

Chapter C65: Home Affordable Modification Program

C65.1: Overview (04/21/09)

This chapter provides Servicing requirements in connection with the federal government's Home Affordable Modification Program ("Program").

Under the Program, Borrowers who meet certain eligibility criteria will be offered a modification of their existing Mortgage. The Borrower must first demonstrate both hardship and his or her ability and willingness to pay under the modified terms by entering into a Trial Period during which the Borrower will be required to remit three monthly payments at an estimated modified payment amount.

This chapter sets forth Freddie Mac's eligibility, underwriting, processing and other requirements for modifying Mortgages under the Program. The following topics are covered in this chapter:

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(a) Defined terms

Servicers should be familiar with Freddie Mac's definitions for the following terms as they relate to the Program:

- AVM

- Borrower (within the context of the Program, the term “Borrower” includes all Borrowers obligated on the Note)
- Broker’s Price Opinion (BPO)
- Delinquency
- Escrow
- First Lien
- Manufactured Home
- Primary Residence
- Purchase Documents
- Servicing Spread

Definitions for these terms are located in the Glossary of this Guide.

In addition, Servicers should be familiar with the following terms as they relate to the Program:

- **HMP:** Home Affordable Modification Program (also referred to as the Program)
- **Borrower Qualification Worksheet:** A Microsoft Excel spreadsheet that the Servicer may use to determine the Trial Period payment, the terms of the Modification Agreement and whether a Borrower, who is current or less than 31 days delinquent, is in imminent default and therefore eligible for the Program. The spreadsheet is available on http://www.freddiemac.com/singlefamily/service/mha_modification.html.
- **Compliance Agent:** Freddie Mac acting as a financial agent of the United States Department of the Treasury will manage the compliance and monitoring of Servicer performance under the Program, including performance in accordance with Freddie Mac and Fannie Mae requirements
- **Conforming Jumbo Mortgages:** Conforming Jumbo Mortgages are conventional Mortgages sold to Freddie Mac under negotiated Purchase Contracts only that were originated between July 1, 2007 and December 31, 2008, with original unpaid principal balances that exceed Freddie Mac’s base conforming loan limits (\$417,000 for a 1-unit property). The original unpaid principal balance of a Conforming Jumbo Mortgage may not exceed the lesser of:
 - 125% of the “area median house price” (as determined at a County level) of a residence of applicable size, or
 - 175% of the base conforming loan limit - \$729,750 for a 1-unit property (except in Alaska, Hawaii, Guam and the U.S. Virgin Islands, where the limit is higher). The Conforming Jumbo loan limits were enacted as part of the Economic Stimulus Act of 2008

- **Home Value Explorer (HVE):** HVE is part of Freddie Mac's Home Value Suite of tools that automate collateral valuation. HVE provides a point value estimate for a property with a Confidence Score and Forecast Standard Deviation, indicating the accuracy of the estimated value. HVE Forecast Deviation scores of 0.20 and lower indicate that the degree of confidence in the valuation estimate is of a high or medium level. Forecast Standard Deviation scores above 0.20 indicate that the degree of confidence in the valuation estimate is low.
- **HOPE for Homeowners:** The Federal Housing Administration's HOPE for Homeowners program was created by Congress to help those at risk of default and foreclosure refinance into more affordable, sustainable loans. HOPE for Homeowners is an additional mortgage option designed to keep Borrowers in their homes. The HOPE for Homeowners program is effective from October 1, 2008 to September 30, 2011.
- **Interest Rate Cap:** 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. The Freddie Mac Weekly Primary Mortgage Market Survey Rate is available on FreddieMac.com.
- **Mark-to-Market LTV Ratio:** The ratio that is based upon the modified interest-bearing principal balance of the Mortgage and the current value of the property
- **Modification Effective Date:** The first day of the month following the third month of the Trial Period. This is the first payment due date of the modified Mortgage. However, once the modification is effective, the terms of the modified Mortgage are established so that the first payment due under the modified Mortgage pays interest in arrears that accrued under the modified terms.
- **Monthly Escrow Shortage Payment:** For purposes of this Program, the Escrow shortage is the amount necessary to fully fund the Escrow account, if any, upon its establishment in order to pay taxes and insurance premiums that are not yet due or payable before the Modification Effective Date, plus any funding cushion permitted under applicable law. The Escrow Shortage Payment is the Escrow shortage equally divided into 60 monthly payments.
- **NPV Calculator:** The tool that Servicers must use to submit loans for the standardized net present value (NPV) test that compares the NPV result for a modification completed under the Program to the NPV result for not modifying the Mortgage.
- **Offer Deadline:** The date the Servicer inserts in the Trial Period Plan Cover Letter that is 30 calendar days from the date the Servicer sends the Trial Period Plan offer package to the Borrower, or if that date is not a business day, the next business day thereafter

- **PITIAS Payment:** The monthly payment that must be used to calculate the Target Payment that consists of:
 - 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/condominium fees
 - If applicable, the Monthly Escrow Shortage Payment (see Section C65.6(d) titled "Escrows")

- **Target Payment:** Monthly PITIAS Payment that achieves a monthly housing expense-to-income ratio that is as close as possible to, but no less than, 31% of the Borrower's gross monthly income

- **Trial Period:** The three-month time period during which the Borrower makes payments that are an estimate of the anticipated modified payment amount, as one of the preconditions to modification

- **Trial Period Plan Effective Date:** The date the Servicer signs the Home Affordable Modification Trial Period Plan (Form 3156, 3/09 (rev. 3/09)), in accordance with Section C65.7(a)

C65.2: Documentation (04/21/09)

The documents and forms identified in this section have been developed for, and, with respect to the documents identified as mandatory below and the Uniform Instruments must be used with the Program and are available on our web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html (Refer to Section C65.7(d) and Section C65.12 for information regarding authorized changes and use of these forms).

Unless a Borrower or co-Borrower is deceased or a Borrower and a co-Borrower are divorced, all parties who signed the original loan documents or their duly authorized representative(s) must execute any required Program documents, including the Trial Period Plan and the Modification Agreement. If a Borrower and a co-Borrower are divorced and the property has been transferred to one spouse in the divorce decree, the spouse who no longer has an interest in the property is not required to execute any required Program documents. Servicers may evaluate requests on a case-by-case basis when the Borrower is unable to sign due to circumstances such as mental incapacity, military deployment, etc. Furthermore, a Borrower may elect to add a new co-Borrower, provided the new co-Borrower occupies the property as a Primary Residence.

The Program documents include the following:

- HMP Proactive Solicitation Letter: May be used to broadly solicit Borrowers who are 31 days or more delinquent (“Proactive Solicitation Letter”) (Freddie Mac Form 1120)
- HMP Documentation Request Letter: May be used to collect additional information required from the Borrower (“Documentation Request Letter”) (Freddie Mac Form 1121)
- HMP Hardship Affidavit: Must be used to determine Borrower hardship and to request information on ethnicity, race and sex for government monitoring purposes (“Hardship Affidavit”) (Freddie Mac Form 1122)
- HMP Trial Period Plan Cover Letter - Stated: For use when the Trial Period terms are based on stated income (“Trial Period Plan Cover Letter”) (Freddie Mac Form 1123)
- HMP Trial Period Plan Cover Letter - Verified: For use when the Trial Period terms are based on documented income (“Trial Period Plan Cover Letter”) (Freddie Mac Form 1124)
- HMP Counseling Referral Letter: Must be used to notify Borrowers with a total monthly debt payment-to-income ratio equal to or greater than 55% that they must enter a counseling program as a condition for the modification (refer to Section C65.6(c)) (Freddie Mac Form 1119)
- HMP Special Inspector General Troubled Asset Relief Program (SIGTARP) Fraud Notice: Must be provided to the Borrower one time, with either the HMP Documentation Request Letter or the HMP Trial Period Plan Cover Letter – Stated (Freddie Mac Form 1125)
- Home Affordable Modification Trial Period Plan (“Trial Period Plan”) (Form 3156, 3/09 (rev. 3/09))
- Home Affordable Modification Agreement (“Modification Agreement”) (Form 3157, 3/09 (rev. 3/09))
- HMP Agreement Cover Letter (Freddie Mac Form 1118)

Form 3156 and Form 3157 are Fannie Mae/Freddie Mac Uniform Instruments available on the Freddie Mac Uniform Instrument web site at

<http://www.freddiemac.com/uniform/>, with our other Special Purpose Instruments.

Co-branding/use of Freddie Mac's logo and the Making Home Affordable logo

Servicers may download the Freddie Mac logo and the Making Home Affordable logo for use on Program letters, envelopes and packages from FreddieMac.com at

http://www.freddiemac.com/singlefamily/service/mha_modification.html.

A Servicer may use the Making Home Affordable logo by itself, together with the Servicer's logo, or together with the Servicer's and Freddie Mac's logos on envelopes and packages used to send Program materials to Borrowers. The Servicer's name and return address must be shown on any solicitation materials sent to Borrowers.

A Servicer may use Freddie Mac's logo together with its own logo, to co-brand the solicitation letter and Program cover letters. However, a Servicer may not use the Freddie Mac logo without also including its own logo.

C65.3: Delegation of Authority (04/21/09)

Unless otherwise notified by Freddie Mac, all Freddie Mac Servicers are eligible to enter into a Trial Period Plan with a Borrower and approve a modification of a Mortgage under the Program in accordance with the requirements of this chapter.

C65.4: Eligibility (04/21/09)

The following requirements are included in this section:

- Mortgage, Property and Borrower eligibility requirements
- Mortgages ineligible to be modified under the Program

(a) Mortgage, Property and Borrower eligibility requirements

The requirements in this chapter apply to Freddie Mac-owned Mortgages that meet the following requirements:

- First Lien Mortgages owned, securitized or guaranteed by Freddie Mac originated on or before **January 1, 2009**, including super conforming Mortgages and Conforming Jumbo Mortgages sold to Freddie Mac under a Seller's negotiated Purchase Documents, which are secured by:
 - 1- to 4-unit, single-family Primary Residences, including Condominium Units and Guide-eligible Manufactured Homes that are not abandoned, vacant or condemned. Cooperative Share Mortgages sold under a Seller's negotiated Purchase Documents are also eligible. Servicers must verify that the property serves as the Borrower's Primary Residence using the Borrower's most recent signed federal income tax return (or transcript of the tax return obtained from the IRS), 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).

- The Borrower must currently have a monthly housing expense-to-income ratio that is greater than 31% of the Borrower's verified and documented gross monthly income

Borrowers who, due to hardship, have defaulted on their Mortgages are eligible for modification under the Program. Borrowers who are current or less than 31 days delinquent but who, due to hardship, may be in imminent default, are also eligible for modification under the Program. Such a Borrower must be screened for imminent default in accordance with the criteria set forth in this section.

The reason for hardship must be identified and explained in the Hardship Affidavit (refer to Section C65.2). On the Hardship Affidavit, Servicers must request from the Borrower and co-Borrower information for government monitoring purposes, including the ethnicity, race and sex of the Borrower and co-Borrower. See Section C65.13(b) for additional information regarding requirements related to requests for collection of government monitoring data.

The Program will expire on **December 31, 2012**. For a Mortgage to be eligible for modification under the Program, the Servicer must have received the Trial Period Plan executed by the Borrower together with the first Trial Period Payment and verified all Program eligibility requirements have been met on or before December 31, 2012.

With respect to FHA, VA and RHS Mortgages, Servicers must comply with the guidance issued by the relevant agency.

Foreclosure/Bankruptcy

The Mortgage may be in foreclosure or in other pending litigation. The Borrower may be in active Bankruptcy; however, the Servicer should consult with its own legal counsel on the proper method to communicate with and offer a modification under the Program to a Borrower in active bankruptcy. For Borrowers who have received a Chapter 7 bankruptcy discharge but did not reaffirm the mortgage debt under applicable law, the Servicer must make an authorized change to the Trial Period Plan and the Modification Agreement as described later in Section C65.7(d). Servicers must follow applicable federal, State and local laws, including, but not limited to, judicial and professional rules of conduct governing discussions with opposing parties in litigation when represented by counsel and federal bankruptcy laws, rules and regulations that govern entering into a loan modification when the Borrower is a debtor in bankruptcy.

Another workout arrangement

If the Borrower is currently performing under another interim workout arrangement that has not been completed but requests to be considered for a modification under the Program, the Servicer must consider the Borrower for such a modification.

Junior liens

Borrowers are not required to satisfy any outstanding junior lien(s). In addition, the Servicer must not consider the monthly payment on any junior lien(s) in calculating the Borrower's PITIAS Payment or the Target Payment; however, the monthly payment on any junior lien(s) must be included in the Borrower's total monthly debt payment-to-income ratio.

Escrows

The Borrower must agree to set up an Escrow account on the Mortgage if an Escrow account is not currently maintained on the Mortgage, provided its establishment is not prohibited under applicable federal, State and local law. (Refer to Section C65.6(d) for additional information on establishing an Escrow account.)

Determining imminent default

A Borrower who (a) is current or less than 31 days delinquent, (b) contacts the Servicer for a modification, (c) appears potentially eligible for a modification, and (d) claims a hardship must be screened for imminent default.

In the process of making a determination for imminent default, the Servicer must evaluate the Borrower's financial condition in light of the Borrower's hardship as well as inquire as to the condition of and any circumstances affecting the property securing the Mortgage loan. If the Servicer determines that the Borrower has not experienced a hardship, then the Borrower does not qualify for the Program.

The Borrower is required to identify the hardship type and detail the circumstances of the hardship on the Hardship Affidavit. In addition, the Borrower will be required to complete and sign page two of Form 1126, Borrower Financial Information, and the Servicer must legibly print the Borrower's name below the Borrower's signature and add the Freddie Mac loan number to the form. Servicers are to rely on the Hardship Affidavit, page 2 of Form 1126, the Borrower's credit report, and income documentation to determine the hardship and financial condition of the Borrower.

If the Servicer makes a preliminary determination that the Borrower has a hardship and is otherwise eligible for evaluation under the Program, the Servicer shall determine whether the Borrower is in imminent default in accordance with the procedures described below. This imminent default calculation is independent of the calculation of the monthly housing expense-to-income ratio and the total monthly debt payment-to-income ratio.

- The Servicer must consider the Borrower's financial condition, liquid assets, combined monthly income from wages and all other identified sources of income, monthly liabilities (including personal debts, revolving accounts and installment loans), other monthly expenses, including a reasonable allowance for living expenses such as food, utilities, etc., and make a determination of whether the Borrower is in imminent default based on the following evaluation:

- The Servicer must consider the Borrower for a modification under the Program if both:
 - The Borrower's Debt Coverage Ratio ("DCR Ratio") is less than 1.20, and
 - The Borrower's Cash Reserves are less than three times the current monthly PITIA payment (if the loan is not currently escrowed, use estimated taxes, insurance and HOA assessments).

The following are definitions for purposes of this calculation:

- **Disposable Net Income:** The Borrower's monthly Disposable Net Income is the Borrower's monthly gross income less (1) payroll deductions, (2) monthly escrow allocations of property taxes, insurance premiums, and mortgage insurance premiums (or if the loan does not have escrows, the monthly amounts of such items should be pro-rated as if the amounts were escrowed), (3) monthly HOA assessments, (4) monthly allocations of all other monthly credit obligations (except investor mortgages covered in item 6 below and excluding principal and interest payments on the Mortgage being modified), (5) all other reasonable living expenses allocated monthly, and (6) any other net negative amounts paid or incurred by Borrower (such as rental income that is exceeded by associated Mortgage payments)
- **DCR Ratio:** The DCR Ratio is the ratio of the Borrower's Disposable Net Income divided by the Borrower's current monthly principal and interest payment (not including escrows)
- **Cash Reserves:** Cash Reserves are any non-retirement liquid assets the Borrower has available for withdrawal from any financial institution or brokerage, including checking and savings accounts, CDs (even if held for an extended time), mutual funds, money market funds, stocks or bonds

The Borrower Qualification Worksheet includes the imminent default evaluation. The Servicer may use the Borrower Qualification Worksheet to evaluate whether the Borrower is in imminent default or may perform the DCR Ratio and Borrower's Cash Reserves calculations manually or with its own systems. (See Section C65.6(f) for additional information on the Borrower Qualification Worksheet.)

If the Servicer determines the Borrower is not in imminent default or otherwise does not qualify for the Program, then the Servicer should evaluate the Borrower for other available loss mitigation alternatives.

If the Servicer determines that default is imminent, the Servicer must continue to process the request using the required Program parameters set forth in this Chapter C65.

A Servicer must document in its servicing system the basis for its determination of whether a payment default is imminent and retain all documentation used to reach its conclusion. The Servicer's documentation must also include information on the Borrower's financial condition as well as the condition and circumstances of the property securing the Mortgage loan, pursuant to the requirements described above. (See Section C65.8(i) for additional information regarding documentation retention requirements.)

The Servicer shall comply with all applicable federal, State and local laws in making the determination.

(b) Mortgages ineligible to be modified under the Program

Mortgages ineligible to be modified under the Program include:

- Mortgages secured by Investment Properties or second homes
- Mortgages that have been previously modified under this Program

C65.5: Borrower solicitation (04/21/09)

Borrowers who are current or less than 31 days delinquent

A Servicer may not solicit a Borrower whose Mortgage is current or less than 31 days delinquent for a modification under the Program. If a Borrower who is current or less than 31 days delinquent contacts the Servicer to inquire about eligibility for the Program, the Servicer must first evaluate the Borrower for eligibility for a Freddie Mac Relief Refinance MortgageSM (refer to Chapter A24). If the Borrower is not eligible for a Freddie Mac Relief Refinance Mortgage the Servicer must then determine whether the Borrower is in imminent default in accordance with Section C65.4(a).

Borrowers who are 31 days or more delinquent

The Servicer must solicit all Borrowers who are 31 days or more delinquent for a modification under the Program, provided the eligibility criteria specified in this chapter are met. Servicers are strongly encouraged to use the HMP Proactive Solicitation Letter or the HMP Documentation Request Letter for this purpose.

Servicers must provide all eligible Borrowers with the HMP SIGTARP Fraud Notice. The HMP SIGTARP Fraud Notice must accompany the HMP Documentation Request Letter, the HMP Trial Period Plan Cover Letter-Styled, or the Servicer's own version of either of these two letters.

See Section C65.2 for additional information regarding Program documentation and forms.

The solicitation requirements described above are in addition to the collections requirements set forth in Chapter 64.

Reliance on stated income and other information

A Servicer may elect to rely on a Borrower's verbal (stated) communication of any information necessary to qualify an eligible Borrower for a modification under the Program, such as the components of PITIAS Payment. The Servicer may then underwrite the Borrower in accordance with Section C65.6 and, if the Borrower is qualified, the Servicer must prepare and send to the Borrower all of the documentation specified in Section C65.7(a). However, the Servicer must verify income and ensure continued eligibility in accordance with Section C65.6(b) prior to signing the Trial Period Plan and returning it to the Borrower.

Verification of eligibility and income

Alternatively, a Servicer may require a Borrower to submit all the required documentation necessary to verify the Borrower's eligibility and income under the Program before preparing the Trial Period Plan. The Servicer may elect to send the Borrower an HMP Proactive Solicitation Letter or an HMP Documentation Request Letter requesting the required documentation from the Borrower before qualifying the Borrower under Section C65.6. Once the Borrower is qualified based on verified information and documentation, the Servicer must prepare and send to the Borrower all of the documentation specified in Section C65.7(a).

Required documentation

Regardless of whether the Servicer chooses to initially rely on verbal (stated) information or verify the Borrower's income based on documentation provided, prior to the Offer Deadline, all Borrowers must submit the following:

- Two original executed Trial Period Plan documents
- First payment due under the Trial Period terms
- Documentation to verify occupancy (See Section C65.4 (a))
- Income documentation (See Section C65.6(b))
- Signed Form 4506-T, Request for Transcript of Tax Return
- Fully executed Hardship Affidavit
- Completed and signed page two of Form 1126, Borrower Financial Information, if the Borrower is current or less than 31 days delinquent
- Executed disclosures, if any, to the extent applicable federal, State or local law requires executed disclosures to be retained by the provider

C65.6: Underwriting the Borrower (04/21/09)

The objective of underwriting the Borrower is to achieve a monthly housing expense-to-income ratio that is as close as possible to, but no less than 31% ("Target Payment"). The Servicer must underwrite the Borrower and calculate the Target Payment, once the Servicer has:

- Established that the Mortgage, property and the Borrower are eligible under the Program

- Collected the necessary income information from the Borrower
- Analyzed the Borrower's financial situation and verified that all of the information needed to calculate the Target Payment has been provided

This section provides the following requirements related to underwriting the Borrower:

- General requirements, including net present value (NPV) test
- Sequential process for calculating a Target Payment
- Total monthly debt payment-to-income ratio
- Escrows
- Collateral valuation requirements
- Borrower Qualification Worksheet ("Worksheet")

(a) General requirements

- Servicers must account for the income of all Borrowers on the existing Mortgage when considering the Mortgage for modification under the Program
- Servicers must obtain a credit report for each Borrower, or a joint report for a married couple who are co-Borrowers, dated within 90 days of the date the Servicer first determines Borrower eligibility, to determine the Borrower's total monthly debt expenses. (See Section C65.6(c) titled "Total Monthly Debt Payment-to-Income Ratio" for more information.)
- All Mortgages must be modified to a fully amortizing fixed-rate Mortgage (e.g., modifying to, or maintaining, an adjustable-rate Mortgage or an interest-only Mortgage is not permitted)
- For eligible Mortgages with a scheduled interest rate or payment adjustment occurring during the Trial Period, when the adjustment cannot be determined at the time the Trial Period Plan documents are prepared, Servicers should calculate the Target Payment and underwrite the Borrower assuming the interest rate and payment due at the time of the underwriting remains unchanged during the Trial Period
- Servicers must use current amounts due for taxes and insurance premiums when qualifying the Borrower for the Trial Period Plan and Modification Agreement
- Servicers must consider Borrowers for refinancing into the FHA HOPE for Homeowners program. If the underwriting process for a HOPE for Homeowners refinance would delay eligible Borrowers from receiving a modification offer, Servicers must use the sequential process in Section C65.6 to begin the Home Affordable Modification and work to complete the HOPE for Homeowners refinance during the Trial Period. Consideration for a HOPE for Homeowners

refinance should not delay eligible Borrowers from receiving a modification offer and beginning the Trial Period.

- The Servicer must use verified income to determine that the Borrower's current monthly housing expense-to-income ratio is greater than 31% prior to executing the Trial Period Plan. The "monthly housing expense-to-income ratio" is the ratio of the Borrower's current monthly Mortgage payment to the Borrower's monthly gross income (or the Borrowers' combined monthly gross income in the case of co-Borrowers). The "monthly Mortgage payment" includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner's association fees, as applicable (including any escrow payment shortage amounts subject to a repayment plan). When determining a Borrower's "monthly housing expense-to-income ratio," Servicers must adjust the Borrower's current monthly Mortgage payment to include, as applicable, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner's association fees if these expenses are not already included in the Borrower's payment. The monthly Mortgage payment does not include mortgage insurance premium payments or payments due to holders of subordinate liens.

Net present value test

All Mortgages that meet the Program eligibility criteria must be evaluated using the standardized NPV test that compares the NPV result for a modification completed pursuant to the Program to the NPV result for not modifying the Mortgage.

- 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 Servicer must perform the NPV test for the Mortgage at least twice: the first time when qualifying the Borrower for the Trial Period, and a second time, when the final terms of the modification are known. The Servicer must retain the results of the NPV tests (including assumptions, inputs and outputs) performed on the Mortgage. (Note: If the Servicer relied on stated income to prepare and send the Trial Period Plan to the Borrower, the Servicer, before signing and returning the Trial Period Plan to the Borrower must (a) determine continued Borrower eligibility based on verified income, and (b) if the verified income is less than the stated income and principal is

being forbearred, must also run the NPV test again. See Section C65.6(b) Step 1(a) for additional information.)

Servicers must use the NPV Calculator 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>. On this portal, Servicers will have access to the NPV Calculator as well detailed guidelines for submitting proposed modification data for evaluation.

A user ID and password are required for access to the NPV Calculator. Servicers must complete and submit the HMP Registration Form, available at <http://www.HMPAdmin.com>, to obtain a user ID and password.

(b) Sequential process for calculating an Target Payment

Step 1(a): Verify Borrower's monthly income

The Servicer must verify the gross monthly income for all Borrowers on the Note. For purposes of the Program, a Borrower's income is income that is supported by documentation that is not more than 90 days old as of the date the Servicer first determines Borrower eligibility.

Servicers may rely on verbal (stated) income received from the Borrower to create and send a Trial Period Plan; however, if the verified income evidenced by the Borrower's documentation:

- 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.
- 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.

Net income or tax-exempt income may be used for preliminary screening and qualification but must be multiplied 1.25 to obtain an estimate of gross income.

The Borrowers' gross income amount before any payroll deductions includes base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, other compensation for personal services, Social Security payment, including Social Security received by adults on behalf of minors or by minors intended for their own support, annuities, insurance policies, retirement funds, pensions, disability or death benefits, unemployment benefits, positive net rental income, and other income the Borrower wants considered and can provide reasonable documentation to support.

Servicers should include non-Borrower household income in the monthly gross income if information supporting it is voluntarily provided by the Borrower and if there is documentary evidence that the income has been, and reasonably can continue to be, relied upon to support the Mortgage payment. All non-Borrower household income included in monthly gross income must be documented and verified by the Servicer using the same standards for verifying a Borrower's income.

For income verification, Servicers must obtain the following income documentation:

- The most recently signed and dated tax return, complete with all schedules submitted to and on file with the IRS for each Borrower. If the previous year's return is not available, previous year's W-2 for salaried Borrowers must be provided. In addition, in all cases where the previous year's tax return is not provided, the Servicer must obtain a tax transcript by processing IRS Form 4506-T, Request for Transcript of Tax Return.
- A signed Form 4506-T for each Borrower. If the Borrower is not able to provide a signed copy of the most recently filed federal tax return complete with all schedules, or if the Compliance Agent so requires, the Servicer must immediately submit the Form 4506-T to the IRS to request a transcript of the tax return, in order to verify income and occupancy status.
- For wage earners, the two most recent pay stubs for each wage earner on the Note that reflects at least 30 days of year-to-date earnings. For additional income such as bonuses, commissions, tips or overtime, the two most recent pay stubs that reflect at least 30 days of year-to-date earnings or letter from the employer stating frequency of payment and probability of continuance.
- For self-employed Borrowers, the most recent signed and dated quarterly or year-to-date profit and loss statement and other reliable third-party documentation the Borrower voluntarily provides
- Completed and signed page two of Form 1126, Borrower Financial Information, if the Borrower is current or less than 31 days delinquent. The Servicer must legibly print the Borrower's name below the Borrower's signature and add the Freddie Mac loan number to the form.

If the Borrower has other income such as social security, disability or death benefits, or a pension, acceptable documentation includes:

- Letters, exhibits, a disability policy or benefits statement from the provider that states the amount, frequency, and duration of the benefit. The Servicer must determine that the income will continue for at least three years, and
- Copies of signed federal income tax returns, IRS W-2 forms, or copies of the two most recent bank statements.

If a Borrower chooses to disclose income from alimony, child support or separate maintenance payments, acceptable documentation includes:

- Copy of the divorce decree, separation agreement or other type of legal written agreement or court decree that sets forth the amount of such payments and the period of time over which they will be received. The Servicer must determine that the income will continue for at least three years, and
- Documentation that provides proof of full, regular and timely payments, such as deposit slips, bank statements, or signed federal income tax returns.

If the Borrower receives public assistance or collects unemployment, acceptable documentation includes letters, exhibits or a benefits statement from the provider that states the amount, frequency, and duration of the benefit. The Servicer must determine that the income will continue for at least nine months.

If the Borrower has rental income, acceptable documentation includes:

- Copies of all pages from the Borrower's most recent two years of signed federal income tax returns, including Schedule E – Supplemental Income and Loss. To compensate for vacancies and operating and maintenance expenses, no more than 75% of the gross rental income may be used as qualifying income. The Mortgage payment related to the rental property, if any, must be deducted from the 75% of net rental income. If the result is positive, then include the amount in income, otherwise include the negative amount in the total monthly debt payment-to-income ratio.

The Servicer is not required to modify a Mortgage if there is reasonable evidence indicating the Borrower submitted false or misleading information or otherwise engaged in fraud in connection with the modification.

Step 1(b): Calculate the Target Payment

The Servicer must use the sequential steps below to the extent necessary to calculate a Target Payment.

To determine the necessary steps to achieve the Target Payment, the Servicer must calculate the PITIAS Payment after each sequential step (e.g., after every 0.125% decrease in rate, after every additional month in term, if any, and after each forbearance of \$100, if any).

The PITIAS Payment is the monthly payment that must be used to calculate the Target Payment that consists of:

- 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/condominium fees
- If applicable, the Monthly Escrow Shortage Payment (see Section C65.6(d) titled "Escrows")

The Servicer may not include non-housing debt, payments on junior liens or mortgage insurance premium payments in the calculation of the monthly housing expense or PITIAS-to-income ratio. However, the Servicer must include such payments in the calculation of the Borrower's total monthly debt payment-to-income ratio.

Servicers must follow the sequential process in the order specified below only to the extent necessary to achieve the Target Payment. The Servicer must continue to apply the sequential process to the point that the Target Payment falls just below 31% of the Borrowers' gross monthly income and then reverse that last sequential step in order to determine the payment that is closest to, but not less than 31% of the Borrower's gross monthly income.

Step 2: Capitalization of arrearages

Amounts that may be capitalized to the unpaid principal balance (UPB) are limited to the following:

- Delinquent accrued interest (and amounts expected to accrue during the Trial Period)
- Funds advanced by the Servicer, or to be advanced and paid to a third party during the Trial Period, for the payment of real estate taxes and insurance premiums
- Foreclosure expenses incurred, including attorney fees and title costs incurred as part of the foreclosure process, subject to the reimbursable limits in Guide Exhibit 57A, Approved Attorney Fees and Title Expenses

- Property preservation expenses not to exceed the reimbursable limits in Exhibit 57, 1- to 4- Unit Property Approved Expense Amounts
- Any other expenses that were advanced and paid to a third party, as specified in Guide Sections 66.29 and 71.13, provided that they were paid to a third party during the Trial Period

Title costs incurred outside of the foreclosure process (i.e., to preserve the First Lien priority of the modified Mortgage, if applicable) are reimbursable through the reimbursement of expenses process described later in this chapter.

Step 3: Interest rate reduction

The Servicer must next reduce the current interest rate on the existing Mortgage in decrements of 0.125% to the extent necessary to achieve the Target Payment. However, the Servicer may not reduce the interest rate below the 2% interest rate floor.

If the resulting interest rate is at or above the Interest Rate Cap, this modified interest rate will be the new Note Rate for the life of the modified Mortgage.

If the resulting rate is below the Interest Rate Cap, this reduced rate will be in effect for the first five years of the modified Mortgage. Beginning with the sixth year, the modified interest rate will increase annually by 1% per year (or such lesser amount that may be needed) until the interest rate reaches the Interest Rate Cap.

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.

Example: The current interest rate on the Mortgage is 8.0% and the Interest Rate Cap is 6.5%. In order to achieve the Target Payment, the interest rate on the Mortgage must be reduced to 5.0%. The interest rate on the modified Mortgage will be fixed at 5.0% for the first five years and then increase by 1.0% in year 6 to 6.0%, and 0.5% in year 7 to 6.5%. Thereafter, the interest rate will remain at 6.5% for the remaining term of the Mortgage.

If the Target Payment is reached based on a reduction to the interest rate, then the Servicer must prepare and send the Borrower the Trial Period Plan. If the Servicer is able to achieve a PITIAS Payment that is closer to the Target Payment using Step 4, then the Servicer must consider extending the term of the Mortgage as provided in Step 4.

Step 4: Extend amortization term

The Servicer must extend the Mortgage term in one-month increments only to the extent necessary to achieve the Target Payment. However, the Servicer may not

extend the term to allow more than 480 modified payments from the Modification Effective Date.

If the Target Payment is reached based on Steps 3 and 4, then the Servicer must prepare and send the Borrower the Trial Period Plan using only these steps. If the Servicer is able to achieve a PITIAS Payment that is closer to the Target Payment using Step 5, then the Servicer must consider forbearance of part of the Mortgage principal as provided in Step 5.

Step 5: Partial principal forbearance

The Servicer must incrementally forbear a portion of the unpaid principal balance in \$100 amounts, to the extent necessary until the payment on the remaining interest-bearing balance creates the Target Payment. However, if the result of the NPV test is negative, the amount of principal forbearance is limited, so that the modified interest bearing principal balance (i.e., the unpaid principal balance excluding the deferred principal amount) creates a Mark-to-Market LTV Ratio (the ratio that is based on the modified interest-bearing principal balance of the Mortgage and the current value of the property) greater than or equal to 100%, except as set forth in Section C65.7(c). (See Section C65.6(e) for additional information on obtaining the value that must be used for this purpose.)

(Note: Until the Servicer has obtained access to the NPV Calculator, the Servicer must, for purposes of sending the Borrower a Trial Period Plan, limit the amount of principal forbearance to an amount that would not cause the Mark-to-Market LTV Ratio to fall below 100%, and only to the extent necessary to achieve the Target Payment. However, the Servicer must have obtained access to the NPV Calculator and must perform the NPV test prior to the modification of the Mortgage. Except as set forth in Section C65.7(c), if after completing this step, the Mark-to-Market LTV Ratio would fall below 100% in order to achieve the Target Payment and the Servicer does not have access to the NPV Calculator, then the Servicer must contact Freddie Mac for further directions. See Step 6 for documentation and submission requirements.)

This process splits the debt into an interest bearing amortizing principal balance and a deferred non-amortizing principal portion. The deferred principal, or principal forbearance balance, is non-interest bearing and non-amortizing and will be due in the form of a balloon payment upon the earlier of transfer of all or a portion of the property, the payoff of the interest bearing balance, or the new maturity date of the modified Mortgage.

If the Target Payment is achieved while either maintaining a Mark-to-Market LTV Ratio on the interest-bearing principal balance that is equal to or greater than 100% or obtaining a NPV positive result, regardless of the Mark-to-Market LTV Ratio, then the Servicer must prepare and send the Borrower the Trial Period Plan using these steps.

For Mortgages that have a principal forbearance, the Servicer must make the authorized changes to the Modification Agreement as described in Section C65.7(d).

Refer to Section C65.10 for special servicing requirements for Mortgages with a partial principal forbearance.

Step 6: Non-qualified Borrowers

Once the Servicer has verified the Borrower's income, if the Target Payment cannot be achieved using Steps 2-5 above or the Borrower feels he or she cannot afford the Target Payment, the Servicer must consider the Borrower for a different alternative to foreclosure solution. If the Servicer is unable to offer the Borrower a different foreclosure alternative solution, the Servicer must refer the Mortgage to Freddie Mac for evaluation.

The Servicer must fax the following information and documentation to (571) 382-4902:

- Contact name, phone number and email address for the Servicer
- Page two of Form 1126, Borrower Financial Information, if the Borrower is current or less than 31 days delinquent
- Borrower's income documentation
- Documentation used to verify Borrower's occupancy
- Copy of the Borrower's credit report
- Borrower's Hardship Affidavit
- Automated value or BPO if obtained from a source other than Freddie Mac
- Mortgage insurance approval (if applicable)
- Copy of the Borrower Qualification Worksheet screen, or equivalent reflecting all input and analysis results, including any and all information used to determine the following:
 - Imminent default
 - Proposed Trial Period Plan and/or Modification Agreement terms
- Any and all information required to be input into the NPV Calculator and the results of the NPV test

Servicers must temporarily suspend any foreclosure sale and must not refer a Mortgage to foreclosure while Freddie Mac is evaluating the Borrower.

Servicers may not forgive principal on Mortgages serviced for Freddie Mac.

(c) Total Monthly Debt Payment-to-Income Ratio

Servicers must calculate the Borrower's total monthly debt payment-to-income ratio using monthly expenses verified by obtaining a credit report for each Borrower (or a joint report for a married couple who are co-Borrowers) in addition to any monthly obligations provided by the Borrower either verbally or in writing.

The Servicer must calculate a total monthly debt payment-to-income ratio for each Borrower to whom a Trial Period Plan is being offered. For this purpose, the monthly debt payment is the sum of the monthly charges for the following:

- PITIAS Payment (see Section C65.6(a))
- Payments on all installment debts with more than 10 months of payments remaining, including debts that are in a period of either deferment or forbearance. When payments on an installment debt are not on the credit report or are listed as deferred, the Servicer must obtain documentation to support the payment amount included in the monthly debt payment. If no monthly payment is reported on a 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.
- Monthly payments on revolving or open-end accounts, regardless of the balance. In the absence of a stated payment, the payment will be calculated by multiplying the outstanding balance by 3%
- Monthly payment on a Home Equity Line of Credit (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.
- Alimony, child support and separate maintenance payments with more than 10 months of payments remaining
- Car lease payments, regardless of the number of payments remaining
- Aggregate negative net rental income from all Investment Properties owned
- Monthly mortgage payment for second home (principal, interest, taxes and insurance and, when applicable, leasehold payments, homeowner association dues, condominium unit or cooperative unit maintenance fees (excluding unit utility charges))
- Payments on any subordinate lien
- Payments for mortgage insurance premiums, if applicable.

Credit counseling

Borrowers with a total monthly debt payment-to-income ratio (calculated as described above) that is equal to or greater than 55% are required to enter a counseling program with a Department of Housing and Urban Development (HUD)-approved housing counseling agency as a condition for the modification.

Servicers must notify Borrowers with a total monthly debt payment-to-income ratio equal to or greater than 55% of the counseling requirement using the HMP Counseling Referral Letter (see Section C65.2), and must retain a copy of the HMP Counseling Referral Letter provided to the Borrower in the Mortgage file.

The modification will not take effect until the Borrower provides a signed statement indicating that he or she will obtain counseling. The Modification Agreement that the Borrower must sign includes such a statement and will satisfy this requirement.

A list of HUD-approved counseling agencies is available at <http://www.hud.gov> or by calling the toll-free number at **1-800-569-4287**.

(d) Escrows

Unless prohibited by applicable law, an Escrow account must be created on the Mortgage when Escrows are not maintained on the existing Mortgage. The Servicer must establish the Escrow account at the time the Trial Period commences and include any Real Estate Settlement Procedures Act (RESPA) and any other required disclosures in the Trial Period Plan package that the Servicer sends to the Borrower.

Escrows advanced by the Servicer

Any advances previously made by the Servicer or any advances that will be made during the Trial Period to pay property taxes or insurance premiums may be capitalized in the UPB as part of the qualification process, as long as they were paid to third parties prior to the modification.

Servicers must use known amounts due for taxes and insurance premiums when qualifying the Borrower and determining the final terms of the Modification Agreement.

Escrow reserve deficiencies

For taxes and insurance premiums that are not yet due before the Modification Effective Date, the Servicer must determine the amount needed to establish the Escrow account (Escrow shortage) that, together with the monthly Escrow payment included in the monthly Mortgage payment, will be sufficient to pay all future taxes and insurance premiums when they fall due.

The Borrower may either remit the Escrow shortage as a lump sum payment or Monthly Escrow Shortage Payment as part of the Target Payment. This amount may not be capitalized in the UPB of the Mortgage.

If the Borrower elects to make Monthly Escrow Shortage Payments, the amount must be spread equally over a 60-month period and be included when calculating the proposed Target Payment. The Servicer then prepares the Trial Period Plan based on this election.

Subsequent Escrow analyses

If the Borrower elected to pay the Escrow shortage described above over a 60-month period, the Servicer must take that into account in any subsequent Escrow analysis to ensure that the Borrower may continue to pay those amounts over the remaining months and not have the amounts accelerated or compressed into a new Escrow payment as a result of a future Escrow analysis. To facilitate this, Servicers may choose to spread any additional Escrow shortage as a result of a subsequent Escrow analysis over the remaining months of the 60-month period.

Example: The Escrow analysis completed at the beginning of the Trial Period indicates an Escrow shortage of \$1,000 and the Borrower elected to pay this shortage over a 60-month period, which equaled a Monthly Escrow Shortage Payment of \$16.67 included as part of the proposed Target Payment. A subsequent Escrow analysis completed 12 months after the loan has been modified resulted in an additional Escrow deficiency of \$500. The Servicer may spread this shortage amount of \$500 over the remaining 48 months of the Escrow shortage payment period, which would result in a total monthly Escrow shortage payment of \$27.09 to fund the Escrow account.

(e) Collateral valuation requirements

The Servicer must obtain a property valuation for input into the NPV Calculator and for purposes of determining the Mark-to-Market LTV Ratio. The property valuation used may not be more than 90 days old from the date the Servicer first determines Borrower eligibility.

- For Mortgages that are 31 days or more delinquent, Freddie Mac will provide an AVM value, if such a value is available. We will provide the AVM values in a special report that we will update by the fifth Business Day of each month on our web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html.

A secure User ID and password is required to retrieve this report. This is the same User ID and password Servicers use to access their Servicer Performance Profile and any of the Manager Series tools. Servicers may request access using the signup form provided on the web site.

- For Mortgages that are current or less than 31 days delinquent, the Servicer must either obtain a value through our web site at <https://www.bpodirect.net> or by requesting an HVE automated value through one of Freddie Mac's distributors

HVE values may only be obtained for 1-unit attached or detached dwellings or Condominium or PUD units. Mortgages secured by 2- to 4-unit properties, Manufactured Homes, dwellings on a leasehold estate, and, if eligible under a

Seller's Purchase Documents, Cooperative Share Mortgages are not eligible for HVE.

When obtaining a value through HVE, the Servicer will be given the following data:

- HVE Point value
- HVE Low value
- HVE High value
- Forecast Standard Deviation
- Confidence Score

The HVE point value that the Servicer uses must have a Forecast Standard Deviation that is no greater than 0.20 (corresponding to a high or medium confidence score).

If a Servicer has not yet set up a relationship to obtain HVE values through one of our distributors, the Servicer should consider doing so now. Information related to HVE and our distributors can be found at

<http://www.freddiemac.com/hve/hve.html>.

- For all Mortgages for which AVM or HVE data is not available or when the confidence score is low, the Servicer must obtain the value from our web site at **<https://www.bpodirect.net>** in accordance with Section 65.39

If the Servicer has a Freddie Mac BPO or appraisal with an effective date no more than 90 days from the date the Servicer first determines Borrower eligibility the Servicer may use that BPO or appraisal.

(f) Borrower Qualification Worksheet

The Servicer may use the Worksheet to determine the Trial Period payment for a Borrower and the terms of the modification, subject to the NPV test requirements and principal forbearance limits. The Servicer may also use the Worksheet to evaluate whether a Borrower who is current or less than 31 days delinquent is in imminent default.

The Worksheet is available on our secure web site at **http://www.freddiemac.com/singlefamily/service/mha_modification.html**. The Servicer may use this Worksheet, subject to the requirements of the Guide (as if the Worksheet was included in Exhibit 88, Servicing Tools). Servicers are responsible for the accuracy of all data entered into the Worksheet, ensuring that all data is entered accurately, and for the integrity of the results.

Servicers must use their Mortgage Servicing Products ID to access the secure web page. Servicers that do not have an ID may request one by submitting the Servicing Applications Sign Up Form available on the web site.

We have also prepared and made available on the web site the Borrower Qualification Worksheet Users' Guide to assist Servicers in using the Worksheet.

If the Servicer determines using the Worksheet that the Borrower is not qualified for a modification under the Program, and the Servicer is unable to offer the Borrower a different foreclosure alternative solution, the Servicer must refer the Mortgage to Freddie Mac for evaluation pursuant to Section C65.6(b) "Sequential Process for calculating a Target Payment," Step 6: Non-qualified Borrowers. The documentation must be faxed to (571) 382-4902.

C65.7: Modification process (04/21/09)

Servicers must utilize a two-step documentation process for modifications under the Program. The first step is to send the Borrower a Trial Period Plan that describes the terms of the Trial Period and the conditions upon which the Borrower's Mortgage may be modified. The Servicer must perform this step once the Servicer has determined using the sequential process described in Section C65.6(b) that the Borrower qualifies for a modification under the Program. During the Trial Period the Borrower will be required to make payments at the estimated modified payment amount.

The second step involves sending the Borrower a Modification Agreement. The Servicer must calculate the terms of the modification once all final amounts that must be capitalized are known, using verified income.

This section describes the following requirements for offering and processing the Trial Period Plan and the Modification Agreement:

- Processing the Trial Period Plan
- Requirements during the Trial Period
- General requirements for preparing the Modification Agreement
- Authorized changes to the Trial Period Plan and Modification Agreement
- Closing the modification

(a) Processing the Trial Period Plan

If the Borrower qualifies for a modification under the Program using the sequential process described in Section C65.6(b), the Borrower will be required to enter into a Trial Period Plan under the terms of which the Borrower must remit three monthly payments at the estimated new payment amount.

The Servicer must send the Borrower:

- The applicable Trial Period Plan Cover Letter, depending on whether the Servicer qualified the Borrower based on verbal (stated) income or documented income to extend the Trial Period Plan offer. If the Servicer used verbal income, the Servicer must verify the income and determine continued eligibility in accordance with Section C65.6 prior to signing the Trial Period Plan and returning it to the Borrower. The Servicer may not continue to accept Borrower payments under the Trial Period Plan from those Borrowers who do not qualify for the Program. Any further Borrower payments are to be credited to the Borrower's account in accordance with the current loan documents.
- Two Trial Period Plan documents (Refer to Section C65.7(d) “Authorized changes to the Trial Period Plan and Modification Agreement”)
- Any applicable disclosures related to the establishment of an Escrow account and any other disclosures required by applicable federal, State and local law
- The HMP SIGTARP Fraud Notice, if the Servicer did not send this notice to the Borrower with the HMP Documentation Request Letter
- The HMP Counseling Referral Letter if the Borrower's total monthly debt payment-to-income ratio is equal to or greater than 55%. For information about the HMP Counseling Referral Letter, see Section C65.6(c).

The Offer Deadline is the date the Servicer inserts in the Trial Period Plan Cover Letter that is 30 calendar days from the date the Servicer sends the Trial Period Plan offer package to the Borrower, or if that date is not a business day, the next business day thereafter. If the Borrower accepts the Trial Period Plan, the Borrower must then sign and return the following documentation, if not previously provided, by the Offer Deadline:

- Two original executed Trial Period Plan documents
- First payment due under the Trial Period terms
- Documentation to verify occupancy (See Section C65.4 (a))
- Income documentation (See Section C65.6(b))
- Signed Form 4506-T, Request for Transcript of Tax Return
- Fully executed Hardship Affidavit
- Completed and signed page two of Form 1126, Borrower Financial Information, if the Borrower is current or less than 31 days delinquent
- Executed disclosures, if any, to the extent applicable federal, State or local law requires executed disclosures to be retained by the provider

Once the Servicer has (1) verified the Borrower's continued eligibility based on verified income and debt documentation and Hardship Affidavit and (2) received two signed Trial Period Plans from the Borrower and the Borrower's first payment, the Servicer may then sign and date each Trial Period Plan and return a fully executed

copy to the Borrower. (Refer to Section C65.6(b) “Step 1(a): Verify Borrower’s monthly income”.)

The Servicer is encouraged to contact the Borrower before the expiration of the Offer Deadline if the Borrower has not yet submitted two executed originals of the Trial Period Plan, any payments due under the Trial Period Plan and all other required documentation. 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. **Note:** The Borrower is not required to have the Hardship Affidavit notarized.

In addition, Servicers must not refer a Mortgage to foreclosure or conduct a foreclosure sale of the property securing the Mortgage, until the Borrower has had time to respond to the Trial Period Plan offer, the Servicer has made the required attempts to contact the Borrower, and the Offer Deadline has expired. Servicers should postpone any foreclosure sale scheduled to occur during that time period in the most effective manner to avoid the need to restart the foreclosure process, except to the extent State law requires the foreclosure process be restarted.

(b) Requirements during the Trial Period

The first Trial Period payment is due with the return of the Trial Period Plan. The Servicer must require the Borrower to remit timely payments; however, all Trial Period payments must be received no later than the last Business Day of the third month of the Trial Period.

During the Trial Period, Servicers must service the Mortgage consistent with the servicing requirements for Mortgages on a forbearance plan. In addition, the Servicer must:

- Provide the Borrower with a copy of the Trial Period Plan executed by the Servicer within a reasonable period of time following the beginning of the Trial Period
- Continue to report and remit to Freddie Mac in accordance with the investor reporting and remitting requirements set forth in the Guide, which include the advancing of scheduled interest (and principal, if applicable) under the existing Mortgage terms to Freddie Mac, provided that the Servicer has not inactivated the Mortgage
- Credit to an unapplied or suspense funds account, payments made by the Borrower during the Trial Period. Once enough funds have accumulated in the unapplied or suspense funds account to satisfy a full payment under the existing

Mortgage terms, the Servicer must apply the payment in accordance with the current Note and Security Instrument.

If there is any remaining balance of payments made by the Borrower in the unapplied or suspense funds account at the end of the Trial Period that is insufficient to satisfy a scheduled payment under the existing Mortgage terms, the Servicer must apply this balance in accordance with the Security Instrument towards the outstanding arrearages on the Mortgage before such amounts are capitalized. Any excess funds remaining after the Trial Period must not be returned to the Borrower regardless of whether or not the Mortgage is modified.

- Report the Mortgage as being in forbearance through Electronic Default Reporting (EDR) using default action code “09-Forbearance”
- Not refer the Mortgage to foreclosure if the Borrower has executed the Trial Period Plan and commenced payments during the Trial Period. If the Mortgage is already in foreclosure, the Servicer must postpone the foreclosure sale in the most cost effective way and ensure there is minimal impact on the foreclosure timeline if the Borrower fails to remit the remaining payments during the Trial Period.

Late charges may accrue during the Trial Period. However, all accrued and unpaid late charges must be waived in the event the Borrower successfully completes the Trial Period and the Mortgage is modified.

The Servicer must continue to report a “full-file” status report to the four major credit repositories for each loan under the Program in accordance with the Fair Credit Reporting Act and credit bureau standards as provided by the Consumer Data Industry Association (CDIA) on the basis of the following:

- (i) For Borrowers who 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
- (ii) For Borrowers who 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 continue to 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 CDIA.

“Full-file” reporting means that the Servicer must describe the exact status of each Mortgage it is servicing as of the last Business Day of each month.

(c) General requirements for preparing the Modification Agreement for any Mortgage under the Program

Once the Servicer knows the final amounts that must be capitalized, the Servicer must recalculate the final modification terms using the Borrower's verified income and prepare the Modification Agreement. If the Servicer, in determining the final amount capitalized for the Modification Agreement, determines that the Borrower would no longer be qualified under the Program, the Servicer must undertake additional steps required under Section C65.6(b) and in this circumstance only will be permitted to forbear principal below the 100% Mark-to-Market LTV Ratio to the extent needed to achieve the Target Payment, regardless of the final net present value (NPV) result.

To prepare the Modification Agreement, the Servicer must:

- Prepare the Modification Agreement in accordance with Guide Section B65.20(1) and revise it as necessary to comply with federal, State and local law. The Servicer must also ensure that the Mortgage, whether during the Trial Period or upon modification, retains its First Lien position and is fully enforceable in accordance with Section B65.20(1) and B65.20(1)(a)-(d), except that for B65.20(1)(c), the Servicer must obtain a subordination agreement when recordation is required. If the Servicer is unable to obtain any necessary subordination agreements or title policy endorsement, the Servicer must not enter into the Modification Agreement. (Refer to Section C65.7(c) for authorized changes to the Trial Period Plan and the Modification Agreement.)
- Set the Modification Effective Date in the Modification Agreement and the due date of the first payment due after the Trial Period (the First Modified Payment) to be the first day of the month following the end of the Trial Period (even if the last two Trial Period payments are received as late as the last Business Day of the third month of the Trial Period). The new interest rate and new principal balance on the modified Mortgage are effective the first day of the last month of the Trial Period (i.e., which is exactly one month prior to the first modified payment date to allow for payment of interest in arrears).
- Mail the Borrower two copies of the Modification Agreement, together with any applicable disclosures, and provide the Borrower the date by which the Borrower must sign and return the two executed Modification Agreements (and disclosures, if applicable), which must be no more than 14 days from the date the Servicer sent the Modification Agreement. The Borrower must sign both copies of the Modification Agreement and return them to the Servicer. Once the Borrower has made the last required monthly payments due during the Trial Period and otherwise remains in compliance with the terms of the Trial Period Plan, the Servicer must sign the two Modification Agreements, and return one Modification Agreement with all signatures to the Borrower in order for the modification to take effect.

(d) Authorized changes to the Trial Period Plan and Modification Agreement

Servicers must use the Home Affordable Modification Trial Period Plan (“Trial Period Plan”) and Home Affordable Modification Agreement (“Modification Agreement”) for each Borrower to whom a modification offer is being made. Servicers are prohibited from modifying these Uniform Instruments, except in the following circumstances:

Trial Period Plan

- The Servicer must revise the Trial Period Plan as necessary to comply with applicable federal, State and local law
- If the Borrower previously received a Chapter 7 bankruptcy discharge but did not reaffirm the mortgage debt under applicable law, the Servicer must add the following Borrower representation as paragraph G in Section 1:

I was discharged in a Chapter 7 bankruptcy proceeding subsequent to the execution of the Loan Documents. Based on this representation, Lender agrees that I will not have personal liability on the debt pursuant to this Plan.

- If the Note and Mortgage may be assumed by a transferee of an interest in the property, the Servicer must add the following sentence before the last sentence in Section 3:

The Modification Agreement will provide that, as of the Modification Effective Date, a buyer or transferee of the Property will not be permitted, under any circumstance, to assume the loan.

- If the Servicer is required to obtain one or more subordination agreements or a title policy endorsement to ensure that the modified Mortgage retains its first lien position and is fully enforceable, the Servicer must add the following sentence to the end of paragraph G in Section 2:

I understand and agree that the Lender will not be obligated or bound to make any modification of the Loan Documents or to execute the Modification Agreement if the Lender has not received an acceptable title endorsement and/or subordination agreements from other lienholders, as necessary, to ensure that the modified mortgage loan retains its first lien position and is fully enforceable.

- If under applicable law, a Servicer may not establish an escrow account, the Servicer must delete paragraph C in Section 4 of the Trial Period Plan and replace it with “Intentionally Deleted” as follows:

C. Intentionally Deleted

Modification Agreement

- The Servicer must revise the Modification Agreement as necessary to comply with applicable federal, State and local law
- If the Borrower previously received a Chapter 7 bankruptcy discharge but did not reaffirm the mortgage debt under applicable law, the Servicer must add the following Borrower representation in a new paragraph H in Section 1:

I was discharged in a Chapter 7 bankruptcy proceeding subsequent to the execution of the Loan Documents. Based on this representation, Lender agrees that I will not have personal liability on the debt pursuant to this Agreement.

- If the Loan Documents contain a prepayment penalty, the Servicer must add the following new paragraph in Section 4 of the Modification Agreement:

That, as of the Modification Effective Date, any provision in the Note, as amended, for the assessment of a penalty for full or partial prepayment of the Note is null and void.

- If the terms of the loan modification include principal forbearance, the Servicer must amend the Modification Agreement as follows:

(a) Delete the existing Section 3.C. and replace it with the following new Section 3.C.:

\$ _____ of the New Principal Balance shall be deferred (the “Deferred Principal Balance”) and I will not pay interest or make monthly payments on this amount. The New Principal Balance less the Deferred Principal Balance shall be referred to as the “Interest Bearing Principal Balance” and this amount is \$ _____. Interest at the rate of _____ % will begin to accrue on the Interest Bearing Principal Balance as of _____ and the first new monthly payment on the Interest Bearing Principal Balance will be due on _____. My payment schedule for the modified loan is as follows:

<u>Years</u>	<u>Interest Rate</u>	<u>Interest Rate Change Date</u>	<u>Monthly Principal and Interest Payment Amount</u>	<u>Monthly Escrow Payment Amount</u>	<u>Total Monthly Payment</u>	<u>Payment Begins On</u>	<u>Number of Monthly Payments</u>
<u>1-5</u>	<u>[2.00%]</u>	<u>00/00/0000</u>	<u>\$0000.00</u>	<u>\$000.00, adjusts annually after year 1</u>	<u>\$000.00, adjusts annually after year 1</u>	<u>00/00/0000</u>	<u>60</u>
<u>6</u>	<u>[3.00%]</u>	<u>00/00/0000</u>	<u>\$0000.00</u>	<u>Adjusts Annually</u>	<u>Adjusts Annually</u>	<u>00/00/0000</u>	<u>12</u>
<u>7</u>	<u>[4.00%]</u>	<u>00/00/0000</u>	<u>\$0000.00</u>	<u>Adjusts Annually</u>	<u>Adjusts Annually</u>	<u>00/00/0000</u>	<u>12</u>
<u>8</u>	<u>[5.00%]</u>	<u>00/00/0000</u>	<u>\$0000.00</u>	<u>Adjusts Annually</u>	<u>Adjusts Annually</u>	<u>00/00/0000</u>	<u>12</u>
<u>9-[40]</u>	<u>[6.00%]</u>	<u>00/00/0000</u>	<u>\$0000.00</u>	<u>Adjusts Annually</u>	<u>Adjusts Annually</u>	<u>00/00/0000</u>	<u>[Insert Remaining months]</u>

The above terms in this Section 3.C. shall supersede any provisions to the contrary in the Loan Documents, including but not limited to, provisions for an adjustable or step interest rate.

(b) Insert after Section 3.E. the following new Sections 3.F. and 3.G.:

F. I agree to pay in full the Deferred Principal Balance and any other amounts still owed under the Loan Documents by the earliest of: (i) the date I sell or transfer an interest in the Property, (ii) the date I pay the entire Interest Bearing Principal Balance, or (iii) the new Maturity Date.

G. If I make a partial prepayment of Principal, the Lender may apply that partial prepayment first to any Deferred Principal Balance before applying such partial prepayment to other amounts due.

- If under applicable law a Servicer may not establish an escrow account, the Servicer must delete paragraph D in Section 4 of the Modification Agreement and replace it with “Intentionally Deleted” as follows:

D. Intentionally Deleted.

- If the Modification Agreement must be recorded and the original Security Instrument was registered with Mortgage Electronic Registration Systems, Inc. (MERS) and MERS was named as the nominee for the Lender, the Modification Agreement must be changed as follows:

(a) Insert a new definition under the “Property Address” definition on page one as follows:

“MERS” is Mortgage Electronic Registration Systems, Inc. MERS is a separate corporation that is acting solely as a nominee for Lender and Lender’s successors and assigns. MERS is organized and existing under the laws of Delaware, and has an address and telephone number of P.O. Box 2026, Flint, MI 48501-2026, (888) 679-MERS.

(b) Add a new paragraph in Section 4 as follows:

MERS holds only legal title to the interests granted by the Borrower in the Mortgage, but if necessary to comply with law or custom, MERS (as nominee for Lender and Lender’s successors and assigns) has the right to exercise any or all of those interest, including, but not limited to, the right to foreclose and sell the Property; and to take any action required of Lender including, but not limited to, releasing and canceling the mortgage loan.

(c) Add MERS to the signature line at the end of the Modification Agreement, as follows:

Mortgage Electronic Registration Systems, Inc. – Nominee for Lender

The Servicer is eligible to execute the Modification Agreement on behalf of MERS.

Servicers must refer to Guide Exhibit 5, Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application, or Freddie Mac's Uniform Instrument web site at <http://www.freddiemac.com/uniform/> for instructions on how to make these changes.

(e) Closing the modification

Once the Servicer has sent the Borrower the Modification Agreement with both the Servicer’s and Borrower’s signatures, the Servicer must:

- Submit an original Modification Agreement for recordation if required (see Section B65.20) within one Business Day of the Servicer’s receipt of the executed agreement
- Send the other original Modification Agreement to the Servicer’s Document Custodian. If the Note is held by Freddie Mac's Document Custodial Operations (DCO), attach a completed Form 105, Multipurpose Loan Servicing Transmittal, and submit the agreement to DCO
- Submit to Freddie Mac:

- A signed and dated copy of the completed Loss Mitigation Transmittal Worksheet (LMTW). The LMTW is available as part of the Borrower Qualification Worksheet.
- A copy of the Borrower Qualification Worksheet screen that reflects the results of the modification analysis. If the Servicer did not utilize the Borrower Qualification Worksheet to analyze the Mortgage and identify the terms of the modification, the Servicer must provide documentation reflecting any and all information used to determine the following:
 - Imminent default
 - Modification terms
- Any and all information required to be input into the NPV Calculator and the results of the NPV test

At this time, Servicers are not required to enter or transmit data through Workout Prospector II on Mortgages modified under the Program. The LMTW and copy of the Borrower Qualification Worksheet screen, or other supporting documentation if the Borrower Qualification Worksheet was not used, must be provided to Freddie Mac in lieu of using Workout Prospector II.

- Comply with the reporting and remitting requirements set forth in Section B65.26 to complete the loan modification, with the exception of Section B65.26(c)(3) (Servicers must update their Mortgage records to reflect the modified terms of the Mortgage)

C65.8: Other general requirements (04/21/09)

This section provides the information on the following topics:

- Retention of existing credit enhancements
- Additional requirements for Mortgages with mortgage insurance
- Servicing Spread
- Other requirements for Mortgages modified under the Program
- Administrative Costs/Fees
- Reservation of rights to invoke remedies
- Transfers of Servicing
- Reimbursement of expenses
- Document retention requirements

(a) Retention of existing credit enhancements required

Servicers may approve modifications on Mortgages with in-place credit enhancements provided that, if the Servicer is not the credit enhancement provider, the Servicer first obtains any required approval under the terms of the credit

enhancement from the entity providing the enhancement, in writing. For example, if the Mortgage has mortgage insurance, the Servicer must first receive approval from the mortgage insurer (MI) of the modification (or have obtained a blanket delegation of authority from the MI directly or through Freddie Mac to approve the modification on the MI's behalf) to enter into a Modification Agreement that complies with the requirements of this chapter.

(b) Additional requirements for Mortgages with mortgage insurance

Mortgage insurer approval of Mortgage modifications

Servicers are reminded that they must comply with all requirements of applicable mortgage insurance policies when servicing Freddie Mac-owned mortgages. Servicers must service all Mortgages, including any Mortgage to be modified in accordance with the terms of the Program, so as to preserve and not to impair existing mortgage insurance coverage. When executing a Mortgage modification under the Program, a Servicer must either (i) obtain the applicable mortgage insurer's approval of the terms of the Mortgage modification made in accordance with the requirements of the Program for each Mortgage on a case-by-case basis, or (ii) ensure that the applicable mortgage insurer has provided a delegation of authority to approve Mortgage modifications made in accordance with the requirements of the Program on its behalf directly to the Servicer or to Freddie Mac for implementation through its Servicers and Servicer's compliance with the delegation of authority.

Freddie Mac is seeking to obtain delegations of authority from each MI so that Servicers will not have to obtain approval on a case-by-case basis for each modification they process under the Program. We will post on our web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html, a list of the MIs from which we have received a delegated authority agreement and will update that list as we obtain delegations.

Regardless of the grant of delegated authority from a MI, Servicers should always consult the applicable MI for specific processes related to the reporting of modified terms, payment of premiums, and other operational matters in connection with Mortgages modified under the Program and to determine compliance with mortgage insurance requirements, including the existence of and compliance with the terms of any delegation of authority.

Application of mortgage insurance premium payment

Once the Mortgage has been modified, future mortgage insurance premium payment calculations for those MIs who have entered into delegation of authority agreements with Freddie Mac must be based on the gross capitalized unpaid principal balance (UPB) (including the amount of any partial principal forbearance) at the time of the modification. Servicers should consult directly with any MI regarding mortgage insurance premiums that has not provided a delegation of authority or has provided a delegation of authority directly to the Servicer.

Cancellation of Borrower-paid mortgage insurance

Servicers must accurately determine any automatic cancellation of Borrower-paid mortgage insurance or Borrower-requested cancellation of Borrower-paid mortgage insurance in accordance with Chapter 61 and in accordance with the Homeowners Protection Act of 1998 (HPA). For the purpose of canceling mortgage insurance on a modified Mortgage (either HPA or pre-HPA) with a partial principal forbearance, the required loan-to-value (LTV) ratios and the midpoint of the amortization period, as applicable, must be based on the gross capitalized UPB (including the amount of any partial principal forbearance).

(c) Servicing Spread

The Servicing Spread the Servicer retains on the Mortgage once modified will be as specified in Section B65.21.

(d) Other requirements for Mortgages modified under the Program

- If a Mortgage that is not subject to a due-on-sale provision receives a modification under the Program, the Borrower agrees that the modification will cancel the assumability feature of that Mortgage.
- If the loan instruments on the existing Mortgage contain a prepayment penalty provision, the prepayment penalty provision will be null and void upon modification of the Mortgage

See Section C65.7(e) for information on authorized changes that must be made to the documents with respect to these requirements.

(e) Administrative Costs/Fees

Servicers may not charge the Borrower a processing fee, or any other administrative costs or fees associated with the processing of the modification. Further, the Servicer may not require any upfront cash contributions from the Borrower, except to the extent the Borrower chooses to fund the entire amount, or a portion, of any Escrow shortage. Servicers must permit Borrowers who so choose to make a cash contribution.

Servicers may request reimbursement for certain costs associated with the modification that would otherwise be paid by the Borrower (e.g., notary fees, credit report, title costs and recordation fees, if applicable). See Section C65.8(h) for information on the process for requesting reimbursement of such expenses.

(f) Reservation of Rights to Invoke Remedies

Notwithstanding the terms of this chapter and Freddie Mac's delegation of authority to Servicer to approve modifications under the Program, Freddie Mac reserves its

rights to exercise any remedies provided by the Guide and the Purchase Documents, including a repurchase of the Mortgage or a call on a credit enhancement, in the event Freddie Mac determines that there has been a failure to comply with the selling or Servicing representations and warranties of the Guide.

(g) Transfers of Servicing

When a Transfer of Servicing includes Mortgages modified under the Program, the Transferor Servicer must provide special notification to the Transferee Servicer. Specifically, the Transferor Servicer must advise the Transferee Servicer that Mortgages modified under the Home Affordable Modification Program are part of the portfolio being transferred and must confirm that the Transferee Servicer is aware of and agrees to assume the additional responsibilities associated with the Servicing of these Mortgages.

If the portfolio being transferred includes Mortgages modified under the Program, the Transferor Servicer must so indicate on Form 981, Agreement for Subsequent Transfer of Servicing of Single-Family Mortgages, and also indicate whether the transfer includes modified Mortgages that have a step-rate provision (i.e., the interest rate is subject to incremental increases beginning in year 6 of the modification) or a partial principal forbearance.

(h) Reimbursement of expenses

Servicers may request reimbursement for the following costs associated with the modification under the Program (as well as expenses previously incurred under the Streamlined Modification Program) that would otherwise be paid by the Borrower and which may not be capitalized:

Expense Description	Expense Code	Notes
Recordation fees	300003	Actual cost
Property inspection fees	404007	Reimbursement is limited to two inspections for each Mortgage. Reimbursable amounts are in accordance with the limits specified in Exhibit 57.
Title costs, if applicable (except with respect to title costs in connection with a foreclosure proceeding)	300004	Reimbursable amounts are in accordance with the limits specified in Exhibit 57A
Notary fees	042001	Actual cost. Reimbursement limited to expenses paid to third parties only
HVE	400003	Actual cost

In order to be reimbursed for the expenses listed above, the Servicer must provide Freddie Mac with a spreadsheet that includes the list of Mortgages for which expenses were incurred. The spreadsheet must be submitted to **overallowables@freddiemac.com** and must include the Servicer number, Servicer name and current date in the filename in addition to the following data in the order specified:

1. Date of Submission
2. Freddie Mac loan number
3. Servicer's "Vendor ID" number
4. Program No.: P19
5. Contact name
6. Reimbursement amount requested
7. Date the service was performed
8. Expense detail
9. Expense code

Servicers must submit the spreadsheet by the 5th Business Day of the month for all expense reimbursement requests on modifications completed in the prior month. All reimbursement requests must be received by Freddie Mac within 30 days of the first modified payment due date, unless there is a delay in recordation of the Modification Agreement that causes the Servicer to exceed this time frame.

Servicers should contact our Foreclosure/Bankruptcy department via **overallowables@freddiemac.com** with any questions about the reimbursement process for expenses associated with modifications under the Program (as well as expenses previously incurred under the Streamlined Modification Program).

(i) Document retention requirements

In addition to complying with the requirements for Mortgage file retention described in Guide Chapter 52, Servicers must retain all documents and information received during the process of determining Borrower eligibility for a modification under the Program, including Borrower income verification, total monthly Mortgage payment and total monthly gross debt payment calculations, net present value (NPV) calculations (NPV model and version used, assumptions, inputs and outputs), evidence of application of each step of the standard waterfall escrow analysis, escrow advances, and escrow set-up. Servicers must retain all documents and information related to the monthly payments during and after the Trial Period, as well as incentive payment calculations and such other required documents.

Servicers must retain detailed records of Borrower solicitations or Borrower-initiated inquiries regarding the Program, the outcome of the evaluation for modification under the Program and specific justification with supporting details if the request for modification under the Program was denied.

Records must also be retained to document the reason(s) for a trial modification failure, where the Borrower enters into a Trial Period, but fails to successfully complete it. If a Program modification is not pursued when the NPV result is “negative,” the Servicer must document its consideration of other foreclosure prevention options. If a Borrower under a Program modification loses good standing by becoming 90 days or more past due (e.g., three monthly payments are due and unpaid on the last day of the third month), the Servicer must retain documentation of its consideration of the Borrower for other loss mitigation alternatives.

Servicers must retain required documents for the period set forth in Section 52.3.

C65.9: Program incentives (04/21/09)

No incentives of any kind will be paid if the Borrower’s monthly Mortgage payment ratio starts below 31 percent prior to the implementation of the Program because the Borrower is ineligible. The calculation and payment of all incentive compensation will be based strictly on the Borrower’s verified income.

(a) Servicer incentives

Freddie Mac will pay Servicers:

- A workout compensation fee of \$1,000 for each modification meeting the requirements of the Program. This fee will be in lieu of the \$800 workout compensation fee provided in Section B65.8. If a Servicer closes a modification that only capitalizes arrearages, but does not involve an interest rate reduction or other modification feature, the Servicer may only earn this workout compensation fee and neither the Servicer nor the Borrower are eligible for any other incentive related payments.
- An additional \$500 incentive payment for each modification for an eligible Borrower who was current (less than 31 days delinquent) and who remains current during the Trial Period Plan. The Servicer must be required to maintain records and documentation evidencing that the Trial Period payment arrangements were agreed to while the Borrower was less than 31 days delinquent.

The \$1,000 workout compensation fee and the \$500 incentive payment will be considered earned when the Borrower has made the three payments required under the Trial Period and has executed the Modification Agreement.

In addition, Freddie Mac will pay Servicers a “pay for success” fee of up to \$1,000 a year for three years.

The Servicer will only receive a pay-for-success fee if the Borrower’s modified monthly PITIAS Payment results in at least a 6% reduction from the monthly

Mortgage payment used to determine eligibility. Annual pay for success payments will be:

- Equal to the lesser of (i) \$1,000 (\$83.33/month) or (ii) one-half the reduction in the Borrower's annualized monthly Mortgage payment
- Accrued monthly unless the Borrower loses good standing by becoming 90 days or more past due (e.g., three monthly payments are due and unpaid on the last day of the third month) on the modified Mortgage and the Mortgage has not been paid off prior to the first, second or third anniversary of the Trial Period Plan Effective Date.
- Considered earned as of the first, second, and third anniversaries of the Trial Period Plan Effective Date, unless the Borrower loses good standing by becoming 90 days or more past due on the modified Mortgage at any time before any annual payment is earned. If the Mortgage is 90 days delinquent at any time, no incentive payment will be made, even if the Borrower cures the delinquency.
- Paid approximately one month after the incentive is earned

(b) Borrower incentives

Borrowers who remain current on their monthly Mortgage payments under the Program will receive "Pay for Performance" incentives. The incentive will be accrued monthly and applied to principal annually. The Pay for Performance incentive will be applied first to the interest-bearing principal balance on the Mortgage and then to any principal forbearance amount (if applicable). The incentive can be earned if a Borrower's modified monthly PITIAS Payment results in at least a 6% reduction from the monthly Mortgage payment used to determine eligibility. Annual Pay for Performance incentives will be:

- Equal to the lesser of (i) \$1,000 (\$83.33/month) or (ii) one-half the reduction in the Borrower's annualized monthly Mortgage payment
- Accrued monthly for each month the Mortgage remains current for five years until the Mortgage is paid off, provided no incentive will accrue for any late Mortgage payment
- Considered earned as of the anniversary of the Trial Period Plan Effective Date, unless the Borrower loses good standing by becoming 90 days or more past due on the modified Mortgage prior to any payment anniversary. If the Mortgage is 90 days delinquent at any time, no incentive payment will be made, even if the Borrower cures the delinquency.
- Paid to the Servicer approximately one month after the incentive is earned and must be applied as described above to the Borrower's account upon receipt

Servicers are not required to reamortize the Borrower's Mortgage balance to reduce the Mortgage payment as a result the application of this incentive to the unpaid principal balance.

Servicers should prepare and send to the Borrower information on a monthly basis regarding the accrual of "pay for performance" principal balance reduction payments. Servicers are encouraged to incorporate this information into the Borrower's monthly statements.

C65.10: Special requirements for Mortgages with a partial principal forbearance (04/21/09)

(a) Investor Reporting and Remitting requirements for all Mortgages with a partial principal forbearance

- When reporting monthly loan-level activity for a Mortgage with a partial principal forbearance, the data that Servicers report in their loan-level reporting must be based on the interest-bearing unpaid principal balance (UPB) of the Mortgage. That is:
 - The UPB that is reported is the interest-bearing UPB of the Mortgage, without regard to the deferred UPB
 - The amount of "principal due Freddie Mac" that is reported is Freddie Mac's share of principal payments, including prepaid principal, curtailments, etc. applied to the interest-bearing UPB during the accounting cycle
- Additionally, Servicers must provide Freddie Mac with a report on a monthly basis that includes a cumulative listing of all modified Mortgages with a partial principal forbearance. Servicers must submit the report by the 5th Business Day after the accounting cycle cutoff to **PL_HMP@freddiemac.com**. The report must be in the form of a Microsoft Excel spreadsheet and must include the following data elements in the order specified below:
 1. Freddie Mac loan number
 2. Beginning deferred UPB as of the accounting cycle
 3. Principal curtailments applied to the deferred UPB as of the accounting cycle
 4. Total principal curtailment amount
 5. Ending deferred UPB
 6. Ending interest-bearing UPB
 7. Gross UPB
 8. Date of accounting cycle cutoff

The Microsoft Excel spreadsheet being submitted to Freddie Mac must include the Servicer number in the filename. A template of the required spreadsheet containing the data specified above is available on our Program web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html.

- When reporting the payoff of a Mortgage with a partial principal forbearance, Servicers must comply with the applicable reporting requirements set forth in Guide Chapter 78 except that:
 - The UPB that is reported must be the combined UPB (interest-bearing and deferred UPB) of the Mortgage
 - In the Servicer's interim remittance, the Servicer must remit the combined UPB (interest-bearing and deferred UPB) due us as reported in the previous accounting cycle, plus or minus the exception interest. (**Note:** the exception interest must be based on the interest-bearing UPB only.)

In addition, Servicers must complete Form 315, Exception Activity Transmittal Summary and submit the form to **PL_HMP@freddiemac.com** by the 2nd Business Day after the activity has occurred.

(b) Application of partial prepayments of principal

Partial prepayments of principal (“curtailments”) must be applied first to the interest-bearing UPB before any remaining funds may be applied to the deferred UPB, except if the principal curtailment is equal to or greater than the interest-bearing UPB. If the principal curtailment is equal to or greater than the interest-bearing UPB, then the principal curtailment must first be applied to the deferred UPB and any remaining curtailment to the interest-bearing UPB.

If a principal curtailment is applied to the deferred UPB, it must be reported to Freddie Mac via Form 315, Exception Activity Transmittal Summary, and submitted to **PL_HMP@freddiemac.com** no later than the 5th Business Day after the accounting cycle cutoff. Form 315, Exception Activity Transmittal Summary, is available on our Program web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html.

(c) Monthly statements

Freddie Mac recommends the Servicer provide the Borrower with statements that reflect the deferred principal balance at least annually.

(d) Credit bureau reporting for all Mortgages with a partial principal forbearance

Servicers can access additional information on credit reporting unique to the Program including the reporting of Mortgages with a partial principal forbearance from the

Consumer Data Industry Association, which gives general credit reporting guidelines for Mortgage and home equity loans in response to current financial conditions, at <http://cdia.files.cms-plus.com/Metro2/MortgageHomeEquityReportingGuidelines.pdf>.

C65.11: Program activity reporting requirements (04/21/09)

(a) Reporting activity to Freddie Mac

Servicers must track certain key data in a Microsoft Excel spreadsheet and submit the completed spreadsheet to Freddie Mac on a weekly basis. The spreadsheet must be submitted electronically to Freddie Mac at

HMPModificationTracking@freddiemac.com by 12 p.m. Eastern Standard Time each Monday for the prior week's activity. In a month when the last Business Day of the month falls on a day other than a Friday, the Servicer must provide two updates for the previous week:

- One update for the Business Day(s) in that week to month end
- One update for the Business Day(s) in that week for the new month

The template for the spreadsheet is available on our web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html.

(b) Reporting to Fannie Mae as financial agent for the United States Department of the Treasury

All Servicers are required to register with Fannie Mae in its capacity as financial agent for the United States Department of the 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 on the <http://www.HMPAdmin.com> web site.

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

Data must be submitted through a data collection tool ("Data Collector") available on the servicer web portal available through <http://www.HMPAdmin.com>. A unique user ID and password is required to access the Data Collector. The Servicer will be

provided its unique user ID and password by the Financial Agent once the Financial Agent has received and processed the Servicer's HMP Registration Form.

Servicers should refer to <http://www.HMPAdmin.com> for additional information regarding these data reporting requirements.

C65.12: Disclosures and communications with Borrowers (04/21/09)

When promoting or describing Mortgage modifications, Servicers/lenders should provide Borrowers with information designed to help them understand the modification terms that are being offered and the modification process. Such communication should help minimize potential Borrower confusion and complaints, foster good customer relations and reduce legal compliance and other risks in connection with the transaction.

Servicers/lenders also must provide Borrowers with clear and understandable written information about the material terms, costs and risks of the modified mortgage in a timely manner to enable Borrowers to make informed decisions. The letters set forth in Section C65.2 (Proactive Solicitation Letter, Documentation Request Letter, Trial Period Plan Cover Letter and HMP Agreement Cover Letter) are templates and may be altered in the Servicer's discretion as they deem necessary to meet the requirements of this Section C65.12 and to comply with disclosure and other requirements under applicable federal, State or local law.

Information should be provided, as applicable, that:

- Describes how the modified loan balance is calculated
- Describes any new terms, interest rates, payment amounts, or loan maturity dates
- Describes how the new rate will be determined and provides a payment schedule that illustrates how subsequent increases in the modified interest rate will cause payment amounts to increase correspondingly over time
- Provides the amount and date of any balloon payments
- Describes applicable Escrow requirements for taxes and insurance
- Explains the need to make full and timely payments on the modified loan
- Describes Borrower incentive payments for timely loan payments

- Explains the consequences of failure to make timely payments on the Trial Period Plan (loss of loan modification) and Modification Agreement (risk of loss of the home through foreclosure)

C65.13: Fair treatment and legal compliance (04/21/09)

(a) Compliance with applicable laws

Mortgage modification programs must be implemented in a manner that complies with all applicable federal, State and local laws and regulations, including, but not limited to:

- Section 5 of the Federal Trade Commission Act and similar applicable laws that prohibit unfair or deceptive acts or practices
- The Equal Credit Opportunity Act and the Fair Housing Act, which prohibits discrimination on a prohibited basis in connection with mortgage transactions. Servicers and lenders should ensure that loan modification programs comply with all applicable laws and regulations prohibiting discrimination. Servicers and lenders must not treat a Borrower less favorably than other Borrowers based even in part on race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income, or any other protected class or basis under applicable federal, State and local laws, in connection with any loan modification.
- The Real Estate Settlement Procedures Act, which imposes certain disclosure requirements and restrictions relating to transfers of the servicing of certain loans and Escrow accounts.
- The Fair Debt Collection Practices Act, which restricts certain abusive debt collection practices by collectors of debts, other than the creditor, owed or due to another

(b) Government monitoring data

The Department of Housing and Urban Development (HUD) has directed Freddie Mac, pursuant to HUD's authority under Section 1325(2) of the Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA), 24 C.F.R. 81.44(a) and (b), 12 C.F.R. 202.5(a)(2), and its general regulatory authority under the Fair Housing Act, 42 U.S.C. 3601 et seq. ("Act") to require Servicers to request and report data on the race, ethnicity, and sex of Borrowers and co-Borrowers involved in potential loan modifications under the Program ("Government Monitoring Data") in order to monitor compliance with the Act and other applicable fair lending and consumer protection laws. As a result of such direction from HUD, this section of this chapter

constitutes an agreement entered into between Freddie Mac, on behalf of HUD, and Freddie Mac's approved Servicers. As such, this is an agreement entered into by Freddie Mac's approved Servicers with an enforcement agency (i.e., HUD) to permit the enforcement agency to monitor or enforce compliance with federal law, within the meaning of 12 C.F.R. 202.5(a)(2).

HUD has specified that the Government Monitoring Data shall be collected in the Hardship Affidavit. Servicers must request, but not require, that each Borrower who completes a Hardship Affidavit in connection with the Program furnish the Government Monitoring Data. If any Borrower chooses not to provide the Government Monitoring Data, or any part of it, the Servicer must note that fact on the Hardship Affidavit in the space provided. In such circumstances, and if the Hardship Affidavit is completed in a face-to-face setting, the Servicer, its representative or agent shall then also note on the form, to the extent possible on the basis of visual observation or surname, the race, ethnicity and sex of any Borrower or co-Borrower who has not furnished the Government Monitoring Data. If any Borrower declines or fails to provide the Government Monitoring Data on a Hardship Affidavit taken by mail or telephone or on the Internet, the data need not be provided. In such a case, the Servicer must indicate that the request for a loan modification was received by mail, telephone or Internet, if it is not otherwise evident on the face of the Hardship Affidavit.

C65.14: Responsiveness to Borrower inquiries (04/21/09)

Servicers should have procedures and systems in place to be able to track and respond to inquiries and complaints about Mortgage modifications. Servicers should ensure that such inquiries and complaints are provided fair consideration, and timely and appropriate responses and resolution. This information should be available for review by the Compliance Agent.

C65.15: Compliance (04/21/09)

Servicers must comply with the Program requirements and must document the execution of loan evaluation, loan modification and accounting processes. Servicers must develop and execute a quality assurance program that includes either a statistically based (with a 95% confidence level) or a 10% stratified sample of loans modified, drawn within 30-45 days of final modification and reported on within 30-45 days of review. In addition, a trending analysis must be performed on a rolling 12-month basis.

The United States Department of the Treasury ("Treasury") has selected Freddie Mac to serve as its compliance agent for the Program ("Compliance Agent"). In its role as Compliance Agent, Freddie Mac will utilize Freddie Mac employees and contractors to conduct independent compliance assessments. In addition, loan level data will be reviewed for eligibility and fraud.

The scope of the assessments will include, among other things, an evaluation of documented evidence to confirm adherence (e.g., accuracy and timeliness) to Program requirements with respect to the following:

- Evaluation of Borrower and property eligibility
- Compliance with underwriting guidelines
- Execution of net present value (NPV)/waterfall processes
- Completion of Borrower incentive payments
- Investor subsidy calculations
- Data integrity

The review will also evaluate the effectiveness of the Servicer's quality assurance program; such evaluation will include, without limitation, the timing and size of the sample selection, the scope of the quality assurance reviews, and the reporting and remediation process.

There will be two types of compliance assessments: on-site and remote. Both on-site and remote reviews will consist of the following activities (among others): notification, scheduling, self assessments, documentation submission, interviews, file reviews, and reporting.

For on-site reviews, the Compliance Agent will strive to provide the Servicer with (i) a 30-day advance notification of a pending review and (ii) subsequent confirmation of the dates of the review. However, the Compliance Agent reserves the right to arrive at the Servicer's site unannounced. The Compliance Agent will request the Servicer to make available documentation, including, without limitation, policies and procedures, management reports, loan files and a risk control self assessment ready for review. Additionally, the Compliance Agent may request additional loan files during the review. Loan files subject to review (for both on-site and remote reviews) include (but are not necessarily limited to) files relating to loan modifications that are (i) approved or declined by the Servicer under the Program, (ii) approved by the Servicer, but as to which the offer to modify is not accepted by the Borrower, and (iii) subject to a default by the Borrower during or after the Trial Period. In connection with on-site reviews, interviews will usually be conducted in person.

During the review window, the Compliance Agent will review loan files and other requested documentation to evaluate compliance with Program terms. Upon the completion of the review, the Compliance Agent will conduct an exit interview with the Servicer to discuss preliminary assessment results.

For remote reviews, the Compliance Agent will request the Servicer to send documentation, including, without limitation, policies and procedures, management reports, loan files and a risk control self assessment within 30 days of the request. In addition, time will be scheduled for phone interviews, including a results summary call after the compliance review is completed to discuss preliminary results.

The targeted time frame for publishing the Servicer assessment report is 30 days after the completion of the review. Treasury will receive a copy of the report five business days prior to the release of the report to the Servicer.

There will be an issue/resolution appeal process for Servicer assessments. Servicers will be able to submit concerns or disputes to an independent quality assurance team within the Compliance Agent.