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# Servicing Alignment Initiative

## Overview for Freddie Mac Servicers

### Consistent requirements and processes for servicing delinquent mortgages

Freddie Mac is implementing a new set of mortgage loan servicing and delinquency management requirements that put into practice our goal of quality servicing. The new requirements are consistent with the joint-GSE Servicing Alignment Initiative, and streamline and simplify servicing processes to help Servicers more effectively contact delinquent borrowers, determine eligibility for a workout option, and offer foreclosure alternatives to struggling homeowners.

#### > Key Features

- Borrower Contact
  - Earlier and more frequent borrower contact.
  - New standards and time lines for borrower calls and call center activities.
  - Aligned requirements for quality right party contact.
- Delinquency Management
  - Consistent written communications, notification and response time lines, and borrower solicitation and response packages.
  - A standard process for reviewing and escalating borrower complaints and disputes.
  - 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.
- Loan Modifications
  - A new modification solution with aligned general requirements, trial period, and modification terms.
- Foreclosure Time Lines
  - Uniform time lines for the processing of foreclosures from referral to an attorney/trustee through the date of sale.
  - Standardized requirements for the assessment of compensatory fees for foreclosure time line violations.

#### > Results and Outcomes

- Servicers evaluate borrowers simultaneously for the Home Affordable Modification program (HAMP), Home Affordable Foreclosure Alternatives (HAFA), and all other available foreclosure alternatives.
- Consistent with our comprehensive approach to performance management and our vision for the Freddie Mac Servicing Success Program, we emphasize early borrower intervention, receipt of complete Borrower Response Packages, and successful workout resolutions by paying incentives. Compensatory fees will be assessed for not meeting performance benchmarks.
- There is a standard borrower solicitation and response package for borrowers to request consideration for all workout or foreclosure avoidance solutions.
- A new mortgage modification, the Freddie Mac Standard Modification, will replace our current "classic" mortgage modification, and includes additional borrower eligibility and underwriting requirements for borrowers who are ineligible for HAMP.

**BORROWER CONTACT**

<b>Quality Right Party Contact</b>	<ul style="list-style-type: none"><li>• QRPC 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 advisor, such as a housing counselor, the most appropriate options for delinquency resolution. To meet the requirements Servicers must make every attempt to achieve QRPC by:<ul style="list-style-type: none"><li>▪ Determining the reason for the delinquency and whether it is temporary or permanent.</li><li>▪ Determining whether the borrower has vacated or plans to vacate the property</li><li>▪ Determining the borrower's current perception of his/her financial circumstances and ability to repay the debt</li><li>▪ Setting payment expectations and educating the borrower on the availability of foreclosure alternative solutions</li><li>▪ 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</li></ul></li><li>• Benchmarks measure and monitor when effective quality right party contact is achieved.</li><li>• The "Quality Right Party Contact Monthly Monitoring Report," available in December 2011 in Default Reporting Manager<sup>SM</sup>, will indicate how well a Servicer achieved the quality right party contact benchmark of at least 60% on its 120-day delinquent Freddie Mac portfolio.</li><li>• 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.</li><li>• Contact can be made by telephone, e-mail, Web portal, standard mail, or face to face.</li></ul>
<b>Call Center Benchmarks and Collection Calls</b>	<ul style="list-style-type: none"><li>• To the extent a Servicer maintains a call center, uniform standards for contact method service levels include:<ul style="list-style-type: none"><li>▪ Speed to answer</li><li>▪ Abandon rate</li><li>▪ Blockage rate</li><li>▪ Live chats</li><li>▪ E-mail responses</li></ul></li><li>• Collection calls may start on day three of delinquency, but must begin no later than day 36 of delinquency, and must be tailored appropriately based on the risk characteristics of the mortgage, each borrower's level of delinquency, previous payment habits, and other minimum contact requirements. Time lines for follow-up calls during the delinquency process are defined.<ul style="list-style-type: none"><li>▪ Servicers may use the results of a collection and loss mitigation tool to assist in tailoring their collection and solicitation efforts.</li></ul></li><li>• Call campaigns continue every three days throughout the foreclosure process until:<ul style="list-style-type: none"><li>▪ Quality right party contact is established and the Servicer determines the borrower is not interested in an alternative to foreclosure,</li><li>▪ Delinquency is cured,</li><li>▪ Quality right party contact is established and the Servicer obtains a promise to pay the delinquent amount by a specified date (not to exceed 30 days) from the borrower,</li><li>▪ Complete Borrower Response Package is received, or</li><li>▪ Borrower enters into a repayment plan or forbearance agreement.</li></ul></li></ul>
<b>Borrower Solicitation Package</b>	<ul style="list-style-type: none"><li>• There are standard Borrower Solicitation Package requirements for documentation that must be sent to a borrower, including:<ul style="list-style-type: none"><li>▪ A Uniform Borrower Assistance Form (includes certified financial information and reasons for hardship)</li><li>▪ A borrower checklist</li><li>▪ A solicitation letter</li><li>▪ A FAQ document</li><li>▪ An important notices section</li><li>▪ IRS Form 4506-EZ or IRS Form 4506-T</li></ul></li><li>• Servicers will use this package to evaluate a borrower for all workout or foreclosure avoidance solutions, including a HAMP modification, Freddie Mac modification, short sale, or other solution.</li><li>• Spanish translations for certain borrower solicitation documents are available to assist solicitation efforts. Servicers may use the Spanish translations to support their efforts to obtain the required completed and signed English-language documents from the borrower.</li></ul>

DELINQUENCY MANAGEMENT	
<b>Disclosures and Written Communications</b>	<ul style="list-style-type: none"> <li>• 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. Acknowledgment includes notices to borrowers about the evaluation process and time line, an explanation of the foreclosure process, and instances in which foreclosure actions may not be halted.</li> <li>• There are content and timing requirements for the following: <ul style="list-style-type: none"> <li>▪ Late notices and reminder letters</li> <li>▪ Incomplete information notices</li> <li>▪ Evaluation notices, which provide the decision to the borrower</li> <li>▪ Breach letters</li> <li>▪ Solicitation during the foreclosure process</li> </ul> </li> </ul>
<b>Documentation Requirements for Income and Hardship</b>	<ul style="list-style-type: none"> <li>• There are revised and standardized income and hardship documentation requirements for HAMP and non-HAMP modifications.</li> <li>• We replaced our existing "involuntary inability to pay" requirements with a new requirement that a hardship must be currently causing, or expected to cause, either a long-term or permanent decrease in the borrower's income or an increase in the borrower's expenses.</li> </ul>
<b>Delinquency Time Line</b>	<ul style="list-style-type: none"> <li>• Consistent requirements apply for managing a delinquency, including: <ul style="list-style-type: none"> <li>▪ Collection calls</li> <li>▪ Late notices and reminder letters</li> <li>▪ Property inspections</li> <li>▪ Borrower solicitation</li> <li>▪ Disclosures and written communications</li> <li>▪ Evaluation notices</li> <li>▪ Pre-referral and pre-foreclosure sale account review</li> <li>▪ Foreclosure referral</li> </ul> </li> </ul>
<b>Case Escalation</b>	<ul style="list-style-type: none"> <li>• "Escalated case" has a uniform definition. There are unified structures and requirements for developing and implementing a process for reviewing and responding to borrower complaints that rise to the level of an escalated case, including : <ul style="list-style-type: none"> <li>▪ Requirements for Servicers to develop and implement a process for reviewing borrower inquiries and complaints and escalating disputes.</li> <li>▪ Requirements that Servicer staff providing resolution on an escalated case is independent from the personnel that initially handled/processed the original borrower decision.</li> <li>▪ 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.</li> <li>▪ Requirements for information to be included in the acknowledgment of a case and other written communications with the borrower.</li> </ul> </li> <li>• Escalated case activity must be reported to Freddie Mac monthly.</li> </ul>
LOAN MODIFICATION	
<b>Freddie Mac Standard Modification</b>	<ul style="list-style-type: none"> <li>• The new Standard Modification: <ul style="list-style-type: none"> <li>▪ Helps borrowers who are either 60 days or more delinquent; or current or less than 60 days delinquent, occupy the property as their primary residence, and determined to be in imminent default. Eligible borrowers must also be ineligible for HAMP, demonstrate an eligible hardship, and have verifiable income available.</li> <li>▪ Reduces the mortgage's current principal and interest payment by at least 10 percent.</li> <li>▪ Requires a trial period during which the borrower must remit the estimated new monthly payments. Servicers enter into a trial period plan with the borrower, and upon successful completion of the trial period, the borrower and Servicer will enter into a modification agreement.</li> <li>▪ Replaces the current Freddie Mac classic modification offering available in <i>Single-Family Seller/Servicer Guide</i> (Guide) Chapter B65, <i>Workout Options</i>, and <i>Workout Prospector</i><sup>®</sup>.</li> </ul> </li> <li>• For complete requirements, refer to Guide Chapter B65, <i>Workout Options</i>.</li> </ul>
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• A standard Borrower Assistance Form and associated documentation will be used to solicit and evaluate borrowers for all available modifications.</li> <li>• All borrowers must provide a signed and completed IRS Form 4506T-EZ or Form 4506-T and required income and hardship documentation as part of the Borrower Response Package they return to their Servicer.</li> <li>• New borrower solicitation documentation will replace the current solicitation documentation used for HAMP.</li> </ul>

FORECLOSURE TIME LINES	
<b>Time Lines for Referrals to Foreclosure and Foreclosure Sales</b>	<ul style="list-style-type: none"> <li>• State foreclosure time lines cover the time from the due date of last paid installment (DDLPI) through the date of foreclosure sale.</li> <li>• Foreclosure time lines are published in Guide Exhibit 83.</li> </ul>
<b>Standardized Exceptions</b>	<ul style="list-style-type: none"> <li>• There are uniform standards for allowing additional time delays due to: <ul style="list-style-type: none"> <li>▪ Bankruptcy</li> <li>▪ Probate</li> <li>▪ Military indulgence</li> <li>▪ Contested foreclosure</li> <li>▪ Loans under HAMP review or in HAMP trial period plans</li> </ul> </li> <li>• Refer to Guide Exhibit 83A for the manner in which Freddie Mac calculates the additional time granted for each of the allowable delays.</li> </ul>
<b>Designated Counsel</b>	<ul style="list-style-type: none"> <li>• Servicers are responsible for time lines when a firm in our Designated Counsel Program conducts the foreclosure.</li> </ul>
SERVICER INCENTIVES AND COMPENSATORY FEES	
<b>Borrower Response Package Benchmarks, Incentives, and Compensatory Fees</b>	<ul style="list-style-type: none"> <li>• To encourage early intervention with borrowers, we set performance benchmarks, incentives, and compensatory fees to appropriately: <ul style="list-style-type: none"> <li>▪ Compensate eligible Servicers for meeting quality benchmarks for receipt of complete Borrower Response Packages.</li> <li>▪ Assess compensatory fees for a Servicer's failure to meet defined loss-mitigation metrics and foreclosure time lines.</li> </ul> </li> <li>• 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"> <li>▪ Deliver complete Borrower Response Packages,</li> <li>▪ Become current or pays off, or</li> <li>▪ Become less than 60 days delinquent.</li> </ul> </li> <li>• We set performance benchmarks based on how many complete Borrower Response Packages you receive from the percentage of the tracked population of borrowers. <ul style="list-style-type: none"> <li>▪ A performance benchmark of 50 percent</li> <li>▪ An incentive benchmark of 60 percent</li> </ul> </li> <li>• The "BRP Monthly Progress Report," available in December 2011 in Default Reporting Manager<sup>SM</sup>, will reflect your monthly performance for receipt of complete Borrower Response packages.</li> <li>• We pay a \$500 incentive for each complete package received if a Servicer meets or exceeds the 60 percent incentive benchmark.</li> <li>• We assess a \$500 compensatory fee for each package not received that would have brought a Servicer to the 50 percent benchmark.</li> <li>• Servicers will not receive an incentive or be assessed a compensatory fee if the percentage for completed Borrower Response Packages for 60+ delinquent borrowers fall between the 50 percent and less than 60 percent benchmarks.</li> <li>• Freddie Mac strongly urges Servicers to work closely with HUD-approved housing counseling organizations, including paying appropriate incentives and compensation to housing counselors for their role in delivering complete Borrower Response Packages.</li> </ul>
<b>Workout Incentives and Compensatory Fees</b>	<ul style="list-style-type: none"> <li>• Servicers will receive incentives for successfully settled Standard Modifications based on the term of delinquency when the trial period plan starts: <ul style="list-style-type: none"> <li>▪ \$1,600 for each settled Standard Modification for mortgages that are less than or equal to 120 days delinquent (less than or equal to 150 days from the DDLPI)</li> <li>▪ \$1,200 for each settled Standard Modification for mortgages that are 121-210 days delinquent (151-240 days from DDLPI)</li> <li>▪ \$400 for each settled Standard Modification for mortgages that are greater than 210 days delinquent (greater than 240 days from DDLPI)</li> </ul> </li> <li>• Servicers are required to settle a Standard Modification successfully 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 to be eligible to receive the financial incentives.</li> <li>• Servicer incentives for completed HAMP modifications align with the Standard Modification's three-tiered incentive structure.</li> <li>• Settled workout incentives for existing Freddie Mac workout solutions, HAFA and non-HAFA short sales, HAFA and non-HAFA deeds-in-lieu, and repayment plans remain unchanged.</li> </ul>

## SERVICER INCENTIVES AND COMPENSATORY FEES, CONTINUED

### Compensatory Fees for Foreclosure Time Line Violations

- Standardized requirements apply for determining whether compensatory fees will be assessed for failure to comply with foreclosure time line standards.
- Compensatory fees will be calculated using the following uniform calculation: Unpaid Principal Balance (UPB) x Accounting Net Yield (ANY) / 365 \* Number of days over the overall allowed State foreclosure time line. The number of days over the overall allowed State foreclosure time line is the actual number of days from the DDLPI to foreclosure sale - (State foreclosure time line (DDLPI to sale) + Any allowed delay days).
- Servicers are subject to compensatory fee assessments for delayed foreclosure sales conducted by designated counsel.
- Netting is not allowed; foreclosure sales completed under the foreclosure time line cannot offset loans exceeding the time line.
- Compensatory fees will not be issued if a Servicer's aggregate amount of monthly foreclosure time line compensatory fees is below \$1,000.

## FREDDIE MAC EFFECTIVE DATES

### Effective Dates

- Freddie Mac Servicers are required to meet new servicing requirements for borrower contact, delinquency management, foreclosure time lines, and incentives and compensatory fees by October 1, 2011.
- Revised state foreclosure time lines and compensatory fees measurements are in effect for mortgages referred to foreclosure on or after October 1, 2011.
- Servicers must begin evaluating new borrowers for a Standard Modification beginning January 1, 2012.
  - Servicers may begin evaluating new borrowers prior to January 1, 2012, provided the:
    - Trial period plans do not start earlier than October 1, 2011.
    - Servicer has the capability to report the trial period plan in accordance with the Guide.
    - Permanent Standard Modifications have a first modified payment due date of January 1, 2012, or later.
  - All classic modifications under Guide Chapter B65 and Workout Prospector must be approved by December 31, 2011, and settled by February 28, 2012.
  - Once a Servicer begins evaluating borrowers for the Standard Modification, they must stop soliciting and evaluating borrowers for the classic modification.

## RESOURCES

### Training and Resources

- Visit the Freddie Mac Learning Center for training opportunities and resources:
  - [Servicing Alignment Initiative](#)
  - [Freddie Mac Standard Modification](#)
- Borrower [solicitation documents and forms](#) available on Freddie Mac.com.
- Refer to the following Guide Bulletins:
  - [Guide Bulletin 2011-11](#)
  - [Guide Bulletin 2011-16](#)
  - [Guide Bulletin 2011-17](#)
  - [Guide Bulletin 2011-19](#)
  - [Guide Bulletin 2011-23](#)

### For More Information:

- Contact your Freddie Mac representative
- Call 800-FREDDIE
- Visit Freddie Mac's [Servicing Alignment Initiative Web page](#)
- Visit the [Freddie Mac Standard Modification Web page](#)

*The Servicer understands that this document may not incorporate every requirement under the Servicing Alignment Initiative, and that this document 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. The 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.*