

Bulletin

NUMBER: 2009-10

TO: All Freddie Mac Servicers

April 21, 2009

SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are announcing the following changes to the Home Affordable Modification Program (“Program”) requirements:

- Providing [criteria for determining whether a Borrower, who is current or less than 31 days delinquent, is in imminent default](#), and announcing that the Borrower Qualification Worksheet may be used to determine if a Borrower, who is current or less than 31 days delinquent, is in imminent default
- Introducing the [NPV Calculator](#) and revising the requirements for determining the amount of principal forbearance that may be permitted in order to achieve the Target Payment
- Revising the requirements for [verification of income](#) when the Servicer uses stated income to create and send the Borrower a Trial Period Plan. We are also revising the income documentation requirements.
- Revising the definition of [Interest Rate Cap](#)
- Revising the [time frame within which the Borrower must respond to the Trial Period Plan](#) offer package from 14 days to 30 days (Offer Deadline), and providing additional guidance for when the Borrower fails to submit the executed Trial Period Plan and other documents by the Offer Deadline
- Providing [credit bureau reporting requirements](#) for Borrowers in the Trial Period
- Revising the [collateral valuation requirements](#) to require that the property valuation used may not be more than 90 days old from the date the Servicer first determines Borrower eligibility
- Revising eligibility requirements as follows:
 - Permitting [FHA, VA and RHS Mortgages](#), provided Servicers comply with the guidance issued by the relevant agency with respect to modification of these Mortgages
 - Revising the [documentation requirements](#) for verifying that the Mortgaged Premises is the Borrower’s Primary Residence
- Revising the requirements for [verifying installment debt and other expenses](#) that must be included in the calculation of the Borrower’s total monthly debt payment-to-income ratio
- Providing further guidance on [Program incentives](#) as it relates to the Servicer “pay for success” fee and the Borrower “pay for performance” fee
- Revising the [Transfer of Servicing requirements](#) to require that the Transferor Servicer notify the Transferee Servicer if the transferring portfolio includes Mortgages modified under the Program, and confirm that the Transferee Servicer is aware of and agrees to assume the additional responsibilities associated with the Servicing of these Mortgages

- Incorporating the requirements for [reporting data to Fannie Mae](#) in its capacity as financial agent for the United States Department of the Treasury (“Treasury”)
- Incorporating Servicer requirements as provided by Freddie Mac, the [Compliance Agent for Treasury](#)

We have also made changes to the [Hardship Affidavit](#). In particular, the Hardship Affidavit now includes certain requirements related to requests for the collection of government monitoring data, including race, ethnicity and sex. Refer to [Guide Sections C65.4](#) and [C65.13](#) for additional information regarding these requirements. The revised Hardship Affidavit is available with the other Program documents on our secure web site at http://www.freddie.mac.com/singlefamily/service/mha_modification.html.

Finally, we are updating the Guide to incorporate the [changes announced in Bulletin 2009-8 \(Home Affordable Modification Program\)](#), as well as other previously announced changes.

Background

With [Bulletin 2009-6 \(Home Affordable Modification Program\)](#), Freddie Mac announced the eligibility, processing, underwriting and other requirements for the Program (subsequently amended with [Bulletin 2009-8](#)). These Bulletins supported the uniform guidance for loan modifications across the mortgage industry issued by Treasury on March 4, 2009.

On April 6, 2009, Treasury issued Supplemental Directive 09-01, which provided additional guidance to Servicers for adoption and implementation of the Program for mortgage loans that are *not* owned, securitized or guaranteed by Freddie Mac or Fannie Mae; many of the changes announced in this Bulletin more closely align our requirements with the requirements of that directive.

SERVICING REQUIREMENTS

Criteria for determining imminent default

[Guide Chapter C65](#) currently requires that Servicers determine, based on the Borrower Qualification Worksheet (“Worksheet”), whether a Borrower, who is current or less than 31 days delinquent, is in imminent default. When the Worksheet was introduced in [Bulletin 2009-8](#), we indicated that it was not yet designed to determine whether a Borrower, who is current or less than 31 days delinquent, qualifies for a modification under the Program.

With this Bulletin, we revised these requirements to provide the criteria for determining whether a Borrower is in imminent default. We are also announcing that Servicers may, but at this time are not required to, use the Worksheet to evaluate whether the Borrower is in imminent default.

With this change, the Worksheet may now be used to determine the Trial Period payment for all eligible Borrowers, the terms of the modification for eligible Borrowers, and whether a Borrower, who is current or less than 31 days delinquent, is in imminent default.

The updated Worksheet will be available on our secure web site at http://www.freddie.mac.com/singlefamily/service/mha_modification.html beginning **April 23, 2009**. Freddie Mac is developing an automated solution to assist Servicers with the imminent default evaluation; the automated solution will be available at a later date.

[Sections C65.4](#), [C65.5](#), [C65.6](#) and [C65.7](#) have been updated to reflect these changes.

NPV Calculator

With this Bulletin, we are announcing that all Mortgages that meet the Program eligibility criteria must be evaluated using the standardized net present value (NPV) test that compares the NPV result for a modification under the Program to the NPV result for not modifying the Mortgage. We have also updated the Guide to reflect the following:

- If the NPV result for the modification scenario is greater than the NPV result for not completing the modification, the result is deemed “positive” and the Servicer must process the modification
- If the result of the NPV test is negative, the Servicer must modify the Mortgage, unless the Mark-to-Market LTV Ratio is less than 100% and principal is being forboread. If principal forbearance is needed to achieve a Target Payment and the resulting Mark-to-Market LTV Ratio would fall below 100%, then the Borrower is not eligible for a modification under this Program, except as set forth in [Section C65.7\(c\)](#), and the Servicer should review the Borrower for other foreclosure alternatives.

The NPV Calculator has been developed for Servicers to submit loans for the NPV test. The NPV Calculator is available on the Home Affordable Modification Program servicer web portal accessible through <http://www.HMPAdmin.com>. A user ID and password are required for access to the NPV Calculator. Servicers must complete and submit the HMP Registration Form, available on the web site, to obtain a user ID and password.

[Sections C65.6](#) and [C65.7\(c\)](#) have been updated to reflect these changes.

Income verification requirements

Stated income requirements

[Chapter C65](#) permits a Servicer to use stated (verbal) income to create and send the Trial Period Plan to the Borrower and requires that the Borrower’s verified income be within a tolerance of plus or minus 10% of the income data used to calculate the proposed Trial Period Payment. With this Bulletin, we revised those requirements to require the following:

- If the verified income is *greater* than the initial verbal income information used by the Servicer to place the Borrower in the Trial Period by more than 25%, the Borrower must be reevaluated based on the Program eligibility and underwriting requirements. If this reevaluation determines that the Borrower is still eligible, a new Trial Period Plan must be prepared and the Trial Period must be restarted.
- If the verified income is *less* than the initial verbal income information used by the Servicer to place the Borrower in the Trial Period, and the Borrower is still eligible, including meeting the NPV test requirements under [Section C65.6\(a\)](#), or if the verified income is greater than the initial verbal income information by 25% or less, and the Borrower is still eligible, then the Trial Period will not restart and the Trial Period payments will not change; provided, that verified income will be used to calculate the monthly Mortgage payment under the Modification Agreement

If the Servicer determines the Borrower is not eligible for the Program based on verified income, the Servicer must notify the Borrower of that determination and that any Trial Period payments made by the Borrower will be applied to the Mortgage in accordance with the Borrower’s current loan documents. At that point the Servicer must explore other foreclosure alternatives with the Borrower.

[Section C65.6](#) has been updated to reflect this change.

Income documentation requirements

Income documentation requirements have been revised as follows:

- Use of non-Borrower household income is permitted if documentation supporting it is voluntarily provided by the Borrower
- Additional guidance has been added regarding when Form 4506-T, *Request for Transcript of Tax Return*, must be processed
- Eliminated the requirement that for self-employed Borrowers, the profit and loss statement be prepared by a third party
- Revised the requirements for documenting the following:
 - Social security, disability or death benefits, or pension to reflect, among other things, that the Servicer must determine that the income will continue for at least three years
 - Alimony, child support or separate maintenance payments to reflect that the Servicer must determine that the income will continue for at least three years
 - Public assistance or unemployment income to reflect that the Servicer must determine that the income will continue for at least nine months

[Section C65.6](#) has been updated to reflect this change.

Definition of Interest Rate Cap

We revised the definition of Interest Rate Cap to reflect that the Interest Rate Cap is the Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate conforming mortgages, rounded to the nearest one-eighth of one percent (0.125%), as of the date that the Modification Agreement is prepared.

[Sections C65.1](#) and [C65.6](#) have been updated to reflect this change.

Responding to the Trial Period Plan offer package

We revised the time frame within which the Borrower must respond to the Trial Period Plan offer package from 14 days to 30 days from the date the Servicer sends the offer package to the Borrower. This date is the Offer Deadline, and is the date the Servicer must insert in the Trial Period Plan.

[Sections C65.1](#) and [C65.7](#) have been updated to reflect this change. We also updated [Section C65.7](#) to reflect that the Servicer may, in its discretion, consider the offer of a Trial Period Plan to have expired at the end of 60 days if the Borrower has not submitted both executed Trial Period Plans and all other complete and executed documentation required under the Trial Period Plan. If the Borrower's submission is incomplete, the Servicer should work with the Borrower to complete the Trial Period Plan submission.

Credit Bureau reporting requirements

[Section C65.7\(b\)](#) has been updated to reflect that Servicers must continue to report a "full-file" status report to the four major credit repositories based on the following:

- For Borrowers that are *current* when they enter the Trial Period, the Servicer should report the Borrower current but on a modified payment if the Borrower makes timely Trial Period payments by the 30th day of each Trial Period month, as well as report the modification when completed
- For Borrowers that are *delinquent* when they enter the Trial Period or who fail to make timely Trial Period payments by the 30th day of each Trial Period month, the Servicer should report in such a manner that accurately reflects the Borrower's delinquency and workout status following usual and customary reporting standards, as well as report the modification when completed

More detailed information on these reporting standards will be published by the Consumer Data Industry Association.

Collateral valuation requirements

We have revised the collateral valuation requirements to reflect that the property valuation used for input into the NPV Calculator and for purposes of determining the Mark-to-Market LTV Ratio may not be more than 90 days old, instead of 60, from the date the Servicer first determines Borrower eligibility. [Section C65.6](#) has been updated to reflect this change.

Eligibility requirements

Program eligibility requirements have been revised to include the following changes to Mortgage eligibility and occupancy:

- With respect to the eligibility of FHA, VA and RHS Mortgages to be modified under the Program, Servicers must comply with guidance issued by the relevant agency
- Servicers must validate that the Borrower is occupying the property as a Primary Residence, by using the Borrower's most recent signed federal income tax return (or transcript of the tax return obtained from the Internal Revenue Service), a credit report *and* one other form of documentation that would supply reasonable evidence that the property is the Borrower's Primary Residence (such as utility bills for the subject property in the Borrower's name)

[Section C65.4](#) has been revised to reflect this change.

Verifying installment debt and other expenses

We have revised the requirements for verifying installment debt and other expenses that must be included in the calculation of the Borrower's total monthly debt payment-to-income ratio. The changes include the following:

- For any installment loan that is deferred or is in forbearance, the Servicer must obtain documentation verifying the proposed monthly payment amount, or use a minimum of 1.5% of the balance
- For payments on a Home Equity Line of Credit (HELOC), the payment on the HELOC must be included in the total monthly debt payment-to-income ratio using the minimum monthly payment reported on the credit report. If the HELOC has a balance but no monthly payment is reported, the Servicer must obtain documentation verifying the payment amount, or use a minimum of 1% of the balance.

[Section C65.6](#) has been revised to reflect these changes. We also revised the credit report requirements to provide that the Servicer must obtain a credit report dated within 90 days, instead of 60, of the date the Servicer first determines Borrower eligibility for each Borrower (or a joint report for a married couple who are co-Borrowers).

Program incentive requirements

[Section C65.9](#) has been updated to reflect additional guidance with respect to Program incentive payments and that the Servicer "pay for success" fee and the Borrower "pay for performance" fee will be paid if the Borrower's modified monthly payment results in at least a 6% reduction in the monthly Mortgage payment used to determine eligibility.

Transfer of Servicing requirements

[Section C65.8](#) has been revised to reflect that when a Transfer of Servicing includes Mortgages modified under the Program, the Transferor Servicer must notify the Transferee Servicer that such Mortgages are a part of the transferring portfolio and must confirm that the Transferee Servicer is aware of and agrees to assume the additional responsibilities associated with the Servicing of these Mortgages.

Reporting data to Fannie Mae in its capacity as financial agent for Treasury

All Servicers are required to register with Fannie Mae in its capacity as financial agent for Treasury (“Financial Agent”) and provide periodic Program loan level data to the Financial Agent. To register, Servicers must complete and submit the HMP Registration Form, which is available at <http://www.HMPAdmin.com>. (This is the same form that must be completed for access to the NPV Calculator.)

The data that Servicers provide must be accurate, complete and in agreement with the Servicer’s records. The Servicer must report data:

- At the start of the Trial Period
- During the Trial Period
- For loan set up of the approved modification
- Monthly after the modification is set up on the Financial Agent’s system

[Section C65.11](#) has been revised to incorporate the data reporting requirements and to provide detail on the manner in which the data must be provided. In addition, Servicers should review the information available at <http://www.HMPAdmin.com> with respect to these reporting requirements.

Compliance Agent

Treasury has selected Freddie Mac to serve as its Compliance Agent for the Program. We have created new Section C65.15 to incorporate requirements provided by the Compliance Agent, which include, but are not limited to, the following:

- Servicers must document the execution of loan evaluation, loan modification and accounting processes
- Servicers must develop and execute a quality assurance program
- Required scope of the compliance assessments for both on-site and remote assessments

Section C65.15 may be updated from time to time based on input received from the Compliance Agent.

Program documentation

We are providing additional instructions with respect to authorized changes for the Modification Agreement. [Section C65.7\(d\)](#) (formerly Section C65.7(e)) has been updated with these instructions and the authorized changes for the Trial Period Plan, which we announced in [Bulletin 2009-8](#).

We also updated [Section C65.2](#) to add instructions regarding the execution of Program documentation.

Previously announced changes

We have updated the Guide to reflect the following changes previously announced in Bulletin 2009-8:

- Updated [Section C65.4](#) to reflect that the Borrower must currently have a monthly housing expense-to-income ratio greater than 31% to be eligible for the Program
- Updated [Section C65.6](#) to reflect that a Mortgage may not be modified under the Program based on capitalization of arrearages only. (As noted in Bulletin 2009-8, Borrowers may be considered for a modification based on capitalization of arrearages only in accordance with Chapter B65 and other agreements between Freddie Mac and the Servicer.)
- Changed the name of the Workout Plan to Trial Period Plan throughout [Chapter C65](#)
- Updated [Section C65.2](#) to incorporate Form 1119, *HMP Counseling Referral Letter*, and Form 1125, *HMP Special Inspector General Troubled Asset Relief Program (SIGTARP) Fraud Notice*, into the list of Program documents in [Section C65.2](#) and provided requirements with respect to the required use of both forms. We have also updated [Section C65.2](#) to add Freddie Mac Form numbers for the various Program documents that are not Uniform Instruments.

- Incorporated the requirements for co-branding and the use of the Making Home Affordable logo in [Section C65.2](#)
- Updated [Section C65.6](#) to reflect the revised fax number for Servicers to use when referring a Mortgage to Freddie Mac when the Target Payment cannot be achieved. In addition, with this Bulletin we updated that section to include other additional information with respect to such referrals.

REMINDER

As announced on March 4, 2009 and in [Bulletin 2009-6](#), Servicers should suspend foreclosure sales on owner-occupied properties where the Borrower may be eligible for a modification under the Program.

For Mortgages eligible for the Program, the Servicer must not complete foreclosure sales until the Servicer has completed efforts to contact the Borrower and has determined that either (i) the Borrower is unresponsive or (ii) the Borrower does not have the capacity or willingness to participate in the Program or any other Freddie Mac workout program.

For Mortgages that are ineligible for the Program, Servicers must determine on a case-by-case basis whether additional foreclosure relief should be extended to allow time for another alternative to foreclosure to be completed or whether the Servicer should proceed with the foreclosure sale.

CONCLUSION

[Revised Chapter C65, Home Affordable Modification Program, has been posted on FreddieMac.com](#) and will be updated in the Guide on AllRegs. Once updated in AllRegs, Servicers should refer to the [Guide Chapter C65](#), not the version on FreddieMac.com, for the most current Program requirements.

Freddie Mac remains focused on assisting troubled Borrowers with Freddie Mac-owned Mortgages avoid preventable foreclosure. The changes announced in this Bulletin are part of our ongoing efforts to promote sustainable homeownership and stabilize communities and neighborhoods across the nation.

If after reviewing this Bulletin you have any questions about the Program or Freddie Mac's role in the Program, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely,



Patricia J. McClung
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