

This reference guide outlines our requirements for requesting cash and promissory note contributions from borrowers for Freddie Mac Standard Short Sales and Freddie Mac Standard Deeds-in-Lieu of Foreclosure, and includes information on the following:

- [What type of assets are considered cash reserves](#)
- [Circumstances under which borrowers are not required to make a contribution](#)
- Instances when you must submit the [short sale](#) or [deed-in-lieu of foreclosure](#) request to Freddie Mac for review
- Step-by-step instructions on how to determine the following:
  - [Cash contribution requirement for borrowers current or less than 31 days delinquent](#)
  - [Cash contribution and/or promissory note requests for borrowers 31 days or more delinquent](#)

This reference guide is not a thorough review of *Single-Family Seller/Service Guide* (Guide) Chapter 9204, *Freddie Mac Workout Options*. If you have any questions after reviewing this reference guide, refer to Guide Chapter 9204 or call 800-FREDDIE.

## What Assets are Considered Cash Reserves?

Cash reserves include any non-retirement liquid asset the borrower has available from any financial institution or brokerage, including, but not limited to, the following:

- Funds on deposit in the borrower's checking, savings, money market, or certificate of deposit account or other depository account
- Stocks, bonds, mutual funds, U.S. Government Securities and other securities that are traded on an exchange or marketplace generally available to the public (e.g., New York Stock Exchange, National Association of Securities Dealers Automated Quotations, Midwest SE, Chicago Board of Trade or Over the Counter) for which the price can be verified through financial publications

Assets must be considered cash reserves unless they are held in a qualified retirement account such as 401(k), 403(b), 457, Individual Retirement Account (IRA), or pension fund.

You must ensure that cash reserves for all borrowers on the mortgage are accounted for on Form 710, *Uniform Borrower Assistance Form*. Refer to Guide Section 9208.3 for additional information.

## When is a Borrower Not Required to Make a Contribution?

Borrowers are not required to make a contribution in the following instances:

- Borrowers who are service members with Permanent Change of Station orders, provided that the borrower currently or previously occupied the property as his or her primary residence and purchased the property on or before June 30, 2012
- Borrowers who qualify for a Streamlined Short Sale (Refer to Guide Section 9208.3)
- Borrowers who qualify for a Streamlined Deed-in-Lieu of Foreclosure (Refer to Guide Section 9209.3)
- Applicable law prohibits requesting or receiving a contribution

## When You Must Submit the Short Sale Request to Freddie Mac for Review

You must submit the short sale request to us for our review under the following circumstances:

- You determine the borrower's cash reserves are greater than \$50,000.
- The borrower is 31 days or more delinquent and his or her cash reserves exceed the greater of \$10,000 or six times his or her total monthly mortgage payment, but he or she is unwilling to make a cash contribution that you deem acceptable.

- The borrower is current or less than 31 days delinquent and his or her financial hardship is **not** one of the following:
  - Death of a borrower or death of the primary or secondary wage earner in the household
  - Long-term or permanent disability; serious illness of a borrower/co-borrower or dependent family member
  - Divorce or legal separation; separation of a borrower unrelated by marriage, civil union or similar domestic partnership under applicable law
  - Distant employment transfer, including Permanent Change of Station orders or relocation due to new employment, where the transfer or new employment location is greater than 50 miles one-way from the borrower's current primary residence
- The borrower is current or less than 31 days delinquent and cannot or will not contribute 20 percent of his or her cash reserves, not to exceed the total deficiency, unless the financial hardship is due to the death of the borrower or death of either the primary or secondary wage earner in the household.

Note: You may submit recommendations to us for review in instances where you are not delegated to approve the short sale, but believe it is the best option for addressing the delinquency or imminent delinquency.

### **When You Must Submit the Deed-in-Lieu of Foreclosure Request to Freddie Mac for Review**

You must send the deed-in-lieu of foreclosure request to us for our review under the following circumstances:

- You determine the borrower's cash reserves are greater than \$50,000.
- The borrower is 31 days or more delinquent and his or her cash reserves exceed the greater of \$10,000 or six times his or her total monthly mortgage payment, but he or she is unwilling to make a cash contribution that you deem acceptable.
- The borrower is current or less than 90 days delinquent and his or her financial hardship is not due to one of the following:
  - Death of a borrower or death of the primary or secondary wage earner in the household
  - Long-term or permanent disability; serious illness of a borrower/co-borrower or dependent family member
- The borrower is current or less than 31 days delinquent and cannot or will not contribute 20 percent of his or her cash reserves unless the financial hardship is due to the death of the borrower or death of either the primary or secondary wage earner in the household.

Note: You may submit recommendations to us for review in instances where you are not delegated to approve the deed-in-lieu of foreclosure, but believe it is the best option for addressing the delinquency or imminent delinquency.

### **Cash Contribution for Borrowers Current or Less than 31 Days Delinquent**

Borrowers who are current or less than 31 days delinquent must contribute 20 percent of their cash reserves unless:

- The borrower's cash reserves do not exceed the greater of \$10,000 or six times the monthly mortgage payment.
- The reason for financial hardship is due to the death of the borrower or death of either the primary or secondary wage earner in the household, in which case you may determine the acceptable level of contribution.
- The borrower is a service member with Permanent Change of Station orders, provided the borrower occupies the property as his or her primary residence and purchased the property on or before June 30, 2012.

The cash contribution must not exceed the total deficiency.

**How to Determine the Cash Contribution for Borrowers Current or Less than 31 Days Delinquent**

For borrowers who are current or less than 31 days delinquent, perform the following steps after you have verified their cash reserves:

1. Determine if the borrower’s cash reserves exceed \$50,000.

If the borrower’s cash reserves	Then
Are greater than \$50,000	Submit the short sale or deed-in-lieu of foreclosure request to Freddie Mac for review.
Are equal to or less than \$50,000	Proceed to Step 2.

2. Determine if the borrower’s cash reserves exceed the greater of \$10,000 or six times the total monthly mortgage payment (including principal, interest, and the monthly amounts for taxes and insurance premiums, regardless of whether you are escrowing for these items).

If the borrower’s cash reserves	Then
Exceed the greater of \$10,000 or six times the total monthly mortgage payment	Proceed to Step 3.
Do not exceed the greater of \$10,000 or six times the total monthly mortgage payment	You are not required to request a cash contribution from the borrower.

3. Calculate 20 percent of the borrower’s cash reserves. This is the cash contribution amount (not to exceed the total deficiency) you will request from the borrower.
4. Determine how to proceed based on the borrower’s response to your request for a cash contribution.

If the borrower	Then
Agrees to pay the 20 percent cash contribution	You are delegated to approve the eligible short sale or deed-in-lieu of foreclosure.
Cannot or will not contribute 20 percent of his or her cash reserves toward the deficiency and the financial hardship <b>is</b> due to the death of the borrower or death of the primary or secondary wage earner in the household	You are authorized to negotiate and determine the acceptable level of contribution and you are delegated to approve the eligible short sale or deed-in-lieu of foreclosure.
Cannot or will not contribute 20 percent of his or her cash reserves toward the deficiency and the financial hardship <b>is not</b> due to the death of the borrower or death of the primary or secondary wage earner in the household	You must submit the short sale or deed-in-lieu of foreclosure request to Freddie Mac for review.

**Examples for Borrowers Current or Less than 31 Days Delinquent:**

For the examples below, assume the total monthly mortgage payment (including principal, interest, and the monthly amounts for taxes and insurance premiums, regardless of whether you are escrowing for these items) equals \$1,200. Six times the total monthly mortgage payment of \$1,200 equals \$7,200.

Cash Reserves	Cash Reserves Exceed Greater of \$10,000 or Six Times the Total Monthly Mortgage Payment (\$7,200)?	Request Cash Contribution? If yes, how much is the initial cash contribution amount?	Borrower Agrees to Initial Cash Contribution Amount?	Servicer Delegated or Submit to Freddie Mac for Review?
Example 1: \$4,500 Workout Type: Short Sale Reason for financial hardship: Distant employment transfer	No	No	N/A	Servicer Delegated
Example 2: \$11,000 Workout Type: Short Sale Reason for financial hardship: Long-term disability	Yes	Yes $\$11,000 \times 20\% =$ <b>\$2,200</b>	Yes	Servicer Delegated
Example 3: \$10,500 Workout Type: Short Sale Reason for financial hardship: Death of borrower or death of primary or secondary wage earner in the household	Yes	Yes $\$10,500 \times 20\% =$ <b>\$2,100</b>	No	You are authorized to negotiate and determine the acceptable level of cash contribution. If you and the borrower mutually agree on the contribution amount, you are delegated to approve the eligible short sale. If you are unable to mutually agree, you should submit the file to Freddie Mac.

Cash Reserves	Cash Reserves Exceed Greater of \$10,000 or Six Times the Total Monthly Mortgage Payment (\$7,200)?	Request Cash Contribution? If yes, how much is the initial cash contribution amount?	Borrower Agrees to Initial Cash Contribution Amount?	Servicer Delegated or Submit to Freddie Mac for Review?
<p>Example 4: \$49,000</p> <p>Workout Type: Deed-in-Lieu of Foreclosure</p> <p>Reason for financial hardship: Divorce</p>	<p>Yes</p>	<p>Yes</p> <p><math>\\$49,000 \times 20\% =</math> <b>\$9,800</b></p>	<p>No</p>	<p>Submit to Freddie Mac for review.</p> <p>You are not delegated to approve the deed-in-lieu of foreclosure because the borrower is current or less than 31 days delinquent and the financial hardship is not due to the death of the primary or secondary wage earner in the household.</p>
<p>Example 5: \$50,000.01</p> <p>Workout Type: Short Sale</p> <p>Reason for financial hardship: Distant employment transfer</p>				<p>Submit to Freddie Mac for review.</p>

### Contributions for Borrowers 31 Days or More Delinquent

The following outlines how to determine cash contributions and promissory note contributions for borrowers who are 31 days or more delinquent in their mortgage payments.

#### How to Determine the Cash Contribution for Borrowers 31 Days or More Delinquent

For borrowers who are 31 days or more delinquent, perform the following steps after you have verified their cash reserves:

1. Determine if the borrower's cash reserves exceed \$50,000.

If the borrower's cash reserves	Then
Are greater than \$50,000	Submit the short sale request or deed-in-lieu request to Freddie Mac for review.
Are equal to or less than \$50,000	Proceed to Step 2.

2. Determine if the borrower's cash reserves exceed the greater of \$10,000 or six times the total monthly mortgage payment (including principal, interest, and the monthly amounts for taxes and insurance premiums, regardless of whether you are escrowing for these items).

If the borrower's cash reserves	Then
Exceed the greater of \$10,000 or six times the total monthly mortgage payment	Proceed to Step 3.
Do not exceed the greater of \$10,000 or six times the total monthly mortgage payment	The borrower is not subject to a cash contribution.

3. Calculate 20 percent of the borrower's cash reserves. This is the cash contribution amount (not to exceed the total deficiency) you will request from the borrower.
4. Determine how to proceed based on the borrower's response to your initial request for a cash contribution.

If the borrower	Then
Agrees to the 20 percent cash contribution	You are delegated to approve the eligible short sale or deed-in-lieu of foreclosure. Refer to "How to Determine the Promissory Note Contribution for Borrowers 31 Days or More Delinquent" in this reference guide to determine if you will request a promissory note contribution.
Cannot or will not contribute 20 percent of his or her cash reserves	If the borrower cannot contribute 20 percent of his or her cash reserves, you may negotiate a lower level of contribution. If you negotiate and collect less than 20 percent of the borrower's cash reserves, then you must document in the mortgage file the specific financial circumstances that limit the borrower's ability to make the initially requested level of cash contribution (i.e., 20 percent of the borrower's cash reserves). The fact that a borrower is unwilling to contribute the amount you requested is not an acceptable reason for accepting a lower amount. If the borrower is unwilling to contribute an amount you deem acceptable, then the deed-in-lieu of foreclosure or short sale is not delegated and must be submitted to Freddie Mac. If you determine the borrower is unable to contribute at least \$500 toward the deficiency, then you must not collect a cash contribution. Refer to "How to Determine the Promissory Note Contribution for Borrowers 31 Days or More Delinquent" in this reference guide to determine if you will request a promissory note contribution.

**Examples for Borrowers 31 Days or More Delinquent:**

For the examples below, assume the total monthly mortgage payment (including principal, interest, and the monthly amounts for taxes and insurance premiums, regardless of whether you are escrowing for these items) equals \$1,200. Six times the total monthly mortgage payment of \$1,200 equals \$7,200.

Cash Reserves	Cash Reserves Exceed Greater of \$10,000 or Six Times the Total Monthly Mortgage Payment (\$7,200)?	Request Cash Contribution? If yes, how much is the initial cash contribution amount?	Borrower Agrees to Initial Cash Contribution Amount?	Servicer Delegated or Submit to Freddie Mac for Review?
Example 1: \$4,600 Workout Type: Short Sale Reason for financial hardship: Unemployment	No	No	N/A	Servicer Delegated
Example 2: \$11,000 Workout Type: Short Sale Reason for financial hardship: Reduction in income	Yes	Yes $\$11,000 \times 20\% = \$2,200$	Yes	Servicer Delegated
Example 3: \$15,000 Workout Type: Deed-in-Lieu of Foreclosure Reason for financial hardship: Business Failure	Yes	Yes $\$15,000 \times 20\% = \$3,000$	No	Based on the type of hardships the borrowers are experiencing in these examples, you are delegated to approve the deed-in-lieu of foreclosure only if the borrower is 90 days or more delinquent. In the context of these specific examples, if the borrower is 90 days or more delinquent, you may negotiate and collect less than 20 percent of the borrower's cash reserves, however you must document in the mortgage file the specific financial circumstances that limit the borrower's ability to make the initial cash contribution of 20 percent or his or her cash reserves. The fact that the borrower is unwilling to contribute the amount you requested is not an acceptable reason for accepting a lower amount. If the borrower is unwilling to contribute an amount you deem acceptable, then the deed-in-lieu of foreclosure is not delegated and must be submitted to Freddie Mac.
Example 4: \$35,000 Workout Type: Deed-in-Lieu of Foreclosure Reason for financial hardship: Divorce	Yes	Yes $\$35,000 \times 20\% = \$7,000$	No	

Cash Reserves	Cash Reserves Exceed Greater of \$10,000 or Six Times the Total Monthly Mortgage Payment (\$7,200)?	Request Cash Contribution? If yes, how much is the initial cash contribution amount?	Borrower Agrees to Initial Cash Contribution Amount?	Servicer Delegated or Submit to Freddie Mac for Review?
Example 5: \$50,000.01  Workout Type: Deed-in-Lieu of Foreclosure  Reason for financial hardship: Distant employment transfer				Submit to Freddie Mac for review.

**How to Determine the Promissory Note Contribution for Borrowers 31 Days or More Delinquent**

Perform the steps below to determine the promissory note contribution you will request for borrowers who are 31 days or more delinquent. All promissory notes must have a zero percent interest rate and the monthly payments must be rounded to the nearest dollar. The promissory note amount is the final negotiated monthly promissory note payment multiplied by the negotiated term (60 months or 120 months). **A promissory note is not required if the negotiated promissory note amount is less than \$5,000.**

1. Determine the borrower's monthly payment capacity, which is equal to 55 percent of gross monthly income. To do this, multiply the borrower's gross monthly income by 55 percent.

**Example:** If the borrower's gross monthly income is \$6,000, his monthly payment capacity equals \$6,000 times .55 or \$3,300.

2. Determine the borrower's monthly payment obligations. Refer to Guide Section 9208.4 for specific payment obligations to include in your calculation.

**Example:**

Future housing .....	\$1,050
Car payment.....	350
Credit cards.....	200
Child support .....	1,000
Car lease .....	300
Personal loans .....	125
<b>Total: .....</b>	<b>\$3,025</b>

- Determine the difference between the borrower's monthly payment capacity and monthly payment obligations.

**Example:**

Monthly payment capacity from Step 1:.....\$3,300

Monthly payment obligations from Step 2:.....3,025

Difference:.....\$275

If the borrower's monthly payment obligations	Then
Exceed his or her monthly payment capacity	Do not request a promissory note contribution from the borrower.
Do not exceed his or her monthly payment capacity	Proceed to Step 4.

- Divide the difference between the borrower's monthly payment capacity and monthly payment obligations by two, and round down to the nearest dollar.

**Example:** \$275 divided by 2 equals \$137.50, which rounded down to the nearest dollar is \$137.

- Refer to the following table to determine your next step:

If you are determining the promissory note contribution for	Then
A deed-in-lieu of foreclosure	Make an initial request for a five- or 10-year promissory note, with a monthly payment that does not exceed the amount calculated in Step 4. Proceed to Step 7.
A short sale	Calculate the net deficiency for the short sale. Subtract the borrower's cash contribution, if applicable, from the deficiency remaining after all proceeds and expenses from the short sale have been estimated. <b>Example:</b> If there is a \$20,000 deficiency for a short sale and the borrower has agreed to a \$500 cash contribution, the net deficiency is \$19,500. Proceed to Step 6.

6. Determine the term and monthly payment amount for the promissory note for the short sale. To do this, multiply the result from Step 4 by 60 months and 120 months to determine the total amounts for five- and 10-year promissory notes.

If the result		Then
For the 10-year promissory note does not exceed the total net deficiency		The term for the promissory note will be 10 years. The monthly payment amount is equal to the amount calculated in Step 4.
If the result	And	Then
For the 10-year promissory note exceeds the total net deficiency	The result for the five-year note does not exceed the total net deficiency	The term for the promissory note will be 10 years. The monthly payment amount is $1/120^{\text{th}}$ of the net deficiency amount rounded down to the nearest dollar.
	The result for the five-year note exceeds the total net deficiency	The term for the promissory note will be five years. The monthly payment amount is equal to $1/60^{\text{th}}$ of the net deficiency, rounded down to the nearest dollar.

**Example – Multiply the result from Step 4 by 60 and 120:**

\$137 multiplied by 60 months (five years) equals \$8,220

\$137 multiplied by 120 months (10 years) equals \$16,440

In our example, you would request a 10-year promissory note in the amount of \$16,440 with monthly payments of \$137.

**Additional Examples:**

In all of the following examples, assume the net deficiency for the short sale is \$19,500.

If the result from Step 4 was	Then	And the promissory note term and monthly payment would be
\$300	$\$300 \times 60 = \$18,000$ $\$300 \times 120 = \$36,000$	The result for the 10-year promissory notes exceeds the net deficiency, but the result for the five-year promissory note does not. In this case you would request a 10-year promissory note with a monthly payment of $1/120^{\text{th}}$ of the net deficiency rounded down to the nearest dollar, or \$162.  The 10-year promissory note will be in the amount of \$19,440 with monthly payments of \$162.
\$400	$\$400 \times 60 = \$24,000$ $\$400 \times 120 = 48,000$	The result for the 10-year promissory notes exceeds the net deficiency, and the result for the five-year promissory note also exceeds the net deficiency. In this case you would request a five-year promissory note with a monthly payment of $1/60^{\text{th}}$ of the net deficiency rounded down to the nearest dollar, or \$325.  The five-year promissory note will be in the amount of \$19,500 with monthly payments of \$325.

7. Determine how to proceed based on the borrower's response to your request for a promissory note contribution.

If the borrower	Then
Agrees to the promissory note contribution request	You are delegated to approve the eligible short sale or deed-in-lieu of foreclosure.
Does not agree to the promissory note contribution request	You may accept a lesser promissory note obligation but you must document and note in the mortgage file the specific financial circumstances that limit the borrower's ability to make the initial promissory note contribution. You must submit the short sale request or deed-in-lieu request to Freddie Mac if the borrower is unwilling to make a promissory note contribution that you deem acceptable.