



Servicing Alignment Initiative

Freddie Mac Requirements Overview for Housing Counselors

Consistent requirements and processes for servicing delinquent mortgages

Freddie Mac implemented a comprehensive set of changes to our mortgage loan servicing and delinquency management requirements that reflect the work completed under the Servicing Alignment Initiative. The new requirements streamline servicing processes, including requiring Servicers to contact delinquent borrowers earlier and more frequently, and promote a quicker determination of loan workout eligibility. Our requirements help you as a housing counselor work with Servicers of Freddie Mac-owned mortgages more effectively to assess your clients' workout options.

Key Features

Servicers of Freddie Mac-owned mortgages implemented new requirements for:

- **Borrower Contact and Delinquency Management**
 - Earlier and more frequent borrower contact, and new standards and time lines for borrower calls and quality right party contact
 - Consistent written communications, new Borrower Solicitation and Response Packages, including a new Uniform Borrower Assistance Form
 - Process for reviewing and escalating borrower complaints and disputes
 - Revised borrower income and hardship requirements
- **Loan Modifications and Workouts**
 - A new modification solution, the Freddie Mac Standard Modification, with new evaluation, trial period, and permanent modification requirements
- **Incentives and Compensatory Fees**
 - Eligible Servicers receive incentives for activities based on significantly higher quality benchmarks, and be assessed compensatory fees
- **State Foreclosure Time Lines**
 - Revised state foreclosure time line requirements
 - Standardized requirements for assessment of compensatory fees for state foreclosure time line violations

Results for Housing Counselors

- Helps you work with Servicers of Freddie Mac-owned mortgages more effectively to assess your clients' workout options, as Servicers evaluate borrowers simultaneously for all available foreclosure avoidance options, including the Home Affordable Modification program (HAMP) and the new Freddie Mac Standard Modification.
- Assists you in counseling distressed borrowers effectively about the steps to be considered for a foreclosure alternative, and helping them understand the result or next steps.
- Assists your clients in only needing to submit one complete Borrower Response Package for the Servicer to evaluate them for all available workout options. A streamlined submission process for your clients ultimately leads to quicker Servicer decisioning and resolution.
- Offers your clients an opportunity for a loan modification if they're ineligible for HAMP or previously defaulted on a HAMP modification.
- Ensures that Servicers continue to work with your clients on foreclosure alternatives even after the foreclosure process started.

BORROWER CONTACT AND SOLICITATION	
Quality Right Party Contact	<ul style="list-style-type: none"> • Quality right party contact occurs when a Servicer establishes a rapport with the borrower expressing empathy and a desire to help identify and discuss with the borrower, co-borrower or trusted adviser, such as a housing counselor, the most appropriate options for delinquency resolution, and makes every attempt to achieve quality right party contact by: <ul style="list-style-type: none"> ▪ Determining the reason for the delinquency and whether it is temporary or permanent. ▪ Determining whether the borrower has vacated or plans to vacate the property. ▪ Determining the borrower's current perception of his/her financial circumstances and ability to repay the debt. ▪ Setting payment expectations and educating the borrower on the availability of foreclosure alternative solutions. ▪ Obtaining a commitment from the borrower to either resolve the delinquency through traditional methods (paying the total delinquent amount) or engage in a foreclosure alternative solution. • Benchmarks measure and monitor when effective quality right party contact is achieved. • Freddie Mac encourages and fully supports Servicers who have or will implement single point of contact models for the purpose of achieving contact continuity throughout the delinquency process. • Contact can be made by telephone, email, Web portal, standard mail, or face-to-face.
Borrower Solicitation Package	<ul style="list-style-type: none"> • There are standard Borrower Solicitation Package requirements for documentation that must be sent to a borrower, including: <ul style="list-style-type: none"> ▪ A Uniform Borrower Assistance Form ▪ A borrower checklist ▪ A solicitation letter ▪ A FAQ document ▪ An important notices section ▪ IRS Form 4506T-EZ or 4506-T ▪ Form 710A, <i>Government Monitoring Data</i> (required only for HAMP-eligible borrowers) • Servicers must continue solicitation and collection when a borrower, who was less than 60 days delinquent at the time of evaluation for an alternative to foreclosure and did not qualify for any of these alternatives, subsequently becomes 60 days delinquent. • Servicers must use this package to evaluate a borrower for <u>all</u> alternatives to foreclosure, including a HAMP modification, Freddie Mac-specific modification, short sale, or other solution. • Spanish translations for certain borrower solicitation documents are available to assist solicitation efforts. Freddie Mac encourages you to use the Spanish translations as you work with Freddie Mac Servicers to obtain the required completed and signed English-language documents from borrowers.
DELINQUENCY MANAGEMENT	
Disclosures and Written Communications	<ul style="list-style-type: none"> • There is a requirement for Servicers to consistently acknowledge certain events to borrowers at specified time periods, including receipt of a borrower's Borrower Response Package. Acknowledgement includes notices to borrowers about the evaluation process and time line, an explanation of the foreclosure process, and instances in which a foreclosure action may not be halted. • There are content and timing requirements for: <ul style="list-style-type: none"> ▪ Late notices and reminder letters. ▪ Notifying borrowers of receipt of incomplete or missing information. ▪ Evaluation notices, which provide the decision or next steps to the borrower. ▪ Breach letters. ▪ Solicitation during the foreclosure process.
Revised Borrower Income and Hardship Requirements	<ul style="list-style-type: none"> • Revised borrower income and hardship requirements include replacing the existing involuntary inability to pay requirements with a new requirement where the hardship must be causing or be expected to cause a long-term or permanent decrease in the borrower's income or increase in the borrower's expenses. • These revised requirements must be used to evaluate borrowers for HAMP and other modifications, and all other workout solutions.
FREDDIE MAC STANDARD MODIFICATION	
Borrower Eligibility	<ul style="list-style-type: none"> • Borrower must be either 60 days or more delinquent, or current or less than 60 days delinquent and determined to be in imminent default based on current Freddie Mac imminent default requirements. <ul style="list-style-type: none"> ▪ Borrowers who are current or less than 60 days delinquent must occupy the property as their primary residence to be eligible. • Borrower must document an eligible hardship that is causing or expected to cause a permanent or long-term increase in expenses or decrease in income. (Unemployment and other temporary hardships are not eligible hardships.) • Borrower must have been determined to be ineligible for a HAMP modification. In addition, borrowers who received, but defaulted on a HAMP Trial Period Plan, HAMP modification, or other modification

	<p>are eligible unless the:</p> <ul style="list-style-type: none"> • Effective date of the prior HAMP or other modification is within 12 months of the evaluation for the Standard Modification; and • Principal and interest payment on the mortgage was reduced by more than 10 percent as a result of the prior modification. • Note: The exceptions above only apply to prior modifications, not prior HAMP Trial Period Plan defaults. • Borrower must have verifiable income available to make the modified mortgage payment. (Unemployment benefits are not eligible.)
Modification Process	<ul style="list-style-type: none"> • Borrower must have been considered for a Freddie Mac reinstatement, repayment, or forbearance plan, and then a HAMP modification before being considered for a Standard Modification. • Modified mortgage must be a fixed-rate, fully amortizing mortgage. • If the gross unpaid principal balance (UPB), prior to capitalization, creates a mark-to-market loan-to-value (MTMLTV) ratio that is greater than or equal to 80 percent, Servicers are delegated the authority to determine the proposed modification terms and final eligibility based on the following: <ul style="list-style-type: none"> ▪ Capitalize accrued interest and other eligible amounts (capitalize arrearages). ▪ Adjust the interest rate to the fixed rate in effect on the date of the borrower's evaluation that is published on the Standard Modification Interest Rate Web page. The link to this Web page can be found on the Housing Professionals Resource Center of FreddieMac.com, in the Servicing Alignment Initiative section. ▪ Extend the amortization term to 480 months from the modification effective date. ▪ Provide forbearance to certain borrowers whose current mortgage debt is more than 115 percent of their mark-to-market property value. • If a borrower's situation does not meet all these eligibility requirements, but the Servicer believes that a workout option is still the best solution to the delinquency, then the Servicer may submit a recommendation to Freddie Mac for review. This includes modifications where the gross UPB (prior to capitalization) creates a MTMLTV ratio that is less than 80 percent.
Permanent Modification Eligibility Requirements	<ul style="list-style-type: none"> ▪ The modified principal and interest payment must be at least 10 percent less than the borrower's pre-modification principal and interest payment to be eligible. ▪ The modification must result in a housing expense-to-income ratio that is greater than or equal to 10 percent and less than or equal to 55 percent to be eligible. <ul style="list-style-type: none"> ▪ Nonowner-occupied properties have a different calculation for the housing expense-to-income ratio. • The determination that the Standard Modification results in the above final eligibility requirements is based upon the monthly payment calculated for the trial period plan.
Trial Period	<ul style="list-style-type: none"> • Borrowers must complete a three-month trial period. (Trial periods may be up to two months longer if the borrower is in bankruptcy.) • Borrowers must make timely monthly payments for each month of the trial period at the estimated modified payment amount and otherwise comply with the trial period plan before the Servicer finalizes the permanent modification agreement.
Documentation	<ul style="list-style-type: none"> • A <i>Uniform Borrower Assistance Form</i> and associated documentation must be used to solicit and evaluate borrowers for all available modifications. • All borrowers must provide a signed and completed IRS Form 4506T-EZ or Form 4506T and required income and hardship documentation as part of the Borrower Response Package they return to their Servicer. In certain instances, Form 4506-T may need to be returned by the borrower to the Servicer via standard mail. • New borrower solicitation documentation replaces the current documentation used for HAMP.
CASE ESCALATION	
Case Escalation	<ul style="list-style-type: none"> • Servicers must develop and implement a process for reviewing, responding to, and escalating borrower complaints. Requirements include: <ul style="list-style-type: none"> ▪ Definition of an escalated case. ▪ Servicers must develop and implement a process for reviewing borrower inquiries and complaints, and escalating disputes. ▪ Servicer staff providing resolution on an escalated case must be independent from the personnel that initially handled/processed the borrower's request for assistance. ▪ Time lines for review and response, including acknowledging to the borrower a receipt of an escalated case within three business days, and adhering to a 30-day maximum total time to resolve an escalated case. ▪ Requirements for information to be included in the acknowledgement and other written communication with the borrower.

STATE FORECLOSURE TIME LINES	
Uniform Time Lines for Referrals to Foreclosure and for Foreclosure Sales	<ul style="list-style-type: none"> • Each jurisdiction has a uniform number of days for a foreclosure, which covers the period from the foreclosure referral through the foreclosure sale date. • A state foreclosure time line covers the time from the due date of last paid installment (DDLPI) through the date of foreclosure sale. • State foreclosure time lines are published in the Guide.
SERVICER INCENTIVES AND COMPENSATORY FEES	
Borrower Response Package Incentives, Benchmarks, and Compensatory Fees	<ul style="list-style-type: none"> • Consistent with Freddie Mac's Servicer performance management approach, we implemented a revised incentive and compensatory fee structure that appropriately: <ul style="list-style-type: none"> ▪ Compensates Servicers for achieving significantly higher benchmarks for receipt of complete Borrower Response Packages. ▪ Assesses compensatory fees for a Servicer's failure to meet defined loss mitigation metrics and foreclosure time lines. • Looking at the population of borrowers who become 60 days delinquent as of the beginning of a month, we measure Freddie Mac Servicers at the end of a six-month period to determine how many of these borrowers: <ul style="list-style-type: none"> ▪ Deliver complete Borrower Response Packages, ▪ Become current or pay off, or ▪ Become less than 60 days delinquent. • \$500 incentive for each complete package if the Servicer meets or exceeds this 60 percent benchmark. • Compensatory fees will be assessed to Servicers for not meeting completed Borrower Response Package benchmarks: <ul style="list-style-type: none"> ▪ Less than the 50 percent benchmark for receiving completed Borrower Response Packages from the population of borrowers who are 60+ days delinquent or become current or less delinquent during the collection period. ▪ \$500 compensatory fee will be assessed for each Borrower Response Package not received that would have brought the Servicer to the 50 percent benchmark. • Servicers will not receive an incentive or be assessed a compensatory fee if the percentage for the completed Borrower Response Packages for 60+ days delinquent borrowers falls between the 50 percent and less than 60 percent benchmarks.
Servicer Engagement with Housing Counselors	<ul style="list-style-type: none"> • Freddie Mac strongly encourages Servicers to engage with and adequately compensate qualified housing counselors to assist Servicers in obtaining quality right party contact, educating borrowers, and delivering completed Borrower Response Packages that can be evaluated by the Servicer for all available workout options.
Workout Incentives	<ul style="list-style-type: none"> • Servicers receive incentives for successfully settled workouts. <ul style="list-style-type: none"> ▪ Incentive amounts for the new Standard Modification are based on the term of delinquency when the trial period plan starts. ▪ Servicer incentives for completed HAMP modifications align with the Standard Modification's three-tiered incentive structure. ▪ Settled workout incentives for existing Freddie Mac modifications, HAFA and non-HAFA short sales, HAFA and non-HAFA deeds-in-lieu, and repayment plans remain unchanged. • Incentives will be paid out monthly.
FREDDIE MAC IMPLEMENTATION	
Requirements	<ul style="list-style-type: none"> • Freddie Mac's requirements for the Servicing Alignment Initiative were published in Freddie Mac's <i>Single-Family Seller/Servicer Guide (Guide)</i> Bulletin 2011-11 and amended by subsequent Guide Bulletins. • Requirements for the new Freddie Mac Standard Modification were published in Guide Bulletin 2011-16.

Housing Counselors should understand that this document may not incorporate every requirement under, and is not to be relied on as a replacement or substitute for, the information contained in the Single-Family Seller/Servicer Guide (Guide) or Guide Bulletin. Servicer is responsible for complying with the requirements of the Guide and relevant Guide Bulletin(s), notwithstanding the extent to which they may be inconsistent with this document.