Fixed Income	
SSA / SSD / Pension	$ -
Rental income	$ 1,600.00
Reduced by 25%	$ 1,200.00
Monthly Subtotal	$ 5,076.70

Co-Borrower Gross Monthly Income

Timing of Employment Income	
Employment Income	$ -
Monthly Employment Income	$ -
Fixed Income	
SSA / SSD / Pension	$ -
Untaxed Income	
SSI, Food Stamps, etc.	$ -
	$ -
Monthly Subtotal	$ -
Gross Monthly Income	$ 5,076.70

Expenses (If Necessary)

Expenses Not Necessary, Front-End DTI Exceeds 31%

MORTGAGE INFORMATION

Loan Terms	
Loan Type	Fixed Rate
Original Principal	$ 200,000.00
Term (in months)	360
Current Interest Rate	8.500%
Date of First Payment	8/1/2005
Monthly Property Taxes	$ 305.00
Monthly Homeowner's Insurance	$ 128.50
Monthly Association Fees	$ -
Known MIP?	No
Upfront MIP Financed?	No
Original Value	$ 210,000.00
Estimated MIP	$ -
Principal & Interest	**$ 1,537.83**
PITIA	**$ 1,971.33**
Arrears and Unpaid Principal Balance	
UPB Information:	Only Default Date
Estimate Arrears and UPB at Default:	
Default Date	6/1/2014
Today's Date	3/23/2017
Total Months in Default	34
Est UPB at Default	$ 180,959.34
Taxes in Arrears	$ 10,370.00
Insurance Arrears	$ 4,369.00
Association Fee Arrears	$ -
Interest Arrears	$ 44,508.31
MIP Arrears	$ -
Allowable Fees & Costs	$ 5,000.00
Total Eligible Arrears	$ 64,247.31
Market Interest Rate	
Freddie Mac PMMS 30yr Fixed	4.30%
Maximum Risk Adjustment	0.25%
Market Rate (rounded to nearest 1/8)	**4.500%**
Previous Partial Claims	
Amount of Any Previous Partial Claims	$ -

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MFY Legal Services, Inc.'s Proprietary FHA Waterfall Worksheet

Crubellier
Run on: 3/23/2017

FHA WATERFALL

FORMAL FORBEARANCE

Is front-end DTI at or less than 31%?

Current Payment	$ 1,971.33
Gross Monthly Income	$ 5,076.70
Ratio	38.83%
Result	**No**

Skip to FHA-HAMP

FHA-HAMP

Calculate FHA HAMP Target Payment

1. 31% of gross monthly income	$ 1,573.78
2. 80% of current PITIA	$ 1,577.06
3. 25% of gross monthly income	$ 1,269.18
4. Take greater of 2 & 3	$ 1,577.06
5. Take lesser of 1 & 4	$ 1,573.78
Target payment	**$ 1,573.78**

Calculate Maximum Partial Claim

1. 30% UPB at Default	$ 54,287.80
2. Less previous partial claims	$ -
Maximum Partial Claim	$ 54,287.80

Stand-Alone Partial Claim Analysis

All three of the following must be true

Is interest rate at or below market?	No
Is PITIA payment at or below target?	No
Does Max PC exceed Missed Payments + Fees?	No
Result	**No**

Continue to Modification with Partial Claim

Stand-Alone FHA HAMP Modification Analysis

Will modification result in PITIA at or below target?

Target payment	$ 1,573.78
Modification Payment	$ 1,675.93
Result	**No**

Continue to Modification with Partial Claim

Modification with Partial Claim

Is enough Partial Claim available to achieve target?

Partial Claim required to reach target payment	$ 20,160.25
Maximum Partial Claim	$ 54,287.80
Result	**Yes**

Borrower eligibile for FHA-HAMP modification.

FHA LOSS MITIGATION RESULTS

FHA-HAMP Modification with Partial Claim

Monthly PITIA	$ 1,573.78
Monthly P&I	$ 1,140.28
Interest Bearing Principal	$ 225,046.39
Partial Claim	$ 20,160.25
Interest Rate	4.500%
Remaining Term	360

For questions or comments about this worksheet, please contact Joseph Rebella

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MFY Legal Services, Inc.'s Proprietary FHA Waterfall Worksheet

D. FHA-HAMP Loan Modification above the Target Payment

Percival Bartlebooth purchased his home for $210,000 on June 23, 2005. He financed the purchase using an FHA-insured mortgage for $200,000. At the closing, Mr. Bartlebooth paid the upfront mortgage insurance premium and a $10,000 down payment out of his savings. Mr. Bartlebooth's first payment was due on August 1, 2005. His mortgage has a fixed interest rate of 8.5% and principal and interest payments of $1,537.83. Mr. Bartlebooth made his payments on time until the June 2013, when problems with his tenant caused him to fall behind. Mr. Bartlebooth earns $3,176.70 a month in employment income. He also rents out a unit in his home for $1,600 a month. This gives Mr. Bartlebooth a gross income of $4,376.70. He pays $305 a month in property taxes and $128.50 a month for homeowner's insurance. At the time of default, his monthly mortgage insurance premium had been removed from his account.

Because Bartlebooth's front-end debt to income ratio is above 31%, he is immediately evaluated for FHA-HAMP.Mr. Bartlebooth's target payment is $1,356.78, 31% of his gross monthly income. He has a maximum partial claim of $55,168.44.

Because Mr. Bartlebooth's interest rate is above the market rate and his PITIA payment is above his target, he is not eligible for a Stand-Alone Partial Claim. The Worksheet then evaluates Mr. Bartlebooth for a Stand-Alone Loan Modification. Capitalizing the arrears, setting the interest rate to the Market Rate and extending the term to 360 months produces a PITIA payment of $1,799.36. Because this payment is more than Mr. Crubellier's target payment, he is not eligible for a Stand-Alone Loan Modification, and he must be evaluated for a Modification with a Partial Claim. To reach his target payment, Mr. Bartlebooth needs $87,349.61 in principal deferment. Unfortunately, Mr. Bartlebooth has maximum Partial Claim of only $55,168.44.

The next step in FHA loss mitigation is to increase the payment up to 40% of the borrower's gross income. Here, the payment necessary to amortize the loan with the maximum available deferment is $1,519.83, which is 34.73% of Mr. Bartlebooth's gross monthly income. Because the payment is under 40%, Mr. Bartlebooth receives the modification, with the entire available Partial Claim and a payment of $1,519.83 for 30 years at 4.5%.

Bartlebooth

Run on: 3/23/2017

FHA WATERFALL INPUTS

Borrower Gross Monthly Income

Timing of Employment Income		Monthly
Employment Income	$	3,176.70
Monthly Employment Income	$	3,176.70
Contribution		
Untaxed Income		
SSI, Food Stamps, etc.	$	-
	$	-
Fixed Income		
SSA / SSD / Pension	$	-
Rental income	$	1,600.00
Reduced by 25%	$	1,200.00
Monthly Subtotal	$	4,376.70

Co-Borrower Gross Monthly Income

Timing of Employment Income		
Employment Income	$	-
Monthly Employment Income	$	-
Fixed Income		
SSA / SSD / Pension	$	-
Untaxed Income		
SSI, Food Stamps, etc.	$	-
	$	-
Monthly Subtotal	$	-
Gross Monthly Income	$	4,376.70

Expenses (If Necessary)

Expenses Not Necessary, Front-End DTI Exceeds 31%

MORTGAGE INFORMATION

Loan Terms		
Loan Type		Fixed Rate
Original Principal	$	200,000.00
Term (in months)		360
Current Interest Rate		8.500%
Date of First Payment		8/1/2005
Monthly Property Taxes	$	305.00
Monthly Homeowner's Insurance	$	128.50
Monthly Association Fees	$	-
Known MIP?		No
Upfront MIP Financed?		No
Original Value	$	210,000.00
Estimated MIP	$	-
Principal & Interest	**$**	**1,537.83**
PITIA	**$**	**1,971.33**
Arrears and Unpaid Principal Balance		
UPB Information:		Only Default Date
Estimate Arrears and UPB at Default:		
Default Date		6/1/2013
Today's Date		3/23/2017
Total Months in Default		46
Est UPB at Default	$	183,894.82
Taxes in Arrears	$	14,030.00
Insurance Arrears	$	5,911.00
Association Fee Arrears	$	-
Interest Arrears	$	60,861.29
MIP Arrears	$	-
Allowable Fees & Costs	$	5,000.00
Total Eligible Arrears	$	85,802.29
Market Interest Rate		
Freddie Mac PMMS 30yr Fixed		4.30%
Maximum Risk Adjustment		0.25%
Market Rate (rounded to nearest 1/8)		**4.500%**
Previous Partial Claims		
Amount of Any Previous Partial Claims	$	-

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MFY Legal Services, Inc.'s Proprietary FHA Waterfall Worksheet

Bartlebooth
Run on: 3/23/2017

FHA WATERFALL

FORMAL FORBEARANCE

Is front-end DTI at or less than 31%?

Current Payment	$ 1,971.33
Gross Monthly Income	$ 4,376.70
Ratio	45.04%
Result	**No**

Skip to FHA-HAMP

FHA-HAMP

Calculate FHA HAMP Target Payment

1. 31% of gross monthly income	$ 1,356.78
2. 80% of current PITIA	$ 1,577.06
3. 25% of gross monthly income	$ 1,094.18
4. Take greater of 2 & 3	$ 1,577.06
5. Take lesser of 1 & 4	$ 1,356.78
Target payment	**$ 1,356.78**

Calculate Maximum Partial Claim

1. 30% UPB at Default	$ 55,168.44
2. Less previous partial claims	$ -
Maximum Partial Claim	$ 55,168.44

Stand-Alone Partial Claim Analysis

All three of the following must be true

Is interest rate at or below market?	No
Is PITIA payment at or below target?	No
Does Max PC exceed Missed Payments + Fees?	No
Result	**No**

Continue to Modification with Partial Claim

Stand-Alone FHA HAMP Modification Analysis

Will modification result in PITIA at or below target?

Target payment	$ 1,356.78
Modification Payment	$ 1,800.02
Result	**No**

Continue to Modification with Partial Claim

Modification with Partial Claim

Is enough Partial Claim available to achieve target?

Partial Claim required to reach target payment	$ 87,478.08
Maximum Partial Claim	$ 55,168.44
Result	**No**

Modification with Payment Above Target

Is payment at or below 40% DTI?

Payment with maximum deferment	$ 1,520.49
Debt to income ratio	34.74%
Result	**Yes**

Borrower eligibile for FHA-HAMP modification.

FHA LOSS MITIGATION RESULTS

FHA-HAMP Modification with Partial Claim

Monthly PITIA	$ 1,520.49
Monthly P&I	$ 1,086.99
Interest Bearing Principal	$ 214,528.66
Partial Claim	$ 55,168.44
Interest Rate	4.500%
Remaining Term	360

For questions or comments about this worksheet, please contact Joseph Rebella

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MFY Legal Services, Inc.'s Proprietary FHA Waterfall Worksheet