



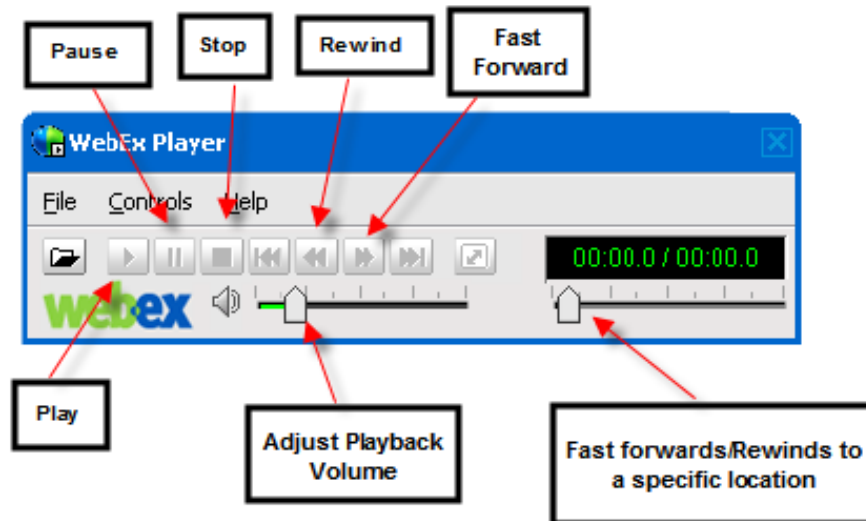
# Alternatives to Foreclosure Overview





# Tools and Tips

- ✓ Close all other applications to enhance your workstation's performance.
- ✓ Maximize the window used for viewing this recording.
- ✓ For technical Support, call (866) 229-3239



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[www.freddiemac.com/learn](http://www.freddiemac.com/learn)



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# Loss Mitigation Philosophy

At Freddie Mac, we:

- Care about the borrower, property and the mortgage
- Believe in the American dream of homeownership
- Are committed to trying to help a borrower, who has involuntary inability to pay, find a solution to the delinquency when financially feasible



# Collection Efforts

- Has the borrower been delinquent before?
- Is the borrower currently employed?
- What is the reason for default?
- Does the borrower have the willingness and ability to pay?
- Does the borrower want to retain ownership of the property?
- Is the borrower deceased?
- What is the condition and occupancy status of the property?
- Is there is a known potential risk of ownership? If so, refer to loss mitigation immediately.
- What is the term and interest rate of the mortgage?



# When Is a Mortgage Delinquent?

Delinquency occurs when all or part of a borrower's monthly mortgage payment is unpaid after the due date.



# Delinquent New Borrowers

- Within 6 months of origination
- Personal contact required between 5th and 15th day, unless
  - ✓ ACH established for payment before 15th day of delinquency
  - ✓ Included in special call campaigns
- Determine cause of delinquency
- Educate borrower



# Minimum Collection Requirements

- Be available for financial counseling and advice
- Make contact early and often
- Continue attempts until foreclosure begins
- Obtain a property inspection between day 45-60
- If collection efforts are unsuccessful, attempt to cure by pursuing alternatives to foreclosure



# Late Charge Collection

Regardless of language in the Note or Security Instrument, you may not collect a late charge by

- Charging the escrow or impound account
- Deducting from a regular payment
- Deducting from a payment to either partially or fully reinstate a loan
- Adding to the UPB
- Causing a delinquency or placing the loan into foreclosure



# Collection Records

Collection Records must evidence:

- Dates letters and notices were mailed
- Dates and results of personal contacts with the borrower
- Reasons for prior and current defaults
- Terms of any repayment arrangements
- Documentation of property inspections



# Borrower and Servicer Foreclosure Prevention Sites

[www.FreddieMac.com/service/msp/avoid\\_foreclosure.html](http://www.FreddieMac.com/service/msp/avoid_foreclosure.html)

[www.FreddieMac.com/corporate/buyown/english/purchasing/owning/avoid\\_foreclosure.html](http://www.FreddieMac.com/corporate/buyown/english/purchasing/owning/avoid_foreclosure.html)

[www.FreddieMac.com/corporate/buyown/spanish/purchasing/owning/avoid\\_foreclosure.html](http://www.FreddieMac.com/corporate/buyown/spanish/purchasing/owning/avoid_foreclosure.html)



# Default Management Criteria and Weights

## Criteria

## Weights

- a. Collections
  - 1. Early Collections.....10%
  - 2. Late Collections.....10%
- b. Loss Mitigation
  - 3. Workouts/REO+Workouts.....35%
- c. Foreclosure Timelines
  - 4. Actual Foreclosure Timelines Including Delays .....25%
  - 5. Inventory Past Standard Severity.....5%
- d. Data Integrity
  - 6. Initial EDR Edits.....2.5%
  - 7. Sixth Business Day EDR Edits.....1.5%
  - 8. Accuracy of DDLPI Reporting.....1%
  - 9. Average Number of Days to Report Foreclosure Sales...5%

Servicer Performance Totals: 100%



# Benefits of Alternatives to Foreclosure

Alternatives to foreclosure can

- Help the borrower
- Cure the delinquency
- Reduce credit losses
- Reduce the MI claim payment



# Alternatives to Foreclosure

- Reinstatements
- Relief Options
- Workout Options
- Chargeoffs



# Full Reinstatement

A full reinstatement occurs when a borrower restores a delinquent mortgage to current status by paying the total amount delinquent.



# Accept Full Reinstatement When...

The borrower can pay in cash or certified funds, total amount delinquent, or total amount delinquent except accrued late charges and the BPO cost.



# Process a Full Reinstatement

- Obtain total delinquent amount in cash or certified funds
- Remit the cost of the BPO to Freddie Mac, if applicable
- Report via EDR
- Return note to document custodian
- Perform Investor Accounting activities



# Partial Reinstatement

A partial reinstatement occurs when a borrower:

- pays all outstanding fees and expenses
- pays the first payment due under the plan
- completes a written repayment plan, including a stipulation agreement



# Accept Partial Reinstatement When...

The borrower can pay, in cash or certified funds, both of the following:

- All outstanding fees and expenses, or all outstanding fees and expenses except accrued late charges and the BPO cost
- At a minimum, the first payment due under the repayment plan.



# Process a Partial Reinstatement

- Obtain partial reinstatement payment in cash or certified funds
- Execute a written repayment plan
- Prevent additional foreclosure expenses
- Report the partial reinstatement and repayment plan via EDR
- Return note to document custodian
- Continue to report the repayment plan via EDR



# What Is Involuntary Inability to Pay (IITP)?

The inability to pay monthly mortgage payments because of an involuntary reduction of income or an unavoidable increase in expenditures.



## Involuntary Inability to Pay?

Mr. Landman was laid off from his job eight months ago. Since that time, he has been working temporary jobs. His income has decreased by approximately 50% since he was laid off and has been forced to borrow against his 401(k) to meet his monthly expenses, including his mortgage payment. Does Mr. Landman have an IITP?

**Yes**

**No**



# Relief Options

- Repayment Plan
- Short-term Forbearance
- Long-term Forbearance



# Repayment Plan

An agreement that gives the borrower a fixed amount of time to bring delinquent mortgage payments current by paying the normal monthly payment plus an additional amount.



# Consider a Repayment Plan When...

The borrower can begin making repayment plan payments and can repay the delinquent amount in 12 months or less



# Compensation for Repayment Plans

- Freddie Mac will pay you \$500 for one successful repayment plan per mortgage, per year
- Mortgage must have been 60 or more days delinquent at the time the borrower entered into the repayment plan
- Borrower must completely reinstate or pay off the mortgage
- Mortgage must have been reported accurately through EDR



# Short-term Forbearance

- An agreement to temporarily let a borrower pay less than the full amount of his or her mortgage payment, or pay nothing at all during the forbearance period
- Payments may be suspended for up to three months or reduced for up to six months
- Mortgage must be brought current at end of the forbearance period



# Consider Short-term Forbearance When...

After up to three months of suspended, or six months of reduced payments, the borrower can cure the delinquency through a repayment plan within 12 months from end of the short-term forbearance period



# Long-term Forbearance

- An agreement to let the borrower pay less than the full amount of his or her mortgage payment, or pay nothing at all, during a forbearance period of four to 12 months from the date of the agreement
- Mortgage must be brought current at end of the forbearance period



# Consider Long-term Forbearance When...

- After a forbearance period of no longer than 12 months, the borrower will be able to cure the delinquency through a repayment plan within 12 months of the end of the long-term forbearance
- One of the following must also apply:
  - ✓ Borrower must have involuntary inability to pay
  - ✓ A lawsuit that may jeopardize Freddie Mac's lien position is pending
- Or, all of the following situations exist:
  - ✓ The borrower is deceased
  - ✓ The estate is in probate
  - ✓ After a forbearance period of no longer than 12 months, the estate can fully pay off the mortgage or cure the delinquency through a repayment plan that does not exceed 12 months from the end of the forbearance period



# Workout Options

- Loan Modification
- Workout Mortgage Assumption
- Short Payoff
- Deed-in-lieu of Foreclosure



# Loan Modification

A written agreement between you and the borrower that permanently changes one or more of the original terms of the note, such as:

- Reduction in the note rate
- Reduction in the monthly payment
- Extension of the maturity date
- Change in the product type
- Increase in the UPB caused by capitalization



# Consider a Loan Modification When...

One of the following conditions exists:

- The borrower has stable income to support some level of monthly payment, wants to retain ownership of the home, and has involuntary inability to pay
- There is risk of property ownership
- The borrower is on a court-ordered Chapter 13 bankruptcy payment plan, but fails to meet that plan



# Complete a Loan Modification

Prepare to close the loan modification:

- Determine what the borrower owes
- Determine what expenses and delinquent amounts to capitalize
- Prepare the mortgage documents
- Ensure the modification meets all approval conditions



# Complete a Loan Modification

Close the loan modification:

- Deliver mortgage documents to borrower
- Execute the loan modification
- Record and file the loan modification
- Determine the loan-level status
- Report and remit



# Compensation for Loan Modifications

Situation	Incentive Amount
You process the loan modification and the modification settles	\$800 per loan modification
Freddie Mac or a third party retained by Freddie Mac processes and settles the loan modification	\$100 per loan modification



# Short Payoff

The sale of a property for less than the total amount necessary to satisfy the mortgage obligation, resulting in a shortfall.



# Make-whole Preforeclosure Sale

A short payoff becomes a make-whole preforeclosure sale when you determine that the shortfall between the net sale proceeds and total indebtedness will be paid so that Freddie Mac does not sustain a loss.

The shortfall may be paid by

- MI
- Cash contribution
- Insurance proceeds
- Combination of sources



## Consider a Short Payoff When...

- The borrower has a potential buyer for the property, and the sale will net less than the borrower owes on the mortgage
- The borrower can't or doesn't want to keep home
- The borrower meets our involuntary inability to pay requirements or allowable exception



# Compensation for Short Payoffs and Make-whole Preforeclosure Sales

Situation	Incentive Amount
You process and the short payoff settles or make-whole preforeclosure sale settles	\$2,200
Freddie Mac or a third party retained by Freddie Mac processes and settles the short payoff or make-whole preforeclosure sale	\$100



# Deed-in-Lieu of Foreclosure

A workout option in which a borrower voluntarily conveys clear property title to us in exchange for a discharge of the debt.



# Consider a Deed-in-Lieu of Foreclosure When...

All of the following conditions apply:

- The borrower meets our involuntary inability to pay requirements or allowable exception
- The borrower has been unsuccessful in attempts to sell the property
- No liens or encumbrances
- No other workout options are appropriate
- Not distressed or otherwise damaged



# Consider a Deed-in-Lieu of Foreclosure When...

The borrower has been discharged from a Chapter 7 bankruptcy and no longer wants to retain ownership of the property.



# Compensation for Deeds-in-Lieu of Foreclosure

Freddie Mac will pay you \$275 for each deed-in-lieu of foreclosure that you process and is settled.



# Workout Mortgage Assumption

A workout options that permits a qualified applicant to assume both the title to the property and the mortgage obligation from a borrower who is currently delinquent in his or her mortgage payments, or in imminent danger of default.



# Consider a Workout Mortgage Assumption When...

- The borrower has a potential buyer for the property
- The borrower meets our involuntary inability to pay requirements or allowable exception



# What is a Chargeoff?

A chargeoff ceases collection efforts on a mortgage when the debt is deemed to be uncollectable.



# Types of Chargeoffs

There are three types of chargeoffs:

- A chargeoff of the balance remaining after a short payoff
- A chargeoff of a low-balance mortgage
- A full chargeoff due to condemnation



# Consider a Chargeoff When...

- The property is condemned and is either not worth repairing or the usual payment sources for repairs (for example, property insurance) do not exist.
- You have considered all relief and workout options and foreclosure may result in a higher credit loss to Freddie Mac than charging off the debt.
- The property is secured by a conventional mortgage with a UPB equal to or less than \$5,000
- The property is secured by an FHA, VA or RHS mortgage, with a UPB equal to or less than \$2,000



# Low UPB Report

## Low UPB Report

BEST SERVICING, INC. 123789

For Period Ending Wednesday, June 23, XXXY

Last Updated Thursday, June 24, XXXY at 6:22 a.m.

[Load Spreadsheet](#)

**Please Note: The following report is being provided to assist you in identifying the loans you are servicing for Freddie Mac that are 60 days or more delinquent in which the Unpaid Principle Balance is \$5,000 or less. Please work with the Borrower and attempt to collect the debt. If the debt is deemed uncollectible, refer to Chapter B6 5.50 of the Guide for low balance loan chargeoff procedures.**

**Should you have any questions, please contact your Delinquency Resolution representative at Freddie Mac.**

Svcr Number	Servicer Loan #	FHLMC Loan #	UPB	ST	DDLPI	Loan Product	Begin Date	Loan Status
123789	921264512	129847638	\$1,409	TX	03/01/xxxv	FHA/VA	11/01/xxxxt	CH 13 – PLAN CNFM
123789	921594875	109864987	\$1,390	CA	05/01/xxxxy	FHA/VA	05/01/xxxxy	DELQ – NO DELAY
123789	312645878	109846382	\$1,273	CA	04/01/xxxxy	FHA/VA	04/01/xxxxy	DELQ – NO DELAY
123789	964425632	049372349	\$3,719	FL	05/01/xxxxy	FHA/VA	02/01/xxxxy	DELQ – NO DELAY
123789	751452658	594738202	\$4,794	ID	05/01/xxxxy	FHA/VA	06/01/xxxxy	DELQ – NO DELAY
123789	265412589	605847392	\$498	KS	02/01/xxxxy	FHA/VA	03/01/xxxxy	DELQ – NO DELAY
123789	965412586	060484737	\$615	PA	04/01/xxxxy	FHA/VA	05/01/xxxxy	DELQ – NO DELAY
123789	625415698	069478394	\$1,696	OK	04/01/xxxxy	FHA/VA	11/01/xxxw	DELQ – NO DELAY

Subtotal for Best Servicing, Inc. : 8

Total for Best Servicing, Inc. : 8



# Low UPB Report

- Identifies loans in your portfolio that are 60 days or greater delinquent and have an unpaid principal balance equal to or less than \$5,000
- Use this report to identify loans that may be candidates for low UPB chargeoffs



# When there is Risk of Property Ownership to Freddie Mac...

Consider any workout option other than a deed-in-lieu of foreclosure.



# Collect and Analyze Property and Mortgage Data

- Form 1013, Property Inspection Report
- Form 1092, Broker's Price Opinion
- Calculate the indebtedness-to-value ratio



# Form 1013, Property Inspection Report

- Required between day 45 and day 60 of the delinquency
- Required immediately if:
  - ✓ You suspect the borrower has abandoned the property
  - ✓ You become aware that an adverse condition may be affecting the property



# Form 1092, Broker's Price Opinion

A broker's price opinion (BPO) is a written estimate of the probable sale price of the property, provided by Freddie Mac.



# Broker's Price Opinion

- “As-is” and “as-repaired” value with 90-, 120-, and 180-day marketing timeframes
- Curbside inspection
- Any known hazardous substances or conditions affecting the property



# Reviewing the BPO

- Damaged or affected by an adverse condition?
- Listed for sale?
- What is the probable sale price?
- What are the general market conditions for the neighborhood?
- What is the occupancy status?
- Any discrepancies between information reported on the property inspection and BPO?



# Collect Mortgage Data

- Mortgage file or online records
- Most recent escrow analysis
- Payment status of taxes and insurance
- Status of condominium or HOA fees



# Indebtedness-to-Value Ratio

**Loan-to-value (LTV) =**

Loan Amount

---

Appraised Value

**Indebtedness to Value (ITV) =**

UPB + accrued interest + escrow advances + expenses

---

probable sale price



# Analyze the Mortgage Data

- Calculate the indebtedness-to-value ratio
- Determine if taxes and insurance are current
- Consider the monthly payment amount



# Choosing the Right Option

- Charge-off
- Deed-in-lieu of foreclosure
- Loan Modification
- Make-whole preforeclosure sale
- Short Payoff
- Workout Mortgage Assumption



# Scenario 1

Mr. Kincaid has lost his job. He was counseled to put his house on the market. A good offer for the property was presented. The ITV is 125%.

Answer: **Short Payoff**



## Scenario 2

Mr. Davis was laid off for five months and just found another job but it pays 15% less than his last job. Mrs. Davis works part-time. They can't bring the account current but want to keep their dream home.

Answer: [Loan Modification](#)



## Scenario 3

Mr. and Mrs. Carson and their four young children live in an older home that they have been trying to renovate. They are frustrated with the progress and have now discovered evidence of lead paint. They are both employed but have decided to walk away from the property and give the property back to the Servicer. The UPB is \$30,000 and the BPO value is \$15,000.

Answer: **Charge-off**



## Scenario 4

Mr. and Mrs. Watson are recently divorced. They both are physicians at area hospitals. The house has been on the market since they separated. Finally they have an offer but it is still \$6,000 short of the payoff. The MI has approved the offer.

Answer: **Make-whole preforeclosure sale**



## Scenario 5

Ms. Howard has developed a serious medical problem that prohibits her from working as a florist. Her possibilities for future employment are slim. Her neighbor, Mr. Green, has been renting the house next door and has always wanted Ms. Howard's house. Mr. Green has a great job and is interested in buying the house. The ITV is 100%

Answer: [Workout Mortgage Assumption](#)



## Scenario 6

Mrs. Williams has been in the nursing home for six months. Mr. Williams had the house on the market at market value for five months with no success. Mr. Williams just passed away and Mrs. Williams is not strong enough to continue marketing their New Jersey home. They have no children. The house is in good condition.

Answer: **Deed-in-lieu of foreclosure**



# Resources

Specific loans – Workout Representative

Default Servicing Training

- Tara\_Connors@FreddieMac.com  
(571) 382-3142
- Wayne\_Ferguson@FreddieMac.com  
(571) 382-5214

The Learning Center

[www.FreddieMac.com/learn](http://www.FreddieMac.com/learn)

Servicing Technology Tools

[www.FreddieMac.com/singlefamily/service/tools.html](http://www.FreddieMac.com/singlefamily/service/tools.html)

Avoiding Foreclosure Resource Center

[www.FreddieMac.com/singlefamily/avoid\\_foreclosure.html](http://www.FreddieMac.com/singlefamily/avoid_foreclosure.html)



# Learning Center Updates

The **Learning Center Updates** page provides quick access to new and updated resources to help you with underwriting, mortgage products, selling, servicing, and more.



View a summary of recent changes at [www.FreddieMac.com/learn/ch\\_ind/](http://www.FreddieMac.com/learn/ch_ind/)



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*It's a monthly notification that's not just another email in your inbox!*

**Receive a timely email informing you of new and updated training and education resources.**

Thank you for your  
participation!