

# OPTIMOD

**Are you offering the most effective loan modifications for you and the borrower?**

The mortgage industry is proactively responding to the high number of defaults with a variety of loan modification programs to assist borrowers in their efforts to keep their homes and to mitigate losses and future risk. However, Lender Processing Services' (LPS) data indicates that many modification programs are not effective and re-default rates are high. In fact, according to LPS' November 2008 data, approximately 25 percent of modified loans will miss their first month's payment, and nearly 70 percent of modified loans will be delinquent after a year.

How do you ensure whether a particular modification plan is the most effective solution for both you and the borrower? Even more important, how do you ensure that the loan does not quickly re-default? LPS Applied Analytics offers OptiMod, which provides optimal loan modification recommendations at the loan level that can be processed in bulk. To do less than the optimal loan modification is to position the borrower for re-default; to do more than the optimal loan modification is to give away value.

The optimal loan modification parameters are determined by applying LPS Applied Analytics' Default Model – a behavioral model that projects the probability of delinquency,

default and loss severity – to existing loan characteristics and sampled modification options. The parameters that maximize the Net Present Value of future mortgage cash flows also consistently minimize projected re-default rates.

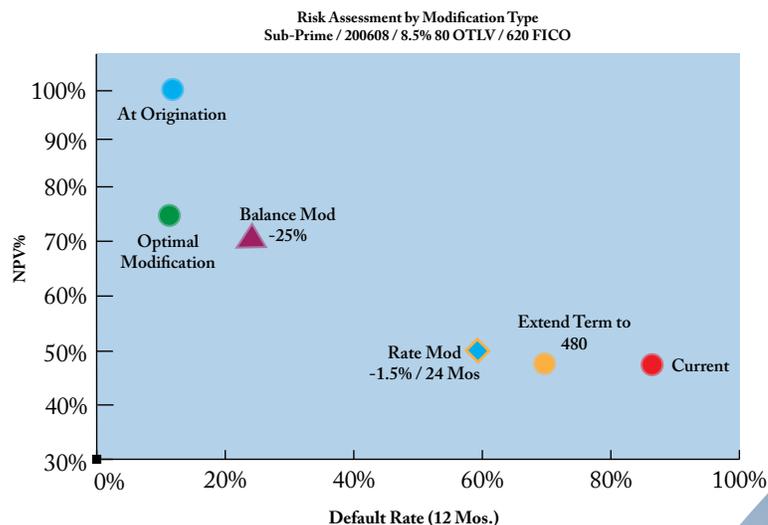
## Optimal Payment Reduction

LPS Applied Analytics research shows that payment reduction is the key ingredient to successful loan modification. Payment reduction can be achieved in one or a combination of the following:

- Reduce the borrower's interest rate, at least temporarily
- Extend the term of the mortgage
- Forgive principal

Borrower sensitivity to these payment-reducing factors varies depending on many loan, borrower and property characteristics along with house price impact. LPS Applied Analytics' data and proven analytics show that, frequently, the best modification is a combination of factors – rate reduction, term extension and possible principal forgiveness. Only LPS Applied Analytics' OptiMod provides a decisive recommendation based on years of experience modeling default risk for non-agency securities.

## Comparison of various modifications and OptiMod



## OptiMod for Bulk Processing

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LPS Applied Analytics' OptiMod allows servicers to immediately offer effective loan modifications to at-risk and delinquent customers. OptiMod, together with LPS Applied Analytics' Mortgage Scores, which benchmark and prioritize delinquent loans, provides decisioning relief for servicers caught in an avalanche of loss mitigation activities.

In addition, LPS offers RediMod, an end-to-end solution for streamlining the loan modification process. The OptiMod recommendation is included as part of RediMod or available as a stand-alone product.

## OptiMod for One-on-One Counseling

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For loss mitigation counselors working one on one with at-risk and delinquent borrowers, OptiMod provides additional insight as to which payment reduction mechanism is the most effective given existing loan, borrower and property characteristics. OptiMod does not conflict with the benefit of a one-on-one interview, but, rather, helps guide counselors to consider parameters that will give their clients the best chance of success.

## OptiMod Implementation

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To leverage the most value that OptiMod has to offer, LPS recommends the following implementation plan:

1. LPS consults with client to understand loan modification goals and constraints
2. LPS extracts required data from LPS systems (e.g., MSP or McDash) currently being used
3. LPS provides the following results in one or more steps as agreed with client:
  - a. Mortgage Scores (Delinquency, Default, Loss/Severity, NPV) for all loans in portfolio to assess risk on all loans.
  - b. OptiMod recommendations
  - c. Mortgage Scores for all loans indicated to benefit from modification, incorporating OptiMod parameters, to assess re-default risk

4. Client prioritizes contact list
5. Client offers OptiMod recommendations to borrowers through preferred communication channel

## Benchmarking Results

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LPS provides updated Mortgage Scores monthly for all loans in your portfolio, providing a benchmark for you to measure the value of OptiMod and other loss mitigation initiatives.

## About LPS Applied Analytics

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LPS is the number one provider of integrated data, analytics and servicing technology solutions to mortgage lenders, servicers and investors. These solutions are augmented by award-winning support services, and are why 39 of the top 50 banks have chosen LPS solutions to sharpen their competitive edge. LPS' Applied Analytics division brings together all of LPS' comprehensive data and analytics solutions to provide unparalleled insight into performance trends, proactive risk management and collateral value that are driving the mortgage market today, including:

- Mortgage performance data
- Real estate data
- Loan and portfolio analytics
- Portfolio acquisition management
- Property valuations

**Delivering optimal loan modification recommendations at the loan level – OptiMod.**



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