

HUD'S NATIONAL SERVICING CENTER



# Tier Ranking System (TRS) II

Scorecard Calculation Methodology

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Servicer Narrative

FY2015 Quarter 1 Update

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## **OVERVIEW AND OBJECTIVES**

The National Servicing Center's delinquent servicing scoring model, piloted as SPS and now known as the Tier Ranking System II or TRSII, has been created and established in order to accomplish the following:

- Determine servicer compliance with HUD/FHA delinquent servicing guidelines and requirements in the areas of early delinquency intervention, loss mitigation engagement quantity and quality, and Single Family Default Monitoring System (SFDMS) reporting.
- Protect borrowers from servicer non-compliance with HUD/FHA delinquent servicing guidelines and requirements.
- Alert HUD to potential servicer-specific or industry-wide delinquent servicing issues.

This model utilizes four scoring elements in order to quantify this compliance:

- (1) Foreclosure Prevention
- (2) Redefaults
- (3) SFDMS Reporting
- (4) Loss Mitigation Engagement

This narrative details the calculations for all four scoring elements, why and how we are looking at these elements, when and from which sources the data comes, suggestions to increase your scores, how to contact us, and much more.

## **GUIDE TO THIS NARRATIVE**

All changes are tracked in the revision history at the end of this document. Additionally, the table of contents will contain the following highlights:

Level 1 - Brand new section, item or criterion.

Level 2 - Update to calculation of existing section, item, or criterion.

Level 3 – Clarification or small update of existing section, item or criterion.

## **WHO WILL BE SCORED**

In order to be scored for TRSII, a mortgage servicer must meet the following criteria:

- 1) Approved to service single family loans.
- 2) Lender approval status must be active.
- 3) Servicer of record for a seriously delinquent portfolio of 5 loans or more as reflected in Neighborhood Watch for the last month in the scoring quarter.

If your company meets these criteria but also meets the following criteria, your company will have the option to opt-out. If your company has this option available, it is noted in the TRSII scorecard you either are or will be receiving along with your company's score.

- ✓ Servicer of record for a seriously delinquent portfolio of at least 5 loans but less than 25 loans as

reflected in Neighborhood Watch for the last month of the scoring quarter.

### **INCREASED INCENTIVES**

Per Mortgagee Letters 2013-21 and 2013-46, this scoring model will be used to determine those servicers that may qualify for increased incentive payments; those servicers earning an “A” and are therefore a Tier 1 at the end of quarter 4 for HUD’s fiscal year would be eligible for those increased incentives for the next calendar year.

Presently, these increased incentives are as follows:

1. An additional \$100 payment for each Special Forbearance Agreement executed on or after January 1 of the next calendar year.
2. An automatic (i.e., HUD’s written approval is not required) extension of two additional months to continue to market their properties being sold via Preforeclosure Sale for a total of six (6) months.
3. An increase in the reimbursement of foreclosure costs from two-thirds to 75% for Part B claims received by HUD on or after January of the next calendar year, for loans endorsed on or after February 1, 1998.

The original Tier Ranking System (TRS) evaluated activity for a rolling 12 month period. The cut-off for each evaluation period or “round” was the end of each fiscal year quarter. The incentive round occurred every fourth round. In this manner, the incentive round for TRS evaluated activity that occurred from October of the previous year through September of the current year, which is HUD’s fiscal year.

TRSII is similar in that the fourth quarter of our fiscal year signifies the end of the performance evaluation period. All four quarters’ scores, and thus 12 months of performance, will be used to determine those servicers that may qualify for increased incentives for the following calendar year and will be issued after the conclusion of the fourth quarter.

Exercising your option to opt-out, should you have one, will impact the possibility of receiving increased incentives. For more information, see the [opt-out section](#).

### **PUBLIC AVAILABILITY OF SCORES AND GRADES**

All scored servicers—including those that have not chosen to opt-out—may have their names and scores published on HUD’s [Tier Ranking System page on HUD.gov](#) at the end of each calendar year ([http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/nsc/trsovrw](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/nsc/trsovrw)).

This will occur after final scores are issued and the appeal window closes, after all appeals have been evaluated, and after servicers that have submitted appeals have been notified of the results. No scores will be publicly available until that time.

Exercising your option to opt-out, should you have one, will impact the public availability of your score. For more information, see the [opt-out section](#).

**OPTING OUT**

A servicer may choose to opt-out as long as that option is available according to the most recently issued quarterly TRSII scorecard. In order to exercise its option to opt-out, a servicer must

- ✓ Submit the request via email to [sfdatarequests@hud.gov](mailto:sfdatarequests@hud.gov) no later than October 31. Please enter “TRSII Opt-Out” in the subject line and include your company’s 5-digit HUD Lender ID.
- ✓ Once your request has been verified, you will receive a confirmation email that your company has opted-out of scoring for the fiscal year.
- ✓ Please be advised that opting out for one fiscal year of scoring does not carry over to the next. If you have the option available the next year, you will need to submit another request, and then have it verified, and confirmed.

Because scores are to be based upon 12 months of performance, if your company does not meet the criteria to be scored for a quarter, your company will be automatically opted-out for that fiscal year.

What it means to opt-out:

- ✓ We will continue to issue TRSII scorecards to all eligible servicers.
- ✓ If your company meets opt-out criteria and has exercised the option to opt-out, the TRSII scorecard is for informational purposes only, which will be stated as such.
- ✓ If a servicer either chooses to be opted-out or is automatically opted-out, we will still use the scores for internal reviews and metrics.
- ✓ If a servicer either chooses to be opted-out or is automatically opted-out, that servicer’s scores will not be made available on a public website.
- ✓ If a servicer either chooses to be opted-out or is automatically opted-out, it is not eligible for increased incentives for the following calendar year.

**APPEALS**

Servicers receiving a grade of “F” Tier 4 may appeal their final score within 30 calendar days after the issue date of the final fiscal year grade. They may appeal their grade to the Deputy Assistant Secretary for Single Family or the Deputy Assistant Secretary’s designee and request an informal HUD conference.

The only basis for appeal by the servicer receiving an “F” Tier 4 is disagreement with the data used by HUD to calculate the servicer’s grade. If HUD determines that the servicer’s “F” grade Tier 4 rating was based on incorrect or incomplete data, the servicer’s performance will be recalculated and the servicer will receive a corrected score.

**SCORES, GRADES, AND TIERS**

Each scoring element is evaluated separately based on activity for each month in the quarter, then averaged for a quarterly score. Scores for all four elements are then averaged for a score for a given fiscal year quarter.

Servicers will be provided with a TRSII scorecard each quarter along with a corresponding letter grade and Tier ranking. A grade of “A” will correspond to a Tier 1 ranking, a grade of “B” will correspond to a Tier 2 ranking, a grade of “C” or “D” will both correspond to Tier 3 rankings, and a grade of “F” will correspond to a Tier 4 ranking. Quarterly scores will be averaged to produce a final annual FY score and grade.

Final Fiscal Score	Assigned Grade	Corresponding Tier
90.00% - 100.00+%	A	1
80.00% - 89.99%	B	2
70.00% - 79.99%	C	3
60.00% - 69.99%	D	3
59.99% or Less	F	4

### **SCORING PROCESS**

Scores will be issued to each eligible servicer either electronically via email or via hard copy letter (in lieu of a valid email address) after the conclusion of each fiscal year quarter.

<b>QUARTER 1</b>	<b>OCTOBER, NOVEMBER, &amp; DECEMBER</b>	<b>ANTICIPATED TO BE ISSUED ON OR AROUND FEBRUARY MONTH END</b>
<b>QUARTER 2</b>	<b>JANUARY, FEBRUARY, &amp; MARCH</b>	<b>ANTICIPATED TO BE ISSUED ON OR AROUND MAY MONTH END</b>
<b>QUARTER 3</b>	<b>APRIL, MAY, &amp; JUNE</b>	<b>ANTICIPATED TO BE ISSUED ON OR AROUND AUGUST MONTH END</b>
<b>QUARTER 4</b>	<b>JULY, AUGUST, &amp; SEPTEMBER</b>	<b>ANTICIPATED TO BE ISSUED ON OR AROUND NOVEMBER MONTH END</b>

- Please be advised that our systems take some time to refresh, particularly those involving SFDMS reporting data, and therefore, scores will not be immediately available at the quarter close. You should expect anywhere from about four to six weeks before receiving your scores for the previous quarter.
- Fiscal year end final scores may take a bit longer due to final reviews and approvals.
- Element Scoring Process
  - ✓ Foreclosure Prevention and Redefaults: Case level scores are averaged for a monthly score. Monthly scores are averaged for each quarter. Yearly scores are the average of the four quarters.
  - ✓ SFDMS Reporting and Loss Mitigation Engagement: Ratios for each month are averaged for each quarter. Yearly scores are the average of the four quarters.

## **SERVICER VERSUS SUBSERVICER VERSUS HOLDER**

For the purposes of quantifying delinquent servicing effectiveness, the servicer of record is the entity that is scored and is the entity to which we will send TRSII scorecards and other communication.

This is the entity interacting with the borrower and making the decisions regarding the delinquency process. If your company has a subservicer relationship/agreement with a company that owns the servicing rights to the loan, HUD still considers your company to be the servicer of record if your company does the following:

- Collects payments from the borrower, and
- Disburses taxes and insurance, and
- Remits MIP. In fact, if your company remits the MIP under your company's HUD Lender ID, your company will be automatically listed as the servicer of record.

If a company performs only the default servicing, default reporting, and/or claim filing, etc., that company should be doing the activity under that servicer of record's ID.

Owning the servicing rights does not make the company the servicer of record. If a company owns the servicing rights but performs no actual servicing activities, that company may be listed as the holder of record if that company wishes to receive claim payments. Otherwise, this company has no relation to the case as far as HUD is concerned.

Holders of record that wish to know the performance of their servicers may request a breakdown of their servicer's scores.

- This breakdown will be for foreclosure prevention, redefaults, and the work-out ratio of loss mitigation engagement.
- Reporting and the reported engagement ratio currently cannot be broken out by holder.
- See [Contact Information](#) for how to request this.

**NOTIFICATION OF TRSII SCORES**

All distribution for quarterly TRSII scorecards consisting of your company’s scores, grades, and Tiers will be electronic via email. Hard copy letters containing scores, grades, and Tiers for each quarter will only be sent if we cannot reach you electronically.

As distribution is now electronic, there are benefits for your company.

- Soft copies of the announcement letters will be emailed to up to 10 designees.
- Additionally, there is opportunity for extra credit if you notify us of your email distribution list (see [Extra Credit](#)). If you do not notify us, we will use an email address we find for your company; however, you will not receive extra credit.
- See [Contact Information](#) for how to provide your electronic distribution list to us.

When you receive your quarterly scores via email, you will receive a TRSII scorecard that looks similar to this:

Element	Q1 Score	Q2 Score	Q3 Score	Q4 Score	
Foreclosure Prevention	85.20%	79.62%	81.50%	65.85%	
Redefaults	77.53%	80.12%		43.56%	
SFDMS Reporting	97.55%	99.99%	100.00%	100.00%	
Loss Mitigation Engagement	82.41%	83.01%	84.33%	86.84%	
Score	85.67%	85.69%	88.61%	74.06%	
Paperless Extra Credit	0.10%	0.10%	0.10%	0.10%	
<b>Quarter Score</b>	<b>85.77%</b>	<b>85.79%</b>	<b>88.71%</b>	<b>74.16%</b>	
<b>Quarter Score Running Average</b>	<b>85.77%</b>	<b>85.78%</b>	<b>86.76%</b>	<b>83.61%</b>	
Seriously Delinquent Portfolio	750	699	854	872	
Classification*	Scored	Scored	Scored	Scored	
Opted-Out**	Not Eligible	Not Eligible	Not Eligible	Not Eligible	
<b>Fiscal Year Overall</b>					
Extra Credit Earned this Fiscal Year			0.60%		
<b>Fiscal Year Score</b>	<b>84.21%</b>	<b>Grade</b>	<b>B</b>	<b>TRSII Tier</b>	<b>Tier 2</b>

An average of scores calculated for each month in the quarter. For example, this would be an average of October, November and December scores.

An average of all of the elements scores plus any paperless extra credit determines your quarterly score.

A blank indicates no activity to evaluate. This neither helps nor hurts your score.

A running average of your quarterly scores plus any extra credit training determines your final fiscal year score, grade, and Tier.

\* Servicers who do not meet the criteria to be scored for at least one quarter during the fiscal year will be classified as opted-out as of the next quarter.  
 \*\* If the status shows as opted-out, this letter is for informational purposes only.

**CONTACT INFORMATION**

If you need to contact us for additional information, please take the following actions. If you want multiple items, you can include them in the same email, but just make sure to reference what you want.

What Do You Need?	Action to Take
<b>Go Paperless!</b>	Email <a href="mailto:sfdatarequests@hud.gov">sfdatarequests@hud.gov</a> Subject Line: TRSII Go Paperless Include: <ul style="list-style-type: none"> <li>✓ 5 digit HUD Lender ID</li> <li>✓ Up to 10 names and email addresses to which you wish to have the quarterly announcement letters delivered as well as other blast updates and other communication regarding scoring.</li> </ul>
<b>Copy of Your Company's TRSII Scorecard Email</b>	Email <a href="mailto:sfdatarequests@hud.gov">sfdatarequests@hud.gov</a> Subject Line: TRSII Copy of Scorecard Email Include: 5-digit HUD Lender ID
<b>Your Company's Case Level Data</b>	Email <a href="mailto:sfdatarequests@hud.gov">sfdatarequests@hud.gov</a> Subject Line: TRSII Case Level Detail Include: 5-digit HUD Lender ID
<b>Extra Credit</b>	Follow the instructions in the <a href="#">Extra Credit</a> Section.
<b>Other Questions or Comments</b>	Email <a href="mailto:sfdatarequests@hud.gov">sfdatarequests@hud.gov</a> Subject Line: TRSII Question Include: 5-digit HUD Lender ID & your question(s) and/or comment(s).
<b>Reconcile your Portfolio</b>	Go to the website <a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/nsc/portrecon">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/nsc/portrecon</a> for instructions on resolution to these issues.
<b>Send a Hard Copy Letter</b>	Hard copy letters can be sent to the Department of Housing and Urban Development, 301 NW 6 <sup>th</sup> Street, Suite 200, Oklahoma City, OK 73102-2807. Please also address any hard copy letter to the attention of NSC Branch 1 TRSII to ensure proper processing and include your company's 5-digit HUD Lender ID.

## ELEMENT: FORECLOSURE PREVENTION

### Data Source

All data comes from SFDMS Reporting. You will need to use your own servicing histories and SFDMS reports to calculate your scores if you are self-monitoring.

### Element Purpose

- ❖ 24 CFR 203.606 states that a servicer should not initiate foreclosure until at least three full monthly installments are past due after the application of any partial payments, unless there is a qualifying exception that allows for acceleration of the foreclosure process. These exceptions are:
  - (1) The mortgaged property has been abandoned, or has been vacant for more than 60 days.
  - (2) The mortgagor, after being clearly advised of the options available for relief, has clearly stated in writing that he or she has no intention of fulfilling his or her obligation under the mortgage.
  - (3) The mortgaged property is not the mortgagor's principal residence and it is occupied by tenants who are paying rent, but the rental income is not being applied to the mortgage debt.
  - (4) The property is owned by a corporation or partnership.
- ❖ 24 CFR 203.355 states that a servicer should initiate foreclosure within 6 months from the date of default (i.e. 8 months from the oldest unpaid installment).
- ❖ Mortgagee Letter 2013-40 states that a foreclosure may be initiated if one of the following conditions is met:
  - The servicer has reviewed the borrower for loss mitigation and determined the borrower doesn't qualify.
  - The borrower has failed at the loss mitigation option for which he/she was approved and is ineligible for other loss mitigation.
  - The servicer can't make a determination of the borrower's eligibility for any loss mitigation tool due to no response.

Accelerating the foreclosure process makes it more difficult for the borrower to participate in any loss mitigation and to bring his/her loan current.

While we still expect timeframes to be met for filing the first legal, this element is scored on the timeliness of foreclosure initiation and the attempts at intervention prior to the action as well as compliance with regulations and policy.

### Element Description

Evaluate a servicer's foreclosure initiation actions, timeframes, and intervention practices. This is achieved by reviewing all cases in which a new first legal action was reported during a default episode and all of the reported intervention activities that occurred before the first legal within that default episode. Intervention activities are examined since this is the only way a servicer can actively attempt to prevent a foreclosure.

The scoring structure has been designed so that points can be earned in different ways including initiating foreclosure in accordance with CFR, attempting various loss mitigation tools, reporting a borrower as ineligible for loss mitigation, vacancy, and initiation of foreclosure after possible loss mitigation options are exhausted.

### Benchmarks

Grades are assigned based upon a 10 point scale.

Foreclosure Prevention %	Assigned Grade
90% -100%	A
80% -89%	B
70% -79%	C
60% - 69%	D
Less than 60%	F

### Suggestions to Increase the Score

- ✓ Report correctly, including occupancy status codes, default status dates, and oldest unpaid installment dates, particularly if the oldest unpaid installment date was advanced during the month the first legal action was taken and/or reported.
- ✓ Do not early report. Make sure you reporting during the first five business days of the month the status of the loan as of the last day of the previous month.
- ✓ Do more loss mitigation and report it.
- ✓ Utilize allowed for auto-extensions and do not initiate foreclosure to meet a non-extended deadline if the borrower is in loss mitigation. See [Appendix C](#) for more information on auto-extensions.
- ✓ Report AQs properly to signify the failure of an attempted loss mitigation action.
- ✓ Do not report Unable to Determine Occupancy/Unknown as the occupancy status code unless absolutely necessary and appropriate. Systems should not be defaulted to report this.

How to Calculate

- 1) Pull a list of cases that were reported first legal actions (default status code 68) for the first time within a default episode for the current scoring month.

You will also need to determine the occupancy status code and occupancy status date reported with the code 68, the default status date reported with the code 68, as well as the number of months delinquent as of the code 68.

Quarter	Scoring Month	First Time in Episode First Legal Filed Default Status Code 68 Reported for Cycle	Also Need Data For
Q1	October	10/31 of current year	<ul style="list-style-type: none"> <li>• Number of months delinquent as of the status code 68</li> <li>• Occupancy status code and occupancy status date reported as of the status code 68</li> <li>• Default status date reported with the status code 68</li> </ul>
	November	11/30 of current year	
	December	12/31 of current year	
Q2	January	1/31 of current year	
	February	2/28 (2/29) of current year	
	March	3/31 of current year	
Q3	April	4/30 of current year	
	May	5/31 of current year	
	June	6/30 of current year	
Q4	July	7/31 of current year	
	August	8/31 of current year	
	September	9/30 of current year	

Regardless if you report the default status code 68 multiple times in the default episode or if it becomes necessary to restart the foreclosure after an interruption such as bankruptcy or to amend a complaint, only the first 68 reported within a default episode triggers the evaluation for this element.

10/2011	03/01/09	32	68	First Legal Action to Commence Foreclosure	
11/2011	03/01/09	33	68	First Legal Action to Commence Foreclosure	
12/2011	03/01/09	34	68	First Legal Action to Commence Foreclosure	
1/2012	03/01/09	35	68	First Legal Action to Commence Foreclosure	
2/2012	03/01/09	36	68	First Legal Action to Commence Foreclosure	

The number of months delinquent is based upon the oldest unpaid installment date included in your SFDMS reporting. You can find the number of months delinquent on a case-by-case basis in Neighborhood Watch, under Queries, Case Status.

Reporting Period	OUI Date	# Months Delinquent	Delinquent Status	Delinquent Status Definition
11/2010	11/01/10	1	42	Delinquent
12/2010	12/01/10	1	12	Repayment
1/2011	01/01/11	1	12	Repayment
2/2011	02/01/11	1	12	Repayment
3/2011	04/01/11	0	98	Reinstated After Loss Mitigation Intervent
4/2011	04/01/11	1	42	Delinquent
4/2011	04/01/11	1	12	Repayment
5/2011	04/01/11	2	12	Repayment
6/2011	04/01/11	3	12	Repayment
7/2011	05/01/11	3	12	Repayment
8/2011	05/01/11	4	12	Repayment
9/2011	05/01/11	5	09	Special Forbearance
10/2011	06/01/11	5	09	Special Forbearance
11/2011	06/01/11	6	09	Special Forbearance
12/2011	06/01/11	7	09	Special Forbearance
12/2011	06/01/11	7	AQ	Loss Mitigation Option Failure
1/2012	06/01/11	8	AQ	Loss Mitigation Option Failure
2/2012	06/01/11	9	AO	Ineligible for Loss Mitigation
3/2012	06/01/11	10	68	First Legal Action to Commence Foreclosure

**Previous Default Episode – Not Evaluated**

**Default Episode Evaluated**

**This event triggered the evaluation. The Months Delinquent is 10.**

**Determine Compliance with ML 2013-40 in Foreclosure Initiation and Loss Mitigation**

- 2) If a case is found to be actively in loss mitigation and the servicer reports that the first legal has been filed while there is active loss mitigation, these foreclosure actions will be considered to be inappropriately initiated, and the points will automatically be zero.

First, let’s define what an appropriately initiated foreclosure action is. If the case fits into any of the following scenarios, we consider these cases as not actively in loss mitigation when the foreclosure action was initiated:

- If no loss mitigation was reported at all prior to the first time in episode 68.
- The last loss mitigation code reported prior to the first time in episode 68 is an Option Failure (AQ), Ineligible for Loss Mitigation (AO), Ineligible for Loss Mitigation Due to No Response (AP), Promise to Pay (11), or Prequalified for 601 (3B).
- *Through the 3/31/2014 evaluation, the last loss mitigation code reported prior to the first time in episode 68 also includes Military Indulgence (32), Borrower Program Assistance*

*Received (78), Repayment Plan (12), Deed-in-Lieu Started (44), Complete Financials Received and in Review (AA), or Streamlined Financials Received and in Review (AH).*

- The first time in episode 68 was reported 2 or more months after the last loss mitigation code reported.
- The first legal filing date reported with the first time in episode 68 (i.e. the default status date) is earlier than the default cycle date of the last reported loss mitigation code.

Based on what is appropriate initiation in regard to the loss mitigate process, we can now define the indicators of inappropriate initiation, which are detailed below. All indicators of inappropriate initiation must be met in order to be counted as such.

Servicers are reminded to request a variance extension of the first legal deadline for any delay in which an automatic extension is not allowed.

#### Indicator #1

The default cycle date of the last loss mitigation code reporting occurrence is either the same as the default cycle date or the prior default cycle date as the first time in episode 68 default cycle date.

The last loss mitigation code reporting occurrence is one of the following codes.

***Please note that the codes in the second column will be excluded from the evaluation until the start of Q3, which is April 2014. First time in episode 68s with a default cycle date of 4/30/2014 and after will consider any of those codes that fit the criteria to be inappropriately initiated.***

- |                                                         |                                               |
|---------------------------------------------------------|-----------------------------------------------|
| ▪ <i>Formal Forbearance (06)</i>                        | ▪ <i>Military Indulgence (32)</i>             |
| ▪ <i>Trial Payment Plan (08)</i>                        | ▪ <i>Borrower Assistance (78)</i>             |
| ▪ <i>Special Forbearance (09)</i>                       | ▪ <i>Repayment Plan (12)</i>                  |
| ▪ <i>Partial Claim Started (10)</i>                     | ▪ <i>Deed-in-Lieu Started (44)</i>            |
| ▪ <i>Modification Started (28)</i>                      | ▪ <i>Financials Received (AA)</i>             |
| ▪ <i>Preforeclosure Acceptance Plan Available (15)</i>  | ▪ <i>Streamlined Financials Received (AH)</i> |
| ▪ <i>FHA-HAMP Trial Plan (39)</i>                       |                                               |
| ▪ <i>FHA-HAMP Standalone Partial Claim Started (36)</i> |                                               |
| ▪ <i>FHA-HAMP Standalone Modification Stated (37)</i>   |                                               |
| ▪ <i>FHA-HAMP Modification Started (41)</i>             |                                               |

#### Indicator #2

If the first legal filing date reported with the first time in episode 68 (i.e. the default status date) is after the default cycle date of the last lost mitigation code reported, this will be classified as foreclosure inappropriately initiated.

#### *Determine Compliance with CFR 203.606 in Foreclosure Initiation*

- 3) If a case is found to have foreclosure initiated earlier than provided for in CFR, these foreclosure actions will be considered to be non-compliant with CFR and the points will automatically be zero.

Again, let's define what a compliant initiation action is. If the case fits into any of the following scenarios, we consider these foreclosure actions as compliant with CFR:

- Foreclosure was reported as initiated when the months past due was at least 3.

- Foreclosure was reported as initiated on a vacant property when the months past due was less than 3 and the first time vacancy date was 60 days or more before the first legal was filed.
- Foreclosure was reported as initiated when the months past due was less than 3, and it had been previously reported within that default episode that the borrower was ineligible for loss mitigation (AO).
- Foreclosure was reported as initiated on a renter occupied property regardless of the months past due.

Therefore, non-compliance is considered to be foreclosure initiation before a case is reported as at least 3 months past due when the property is occupied, and the borrower has not declined loss mitigation.

#### Calculate the Points

- 4) Assess points for the number of months delinquent as of the first legal action. This is based on a sliding scale detailed in the table below.
- 5) Assess additional points for non-borrower occupancy if reported with the new first legal action. This is also based on a sliding scale and detailed in the table below.

A non-borrower occupancy is considered to be a reported occupancy status code of

- *Occupied by Renter/Tenant*
- *Known to be Vacant*
- *Adverse Occupant*

Reporting Unable to Determine Occupancy/Unknown is not considered to be non-borrower occupied.

Months Delinquent at 68	Months Delinquent Points	Non-Borrower Occupancy Points	Total Points Available for Months Delinquent & Non-Borrower Occupancy
0	0	0	0
1	0	80	80
2	0	80	80
3	60	20	80
4	65	15	80
5	70	10	80
6	75	5	80
7	78	2	80
8 and up	80	0	80

- 6) Determine which cases had any of the following codes reported between the opening of the default episode and the reported first legal action.
  - ✓ Multiple reporting of the same code only gets counted one time.
  - ✓ Each reported loss mitigation action gets five points.

- *Military Indulgence (32)*
- *Borrower Program Assistance Received (78)*
- *Promise to Pay (11)*
- *Complete Financials Received and In Review (AA)*
- *Streamlined Financials Received and in Review (AH)*
- *Repayment Plan (12)*
- *Formal Forbearance (06)*
- *Special Forbearance (09)*
- *Trial Payment Plan (08)*
- *Partial Claim Started (10)*
- *Modification Started (28)*
- *FHA-HAMP Trial Plan (39)*
- *FHA-HAMP Standalone Partial Claim Started (36)*
- *FHA-HAMP Standalone Modification Stated (37)*
- *FHA-HAMP Modification Started (41)*
- *Prequalified for 601 (3B)*
- *Preforeclosure Acceptance Plan Available (15)*
- *Deed-in-Lieu Started (44)*
- *Option Failure (AQ)*
- *Ineligible for Loss Mitigation (AO)*
- *Ineligible for Loss Mitigation Due to No Response (AP)*

7) Determine which cases had the first time in episode 68 reported in an episode other than the first episode.

- ✓ If the foreclosure was not initiated in episode one, this gets five points.

*NOTE: You do not need to know how many total episodes there have been. You only need to know if it is the first one or not.*

8) Points per case are capped at 100. Regardless of how many actions you have reported, you cannot earn more than 100 points per case.

9) Scores are calculated on each case by dividing the number of points earned by a total of 100 possible points.

Based on this schedule, the case previously shown above from Neighborhood Watch earns a score of 100%.

- ✓ 80 installment points + 5 Episode Points + 20 Loss Mitigation Action points (repayment plan 12, special forbearance 09, option failure AQ, and ineligible for loss mitigation AO).
- ✓ This totals 105 points, so the maximum of 100% is earned.

## ELEMENT: REDEFAULTS

### Data Source

Loan Modification and Partial Claim (including HAMPs) incentive claims filed and SFDMS Reporting. See [Appendix D](#) for information on how to pull the list of claims evaluated from FHA Connection. You will need to use your own servicing histories and SFDMS reports to calculate your scores if you are self-monitoring.

### Element Purpose

- ❖ Mortgagee Letter 2003-19 states that partial claims may be offered to borrowers that have overcome the cause of the default and have sufficient income to resume monthly mortgage payments. It also states that the partial claim must fully reinstate the loan.
- ❖ Mortgagee letter 2000-05 states that modifications may be offered to borrowers who have stabilized surplus income which is sufficient to support the monthly payment under the modified rate and/or term. It also states that the modification must fully reinstate the loan.

When a mortgage modification or partial claim is utilized, there is an expectation that 1) the servicer has appropriately reviewed the borrower's financials and the borrower's continued ability to make his/her mortgage payments, and 2) the tool will fully reinstate the loan.

We know that not every borrower will stay current for six months or longer after the tool is utilized; events beyond the borrower's and/or the servicer's control happen. However, if the case was properly reviewed for the loss mitigation tool prior to its utilization, and if the servicer properly performs early delinquency intervention once a case becomes delinquent again, the impact of these redefaults on a servicer's score should be minimal.

### Element Description

Evaluate and score the performance of cases after a mortgage modification or partial claim incentive claim is filed with and processed by HUD. FHA HAMPs are evaluated twice, that is to say individually as modifications and partial claims.

Mortgage modifications and partial claims reinstate the loan, and the incentive claims with HUD are to be filed within 60 days of the execution date of the mortgage modification or of the subordinate lien to HUD. The performance period begins the month after the incentive claim is processed and ends after six months. The number of times a case is reported 90 days or more delinquent is counted for the six month evaluation period.

Benchmarks

Grades are assigned based upon a 10 point scale.

Redefault Average Score	Assigned Grade
90% -100%	A
80% -89%	B
70% -79%	C
60% - 69%	D
Less than 60%	F

Suggestions to Increase the Score

- ✓ File the incentive claim as close to the actual reported reinstatement as possible. The clock for the evaluation period does not begin until the claim is processed.
- ✓ Make sure the loan is completely reinstated by the loss mitigation tool, and report the reinstatement correctly in SFDMS.
- ✓ Place the borrower on a trial payment plan before implementing the loan modification or partial claim.
- ✓ Perform loan modifications in accordance with policy.
- ✓ Enter your non-incentivized loan modifications into FHA Connection timely with correct information.
- ✓ Once a loan goes delinquent, intervene and do not let the loan get 90 days down again.

How to Calculate

Pull a list of incentive claims processed based upon the scoring month in the schedule below. Each of these cases starts with 60 points.

Additionally, keep track of any non-incentivized loan modifications you enter into FHA Connection. In lieu of a claim processed date, it will be the new first installment date based on the schedule below that will be evaluated for each month.

Quarter	Scoring Month	Claim Processed From	Claim Processed To	Review Month 1	Review Month 2	Review Month 3	Review Month 4	Review Month 5	Review Month 6
Q1	October	4/1	4/30	5/31	6/30	7/31	8/31	9/30	10/31
	November	5/1	5/31	6/30	7/31	8/31	9/30	10/31	11/30
	December	6/1	6/30	7/31	8/31	9/30	10/31	11/30	12/31
Q2	January	7/1	7/31	8/31	9/30	10/31	11/30	12/31	1/31
	February	8/1	8/31	9/30	10/31	11/30	12/31	1/31	2/28
	March	9/1	9/30	10/31	11/30	12/31	1/31	2/28	3/31
Q3	April	10/1	10/31	11/30	12/31	1/31	2/28	3/31	4/30
	May	11/1	11/30	12/31	1/31	2/28	3/31	4/30	5/31
	June	12/1	12/31	1/31	2/28	3/31	4/30	5/31	6/30
Q4	July	1/1	1/31	2/28	3/31	4/30	5/31	6/30	7/31
	August	2/1	2/28	3/31	4/30	5/31	6/30	7/31	8/31
	September	3/1	3/31	4/30	5/31	6/30	7/31	8/31	9/30

- 1) For each incentive claim processed and for each non-incentivized modification, determine the number of times the case becomes 90 days delinquent or more in the following 6 months (again, refer to the schedule).
  - A case can only be counted once per month.
  - However, if more than one incentive claim is processed on a case, each claim’s performance is evaluated separately, so more than one claim per case per period may be reviewed.
- 2) For each 90 day or more delinquent count, 10 points is subtracted from 60 possible points.
- 3) Potential to lose all points.
  - (a) The case is in foreclosure within 6 months of the claim processed date.
    - ✓ If a case is reported as in any part of the foreclosure process during the six month evaluation period, the possible points associated with that incentive claim are 0.

For these purposes, the following default codes are considered any part of the foreclosure process:

    - State Mandatory Delay &/or Mediation (95)*
    - First Legal Action to Commence Foreclosure (68)*
    - Contested Foreclosure (33)*
    - Foreclosure Sale Held (1A)*

- Eviction Started (1E)
- Eviction Completed (1G)
- Foreclosure Deed Recorded (77)
- Property Conveyed to Insurer (46)
- Claim without Conveyance of Title (48)
- Third Party Sale (30)
- Property Redeemed (73)

- (b) The delinquency has not been accurately reported on incentivized modifications or partial claims.
- ✓ If the last SFDMS reporting for a case was more than 90 days before the incentive claim was received, or
  - ✓ If no default reporting ever occurred

The possible points associated with that incentive claim are 0.

*Note: This does not apply to non-incentivized loan modifications, as they may have been recasts of current loans. Additionally, this does not apply to partial claim incentive claims for which no incentive was paid.*

Example 1

In the example below, this case would score an 83% which is 50 points (60 points – 10 points for one redefault) divided by 60 points.

Form Type	Date Received	Date Prepared	Date Processed	Claim Type
A	09/29/11	09/29/11	09/30/11	32 - Loan Modification

**This date processed event triggered the evaluation.**

8/2011	06/01/11	3	28	Modification Started
9/2011	06/01/11	4	28	Modification Started
9/2011	11/01/11	0	98	Reinstated After Loss Mitigation Intervent
12/2011	12/01/11	1	42	Delinquent
1/2012	12/01/11	2	42	Delinquent
2/2012	12/01/11	3	42	Delinquent
3/2012	02/01/12	2	42	Delinquent
4/2012	04/01/12	1	42	Delinquent

**Time Period Evaluated – October 2011 through March 2012**  
**March is the scoring month.**

Example 2

In the example below, this case would score a 0% because there was no default reporting 90 days prior to the loan modification claim process date. In fact, the delinquency associated with this even was not reported at all.

Form Type	Date Received	Date Prepared	Date Processed	Claim Type
A	09/20/11	09/20/11	09/21/11	32 - Loan Modification

**This date processed event triggered the evaluation.**

1/2011	11/01/10	3	98	Reinstated After Loss Mitigation Intervent
12/2011	12/01/11	1	42	Delinquent
1/2012	12/01/11	2	42	Delinquent
2/2012	03/01/12	0	20	Reinstated by Mortgagor w/o Loss Mitigation Claim

**Time Period Evaluated – October 2011 through March 2012**

**There was no reporting within 90 days prior to 9/21/2011.**

**ELEMENT: SINGLE FAMILY DEFAULT MONITORING SYSTEM (SFDMS) REPORTING**

Data Source

SFDMS reporting and a servicer’s total current delinquencies as reflected in Neighborhood Watch. This should be downloaded monthly by the servicer, if self-monitoring.

Please note, that if a subservicer is responsible for your company’s default reporting into the Single Family Default Monitoring System, that subservicer should ideally be reporting under your ID.

Element Purpose

- ❖ 24 CFR 203.331 (c) states that a servicer is to report to HUD all mortgages that were in default on the last day of the month, or that were reported as in default the previous month.

HUD’s ability to properly evaluate the status of its portfolio, report to congress, establish a budget, and evaluate policy effectiveness and potential policy changes is dependent upon good default reporting.

Element Description

Evaluate if a servicer is reporting on all open defaults as well as evaluate the number of fatal errors committed by the servicer. This will increase the accuracy of SFDMS reporting as a whole and help the servicer if and when it becomes time to file a claim with HUD.

Benchmarks

Grades are assigned based upon a 10 point scale, which is derived from the calculated score.

Fatal Error Percentage Range	Reporting Occurrences	Neglected Reporting Rate	Calculated Grade	Assigned Grade
0.00% - 2.00%	>0	0.00%	90% - 100%	A
2.01% - 4.00%	>0	0.00%	80% - 89%	B
4.01% - 6.00%	>0	0.00%	70% - 79%	C
6.01% – 8.00%	>0	0.00%	60% - 69%	D
8.01% or more	>0	0.00%	59% or Less	F

Suggestions to Increase the Score

- ✓ If you want to self-monitor and calculate this yourself, you will need to obtain the data from Neighborhood Watch every month since historical data for many reports is not available.
- ✓ Do not fail to report.
- ✓ Report on all open defaults.
  - You can reconcile your outstanding defaults to Neighborhood Watch records.

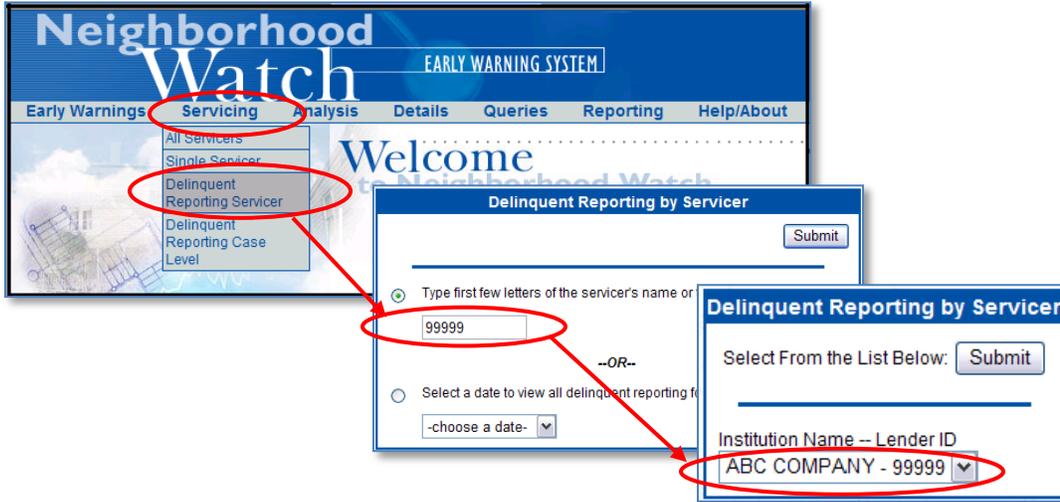
- Please note that when you click on the hyperlink for the delinquent loans, that the default cycle now shows so you can see the last default cycle that reporting occurred (it is the delinquent cycle date column).
  - You can download this information to Excel to reconcile more easily to your records by scrolling to the bottom of the page. See [Appendix E](#) for more information.
- ✓ If you utilize a subservicer who does your default reporting for you and you are the servicer of record, then make sure the subservicer is reporting under your ID.
- ✓ Report corrections immediately before the cycle closes. A higher number of reporting occurrences will increase the denominator when calculating the fatal error rate and will lessen the impact of the fatal errors.
- ✓ Please note that corrections will not cancel out the fatal error. Additionally, not all fatal errors can be corrected. Sometimes, the only way to correct a fatal error is to stop reporting.
  - If you are not receiving the error report directly from EDI, make sure you start.
  - You can also find your error report in FHA Connection.
    - Go to Single Family FHA, Single Family Servicing, Delinquent Loans, and then Application Advice Notices.
    - You will need to enter the 10 digit HUD Lender ID under which you reported.
    - The available cycles will be displayed.
    - Then the list of transaction dates will be displayed.
    - Choose the most recent one if you are resubmitted fatal errors.
    - This data may take a while to process, so if the system seems to be taking a while, that is ok.



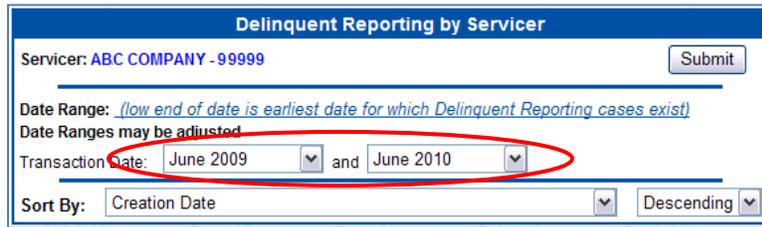
- ✓ Report manually in FHA Connection.
- ✓ Make corrections to your system to stop the fatal error issue.
- ✓ Do not report on terminated or uninsured loans.

**Part 1: Pull default reporting numbers from Neighborhood Watch.**

- 1) Navigate to the Delinquent Reporting Servicer screen in Neighborhood Watch.
  - Enter your servicer’s ID number or type the first few letters of your company’s name and click Submit.
  - Make sure the appropriate institution name and lender ID are shown in the drop down and click Submit.



- 2) Choose transaction dates as appropriate and then click Submit. It will default to a rolling year.



- 3) A screen will come up that displays all of the reporting events and their creation dates, the reporting method, the number of cases, and the types of fatal errors (and non-fatal errors which are not pictured below).
  - Note that the case counts in the various columns are hyperlinks, so you can click on those and pull up a case level list.
  - Also note that the column headings are hyperlinks, so you can click on those for the column explanations.

Fatal Errors																
Creation Date	Delinquent Reporting Method	Case Number Count	Total Fatal Errors	% Total Fatal Errors	Bad FHA Case Number	% of Bad FHA Case Number	Invalid Mortgage Status	% of Invalid Mortgage Status	Invalid Oldest Unpaid Installment Date	% of Invalid Oldest Unpaid Installment Date	Invalid Oldest Unpaid Installment Date Format	% of Invalid Oldest Unpaid Installment Date Format	Invalid Mortgage Status FHA Insurance Terminated	% of Invalid Mortgage Status FHA Insurance Terminated	Invalid Mortgage Status FHA Insurance Claim Terminated	% of Invalid Mortgage Status FHA Insurance Claim Terminated
06/08/10	EDI	2	1	50.00	0	0	1	50.00	0	0	0	0	0	0	0	0
06/07/10	FHA Connection	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0
06/02/10	FHA Connection	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0
06/02/10	EDI	1	1	100.00	0	0	1	100.00	0	0	0	0	0	0	0	0
06/02/10	EDI	3	2	66.67	0	0	2	66.67	0	0	0	0	0	0	0	0
05/26/10	FHA Connection	26	0	0	0	0	0	0	0	0	0	0	0	0	0	0
05/25/10	FHA Connection	31	0	0	0	0	0	0	0	0	0	0	0	0	0	0
05/24/10	FHA Connection	36	0	0	0	0	0	0	0	0	0	0	0	0	0	0
05/20/10	EDI	27	0	0	0	0	0	0	0	0	0	0	0	0	0	0

- 4) Add together the number of cases listed under “Case Number Count” associated with the same default reporting cycle.
- 5) Add together all of the fatal errors listed under “Total Fatal Errors” associated with the same default reporting cycle.
  - ✓ If you are unsure to which cycle a reporting occurrence was attributed, open the case level for the creation date, and look up a case under Queries, Case Status.
  - ✓ Scroll to the bottom to review the default reporting.

Example

The May 2012 reporting cycle fatal error rate for this servicer would be 1.72%.

- 1,682 Total Case Number Count (Case Number Counts of 30+34+137+1,480+1 for the creation dates of 4/16/2012 – 5/7/2012).
- 29 Total Fatal Errors

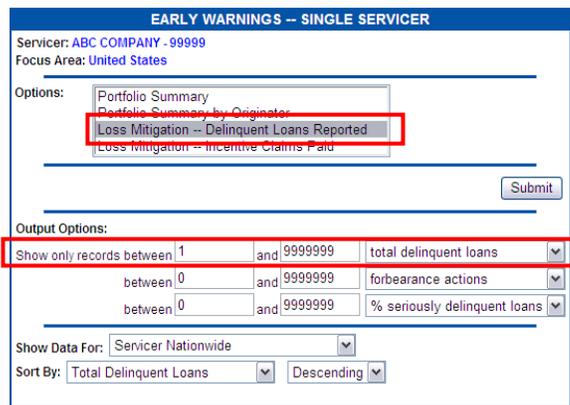
Creation Date	Delinquent Reporting Method	Case Number Count	Total Fatal Errors
05/07/12	FHA Connection	30	0
05/04/12	FHA Connection	34	0
05/03/12	FHA Connection	137	0
05/01/12	EDI	1480	29
04/16/12	FHA Connection	1	0
04/06/12	FHA Connection	61	0

**Part 2: Pull the number of delinquent cases from Neighborhood Watch.**

- 6) Navigate to the Single Servicer screen in Neighborhood Watch.
  - Enter your servicer’s ID number or type the first few letters of your company’s name and click Submit.
  - Make sure it is the appropriate institution name and lender ID shown in the drop down and click Submit.



- 7) Choose Loss Mitigation – Delinquent Loans Reported option by clicking on it. Make sure records between 1 and 9999999 is selected for the total delinquent loans. Then click the Submit button.



- 8) Find the Total Delinquent Loans as of the current month column.
  - You will need to do this each month as previous months’ data are not readily available for this report.
  - The number in this column is a hyperlink. If you need FHA case level data to reconcile your records, you can obtain this by clicking on the hyperlink and downloading the report into Excel.

**ABC COMPANY - 99999**  
**Loss Mitigation -- Total Delinquent Loans Reported in the United States**  
 Sort Order by Total Delinquent Loans as of 05/31/2010 in Descending Order  
 Data shown includes all single family loans as of May 31, 2010

Rank	United States	30 Days Delinquent	60 Days Delinquent	Seriously Delinquent Loans	% Seriously Delinquent Loans	Total Delinquent Loans as of 05/31/2010	Forbearance Actions	Loan Modification Actions	Partial Claims Actions	FHA - HAMP Actions	Deed-in-Lieu Actions	Pre-Foreclosure Actions	Ineligible for Loss Mitigation
1	United States	5,839	810	2,801	29%	9,450	431	44	50	2	0	3	0

Displaying records 1 to 1 out of a total number of 1 records  
[Download this report to an Excel file \(Help\)](#)

**Part 3: Pull the number of Neglected Defaults**

Neglected defaults are those cases for which a code requiring additional reporting was reported to HUD the previous month or earlier and no code was reported for the current cycle.

As a reminder, 24 CFR 203.331 (c) states that a servicer is to report to HUD all mortgages that were in default on the last day of the month, or that were reported as in default the previous month.

- ✓ Therefore, missing a month of reporting on a case previously reported as in default would qualify as non-compliance with the Code of Federal Regulations.

Where to Get Your List

The best place to find your company’s list is in Neighborhood Watch. For more detailed information and step-by-step instructions for pulling this data, please see [Appendix E](#).

As background for Neighborhood Watch data, all delinquent loan counts include cases that meet the following criteria:

- ✓ The case is actively insured (insurance status is active), and
- ✓ The case was previously reported as defaulted (regardless of when this was), and
- ✓ The case was not reported as reinstated or non-claim terminated as of the most recent reporting cycle.

If the last time a case was reported was five cycles ago and was reported as a default status code that requires additional reporting, it is included in this list. For example, the case represented by the reporting below is still active.

- ✓ The last time a servicer reported on it was for the 1/31/1994 reporting cycle.
- ✓ This case is still included in the current servicer of record’s Total Delinquent Loans.
- ✓ If this servicer were to reconcile its delinquencies with Neighborhood Watch and find this case, it could then report this as reinstated or terminated as appropriate in FHA Connection (if it is terminated, it would also be necessary to terminate the insurance as well), and it would no longer get counted in this server’s delinquent portfolio.

Reporting Period	OUI Date	# Months Delinquent	Delinquent Status	Delinquent Status Definition
6/1990			42	Delinquent
7/1990	08/01/90	0	42	Delinquent
10/1990			42	Delinquent
11/1990	08/01/90	4	42	Delinquent
12/1990			42	Delinquent
1/1994	12/01/93	2	42	Delinquent

Neglected Defaults Calculation

9) Utilizing the same screen as in Part 2, click on the hyperlink for total count in the Total Delinquent Loans column.

**Neighborhood Watch** EARLY WARNING SYSTEM  
 US Department of Housing and Urban Development

Early Warnings Servicing Analysis Details Queries Reporting Help/About Home

**ABC COMPANY - 99999**  
**Loss Mitigation -- Total Delinquent Loans Reported in the United States**  
 Sort Order by Total Delinquent Loans as of 05/31/2010 in Descending Order  
 Data shown includes all single family loans as of May 31, 2010

Rank	United States	30 Days Delinquent	60 Days Delinquent	Seriously Delinquent Loans	% Seriously Delinquent Loans	Total Delinquent Loans as of 05/31/2010	Forbearance Actions	Loan Modification Actions	Partial Claims Actions	FHA - HAMP Actions	Deed-in-Lieu Actions	Pre-Foreclosure Actions	Ineligible for Loss Mitigation
1	United States	5,839	810	2,801	29%	9,450	431	44	50	2	0	3	0

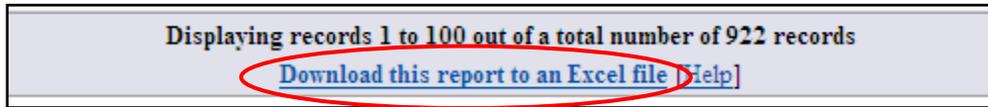
Displaying records 1 to 1 out of a total number of 1 records  
[Download this report to an Excel file \[Help\]](#)

- This brings up a list of all actively insured cases for which your company is the Servicer of Record and for which a default status code indicating an active and open default episode has been reported to HUD.
- This includes all default status codes except for the following:
  - *Cancel (25)*
  - *Paid in Full (13)*
  - *Reinstated by Mortgage (20)*
  - *Charge-Off (29)*
  - *Reinstated by Assumptor (21)*
  - *Third Party Sale (30)*
  - *Reinstated After Loss Mitigation Intervention (98)*
  - *Property Redeemed (73)*

**ABC COMPANY (99999)**  
**Loss Mitigation - Seriously Delinquent Reported**  
**All Seriously Delinquent -- United States**  
**Sort Order by Borrower SSN/TIN Last Four Digits in Ascending Order**  
*Data shown is for all Delinquencies Reported as of July 07, 2012*

Case Number	Loan Number	Holder ID	ADP Code	Mortgage Amount	Interest Rate	Borrower Name SSN/TIN Last Four Digits	Street Address City, State, Zip	Inj. Status (AAE)	Closing/Endorse Date	First Payment Date	Oldest Unpaid Installment	Delinquency Cycle Date	Delinquency Status Date	Delinquency Status Code	Delinquency Reason Code	Unpaid Balance	Foreclosure Start Date	Occup. Status
1								A	06/05/07	05/01/07	08/01/08	06/30/12	02/16/10	68	015	\$25,882.00	12/31/04	1
2								A	03/31/07	03/01/07	04/01/12	06/30/12	04/30/12	42	006	\$32,295.00		1
3								A	07/09/02	09/01/02	06/01/12	06/30/12	06/29/12	42	006	\$31,357.00		1
4								A	06/09/07	06/01/07	06/01/12	06/30/12	06/29/12	42	007	\$15,640.00		1
5								A	12/31/07	11/01/07	07/01/10	06/30/12	10/20/10	AO	031	\$28,157.00		1
6								A	09/14/07	07/01/07	03/01/08	06/30/12	06/27/08	68	007	\$31,136.00	06/30/08	1
7								A	06/10/07	06/01/07	05/01/02	06/30/02	06/30/02	42	000	\$0.00		1
8								A	01/26/04	03/01/04	09/01/11	06/30/12	02/15/11	69	031	\$53,350.00	10/31/08	1
9								A	04/26/09	03/01/09	09/01/11	06/30/12	02/15/11	69	031	\$53,350.00	07/31/09	1
10								A	10/21/11	12/01/07	12/01/11	06/30/12	03/05/12	AQ	007	\$20,506.00		1
11								A	12/27/02	02/01/00	05/01/08	06/30/12	04/29/09	68	015	\$44,697.00	04/30/09	3
12								A	04/30/06	06/01/06	06/01/12	06/30/12	03/31/11	42	031	\$6,479.00		1
13								A	03/24/01	04/01/07	02/01/12	06/30/12	06/29/12	AO	007	\$16,075.00		1
14								A	05/00/04	07/01/04	05/01/12	06/30/12	02/01/12	42	007	\$44,244.00		2
15								A	01/23/01	03/01/01	03/01/12	06/30/12	01/30/12	65	006	\$20,787.00		1
16								A	09/24/05	11/01/05	06/01/12	06/30/12	06/29/12	42	007	\$5,337.00		1
17								A	11/06/02	01/01/00	06/01/12	06/30/12	04/30/12	42	007	\$15,035.00		2
18								A	12/28/01	02/01/03	02/01/05	02/28/05	02/28/05	42	015	\$85,780.00		1
19								A	08/27/06	10/01/06	10/01/08	10/31/08	10/31/08	42	015	\$37,413.00		1
20								A	10/19/00	12/01/00	06/01/12	06/30/12	03/31/12	42	031	\$41,602.00		1
21								A	01/18/04	03/01/04	05/01/12	06/30/12	04/30/12	42	031	\$36,855.00		1
22								A	12/06/01	02/01/04	06/01/09	06/30/12	07/13/10	77	007	\$14,621.00	10/31/09	3
23								A	07/14/06	09/01/06	02/01/11	06/30/12	04/24/12	AO	007	\$14,218.00	07/31/10	2
24								A	03/23/04	05/01/09	04/01/12	06/30/12	02/29/12	42	007	\$21,992.00		3

- You can download this report to Excel and filter for loans needing further SFDMs reporting, but only about 12,000 cases at a time will download.
- You can split the file up by geography on the Single Servicer options screen and piece them together.



10) Count the number of cases that do not have a delinquency cycle date equal to the current month's reporting cycle.

11) Exclude from your count any cases that are reported as one of the following codes:

- *Pre-foreclosure Sale Completed (17)*
- *Property Conveyed to Insurer (46)*
- *Deed-in-Lieu Completed & Property Conveyed (47)*
- *Claim without Conveyance of Title (48)*
- *Assignment Completed (49)*

Please note that while these cases should be monitored since their presence on the list indicates that the insurance has not been terminated by the claim payment, we realize that there is no more reporting that can take place on these cases, and therefore, are not considered to be a Neglected Default in the sense of default reporting. However, you should be working the issues with these cases as they do get included in other metrics within this scoring model and within HUD.

12) The remaining total is your Neglected Defaults.

Please note that total you calculate may differ from the number that will appear in your scorecard.

- ✓ This is because Neighborhood Watch does not include cases that were reported before they were a full 30 days delinquent in its delinquency counts.
- ✓ This occurs when you early report. Early reporting is reporting a case as in a default status before the end of the month. While the case is maybe considered to be delinquent, it is not in default.
- ✓ Early reporting can sometimes be a good thing to do, particularly if reporting a reinstatement.
- ✓ However, full compliance with the Code of Federal Regulations requires servicers to report the status of the case as of the last day of month during the first five business days of the following month.
- ✓ Reporting a case as delinquent during the month and failing to report the status of the case as of the last day of the month during the first five business days of the following month is non-compliance of HUD’s reporting requirements.
- ✓ If you believe you have early reported a default status code indicating an active and open default on cases that were not yet a full 30 days in default and you believe it is possible that you have never updated that reporting, please contact us to provide you with a list.

**Part 4: Calculate the score.**

13) Calculate the Neglected Rate.

- Divide the Neglected Defaults by the # of Current Defaults. This is the Neglected Rate.

14) Calculate the Fatal Error Rate.

- Divide the Total Fatal Errors by the Total Case Number Count. This is the Fatal Error Rate.

15) Calculate the Fatal Error Earned Score

- Multiply the Fatal Error Rate by 5 and subtract the answer from 1. This is the Fatal Error Earned Score.

16) Calculate the Assessed Score

- If the Total Case Number Count is equal to zero, i.e. no reporting occurred for that default cycle under your Servicer ID, the score is automatically 0.00%.
- Otherwise, subtract the Neglected Rate from the Fatal Error Earned Score.
- This is the Assessed Score.

Scoring Example

Cycle	(A) # of Current Defaults from NW	(B) Total Case Number Count from NW, Delinquent Reporting Query	(C) Total Fatal Errors	(D) # of Neglected Defaults	(E) = (D/A) Neglected Rate	(F)=(C/B) Fatal Error Rate	(G) Fatal Error Earned Score 1-(F*5)	Assessed Score if (B) contains no data, then the score is 0.00%, otherwise (G-E)
October	9,450	10,687	292	173	1.83%	2.73%	86.34%	84.51%
November	11,520	8,900	50	86	0.75%	0.56%	97.19%	96.44%
December	11,520	0	0	11,520	100.00%	0.00%	100.00%	0.00%

## ELEMENT: LOSS MITIGATION ENGAGEMENT

### Data Source

Loss Mitigation Incentive Claims, Insurance Termination Claims, and Seriously Delinquent Loans and SFDMS Reporting as summarized in Neighborhood Watch. See Appendix D for information on how to pull the list of claims evaluated from FHA Connection.

### Element Purpose

- ❖ 24 CFR 203.501 states that servicers must take those appropriate actions which can reasonably be expected to generate the smallest financial loss to the Department. Such actions include, but are not limited to, deeds in lieu of foreclosure, pre-foreclosure sales, partial claims, special forbearance, and mortgage modifications.
- ❖ 24 CFR 203.605 states that before four full monthly installments are past due, servicers must evaluate monthly all of the loss mitigation options to determine which is appropriate and take the appropriate loss mitigation action.

Historically, HUD has used a work-out ratio to evaluate CFR compliance. The work-out ratio presents the rate at which incentive claims for loss mitigation actions are paid as compared to all claims paid for insurance benefits. The higher the work-out ratio, the more effective the servicer has been in facilitating a detour for a case on a foreclosure path.

While this is still an important rate, it is not the only gauge we have of servicers' compliance with the CFR in engaging in loss mitigation. Those attempted actions that are reported through SFDMS are also important and must be evaluated as well.

### Element Description

This element measures the servicer's formal and informal loss mitigation engagement as well as indirectly measures early engagement in loss mitigation.

The calculation is similar to the Tier Ranking System (TRS) calculation in that a workout ratio is calculated. However, it is different in that

- It evaluates the formalized loss mitigation actions that result in incentive claims through the work-out ratio by counting all claim actions regardless if it is a multiple event or not.
- It evaluates the attempts a servicer is making to solicit and engage the borrower in loss mitigation through a reported engagement rate, so default reporting and the servicer's delinquent portfolio totals play a role.
- Scores are assessed monthly and then averaged for a quarterly score.

Benchmarks

Grades are assigned based upon a 10 point scale.

Loss Mitigation Engagement Rate	Assigned Grade
90% -100%	A
80% -89%	B
70% -79%	C
60% - 69%	D
Less than 60%	F

Suggestions to Increase the Score

- ✓ File more loss mitigation incentive claims. Claims are counted individually and not on a case level basis.
- ✓ Reconcile outstanding defaults to Neighborhood Watch records.
  - Please note that when you click on the hyperlink for the delinquent loans, that the default cycle now shows so you can see the last default cycle that reporting occurred (it is the delinquent cycle date column).
  - You can download this information to Excel to reconcile more easily to your records by scrolling to the bottom of the page. See [Appendix E](#) for more information.

Loss Mitigation - Seriously Delinquent Reported  
3 Months Delinquent -- United States  
Sort Order by Case Number in Ascending Order

Data shown is for all Delinquencies Reported as of February 07, 2012

Case Number	Loan Number	Holder ID	ADP Code	Mortgage Amount	Interest Rate	Borrower Name/ SSN/TIN Last Four Digits	Street Address/ City, State Zip	Ins Status (A43)	Closing/ Endorse Date	First Payment Date	Oldest Unpaid Installment	Delinquent Cycle Date	Delinquent Status Date	Delinquent Status Code	Delinquent Reason Code	Unpaid Balance	Foreclosure Start/Sale Date	Occup status
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Displaying records 1 to 100 out of a total number of 1949 records

[Download this report to an Excel file](#) [\[Help\]](#)

- ✓ Engage in more loss mitigation activity, and report it in SFDMS.
- ✓ Engage in more early loss mitigation activity (i.e. when the loan is 30 and 60 days down), and report it in SFDMS. This will increase the numerator and increase the ratio results.

**Part 1: Calculate the Claims Work-Out Ratio (WO Ratio)**

- 1) Loss mitigation claims processed for the scoring month are counted. These include special forbearance (SF), mortgage modification (MM), non-incentivized mortgage modifications (NIMM), partial claim (PC), pre-foreclosure sale (PFS), and deed-in-lieu (DIL). Additionally, accelerated claim dispositions (ACD) currently called the DASP program and claims without conveyance of title (CWCOT) will also be included as part of loss mitigation claims as these have mitigated losses to the insurance fund.

**NOTES:**

- ✓ *HAMPs are counted individually as mortgage modifications and partial claims.*
  - ✓ *Non-incentivized mortgage modifications utilize the new first installment date instead of the claims process date to determine for which month credit will be received. Make sure you enter these timely.*
  - ✓ *Non-incentivized mortgage modification credit goes to the current servicer of record instead of the servicer submitting the claim.*
  - ✓ *If a non-incentivized mortgage modification case number and first installment date are the same as an incentivized mortgage modification, the non-incentivized case will not be counted.*
- 2) All foreclosure conveyance claims are counted.
  - 3) The workout (WO) ratio is the sum of loss mitigation claims divided by the sum of loss mitigation claims plus the foreclosure conveyance claims.

Example

Month	SF	MM	NIMM	PC	PFS	DIL	ACD	CWCOT	Total Loss Mitigation Claims	FC Conveyance Claims	WO Ratio	Qtr
July	10	5	0	1	0	0	0	1	17	10	17/(17+10)=62.96%	Q4
August	4	2	2	2	1	0	0	0	11	4	11/(11+4)=73.33%	Q4
September	6	2	0	0	0	2	5	0	15	7	15/(15+7)=68.18%	Q4

**Part 2: Calculate the Reported Engagement Ratio**

- 4) In Neighborhood Watch, find the Seriously Delinquent Loans as of the current month and the Loss Mitigation Reported Actions columns.
  - The Loss Mitigation Reported Actions are total of Borrower Financials Under Review, Forbearance Actions, Loan Modification Actions, Partial Claim Actions, FHA HAMP Actions, Deed-in-Lieu Actions, Pre-Foreclosure Actions, Loss Mitigation Option Failure, and Ineligible for Loss Mitigation.
  - You will need to pull this data each month as previous months’ data is not available; only the current month is available after a system refresh.

- The numbers in these columns are hyperlinks. If you need FHA case level data to reconcile your records, you can obtain this by clicking on the hyperlink and downloading the report into Excel.

*NOTE: Clicking on the header hyperlink will tell you all of the codes that are included in that column's total.*

Loss Mitigation - Total Delinquent Loans Reported in the United States											
Sort Order by Total Delinquent Loans as of 06/30/2013 in Descending Order											
<small>Data shown includes all single-family loans as of June 30, 2013</small>											
Seriously Delinquent Loans	% Seriously Delinquent Loans	Total Delinquent Loans as of 06/30/2013	Borrower Financials Under Review	Forbearance Actions	Loan Modification Actions	Partial Claims Actions	FHA - HAMP Actions	Deed-in-Lieu Actions	Pre-Foreclosure Actions	Loss Mitigation Option Failure	Ineligible for Loss Mitigation
1,523	9%	2,713	0	77	7	1	42	5	7	2	48

5) Calculate the reported loss mitigation actions.

- Add together the totals listed for Borrower Financials Under Review, Forbearance Actions, Loan Modification Actions, Partial Claim Actions, FHA-HAMP Actions, Deed-in-Lieu Actions, Pre-Foreclosure Sale Actions, Loss Mitigation Option Failure Actions, plus
- The total for Ineligible for Loss Mitigation Actions divided by 2 (AO and AP count as half an action).

6) Divide the reported actions by the Seriously Delinquent Loans total for the month. This is the Reported Engagement Ratio.

Example

Month	Total Delinquent	(A) Seriously Delinquent	(B) Review + FB + LM +PC + HAMP + DIL + PFS + Option Failure	(C) Ineligible for Loss Mit (AO)	Reported Engagement Ratio ((B)+(C))/(A)	Quarter
July	511	265	95	15 actions / 2 = 7.5	38.68%	Q4
August	550	270	74	12 actions / 2 = 6	29.63%	Q4
September	432	232	83	17 actions / 2 = 8.5	39.44%	Q4

**Part 3: Calculate the Loss Mitigation Engagement Score**

7) Work-Out Ratio Score

- Divide the Work-Out Ratio by 65%. If the results are greater than 100%, the score is 100% (i.e. the score cannot be more than 100%).
- Multiply the result by 0.25.
- This is the Work-Out Ratio Score.

8) Reported Engagement Score

- Divide the Reported Engagement Ratio by 50%. If the results are greater than 100%, the score is 100% (i.e. the score cannot be more than 100%).
  - Multiply the result by 0.75.
  - This is the Reported Engagement Score.
- 9) Add the Work-Out Ratio Score and the Reported Engagement Score for the total Loss Mitigation Engagement Score.
- 10) If there are no seriously delinquent loans for the month but there are reported actions for the month, the score for the month is automatically 100%.

Best Fit Option

The work-out ratio may be volatile if you are a smaller servicer or service a majority of Housing Finance Agency (HFA) loans for which only certain loss mitigation actions can be utilized. For these servicers we have the best fit option available, which we will automatically calculate for you.

- ✓ Smaller servicer – Those whose seriously delinquent portfolio for the month is 25 or less.
- ✓ Limited Loss Mitigation – 50% or more of the loans you service are those where the Holder of Record per our records is a Housing Finance Agency (HFA) for which we have waiver on file.
- If either of these criteria is met, the score is calculated as best fit, which is the workout ratio score alone, the engagement ratio score alone, or the score calculated as described above, whichever is highest.

Scoring Example

Month	Work-Out Ratio	Work-Out Ratio Score	Reported Engagement Ratio	Reported Engagement Score	Final Score	Quarter
July	65.00%	65.00% / 65.00% = 100%	38.68%	38.68% / 50.00% = 77.36%	(100% x 0.25) + (77.36% x 0.75) = 83.02%	Q4
August	50.00%	50.00% / 65.00% = 76.92%	29.63%	29.63% / 50.00% = 59.26%	(76.92% x 0.25) + (59.26% x 0.75) = 63.66%	Q4
September	42.00%	42.00% / 65.00% = 64.61%	39.44%	39.44% / 50.00% = 78.88%	(64.61% x 0.25) + (78.88% x 0.75) = 75.31%	Q4

**EXTRA CREDIT**Training Extra Credit

- A servicer can receive extra credit added to their final fiscal year end score by attending, participating in, and/or completing delinquent servicing training.
- The maximum that can be earned for a fiscal year for training is 1.00%. This can be earned through any combination of the trainings detailed in the table below.
- Please note that webinars regarding loan originations and other courses offered by the Home Ownership Centers or the FHA Resource Center do not count towards this unless specified below.

Type of Training	Extra Credit	Comments
<b>HUD's EClass</b>	0.50%	Online class that can be taken at the servicer's convenience and pace; all available modules must be completed for credit during the FY.
<b>Live Training Event on Loss Mitigation</b>	0.50%	Performed by NSC or at the HOC/Field Office during the FY.
<b>Webinars</b> <ul style="list-style-type: none"> <li>▪ NSC Servicing and Loss Mitigation Webinar Series</li> <li>▪ Ad Hoc Live Events</li> <li>▪ Special Webinars</li> </ul>	0.20% each	This is for online webinars including the webinar series overview of default servicing and loss mitigation as well as those dedicated to the roll-out of new programs and/or policy changes and updates. Training must be taken during the FY for credit.

Information can be found at

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/nsc/training](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/nsc/training)

Training Extra Credit Staff Attendance/Completion Requirements

An appropriate number of the servicer's staff is required to attend, to participate in, and/or to complete the training.

- We recommend that at least 50% of a servicer's staff responsible for delinquent loan servicing, and, specifically those doing loss mitigation processing, complete all modules of HUD's EClass. Re-taking this course annually can be very beneficial not only as a refresher but as continual learning as our policies are updated. However, the servicer may need to determine what is appropriate for their company. At least one person must attend to qualify.
- In regard to the webinar series, not all webinars are appropriate for all staff, so it is also at the servicer's discretion what staff registers for and attends which webinar.
- All webinars in the series must be attended by at least one staff member in order to qualify for the credit; however, the same staff member does not need to attend all webinars.
- The training must be received during the scoring fiscal year. For example, to get the extra credit added to the FY2014 end of year score, training must be completed between October 1, 2013, and September 30, 2014.

### How to Receive the Training Extra Credit

To receive the extra credit, a servicer must send notice to NSC stating that the training was completed. This notice should include the following:

- ✓ The training that was completed from the list above.
- ✓ The date(s) of this training (not applicable for EClass as this is on-demand style training and self-paced).
- ✓ The number of staff that attended, participated in, and/or completed this training.
- Notice must be received by the NSC no later than October 31 in order to be added to the just concluded fiscal year's scores. For example, to receive the credit for FY2015 scoring, this notice must be received no later than October 31, 2015.
- Notice can be submitted via email to [sfdatarequests@hud.gov](mailto:sfdatarequests@hud.gov). Please enter "TRSII Extra Credit" in the subject line.
- Please send notice at the conclusion of training.
- Keep in mind, NSC can verify registered attendance.

### Electronic Distribution Extra Credit

A servicer can receive an additional 0.10% added to each quarter's final score by providing us with their electronic distribution list.

To receive the extra credit, a servicer must provide NSC with the email addresses to which scores and other occasional communication regarding scoring should be sent. This notice should include the following:

- ✓ 5 digit HUD Lender ID
- ✓ Up to 10 names and email addresses.
- Notice can be submitted via email to [sfdatarequests@hud.gov](mailto:sfdatarequests@hud.gov). Please enter "TRSII Go Paperless" in the subject line.
- Each quarter that the electronic distribution is in place, the servicer will earn 0.10% added to each quarter's score.
- If any email address come back as undeliverable when the announcement letter is sent, the extra credit will be taken away for the next quarter. To this end, servicers should be aware of who is on this distribution and keep it up to date.

---

## APPENDIX A: WHERE TO FIND YOUR DATA

### 1) Foreclosure Prevention

#### ❖ Your servicing histories + your SFDMS reporting

- ✓ Look for loans that had a new first legal action. Determine their occupancy status as well as the number of months delinquent as of the reported 68.
- ✓ Determine what intervention activities occurred prior to the report 68 since the last time the loan was current (repayment plans, special forbearances, ineligible for loss mitigation, etc.).

### 2) Redefaults

#### ❖ FHA Connection + your servicing histories

- ✓ To obtain a list of claims for a particular date range, go to FHA Connection, Single Family FHA, Single Family Servicing, Claims Processing, Claim Status.
- ✓ Compare the list to your own servicing history and/or your default reporting to determine if the loan went 90 days down or more again with 6 months from the claim processed date.

### 3) SFDMS Reporting

#### ❖ Neighborhood Watch

- ✓ To receive a list of your fatal errors and to work the list prior to the close of the reporting window, go to Single Family FHA, Single Family Servicing, Delinquent Loans, and then Application Advice Notices and enter the 10 digit HUD Lender ID under which you reported.
- ✓ Delinquent Reporting Query
- ✓ Loss Mitigation – Delinquent Loans Reported (do monthly)

### 4) Loss Mitigation Engagement

#### ❖ FHA Connection and Neighborhood Watch

- ✓ For the work-out ratio, to obtain a list of claims for a particular date range, go to FHA Connection, Single Family FHA, Single Family Servicing, Claims Processing, Claim Status.
- ✓ Loss Mitigation – Delinquent Loans Reported from Neighborhood Watch (do monthly)

## APPENDIX B: NEIGHBORHOOD WATCH DATA TO DOWNLOAD

### Loss Mitigation – Delinquent Loans Reported

- ✓ Under Servicing, Single Servicer
- ✓ This data is overwritten **monthly**, so once the refresh occurs, you cannot obtain the previous month's data. The next scheduled refresh will be listed under the Help/About menu, Latest Refresh Date.
- ✓ The summary data (seriously delinquent loans) is used as a factor to determine if the servicer is scored, not scored, or can opt-out.
- ✓ The summary data (total delinquent loans) is used in SFDMS Reporting calculations.
- ✓ The case level data (total delinquent loans) is used for SFDMS Reporting neglected defaults.
- ✓ The summary data is used in Loss Mitigation Engagement calculations.

Download the summary report shown.

Download the total delinquent loans case level.

Download any other case level to which you wish to reconcile.

*NOTE: Downloading case level data particularly for your seriously delinquent loans and reconciling to your records will help your SFDMS Reporting and Loss Mitigation Engagement scores as well as potentially impact if your company is scored, not scored, or can opt-out.*

### Delinquent Reporting Query

- ✓ Under Servicing, Delinquent Reporting Servicer
- ✓ The system stores a **rolling 12 months**.
- ✓ The summary data (case number count and total fatal errors) is used in SFDMS Reporting calculations.
- ✓ Add reporting results together for all creation dates that apply to a specific SFDMS cycle.

Download the summary report shown.

Download any case level to which you wish to reconcile.

**APPENDIX C: AUTO-EXTENSIONS**

Action	Auto-Extension(s)
<b>Deed-in-Lieu</b>	None
<b>Promise-to-Pay</b>	None
<b>Repayment Plans</b>	None
<b>Special Forbearance</b>	<p>If a lender has initiated, but is unable to complete this tool within the six month time limit, the lender is entitled to a 90 day extension of the foreclosure deadline provided the initiative was begun prior to the expiration of the initial six months. <i>Mortgagee Letter 2000-5 page 13</i></p> <p>In the event this option fails, an additional 90 day extension is provided in which the lender must commence or recommence foreclosure or initiate another loss mitigation option. <i>Mortgagee Letter 2002-17 Page 8</i></p>
<b>Loan Modification</b>	<p>If a lender has initiated, but is unable to complete this tool within the six month time limit, the lender is entitled to a 90 day extension of the foreclosure deadline provided the initiative was begun prior to the expiration of the initial six months. <i>Mortgagee Letter 2000-5 page 13</i></p>
<b>Partial Claim</b>	<p>If a lender has initiated, but is unable to complete this tool within the six month time limit, the lender is entitled to a 90 day extension of the foreclosure deadline provided the initiative was begun prior to the expiration of the initial six months. <i>Mortgagee Letter 2000-5 page 13</i></p>
<b>Pre-Foreclosure Sale</b>	<p>In the event this option fails, an additional 90 day extension is provided in which the lender must commence or recommence foreclosure or initiate another loss mitigation option. <i>Mortgagee Letter 2008-43 page 14</i></p>
<b>Trial Payment Plans</b>	<p>If a lender has initiated, but is unable to complete this tool within the six month time limit, the lender is entitled to a 90 day extension of the foreclosure deadline provided the initiative was begun prior to the expiration of the initial six months. <i>Mortgagee Letter 2000-5 page 13</i></p> <p>In the event this option fails, an additional 90 day extension is provided in which the lender must commence or recommence foreclosure or initiate another loss mitigation option. <i>Mortgagee Letter 2011-28 Page 2</i></p>
<b>FHA-HAMP</b>	<p>If the borrower fails the trial payment plan, follow that guidance above.</p> <p>If the borrower fails during the documentation phase of a loan modification or partial claim, follow that guidance above.</p>

### APPENDIX D: DOWNLOAD A LIST OF YOUR CLAIMS PROCESSED

To obtain a list of claims for a particular date range, go to FHA Connection, Single Family FHA, Single Family Servicing, Claims Processing, Claim Status:

The screenshots illustrate the following navigation path:

- Screenshot 1:** Home page with 'Single Family FHA' highlighted in the main menu.
- Screenshot 2:** 'Single Family FHA Business Areas' page with 'Single Family Servicing' highlighted.
- Screenshot 3:** 'Single Family Servicing' page with 'Claims Processing' highlighted.
- Screenshot 4:** 'Single Family Insurance Claims Processing' page with 'Claim Status' highlighted.

**Single Family Insurance Claims Processing**

Claims Input

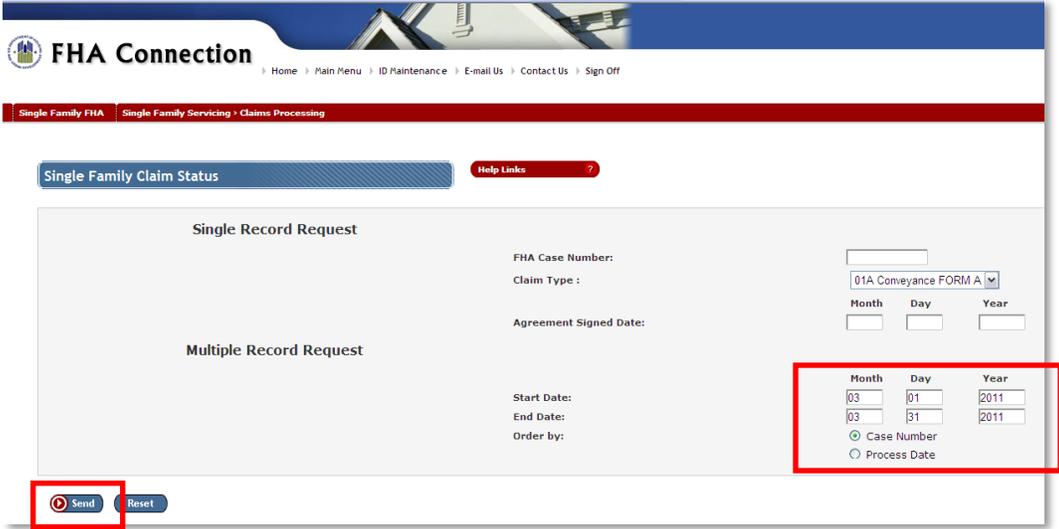
Claim Type 01 Part-A	(Conveyance or Deed in Lieu)
Part-B	
Claim Type 07	(Pre-Foreclosure)
Claim Type 31-33	(Loss Mitigation)

Claims Input Summary

- Claim Status
- Suspended Claim Error Messages
- Title Approval Status
- Claim Remittance
  - Remit Single Family Claim
  - Remit HECM Claim
  - Claim Remittance History

Enter the date range in the "Multiple Record Request" section, and click the Send button.

- You should limit the requested date range to a small window, for instance a month at a time for each claims data pull from the system.
- If you are a larger servicer, you may need to limit the request to a week at a time or less. The system will tell you if you are attempting to pull too many records at once.
- You can immediately re-pull for another date range if you did request a limited date range.



A list of all cases with claims processed for the date range will appear.

- Please note that this is all claims processed for that date range. It includes conveyance claims parts A and B, supplemental claims, preforeclosure sale claims, loss mitigation claims, etc.
- You should download the record set to Excel and filter for what you are reviewing.
  - ✓ For Redefaults, filter for loan modifications (32 A), partial claims (33 A), and HAMP claims (32 HAMP, 33 HAMP) that show as paid.

Record Count	Select for Detail	Case Number	Claim Type	Block 9 Date	Claim Processed Date	Status
1	<input type="radio"/>	052-5049050	01 B	0	03/18/2011	Paid
2	<input type="radio"/>	052-5011040	01 B	0	03/14/2011	Paid
3	<input type="radio"/>	052-4716840	33 A	08/08/2010	03/13/2011	Paid
4	<input type="radio"/>	052-5194889	32 HAMP	01/27/2011	03/03/2011	Paid
5	<input type="radio"/>	061-2185455	32 A	01/31/2011	03/01/2011	Paid
6	<input type="radio"/>	093-4606606	01 B	0	03/30/2011	Paid
7	<input type="radio"/>	093-6063606	01 A	01/26/2011	03/17/2011	Paid

## APPENDIX E: NEGLECTED DEFAULTS

Once a servicer begins reporting a case as delinquent in HUD's Single Family Default Monitoring System (SFDMS), the case must be reported on every month until HUD receives a code from the servicer indicating that the default has been resolved. Such a code indicates one of the following:

- ✓ The loan has reinstated.
  - Once HUD receives a code indicating the loan has reinstated, no more SFDMS reporting is required for that loan unless it should become delinquent again at a later date.
  - If the case becomes delinquent again, you will need to report a status code 42 first to open a new default episode.
- ✓ FHA insurance has terminated.
  - These codes include those that are claim terminated and non-claim terminated.
  - Once HUD receives one of these codes, no more SFDMS reporting is required for that loan.
  - If for some reason you find that you do need to continue reporting, the last status code reported should be cancelled by reporting a status code Cancel (25) and then immediately followed by the correct code.

### Account Reinstated Codes (AR)

- Reinstated by Mortgagor Who Retains Homeownership w/o LM Incentive (20)
- Reinstated by Assumptor (21)
- Reinstated after Loss Mitigation Intervention (98)

### Claim Termination Codes (CT)

- Preforeclosure Sale Completed (17)
- Property Conveyed to Insurer (46)
- Deed-in-Lieu Completed & Property Conveyed (47)
- Claim without Conveyance of Title (48)
- Assignment Completed (49)

### Non-Claim Termination Codes (NC)

- Paid in Full (13)
- Charge-Off (29)
- Third Party Sale (30)
- Property Redeemed (73)

For a complete list of SFDMS status codes that will end a default episode, please see [Mortgagee Letter 2013-15](#).

### Note on Status Code Cancel (25)

When this code is reported, another status code **must** be reported immediately after the 25. Our systems do not pick up the 25 if it is the last code reported. It will show up in FHA Connection, but it will not carry over to Neighborhood Watch unless there is another code reported.

If you are attempting to cancel an entire episode opened in error, and that entire episode consists of only one 42 status code, please do the following: Report a 25, then a 42, then a 20. This may look odd, but this will alert us to the episode having been opened in error and will make everything update correctly.

## **How to Pull Your List of Cases Requiring Further SFDMS Reporting**

### **Background**

Servicers can pull a list of their Single Family FHA cases from Neighborhood Watch that requires further SFDMS reporting. Please be advised that at some point in this process, you may be prompted to log in. Questions about logins and access can be directed to [sfadmin@hud.gov](mailto:sfadmin@hud.gov).

Also, keep in mind that Neighborhood Watch is updated around the 3rd week of every month with the previous month's reporting data.

*NOTE: You can find the latest refresh date and the next anticipated refresh date under Help/About, Latest Refresh Date.*

Neighborhood Watch classifies a case as an open default if

- 1) The case is actively insured (insurance status is active), and
- 2) The case was previously reported as defaulted (regardless of when this was), and
- 3) The case was not reported as reinstated or non-claim terminated as of the most recent reporting occurrence.

### **Instructions**

In Neighborhood Watch, go to Servicing, Single Servicer, type in your 5-digit HUD Lender ID, then hit Submit. Confirm the ID you selected, and click Submit.

The image shows a sequence of three screenshots from the Neighborhood Watch Early Warning System interface. The first screenshot shows the main navigation menu with 'Servicing' selected. A dropdown menu is open under 'Servicing', with 'Single Servicer' highlighted. A red arrow points from 'Single Servicer' to the second screenshot. The second screenshot shows the 'EARLY WARNINGS -- SINGLE SERVICER' page with a text input field containing '99999' and a 'Submit' button circled in red. A red arrow points from the 'Submit' button to the third screenshot. The third screenshot shows the same page with a dropdown menu open, displaying a list of lenders with 'ABC COMPANY - 99999' selected. The 'Submit' button is again circled in red.

Next you will see the different reports available for Early Warnings – Single Servicer.

Choose “Loss Mitigation – Delinquent Loans Reported”.

The “Show only records between” field should start with 1 on total delinquent loans.  
Hit “Submit”.

The totals in each of the columns are hyperlinks  
Click on these to bring up a list of cases for the specific data sets.

Bank	United States	30 Days Delinquent	60 Days Delinquent	Seriously Delinquent Loans	% Seriously Delinquent Loans	Total Delinquent Loans as of 06/30/2012	Forebearance Actions	Loan Modification Actions	Partial Claims Actions	FHA - HAAMP Actions	Deed in Lieu Actions	Pre-Foreclosure Actions
1	United States	1,228	549	1,909	51%	3,726	473	3	0	0	0	0

Make note of the date displayed as this is the cycle date for the data.  
Then click on the hyperlink case count under “Total Delinquent Loans as of xx/xx/xxxx”.  
*NOTE: Even if this number is more than 12,000, you can still pull your neglected defaults this way.*

Total Delinquent Loans as of 06/30/2012	Forebearance Actions	Loan Modification Actions	Partial Claims Actions
3,726	473	3	0

You will be prompted to choose Printing Format or Viewing Format. Either one will be fine.  
Choose Sort By: “Delinquent Cycle Date,” Ascending. Click Submit.

SERVICER CASES

Servicer: ABC COMPANY (99999) Submit

Area: United States

Report Options:  Printing Format  Viewing Format

Sort By: Delinquent Cycle Date Ascending

- Case Number
- Loan Number
- Holder ID
- ADP Code
- Mortgage Amount
- Interest Rate
- Borrower Name
- SSN/TIN Number
- Street Address
- City
- State
- Zip
- Ins Status (A43)
- Closing Date
- Endorse Date
- First Payment Date
- Oldest Unpaid Installment
- Delinquent Cycle Date
- Delinquent Status Date
- Delinquent Reason Code
- Delinquent Reason Code
- Unpaid Balance
- Foreclosure Start Date
- Foreclosure Sale Date
- Occup. status

This will bring up a list of all actively insured, open delinquent loans that have been reported for your servicer id.

**ABC COMPANY (99999)**  
**Loss Mitigation - Seriously Delinquent Reported**  
**All Seriously Delinquent -- United States**  
**Sort Order by Borrower SSN/TIN Last Four Digits in Ascending Order**  
*Data shown is for all Delinquencies Reported as of July 07, 2012*

Case Number	Loan Number	Holder ID	ADP Code	Mortgage Amount	Interest Rate	Borrower Name SSN/TIN Last Four Digits	Street Address Cty. State Zip	Ins Status (A43)	Closing Endorse Date	First Payment Date	Oldest Unpaid Installment	Delinquent Cycle Date	Delinquent Status Date	Delinquent Status Code	Delinquent Reason Code	Unpaid Balance	Foreclosure Start Sale Date	Occup. status
06-05-87									05-01-87	08-01-08	06-30-12	02-16-10	68	015	\$25,882.00	12-31-04	1	
06-05-87									03-31-87	04-01-12	06-30-12	04-30-12	42	006	\$32,295.00		1	
03-31-87									07-09-92	08-08-92	06-01-12	06-30-12	06-29-12	42	006	\$31,357.00		1
06-09-87									06-09-87	06-01-12	06-30-12	06-29-12	42	007	\$15,640.00		1	
12-31-87									12-31-87	07-01-10	06-30-12	10-20-10	AO	031	\$28,157.00		1	
09-14-87									07-01-87	03-01-08	06-30-12	06-27-08	68	007	\$31,136.00	06-30-08	1	
06-10-87									06-10-87	05-01-92	06-30-92	06-30-92	42	000	\$0.00		1	
01-26-94									03-01-94	09-01-11	06-30-12	02-15-11	69	031	\$53,350.00	10-31-08 07-31-09	1	
10-21-87									12-01-87	12-01-11	06-30-12	03-05-12	AQ	007	\$20,506.00		1	
12-27-88									02-01-90	05-01-08	06-30-12	04-29-09	68	015	\$44,637.00	04-30-09	3	
04-30-84									06-01-86	06-01-12	06-30-12	05-31-11	42	031	\$6,479.00		1	
03-24-87									04-01-87	02-01-12	06-30-12	06-29-12	AO	007	\$16,075.00		1	
05-20-94									07-01-94	05-01-12	06-30-12	02-01-12	42	007	\$44,244.00		2	
01-23-91									03-01-91	03-01-12	06-30-12	01-30-12	65	006	\$20,787.00		1	
09-24-85									11-01-85	06-01-12	06-30-12	06-29-12	42	007	\$3,337.00		1	
11-06-88									01-01-90	06-01-12	06-30-12	04-30-12	42	007	\$15,035.00		2	
12-28-90									02-01-93	02-01-95	02-28-95	02-28-95	42	015	\$85,780.00		1	
03-04-92									10-01-84	10-01-08	10-31-08	10-31-08	42	015	\$37,413.00		1	
08-27-84									12-01-90	06-01-12	06-30-12	05-31-12	42	031	\$41,602.00		1	
10-15-90									03-01-94	05-01-12	06-30-12	04-30-12	42	031	\$36,855.00		1	
01-18-94									04-21-94	08-01-09	06-30-12	07-13-10	77	007	\$14,621.00	10-31-09 07-31-10	3	
12-08-83									07-14-86	02-01-11	06-30-12	04-24-12	AO	007	\$14,518.00		2	
09-29-86									05-01-89	04-01-12	06-30-12	02-29-12	42	007	\$21,952.00		3	
03-22-89									04-18-89									

Download this report to Excel. If the total is more than 12,000, only 12,000 records will download. This is OK.

Displaying records 1 to 100 out of a total number of 922 records

[Download this report to an Excel file](#) [Help]

**How to Work This Report**

Remember the report criteria.

- 1) The case is actively insured (insurance status is active), and
- 2) The case was previously reported as defaulted (regardless of when this was), and
- 3) The case was not reported as reinstated or non-claim terminated as of the most recent reporting occurrence.

And remember which cycle for which this data represents.

ABC COMPANY - 99999			
Loss Mitigation -- Total Delinquent Loans Reported in the United States			
Sort Order by Total Delinquent Loans as of 06/30/2012 in Descending Order <small>Data shown includes all single family loans as of June 30, 2012</small>			
Total Delinquent Loans as of 06/30/2012	Forbearance Actions	Loan Modification Actions	Partial Claims Actions
3,725	473	3	0

- ✓ Delete any cases where the delinquent cycle date is the same as the data as of date (i.e. the current default reporting cycle). This means you reported on these cases correctly for the current cycle.
- ✓ After doing that, delete any cases where the default status code is 20, 21, 98, 17, 46, 47, 48, 49, 13, 29, 30, or 73.
- ✓ What remains are your neglected defaults.

For example, looking at only a few columns from a download, you can see that only cases 2 and 6 need to be worked from this list.

You should also follow-up on cases 1, 3, 4, and 5 since the insurance is still active on them. If a claim had been filed and paid, that would auto terminate the insurance, but that hasn't happened.

Case Number	Ins Status (A43)	Delinquent Cycle Date	Delinquent Status Code	Comments
1	A	9/30/1987	48	This is NOT a neglected default. Status code = 48
2	A	4/30/1989	42	This IS a neglected default. Last time it was report on was 4/30/1989.
3	A	5/31/1989	46	This is NOT a neglected default. Status code = 46
4	A	8/31/1989	49	This is NOT a neglected default. Status code = 49
5	A	9/30/1989	46	This is NOT a neglected default. Status code = 46
6	A	7/31/1990	42	This IS a neglected default. Last time it was report on was 7/31/1990.

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## APPENDIX F: SERVICING TRANSFERS

For the most part, a prior servicer's delinquent servicing will not affect your score, but there will be some impacts.

### (1) Foreclosure Prevention

Evaluation and scoring for this element is triggered by the reporting of the first legal filing in SFDMS. The servicer of record at the time the status code 68 is reported for the first time in a default episode gets the score. While all actions before the 68 are evaluated, the current servicer of record can make sure that any loss mitigation actions were reported before initiating foreclosure and reporting it.

Any negative impact on the score would occur when a new servicer purchases an extremely defaulted portfolio of loans for which no loss mitigation can be utilized and foreclosure is the only option.

The impact of a prior servicer on this score is low.

### (2) Redefaults

The score goes to the servicer that filed the incentive claim, regardless of who services it afterwards.

The impact of a prior servicer on this score is extremely low to none.

### (3) SFDMS Reporting

The current servicer of record is scored for the default reporting on the loans it presently services. However, there are a few things to keep in mind.

If a prior servicer failed to address a fatal error issue and continued to report month and after month and then transferred that issue to an unknowing new servicer, that new servicer could commit the same fatal error.

A prior servicer may transfer an open default to a new servicer, and the new servicer may not be aware that the loan is in default. This will count against the new servicer as a neglected default.

The impact of a prior servicer on this score is low overall, but the impact could be greater if the prior servicer opened a lot of default episodes and either failed to update them prior to transfer and/or failed to notify the new servicer of the open default.

### (4) Loss Mitigation Engagement

The current servicer of record is scored for claims it files and default reporting of loss mitigation actions it does.

If a new servicer is purchasing an extremely defaulted portfolio of loans that did not or will not qualify for loss mitigation and foreclosure is inevitable, this can have a negative impact on the work-out ratio as well as the reported engagement ratio.

However, if the extremely default portfolio had little to no loss mitigation solicitation, this could actually have a positive impact on these same ratios as the new servicer engages in more loss mitigation.

Additionally, if a prior servicer transfers seriously delinquent neglected defaults, this can also have a negative impact on the reported engagement ratio.

The impact of a prior servicer on this score is medium.

*What can you do if you are acquiring a portfolio?*

If you get permission of the selling servicer prior to the sale that allows HUD to release data to you on the cases, send an email to [sfdatarequests@hud.gov](mailto:sfdatarequests@hud.gov) requesting this information. We will need a list of valid FHA case numbers and documentation substantiating that the selling servicer allows you to see this information. An email from the selling servicer will suffice.

After the case transfers to you and you are the servicer of record, we can send you information without the selling servicer's permission. Keep in mind that after transfer, you will be able to pull a lot of information yourself out of HUD's systems.

## REVISION HISTORY

Section	Type	Effective	Summary	Made By
Who Will Be Scored	Addition	FY12 Q1	Procedure for opting out.	JER
Who Will Be Scored	Change	FY12 Q1	Using quarter end snapshot data to determine delinquent portfolio size instead of averages over time.	JER
Contact Information	Addition	FY12 Q1	Contact information that was in the announcement letters.	JER
Foreclosure Prevention	Addition	FY12 Q1	Added trial payment plan (08) to List 2	JER
Foreclosure Prevention	Change	FY12 Q1	Change to methodology (slight). Bonus point eliminated. Total points required to get a 100% is now 14. 1 point assessed for loss mitigation (formal and informal) and another point assessed for formal loss mitigation.	JER
SFDMS Reporting	Addition	FY12 Q1	Subservicers should report under servicer of record ID in suggestions to increase score.	JER
Loss Mitigation Engagement	Change	FY12 Q1	Change to methodology. Engagement rate is now engagement ratio measured ratio of reported actions divided by 90+ day defaults as opposed to reported actions divided by all defaults. Engagement ratio now has a benchmark of 50% and work-out ratio now has a benchmark of 65%. Both comprise the score with engagement ratio worth 75% of the score and the work-out ratio worth 25% of the score.	JER
Who Will Be Scored	Change	FY12 Q2	Delinquent has been changed to seriously delinquent (i.e. 90 days down or more). Formal loss mitigation claims cannot be filed until the loan is down 90 days or more and since that is used in the scoring criteria, this should be changed.	JER
Foreclosure Prevention	Change - Major	FY12 Q2	Methodology changed. There is a total of 100 available points for every first time in episode new first legal action (default status code 68) reported. Points can be earned as follows: <ul style="list-style-type: none"> <li>• Sliding scale of points for the number of months delinquent</li> <li>• Sliding scale of points assessed if the loan was reported as non-borrower occupied</li> <li>• 5 points for each type of loss mitigation attempt reported in the default episode; limit of 3.</li> <li>• 5 points for an AO ineligible for foreclosure reported prior to the new first legal action.</li> <li>• Any loan found to be dual tracked automatically gets 0 points.</li> </ul>	JER
Appendices	Addition	FY12 Q2	Appendix A, B, & C based on feedback from webinar. Added Appendix D by removing the information from the narrative so it could be more easily referenced.	JER
Reformatted entire document	Formatting	FY12 Q2	Rearranged how information was presented for clarity. Aldo included CFR & ML references were applicable.	JER
Introduction	Addition	FY12 Q3	Added in clarification of holder versus servicer versus subservicer. Servicers may also request a breakdown of scores by holder.	JER

Foreclosure Prevention	Update	FY12 Q3	Update to dual tracking calculation so looks at 2 cycles before the 68 and then either the same cycle or the cycle after to be considered as dual tracked. Previously looked at same cycle and one cycle before.	JER
Loss Mitigation Engagement	Addition	FY12 Q3	Added in ACD and CWCOT to the work-out ratio calculation.	JER
Extra Credit	Addition	FY12 Q3	Servicers can now count participation in NSC webinar series as well as live events as well as EClass. Staff attendance should be appropriate and is at servicer discretion. Added in extra credit for going paperless.	JER
Appendix E	Addition	FY12 Q3	Included NSC's SOP for reconciling open defaults that require further SFDMS reporting.	JER
Who Will Be Scored	Addition	FY12 Q4	Lender approval status must be active. If FHA has revoked your origination rights, you are not eligible to be scored on your delinquent portfolio.	JER
Contact Information & Extra Credit	Change	FY12 Q4	All distribution of scores will be electronic unless we are unable to contact you electronically.	JER
<i>End of Proposed Pilot Period</i>				
Foreclosure Prevention	Level 3	FY13 Q1	Changed references of dual tracking to inappropriate initiation of foreclosure.	JER
SFDMS Reporting	Level 2	FY13 Q1	Changed assessment calculation of reporting occurrences less than current defaults to actual case level counts of neglected defaults, which is fairer to the servicer as servicers are now not penalized for reconveyances in this calculation.	JER
Introduction	Level 1	FY13 Q1	Added in appeals section.	JER
Entire Document	Level 1	FY13 Q2	Renamed TRSII.	JER
Introduction	Level 1	FY13 Q2	Added in Scores, Grades & Tiers.	JER
Introduction	Level 1	FY13 Q2	Added in example of scorecard notice.	JER
Introduction	Level 1	FY13 Q2	Updated increased incentives section.	JER
Foreclosure Prevention	Level 1	FY13 Q3	Updated points available, assessment structure, and new codes for which points can be incurred. Points structure is retroactive.	JER
Foreclosure Prevention	Level 2	FY13 Q3	Updated inappropriate initiation to include new codes.	JER
Redefaults	Level 1	FY13 Q3	Added evaluation of non-incentivized loan modifications beginning with Q3. Also removed criteria for timely reporting for partial claims for which no incentive was claimed.	JER
Redefaults	Level 3	FY13 Q3	Updated codes that can trigger no points during the 6 month evaluation period to include the new foreclosure codes.	JER
Loss Mitigation Engagement	Level 3	FY13 Q3	Non-incentivized mortgage modifications counted in the work-out ratio. New SFDMS codes included in the Reported Engagement Ratio.	JER
Extra Credit	Level 1	FY13 Q3	Realigned points that can be earned for training based on availability. This may or may not be only for FY13. Added in 2% extra credit criteria for FY13 only.	JER
<b><i>TRSII FY13 Used to Determine Calendar Year 2014 Increased Incentives</i></b>				
Foreclosure Prevention	Level 2	FY14 Q1	Updated points available to be one assessment for all cases and different points available based on events and not once set of scoring for non-borrower occupied and another for occupied. Episode number greater than 1 earns points like a loss mit action.	JER

Foreclosure Prevention	Level 2	FY14 Q1	Updated scoring to align with ML 2013-40. Inappropriate initiation during loss mitigation is now in accordance with that ML.	JER
Foreclosure Prevention	Level 2	FY14 Q1	Scoring for early initiation realigned with ML 2013-40 and CFR.	JER
Loss Mitigation Engagement	Level 2	FY14 Q1	Best fit option now available for those servicers with a portfolio comprised of 50% or more HFA loans for which we have a waiver on file for loss mitigation.	JER
Extra credit	Level 3	FY14 Q1	Adjusted points available for webinars.	JER
Appendix F: Servicing transfers	Level 1	FY14 Q1	Brand new appendix with information for those acquiring portfolios.	JER
Introduction	Level 3	FY14 Q2	Clarified servicer who will be automatically opted out if did not qualify to score for all 12 months of the fiscal year.	JER
Introduction	Level 3	FY14 Q3	Rearranged sections; added in increased incentives.	JER
Extra Credit	Level 2	FY14 Q3	Updated what qualifies for extra credit for training and the points.	JER
Foreclosure Prevention	Level 2	FY14 Q3	Updated the calculation to include additional SFDMS codes in evaluation per the Q1 notification.	JER
Appendix E	Level 3	FY14 Q3	Clarified instructions for pulling Neglected Defaults from Neighborhood Watch.	JER
Public Availability of Scores and Grades	Level 2	FY15 Q1	Scores have been made public as of FY14 Q4.	JER
Loss Mitigation Engagement	Level 3	FY15 Q1	Clarification on scoring for the reported engagement ratio. No actual change to the metric.	JER