

Introduction

The Freddie Mac Standard Modification provides borrowers—who are ineligible for the Home Affordable Modification program (HAMP) or have previously defaulted on a HAMP modification and are 60 days or more delinquent, or current or less than 60 days delinquent and in imminent default (and residing in an owner-occupied property)—an option to resolve their delinquency and sustain homeownership. Eligible borrowers will receive standard modification terms where the interest rate more closely aligns with current market conditions and the term is extended to 480 months, provided the terms reduce the eligible borrower's first-lien monthly principal and interest mortgage payment by at least 10 percent and the borrower's resulting housing expense-to-income ratio is greater than or equal to 10 percent or less than or equal to 55 percent.

All Freddie Mac Servicers are delegated to approve a Freddie Mac Standard Modification per the *Single-Family Seller/Servicer Guide* (Guide) Sections B65.11–B.65.26. If you have any questions, contact your servicing representative or 800-FREDDIE.

This reference guide:

- Defines a [Loan Modification](#)
- Identifies [ineligible criteria for Standard Modification](#)
- Illustrates the [Standard Modification Process Timeline](#)
- Conveys how to [solicit](#) and [evaluate](#) a borrower
- Describes [eligibility](#) and [documentation](#) requirements
- Explains how to determine [estimated](#) and [final](#) modification terms
- Outlines [Trial Period](#) guidelines and [servicer incentive payments](#)

What is a Loan Modification?

A loan modification is a written agreement that the Servicer enters into with the borrower that permanently changes one or more of the original terms of the Note, such as:

- An increase in the amount of the unpaid principal balance (UPB) caused by capitalization of interest or non-interest arrearages, escrow amounts and/or other advances
- A change in the Note rate
- A change in the monthly payment
- A change in the maturity date
- A forbearance of a portion of the principal balance (no write-off or permanent reduction of the UPB of the mortgage is allowed)
- A change in the product type (i.e., adjustable-rate mortgage to a fixed-rate mortgage)

Ineligible Criteria for Standard Modification

Mortgages ineligible for a Freddie Mac modification include:

- FHA/VA and Guaranteed Rural Housing loans
- Loans subject to full recourse or indemnification agreements
- Loans subject to active non-routine litigation

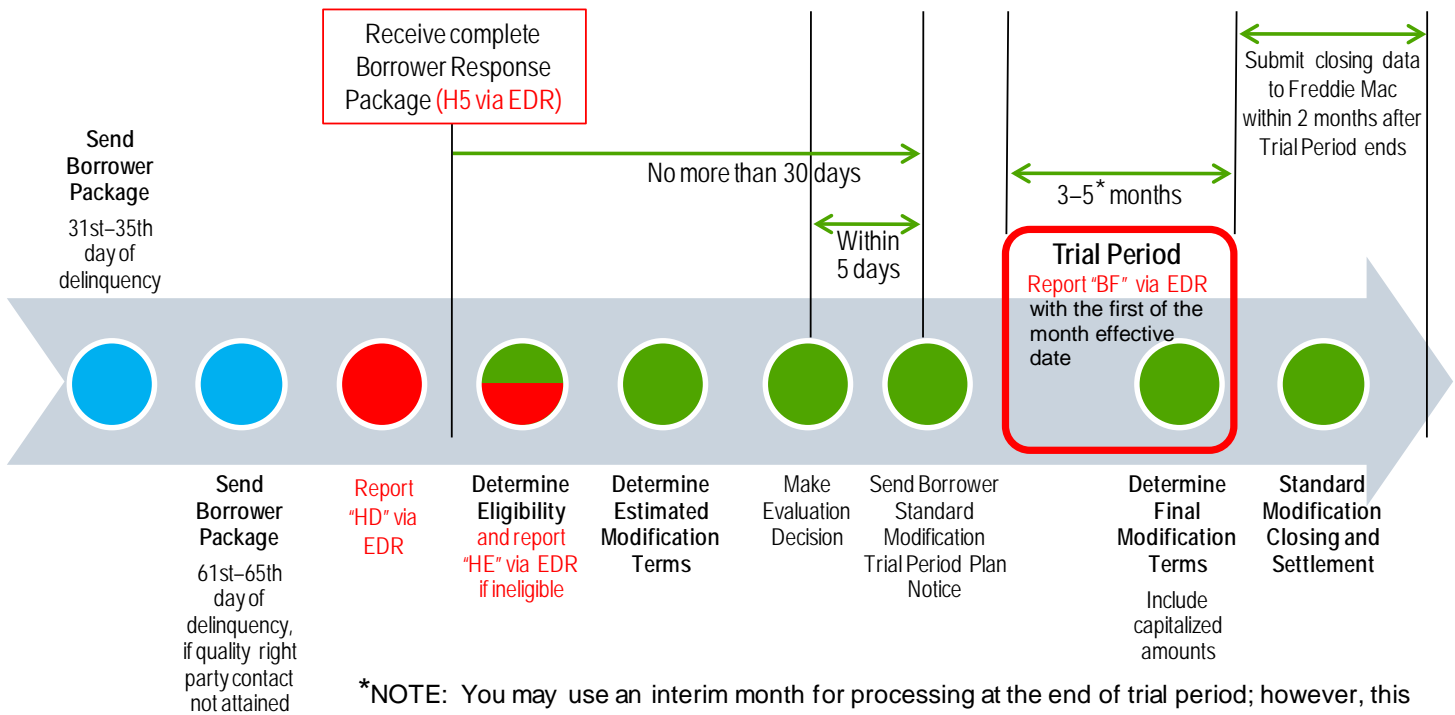
- Mortgages secured by non-owner occupied properties (i.e., second homes and investment properties) where the borrower is current or less than 60 days delinquent
- Any mortgage that does not meet the eligibility requirements is not eligible for you, the Servicer, to approve under delegated authority

Standard Modification Process Timeline

The Standard Modification process is as follows:

- Solicit Delinquent Borrowers
- Evaluate
- Determine Eligibility and Estimated Modification Terms
- Establish Trial Period
- Determine Final Modification Terms
- Loan Modification Closing and Settlement

The following diagram illustrates the Standard Modification process and associated timelines.



*NOTE: You may use an interim month for processing at the end of trial period; however, this month is not counted as part of the trial period and therefore no payment is required during this month. In addition, use of an interim month does not extend the Standard Modification settlement requirement of being within two months. The interim month should follow the trial period prior to the first modified payment due date. Borrowers in trial plans who subsequently file for bankruptcy may have the trial period extended up to an aggregate of 5 months.

Soliciting the Borrower

Borrower solicitation must follow the guidelines in Guide Chapter 64.6. If a borrower is 31 days or more delinquent, you must send the first Borrower Solicitation Package between the 31st and 35th day of delinquency unless you use a statistical model tool (Collection and Loss Mitigation Tool) to determine the mortgage is at low risk for deteriorating delinquency. You must send the second Borrower Solicitation Package between the 61st and 65th day of delinquency if quality right party contact was not achieved or there is no borrower response from the first solicitation. If you have achieved quality right party contact and obtained from the borrower a promise to pay the delinquent amount by a specific date, not to exceed 30 days, you are not required to send a Borrower Solicitation Package. However, if the borrower fails to honor the promise to pay, you must resume collection efforts, including sending a Borrower Solicitation Package.

A Borrower Solicitation Package consists of the following documents:

- Exhibit 1131, *Borrower Solicitation Letter – 31 Days Delinquent* (sent to borrowers between the 31st and 35th day of delinquency), or
- Exhibit 1161, *Borrower Solicitation Letter – 61 Days Delinquent* (sent to borrowers between the 61st and 65th day of delinquency) if quality right party contact has not been achieved or the borrower has not responded to the first Borrower Solicitation Package;
- Form 710, *Uniform Borrower Assistance*; and Internal Revenue Service (IRS) Form 4506T-EZ, Short Form, Request for Individual Tax Return Transcript

You may use a customized equivalent of Exhibits 1131 and 1161 and Form 710 provided it contains the same level of specificity as the templates Freddie Mac provides.

Note: When soliciting borrowers who may be eligible for HAMP, you must include Form 710A, *Government Monitoring Data*, in the Borrower Solicitation Package. Do not include the form if the borrower does not meet the basic eligibility criteria for HAMP (e.g., owner-occupied, originated prior to January 1, 2009, 1-4 unit single-family mortgage). See Guide Section C65.4(a) for more information.

Evaluating the Borrower

Before evaluating a borrower for a Standard Modification, you must follow the evaluation hierarchy outlined in Guide Section 64.6, *Evaluation Hierarchy, Borrower Solicitation and Communication*.

In general, in order to consider a borrower for a Standard Modification the following criteria must be met:

- For a current borrower, determination that a refinance or relief refinance is not available
- Determination that a reinstatement or relief option is not feasible
- Determination of ineligibility, default or rejection for HAMP per Guide Chapter C65

You should consider a borrower for a Standard Modification if the borrower:

- Lacks sufficient monthly income to support current mortgage payments and if the mortgage is not escrowed, any other amounts due related to the mortgage
- Wants to retain ownership of the property
- Suffers or suffered an eligible hardship

Refer to Guide Section 65.17, *Verifying a Borrower's Hardship*, for a description of eligible hardships and the associated documentation requirements that the borrower must provide to document it.

Eligibility Requirements

The following table highlights the borrower, property, mortgage, delinquency, and housing expense-to-income ratio eligibility requirements for a Standard Modification. For more information on these eligibility requirements refer to Guide Section B65.13.

| Standard Modification Eligibility Requirements | |
|--|--|
| Borrower | <p>Borrower must be:</p> <ul style="list-style-type: none"> ▪ 60 days or more delinquent, or ▪ Current or less than 60 days delinquent, occupy the property as a primary residence, and determined to be in imminent default in accordance with Guide Section B65.15 <p>Note: Verify borrower is occupying primary residence with a credit report.</p> <p>Refer to Guide Section B65.15, <i>Determining Imminent Default for a Freddie Mac Standard Modification</i>, for the imminent default evaluation process and requirements.</p> <p>Borrower must demonstrate:</p> <ul style="list-style-type: none"> ▪ Eligible hardship per Guide Section 65.17 that is causing or expected to cause a long term or permanent decrease in income and expenses. ▪ Stable verified income to support a monthly payment <p>Note: Unemployment is considered a temporary hardship and unemployment compensation is <u>not</u> a source of income.</p> <p>Borrowers must be determined ineligible for HAMP or received, but defaulted on, a HAMP Trial Period Plan or a HAMP modification. Borrowers that defaulted on a prior HAMP modification or non-HAMP modification are eligible for consideration for a Standard Modification, unless:</p> <ul style="list-style-type: none"> ▪ The effective date of the prior modification is within 12 months of the evaluation for the Standard Modification; and ▪ The monthly principal and interest payment on the mortgage was reduced by more than 10 percent as a result of the prior modification. <p>Note: The above 12 month and 10 percent limitations only apply to prior modifications. It does not apply to a default on a prior HAMP Trial Period Plan.</p> |
| Property | <p>The existing mortgaged property must be:</p> <ul style="list-style-type: none"> ▪ Owner-occupied (primary residence) ▪ Non-owner occupied* (second home or an investment property) <p>*Note: Property may be vacant but not condemned per Guide Section 65.35.</p> |

| Standard Modification Eligibility Requirements (cont'd) | |
|---|--|
| Mortgage | <p>The existing mortgage must meet the following criteria:</p> <ul style="list-style-type: none"> ▪ Originated 12 months prior to the evaluation date of the Standard Modification ▪ Conventional first-lien owned in whole or part by Freddie Mac ▪ Pre-modified mark-to-market loan-to-value (MTMLTV) ratio greater than or equal to 80 percent <p>The pre-modification MTMLTV ratio is the gross unpaid principal balance (UPB) of the current loan at the time of evaluation, which is calculated as the interest-bearing plus non-interest-bearing (principal forbearance) UPB, divided by the property value obtained in accordance with Guide Section B65.16, <i>Property Valuation Requirements</i>.</p> <p><u>Example:</u></p> <ul style="list-style-type: none"> ▪ Interest-bearing and non-interest-bearing UPB = \$200,000 ▪ Property valuation = \$100,000 <p style="text-align: center;">$\\$200,000 \div \\$100,000 = 200\%$ MTMLTV ratio</p> <p>The estimated post modification principal and interest payment must be at least 10 percent less than the current principal and interest payment.</p> <p>Note: When determining if the modified mortgage results in a principal and interest payment reduction of 10 percent if borrower participates in the Servicemembers Civil Relief Act (SCRA), you must consider the principal and interest payment in effect prior to granting the SCRA relief instead of the temporary reduced monthly payment based on the SCRA interest rate cap. If the modified mortgage is an adjustable rate mortgage or an interest only mortgage, you must consider the monthly payment due (whether that payment due is a principal and interest payment or an interest only payment) in effect at the time you determine eligibility for a Standard Modification Trial Period Plan.</p> |
| Housing Expense-to-Income Ratio | <p>The estimated post-modification housing expense-to-income ratio* must be $\geq 10\%$ and $\leq 55\%$. For primary residences, calculate by taking the monthly PITIAS payment, including the borrower-paid mortgage insurance, divided by monthly gross income as defined in Guide Section 65.18(c). Refer to Guide Section B65.13(c) for requirements for second homes and investment properties.</p> <p>*Note: The estimated post-modification housing expense-to-income ratio is based on the estimated principal and interest payment determined at the time of evaluation. The estimated principal and interest payment is based on the estimated interest-bearing UPB that you expect the borrower to have at the time of modification following the trial period. The estimated interest-bearing UPB is based on estimated capitalization amounts of interest and non-interest arrearages that accrue during the trial period.</p> |

Exceptions

If a borrower does not meet the eligibility requirements, he/she is ineligible for a Standard Modification under your delegated authority. However, if you believe that the borrower's circumstances warrant additional consideration for a Standard Modification, then complete and submit the exception request Exhibit 95, *Freddie Mac Standard Modification Exception Transmittal*, to Freddie Mac. You should also use this exception request if a risk of property ownership exists such as a tax lien. You can download Exhibit 95 at FreddieMac.com/singlefamily/service/docs/guide-exhibit-95-effective-01-01-12.xls.

You may send the following exceptions to Freddie Mac for consideration:

- MTMLTV ratio is less than 80 percent
- Borrower’s hardship is not covered under the definition of eligible hardship in Guide Section 65.17
- Risk of property ownership
- The effective date of the prior modification is within 12 months of the evaluation for the Standard Modification and the monthly principal and interest payment on the mortgage was reduced by more than 10 percent as a result of the prior modification
- Standard Modification modified payment does not result in a payment reduction of at least 10 percent
- Mortgages that have been previously modified two or more times

Property Valuation Requirements

The following table outlines the property valuation requirements for a Standard Modification. The property valuation must be less than 90 days old on the date you evaluate the borrower for a Freddie Mac Standard Modification. Use the value you obtain to determine the MTMLTV ratio.

| If... | Then use property value in... |
|--|--|
| The mortgage is current or less than 31 days delinquent... | <ul style="list-style-type: none"> ▪ Freddie Mac BPOdirect® at https://www.bpodirect.com per Guide Section 65.39, or ▪ Home Value Estimate Explorer® (HVE) point value estimate* through a Freddie Mac distributor. This estimate must include a Forecast Standard Deviation no greater than .20 <p>Note: Freddie Mac BPO or appraisal less than 90 days old on the date of the borrower evaluation may be used for property valuation.</p> <p>*1-unit Single-Family attached or detached dwellings, condominium, or PUD units only.</p> |
| The mortgage is 31 or more days delinquent... | <ul style="list-style-type: none"> ▪ Workout Prospector, or ▪ Automated Valuation Model (AVM) at FreddieMac.com/singlefamily/service/mha_modification.html, or ▪ Freddie Mac BPOdirect at https://www.bpodirect.com per Guide Section 65.39, if a value above is not available |

Documentation Requirements

A complete Borrower Response Package per Guide Section 64.6 is required for all borrowers. The information provided in the Borrower Response Package will assist you in determining modification eligibility and, if applicable, make a determination regarding imminent default.

A complete Borrower Response Package includes the following:

- Completed and signed Form 710, *Uniform Borrower Assistance*
- Hardship documentation per Guide Section 65.17
- Income documentation per Guide Section 65.18
- Completed and signed IRS Form 4506T-EZ or 4506-T if borrower is self-employed and files income tax based on a fiscal calendar year
- If applicable, imminent default hardship documentation per Guide Section B65.15(e) for borrowers less than 60 days delinquent

Borrowers that must document an imminent default hardship may be required to provide additional hardship documentation.

Determine Eligibility for a Trial Period Plan Based on Estimated Modification Terms

If the gross UPB before capitalization creates an MTMLTV ratio that is greater than or equal to 80 percent (as outlined in the borrower eligibility section of this document), you are delegated the authority to determine eligibility for a trial period plan based on the estimated modification terms and to enter into a modification based on the final modification terms. If the borrower completes the trial period plan successfully, it is not necessary to re-underwrite the borrower to determine the housing expense-to-income ratio is between 10 and 55 percent and a modified principal and interest payment reduction of at least 10%.

You will perform this exercise during your evaluation of a borrower for a trial period plan and then again, to determine the final modification terms, when the final capitalized amounts are known. Note, reasonable changes in capitalization amounts between what was estimated at the time of evaluation for a trial period plan and the final Standard Modification terms may not impact the previous eligibility determination.

Complete the steps in the table to determine eligibility for a trial period plan based on estimated modification terms.

| Determine Eligibility for a Trial Period Plan Based on Estimated Modification Terms | | | |
|---|--|--|---|
| Step | Action | | |
| 1 | Calculate the pre-modification (pre-capitalization) MTMLTV ratio by dividing the sum of the interest-bearing and non-interest bearing UPB by the property valuation specified in Guide Section B65.16. | | |
| 2 | If the pre-modification(pre-capitalization) MTMLTV ratio is: | | |
| | < 80% | ≥ 80% and ≤ 115% | > 115% |
| | Review exception guidelines and submit an exception request if prudent. | The mortgage is not eligible for forbearance. Follow steps 3-5 and then proceed to step 8. | The mortgage is eligible for forbearance. Go to step 3. |
| 3 | Capitalize known and estimated arrearages per the requirements of Guide Section B65.23. | | |
| 4 | Adjust interest rate to the fixed-rate published on the Standard Modification Interest Rate web page in effect on the date of the borrower's evaluation. Obtain the current Standard Modification Interest Rate at: www.FreddieMac.com/singlefamily/service/standardmodrate.html . Freddie Mac reserves the right to adjust the interest rate based on market conditions. Note: The interest rate that is used for the final modification must be the same interest rate used to evaluate the borrower for a trial period plan. | | |
| 5 | Extend amortization to 480 months from the modification effective date. | | |
| 6 | If the pre-modification(pre-capitalization) MTMLTV ratio is greater than 115 percent, calculate these two amounts: <ul style="list-style-type: none"> ▪ Principal forbearance required to create a post-modification(post-capitalization) interest-bearing MTMLTV ratio of 115 percent ▪ 30 percent of the estimated post-modification(post-capitalization) gross UPB. | | |
| 7 | Choose the lesser of the two amounts in Step 6 as the forbearance amount. Note: Interest will not accrue on the forbore (or deferred) principal. Deferred principal is payable upon maturity of the loan modification, sale or transfer of the property, or refinance. | | |
| 8 | Calculate the estimated modified principal and interest payment. | | |

| Determine Eligibility for a Trial Period Plan Based on Estimated Modification Terms | |
|---|--|
| Step | Action |
| 9 | <p>Is the estimated modified principal and interest payment at least 10 percent less than the current principal and interest payment?</p> <ul style="list-style-type: none"> ▪ If yes, proceed to step 10. ▪ If no, the mortgage does not meet eligibility for a Standard Modification. Review exception guidelines and submit an exception request if prudent or seek other alternatives to foreclosure. |
| 10 | <p>Is the post-modification housing expense-to-income ratio is greater than or equal to 10% and less than or equal to 55%?</p> <ul style="list-style-type: none"> ▪ If yes, add the estimated principal and interest payment to the required escrow payment to arrive at the trial period plan payment. ▪ If no, the mortgage does not meet eligibility for a Standard Modification. Review exception guidelines and submit an exception request if prudent or seek other alternatives to foreclosure. <p>Note: To determine the post modification housing expense-to-income ratio for all property types, see Post-modification Housing Expense -to-Income Ratio Calculations.</p> |

Post Modification Housing Expense-to-Income Ratio Calculations

Follow the steps below to calculate the post-modification housing expense-to-income ratio. You will use this value in the final eligibility step (Step 10) for a Standard Modification.

Step 1 – Calculate the PITIAS payment

The PITIAS is the sum of the following:

- A modified monthly principal and interest payment
- Monthly pro rata amount for real estate taxes, plus applicable monthly escrow cushion
- Monthly pro rata amount for property and flood insurance, if applicable, plus applicable monthly escrow cushion
- Monthly pro rata amount of homeowner's association dues, Condominium Unit or cooperative unit maintenance fees, and ground rent, as applicable, and
- If applicable, the projected monthly escrow shortage payment. See Guide Sections B65.23(b) and C65.6(d)).

Step 2 – Calculate the post-modification housing expense-to-income ratio as follows:

| Property Type | Calculations |
|---|--|
| Primary Residence | PITIAS Payment ÷ Monthly Gross Income |
| Second Home | (PITIAS payment of the subject property + PITIAS payment of the borrower's primary residence) ÷ Monthly Gross Income |
| Investment Property with Positive or Zero Net Rental Income | PITIAS payment of primary residence ÷ (Monthly gross income + Net rental income) |
| Investment Property with Negative Net Rental Income | (PITIAS payment of primary residence + Negative net rental income) ÷ Monthly Gross Income |

Example 1 – Without Forbearance Calculations

- Gross UPB (interest bearing + non-interest bearing) before capitalization: \$190,000
- Property value: \$180,000
- Current Principal and Interest Payment: \$1080.12
- Taxes: \$100.00
- Insurance: \$50.00
- Mortgage Insurance: \$25.00
- Homeowner Association Fees: \$25.00
- Escrow Shortage: \$0.00
- Borrower’s gross monthly income: \$2800.00
- Primary Residence
- Interest Arrearage: \$7,000
- Tax Advance: \$3,000

Step 3 – Calculate the pre-modified (pre-capitalized) MTMLTV ratio

$$\$190,000 \div \$180,000 = 105.6\% \text{ Pre-modified MTMLTV Ratio}$$

Step 4 – The pre-modification (pre-capitalization) MTMLTV ratio is $\geq 80\%$ and $\leq 115\%$

105.6% is not greater than 115%; therefore, the mortgage is not eligible for forbearance. Follow Steps 3-5 and then proceed to Step 8.

Step 5 – Capitalize known and estimated arrearages

| | |
|--|--|
| <p>\$ 7,000 (interest)</p> <p><u>\$ 3,000</u> (tax advance)</p> <p>\$10,000 Total Capitalization</p> | <p>\$190,000 (gross UPB before capitalization)</p> <p><u>+ \$ 10,000 (Total Capitalization)</u></p> <p>\$200,000 = Estimated Post-modification Gross UPB</p> |
|--|--|

Step 6 – Adjust the interest rate to the fixed-rate published on the Standard Modification Interest Rate web page that is in effect on the date of the borrower’s evaluation. For this example, use a 5 percent fixed-rate.

Step 7 – Extend amortization to 480 months

Step 8 – Calculate the estimated modified principal and interest payment

Using the estimated post-modification gross UPB of \$200,000, calculated in step 3, a 5 percent fixed interest rate, and a new amortization term of 480 months, the estimated modified principal and interest payment is **\$964.39**. This amount does not include escrow amounts

Step 9 – Is the estimated modified principal and interest payment at least 10 percent less than the current principal and interest payment?

Current principal and interest payment of \$1080.12 X 10% = 108.01

$$\begin{array}{r}
 \$1080.12 \\
 - \$ 108.01 \text{ 10\% reduction of current principal and interest payment} \\
 \hline
 \$ 972.11 = \text{principal and interest payment after 10\% reduction}
 \end{array}$$

The estimated modified principal and interest payment of \$964.39 is **less than** a \$972.11 principal and interest payment after a 10% reduction. Proceed to step 10.

Step 10 – Is the post-modification housing expense-to-income ratio greater than or equal to 10% and less than or equal to 55%?

Post-modification housing expense-to-income ratio = PITIAS ÷ Borrower’s gross monthly income

Calculate the PITIAS:

| | |
|---------------------------------|------------------|
| Estimated P&I | \$ 964.39 |
| + Taxes | \$ 100.00 |
| + Insurance | \$ 50.00 |
| + Mortgage Insurance | \$ 25.00 |
| + Homeowner Association Fees | \$ 25.00 |
| + Escrow Shortage | \$ 0.00 |
| Post Modification PITIAS | \$1164.39 |

\$1164.39 (PITIAS) ÷ 2800 (borrower’s gross monthly income) = 42% Post-modification housing expense-to-income ratio

The post-modification housing expense-to-income ratio of 42% is greater than or equal to 10% and less than or equal to 55%. You may proceed to processing the trial period plan.

The trial period payment is \$1139.39 because homeowner association fees are not escrowed.

Examples 2 and 3 – Forbearance Calculations

- Gross UPB (interest bearing + non-interest bearing) before capitalization: \$190,000
- Taxes: \$100.00
- Insurance: \$ 50.00
- Mortgage Insurance: \$25.00
- Homeowner Association Fees: \$25.00
- Escrow Shortage: \$0.00
- Borrower’s gross monthly income: \$2800.00
- Primary Residence
- Interest Arrearage: \$7,000
- Tax Advance: \$3,000
- Current principal and interest payment:

Example 2 = \$776.34

Example 3 = \$1,164.51

- Property value: **Example 2 = \$100,000**

Example 3 = \$150,000

Step 1 – Calculate pre-modified (pre-capitalized) MTMLTV ratio

| <i>Example 2</i> |
|---|
| \$190,000 (gross UPB before capitalization) ÷ \$100,000 (property value) 190% Pre-modified MTMLTV ratio |

| <i>Example 3</i> |
|---|
| \$190,000 (gross UPB before capitalization) ÷ \$150,000 (property value) 126.7% Pre-modified MTMLTV ratio |

Step 2 – The pre-modification(pre-capitalized) MTMLTV ratio is ≥ 115%

190% is greater than 115%; therefore, eligible for forbearance.

126.7% is greater than 115%; therefore, eligible for forbearance.

Step 3 – Capitalize known and estimated arrearages

| | |
|--------------------------------------|--|
| \$ 7,000 (interest) | \$190,000 (gross UPB before capitalization) |
| \$ 3,000 (tax advance) | + \$ 10,000 (total capitalization) |
| <u>\$10,000 Total Capitalization</u> | <u>\$200,000 = Estimated Post-modification Gross UPB</u> |

Step 4 – Adjust the interest rate to the fixed-rate published on the Standard Modification Interest Rate web page that is in effect on the date of the borrower’s evaluation. For this example, use a 5 percent fixed-rate.

Step 5 – Extend amortization to 480 months

Step 6 – If pre-modified (pre-capitalized) MTMLTV ratio is greater than 115 percent, calculate these two amounts:

A. Forbearance amount to achieve 115 percent post-modified MTMLTV ratio

| |
|--|
| $115\% \times \$100,000$ (property valuation) = \$115,000 \$200,000 (post-modification gross UPB) $\frac{-115,000}{\$ 85,000}$ (Forbearance amount A) |
|--|

| |
|--|
| $115\% \times \$150,000$ (property valuation) = \$172,500 \$200,000 (post-modification gross UPB) $\frac{-172,500}{\$ 27,500}$ (Forbearance amount A) |
|--|

B. Forbearance amount at 30 percent of estimated post-modification gross UPB

| |
|--|
| \$200,000 (estimated post-modification post-capitalized gross UPB) $\frac{\times 30\%}{\$ 60,000}$ (Forbearance amount B) |
|--|

| |
|--|
| \$200,000 (estimated post-modification post-capitalized gross UPB) $\frac{\times 30\%}{\$ 60,000}$ (Forbearance amount B) |
|--|

Step 7 – Choose the lesser of the two amounts (A or B) as the forbearance amount

| |
|--|
| In Example 2, \$60,000 must be forborne, as it is the lesser of the two forbearance amount calculations. \$200,000 (Estimated post-modification post-capitalized gross UPB) $\frac{- 60,000}{\$140,000}$ (forbearance amount B) (Estimated post-modification interest-bearing UPB) $140,000 \div 100,000 = 140\%$ Post-modification MTMLTV ratio |
|--|

| |
|---|
| In Example 3, \$27,500 must be forborne, as it is the lesser of the two forbearance amount calculations. \$200,000 (Estimated post-modification post-capitalized gross UPB) $\frac{- 27,500}{\$172,500}$ (forbearance amount A) (Estimated post-modification interest-bearing UPB) $115\% =$ Post-modification MTMLTV ratio |
|---|

Step 8 – Calculate the estimated modified principal and interest payment

| |
|---|
| \$675.08 Estimated Modified Principal & Interest Payment (\$140,000 interest-bearing UPB) |
|---|

| |
|---|
| \$831.79 Estimated Modified Principal & Interest Payment (\$172,500 interest-bearing UPB) |
|---|

Step 9 – Is the estimated modified principal and interest payment at least 10 percent less than the current principal and interest payment?

Current principal and interest payment of \$776.34 x 10% = \$77.63, a 10% reduction of current principal and interest payment

| |
|--|
| \$ 776.34 |
| <u>- \$ 77.63</u> |
| \$ 698.71 = principal and interest payment after 10% reduction |

The estimated modified principal and interest payment of \$675.08 **is less than** a \$698.71 principal and interest payment after a 10% reduction. Proceed to step 10.

Current principal and interest payment of \$1,164.51 x 10% = \$116.45, a 10% reduction of current principal and interest payment

| |
|--|
| \$ 1,164.51 |
| <u>- \$ 116.45</u> |
| \$ 1,048.06 = principal and interest payment after 10% reduction |

The estimated modified principal and interest payment of \$831.79 **is less than** a \$1,048.06 principal and interest payment after a 10% reduction. Proceed to step 10.

Step 10 – Is the post-modification housing expense-to-income ratio greater than or equal to 10% and less than or equal to 55%?

Post modification housing expense-to-income ratio = PITIAS ÷ Borrower’s gross monthly income

Calculate the PITIAS payment:

| | |
|---------------------------------|-----------------|
| Estimated P&I | \$675.08 |
| + Taxes | \$100.00 |
| + Mortgage Insurance | \$ 25.00 |
| + Insurance | \$ 50.00 |
| + HOA Fees | \$ 25.00 |
| + Escrow Shortage | \$ 0.00 |
| Post-modification PITIAS | \$875.08 |

Post-modification housing expense-to-income ratio:
 \$875.08 (PITIAS) ÷ 2800 (borrower’s gross monthly income) = 31% which is ≥ 10% and ≤ 55%

The post-modification housing expense-to-income ratio of 31% is greater than or equal to 10% and less than or equal to 55%. You may proceed to processing the trial period plan.

The trial period payment is \$850.08 because homeowner association fees are not escrowed.

| | |
|---------------------------------|-------------------|
| Estimated P&I | \$831.79 |
| + Taxes | \$100.00 |
| + Mortgage Insurance | \$ 25.00 |
| + Insurance | \$ 50.00 |
| + HOA Fees | \$ 25.00 |
| + Escrow Shortage | \$ 0.00 |
| Post-modification PITIAS | \$1,031.79 |

Post-modification housing expense-to-income ratio:
 \$1,031.79 (PITIAS) ÷ 2800 (borrower’s gross monthly income) = 37% which is ≥ 10% and ≤ 55%

The post-modification housing expense-to-income ratio of 37% is greater than or equal to 10% and less than or equal to 55%. You may proceed to processing the trial period plan.

The trial period payment is \$1006.79 because homeowner association fees are not escrowed.

Trial Period

Eligible borrowers are required to successfully complete a three-month trial period prior to closing the Standard Modification to demonstrate their ability and willingness to sustain the modified payment amount. If a borrower defaults during the trial period, the borrower is no longer eligible to be modified.

You may use an interim month at the end of the trial period plan for processing; however, no payment is required during the interim month.

Refer to Guide Section B65.19 for requirements related to the Standard Modification Trial Period.

Processing the Trial Period Plan Offer

You must send the borrower a borrower evaluation notice relaying your decision within five days of the evaluation decision but no later than 30 days of receipt of a complete Borrower Response Package. If the borrower is approved for Standard Modification, you must send a Standard Modification Trial Period Plan Notice. A model letter is available in Guide Exhibit 93, *Evaluation Model Clauses*, or you may use your own proprietary trial period plan notice provided it reflects the same level of specificity.

You are authorized to make the following changes to the Standard Modification Trial Period Plan Notice:

- Require borrower cash contributions be used to pay for expenses and delinquent amounts that may not be capitalized
- Changes necessary to be in compliance with applicable laws and regulations
- Waive any debt related to a previously discharged Chapter 7 bankruptcy
- Delete language to prevent an escrow account from being established, if applicable

Determining the Effective Date and Due Date of the Trial Period Plan

Determine the trial period plan effective date and the due date of the first trial period plan payment as follows:

| Borrower Trial Period Plan Evaluation Notice Send Date | Trial Plan Effective Date | Trial Plan Due Date of First Trial Payment |
|---|---|---|
| On or before 15th of the month | First day of the next month | First day of the next month |
| After the 15th of the month | First day of the month after the next month | First day of the month after the next month |

If after sending the Standard Modification Trial Period Plan Notice the borrower agrees to begin the trial period earlier than the effective date requirements stated in the table above, you may begin the trial period on the first day of the next month.

Bankruptcy

Borrowers in a trial period plan who subsequently file for bankruptcy may not be denied a modification on the basis of the bankruptcy filing. You and your counsel must:

- Work with borrower and borrower’s counsel to obtain court and/or trustee approvals required in accordance with local court rules and procedures
- Extend the trial period plan as needed up to an aggregate of five months plus an interim reporting month to accommodate delays in obtaining court approval or receiving full remittance of borrower’s trial period payments when made to a trustee. You are not permitted to extend the trial period beyond two months or a total of a five-month trial period.
- Notify borrower if a trial extension is permitted. The borrower must make trial period payments for each month of the trial period, including any extension month in order to remain eligible for a modification.

Chapter 13

If a borrower is in an active Chapter 13 bankruptcy and has made post-petition payments on the mortgage in the amount required by the trial period plan, you should not:

- Object to confirmation of borrower’s Chapter 13 plan, or
- Move for relief from automatic bankruptcy stay, or
- Move for dismissal of a Chapter 13 case

Chapter 7

Borrowers who have received a Chapter 7 bankruptcy discharge in a case involving the mortgage and who did not reaffirm the mortgage debt under applicable law are eligible for the Standard Modification.

Modification is contingent on the bankruptcy court’s approval of the modification and release of the mortgage from the bankruptcy plan prior to the due date of the first modified mortgage payment. You should modify the trial period plan notice accordingly to reflect the fact that a borrower’s eligibility for a modification is conditioned on court and/or trustee approval to remove the mortgage from the bankruptcy prior to modification.

Servicing Technology and Reporting

You must use Workout Prospector® to process borrower evaluations for Standard Modification unless otherwise directed by Freddie Mac. Review the [Using Workout Prospector User Guide](#) for detailed information about how to enter and transmit data using Workout Prospector.

Exhibit 82, *EDR Transmission Code List*, includes Standard Modification default action codes. Use the table below to identify what default action codes you are required to report by the third business day of each month for the previous month’s activity.

| EDR Codes | | | |
|-----------|---|---|--|
| Code | Name | Use to report borrower... | Report code and the ... |
| H5 | Complete Borrower Response Package Received | Complete Borrower Response Package Received | Date you received the complete Borrower Response Package, one time, in the month following when the event took place |
| HD | Modification in Review | Is being evaluated for the Standard Modification. | Date you begin reviewing the loan, one time, in the month following the month the event took place. |
| HE | Ineligible for Modification | Is ineligible for a Standard Modification. | Date you made the decision, one time, in the month following the month the event took place. |
| BF | Standard Modification Trial Period | Has entered a Trial Period for the Standard Modification. | Trial period start date each month during the trial period. Note: Do not report a 09 with this code. |

Once the trial period has completed successfully, ensure the modified mortgage complies with the conditions outlined in Guide Section B65.20. Loan settlement guidelines for expenses, delinquent amounts and capitalization rules are located in Guide Sections B65.23-24. Submit Form 1128, *Loss Mitigation Transmittal Worksheet*, to Freddie Mac once the workout is complete.

Determining the Final Modification Terms

As you prepare the final Standard Modification agreement, you must adjust the terms of the mortgage by completing the steps in the table. A borrower who successfully completes a trial period plan may not be denied a modification due to changes in the amount of capitalization. Reasonable changes in capitalization amounts between what was estimated at the time of evaluation for a trial period plan and the final Standard Modification terms are permitted.

The final terms of the modified mortgage must be the fixed interest rate published on the Standard Modification Interest Rate web page that is in effect on the date of the borrower's evaluation and a 480-month, fully amortizing mortgage.

| How to Determine the Final Modification Terms | |
|---|---|
| Step | Action |
| 1 | Calculate the pre-modification (pre-capitalized) MTMLTV ratio as of the accounting cycle prior to the due date of the first modified payment. Note: The pre-modification MTMLTV ratio is determined by dividing the sum of the interest-bearing and non-interest bearing UPB by the property valuation specified in Guide Section B65.16. |
| 2 | If the pre-modification MTMLTV ratio is greater than or equal to 80 percent but less than 115 percent, the mortgage is not eligible for forbearance. Follow Steps 3-5 and then proceed to Step 8. |
| 3 | Capitalize arrearages per the requirements of Guide Section B65.23 to arrive at the post-modification gross UPB. |
| 4 | Adjust the interest rate. The interest rate that is used for the final modification must be the same interest rate used for the trial period plan. |
| 5 | Extend the term to 480 months from the modification effective date. |
| 6 | If the pre-modification (post-capitalized) MTMLTV ratio is greater than 115 percent, calculate these two amounts: <ul style="list-style-type: none"> ▪ Principal forbearance required to create a post-modification interest-bearing MTMLTV ratio of 115 percent ▪ 30 percent of the post-modification gross UPB. |
| 7 | Choose the lesser of the two amounts in Step 6 as the forbearance amount. Note: Interest will not accrue on the forbore (or deferred) principal. Deferred principal is payable upon maturity of the loan modification, sale or transfer of the property, or refinance. |
| 8 | Calculate the modified principal and interest payment. |
| 9 | Prepare a modification agreement to reflect the terms calculated in the steps above and the requirements of Chapter B65.24. |

Servicer Incentive Payment

You will receive incentives for successfully settled Standard Modifications based on the term of delinquency when the trial period plan starts.

| Servicer Incentive Payment for Standard Loan Modifications | | |
|--|------------------------|---|
| Days Delinquent | – OR – Days from DDLPI | Each settled Standard Loan Modification receives... |
| Less than or equal to 120 | 150 | \$1600.00 |
| 121-210 | 151-240 | \$1200.00 |
| Greater than 210 | Greater than 240 | \$400.00 |

To receive compensation, you must successfully settle a Standard Modification by complying with all eligibility, underwriting, documentation, closing, and reporting requirements, including submitting accurate closing data to Freddie Mac, within two months after the trial period ends.

Ineligible Incentive Payment Warnings

It is important to report your Standard Modification data accurately, consistently and within specified time requirements. Failure to do so will cause your status to be ineligible for a compensation incentive.

This section highlights actions to avoid when reporting Standard Modification data through Workout Prospector and *Electronic Default Reporting (EDR)*. You will receive the error messages in Incentive ManagerSM. Once you receive these messages in Incentive Manager, it is too late to take action to reverse your ineligible compensation status.

| Ineligible Incentive Payment Warnings | | | | | | | | | | | | | |
|--|--|-------------------------|--------------------------|-------------------------|--------------------------|-----------|------------|------------|----------|-----------|------------|------------|--------------|
| Error Message | Explanation | | | | | | | | | | | | |
| Trial Period Data Mismatch | <ol style="list-style-type: none"> Standard Modification data submitted for settlement in Workout Prospector, but the trial period date has not been reported through EDR. Standard Modification Trial Period start data in Workout Prospector does not match trial period data reported through EDR. | | | | | | | | | | | | |
| Trial Period not reported in current cycle | <p>Trial period start date was not reported in the current cycle. The month of the servicing cycle when the Standard Modification is reported is not the same as the month of the trial period start date the first time BF is reported.</p> <p><i>Example:</i></p> <table border="1"> <thead> <tr> <th>Loan Number</th> <th>Servicing Cycle</th> <th>Trial Period Start Date</th> <th>Compensation Eligibility</th> </tr> </thead> <tbody> <tr> <td>111111111</td> <td>11/30/2011</td> <td>11/01/2011</td> <td>Eligible</td> </tr> <tr> <td>222222222</td> <td>11/30/2011</td> <td>10/01/2011</td> <td>Not Eligible</td> </tr> </tbody> </table> | Loan Number | Servicing Cycle | Trial Period Start Date | Compensation Eligibility | 111111111 | 11/30/2011 | 11/01/2011 | Eligible | 222222222 | 11/30/2011 | 10/01/2011 | Not Eligible |
| Loan Number | Servicing Cycle | Trial Period Start Date | Compensation Eligibility | | | | | | | | | | |
| 111111111 | 11/30/2011 | 11/01/2011 | Eligible | | | | | | | | | | |
| 222222222 | 11/30/2011 | 10/01/2011 | Not Eligible | | | | | | | | | | |
| Servicer Inaccurate/Inconsistent Reporting | The Standard Modification Trial Period start date in subsequent EDR cycles was updated more than once. This was completed through a manual process. | | | | | | | | | | | | |
| Servicer Inaccurate/Inconsistent Reporting | The Standard Modification Trial Period start date in subsequent EDR cycles was back-dated. This was completed through a manual process. | | | | | | | | | | | | |
| Servicer Inaccurate/Inconsistent Reporting | The same Standard Modification Trial Period start date was not reported for three consecutive months via EDR. | | | | | | | | | | | | |
| Servicer Data Error/Delays | The Standard Modification settlement data in Workout Prospector was reported within two months from the EDR trial period end date but the workout does not settle due to failed loan modification edits. | | | | | | | | | | | | |
| Loan Exceeds Compensation Limit | The Standard Modification Trial Period completed successfully and the modification settled; however, this loan already had two prior modification incentive payments paid. The incentive payment for the third modification will not be paid. | | | | | | | | | | | | |

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