



FDIC Loan and NPV Test Documents

This appendix contains:

- C.1 FDIC NPV Test
- C.2 Sample FDIC Loan Modification Agreement
- C.3 FDIC Loan Modification/NPV Example.

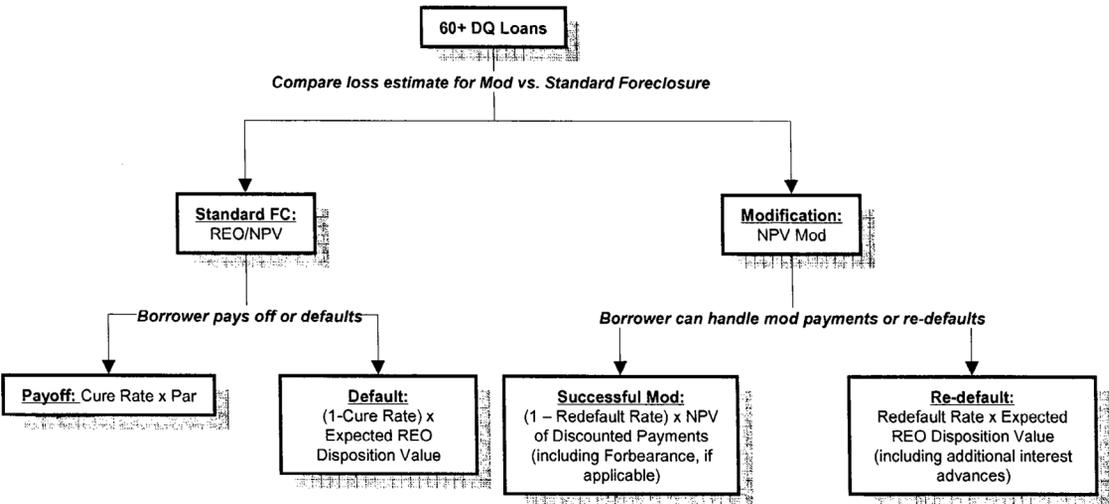
C.1 FDIC NPV TEST

NPV Test



NPV Test

Once the modification terms are established, the impact of the modification concessions to the investor are compared to the estimated loss given foreclosure. If the modification is less costly than foreclosure, it is approved. This test ensures that modifications mitigate the loss for investors. This diagram illustrates the NPV test:



NPV Test (Continued)



- **The formula used to estimate the cost of foreclosure is:**

$$\text{Loan Value} = \text{Cure Rate} * \text{Par} + (1 - \text{Cure Rate}) * \text{Expected REO Disposition Value}$$

Description of the formula terms:

- **Cure rate** is based on recent industry or servicer data. It is based on a combination of delinquency status, combined loan-to-value (LTV), FICO and original income documentation. A 12 month cure period is used.

- **Expected REO Disposition Value:**

$$\text{Liquidation value} - \text{Interest Adv/Accrual} - \text{Corporate Advances} - \text{Escrow Advances} - \text{Future Cost to Collect} + \text{MI Recovery}$$

- **Liquidation Value:**

$$\text{Forecasted Liquidation Value of property at REO} = \text{Current Property Value} * (1 - \text{Forecasted Depreciation} - \text{"REO Stigma" Discount} - \text{Selling Costs})$$

- **Forecasted Depreciation** is based on an industry standard such as Moody's Economy.com metropolitan statistical area (MSA) level data. Depreciation timeline is one year in the future or case-specific.
- **Current Property Value** is determined by an interior appraisal, Broker Price Opinion (BPO), Automated Valuation Model (AVM), or original appraisal value adjusted by MSA level home price change to date. This value is then adjusted by forecasted MSA level home price changes.
- **REO Stigma Discount** reflects differences in experienced liquidation values versus estimated property values.
- **Selling Costs** include 10 percent for broker commission, potential repairs and maintenance costs.
- **Interest Advances/Accruals** includes delinquent interest advanced (securitized/sold loans) or accrued (owned loans).
- **Corporate Advances** include non-escrow advances already made on the borrowers behalf.
- **Escrow Advances** already made on the borrowers behalf.
- **Future Cost to Collect** is an estimate of future interest accruals, T&I payments, and FC expenses.
- **MI Recovery (if applicable)** is estimated based on MI coverage percentage adjusted for possible MI claim denial.

NPV Test (Continued)



- The formula used to estimate the cost of modification is:

$$\text{Loan Value} = (1 - \text{Redeferal Rate}) \times \text{NPV of Discounted Payments} + \text{Redeferal Rate} \times (\text{REO Disposition Value} + \text{Additional Accrued Costs})$$

Description of the formula terms:

- **Re-default rate** is estimated per historical re-default experience for other modification programs and a program specific projection.
- **NPV of discounted payments** is the net present value of the adjusted UPB (cash outflow) and the modified payment stream (cash inflow) discounted at the Freddie Mac Weekly Survey rate as of the week of the modification offer. An NPV example is provided in the Appendix.
- **REO disposition value** (see above).
- **Additional costs** include 9 additional months of accrued interest, taxes, and insurance payments plus additional forecasted home price depreciation, as applicable.³

³ Currently, the Case-Shiller forecast provided by Moody's Economy.com projects that home prices will reach their trough in about one year from today, which also is equivalent to the base case timetable for REO disposition in the NPV Tool. This means that delaying foreclosure will not lead to further home price declines at REO disposition for most geographical areas.

NPV Test (Continued)



In Addition to Updated Liquidation Value, a Servicer must Formally Backtest Servicer and/or Portfolio Specific Assumptions and Regularly Update Assumptions Based on Industry Standards

1. **Forecasted Depreciation** (industry standard)
 - Updated monthly to incorporate latest home price data.
2. **Cure Rates** (servicer and/or portfolio specific)
 - Updated quarterly and based on 12 month history (to adjust for current credit environment).
Suggested cure factors include the current delinquency status of the loan, combined LTV, borrower FICO, and original income documentation.
3. **REO Stigma** (servicer and/or portfolio specific)
 - Updated monthly to incorporate latest experience by region.
4. **Re-default Rate** (servicer and/or portfolio specific)
 - Based on past re-default experience for other modification programs and a program specific projection. The servicer should carefully monitor and incorporate the program's actual re-default rate.
5. **Discount Rate** (both industry standard and servicer and/or portfolio specific)
 - Freddie Mac Weekly Survey rate as of the week of the modification offer is used to discount the modified payment cashflow. A required return methodology is used to discount the estimated foreclosure value.
6. **Prepayment rate** (servicer and/or portfolio specific)
 - The model assumes a voluntary prepayment rate of zero.