Freddie Mac
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Bulletin

NUMBER: 2009-26

TO: All Freddie Mac Servicers November 2, 2009

SUBJECTS

With this *Single-Family Seller/Servicer Guide* ("Guide") Bulletin, we are:

- Reminding Servicers of the changes to the Home Affordable Modification Program ("HAMP") announced by the United States Department of the Treasury ("Treasury") in Supplemental Directive 09-07, which include a new streamlined Borrower evaluation process
- Announcing that we are revising our partial principal forbearance and net present value ("NPV") requirements for determining when a modification in accordance with HAMP must be offered to a Borrower, and revising our requirements for when the Treasury NPV test (previously referred to as the "NPV test") must be performed
- Reminding Servicers of our Single-Family Advisory e-mail announcement on **October 14, 2009** regarding Imminent Default Indicator™ (IDI), a new HAMP tool that will be available soon

Finally, we are also reminding Servicers that the Data Collector, the tool used by Servicers to report HAMP data to Fannie Mae in its capacity as program administrator for Treasury (the "Program Administrator"), is being retired and replaced with the new HAMP Reporting Tool.

SUPPLEMENTAL DIRECTIVE 09-07

In Supplemental Directive 09-01, Treasury announced the eligibility, underwriting and servicing requirements for HAMP. On October 8, 2009, Treasury published Supplemental Directive 09-07 (SD 09-07), which updated Borrower underwriting requirements, introduced new program documents and revised existing documents. The changes streamlined the program income documentation requirements and standardized the evaluation process that Servicers must use to make a HAMP eligibility determination.

The changes described in SD 09-07 include:

- New HAMP forms, including the following:
  - A standard Making Home Affordable (MHA) Request for Modification and Affidavit form (RMA) that incorporates Borrower income and expense information, a revised Hardship Affidavit, the Special Inspector General Troubled Asset Relief Program (SIGTARP) Fraud Notice and portions of the current Home Affordable Modification Trial Period Plan (Form 3156) ("Trial Period Plan")
  - The MHA Hardship Affidavit that updates the HAMP Hardship Affidavit and incorporates the SIGTARP Fraud Notice. Servicers must obtain an executed MHA Hardship Affidavit when they do not receive an executed RMA.
  - The conversion of the current Trial Period Plan to a notice that does not require a Borrower signature (either a Trial Period Plan Notice- Stated Income or Trial Period Plan Notice – Verified Income)

The new and updated documents will be posted on **http://www.HMPadmin.com** once available. Servicers must amend the Trial Period Plan Notices as necessary to ensure compliance with applicable federal, State, and local laws, and may make other changes to the notices consistent with the
Freddie Mac authorized changes to the Trial Period Plan under Guide Exhibit 5, *Authorized Changes to Notes, Riders Security Instruments and the Uniform Residential Loan Application*. See also *Authorized Changes to Modification/Special Purpose Documents* posted on Freddie Mac's Uniform Instruments web site at **http://www.freddiemac.com/uniform/**.

- Standardized Servicer response timeframes
- Updated and simplified income documentation and verification requirements

As previously announced in a Single-Family Advisory e-mail, Freddie Mac Servicers must immediately implement the Servicer response requirements provided in SD 09-07 and follow the owner occupancy verification requirements as set forth in SD 09-07 (e.g., through the use of a credit report). If the information on the credit report is inconsistent with other information provided by the Borrower, the Servicer must reconcile the inconsistency.

Servicers also must immediately begin accepting the new RMA when submitted by a Borrower in lieu of the Servicer's own intake forms and the HAMP Hardship Affidavit. Servicers may immediately begin using the new forms included as exhibits to SD 09-07; however, Servicers must begin using the new documentation no later than **March 1, 2010**. The HAMP Modification Cover Letter and the Home Affordable Modification Agreement have not changed.

Income documentation and verification requirements

Also, as communicated in the Single-Family Advisory e-mail, Freddie Mac Servicers must immediately begin evaluating Borrowers who are 31 days or more delinquent using the revised income documentation and verification requirements announced in SD 09-07. Freddie Mac Servicers may **not** use the revised income documentation and verification requirements announced in SD 09-07 for Borrowers where imminent default must first be determined.

Unemployment Benefit Estimation Tool

Pursuant to SD 09-07, with respect to unemployment benefits, Servicers may utilize the new U.S. Department of Labor Unemployment Benefit Estimation Tool posted on October 22, 2009, located at http://www.ows.doleta.gov/unemploy/ben_entitle.asp. This tool allows mortgage companies and housing counselors to estimate maximum potential unemployment benefit income and the duration for which it will be received, based on information provided in a Borrower's monetary determination letter that he or she received from the State.

New IRS Form 4506T-EZ

On October 21, 2009, the Internal Revenue Service (IRS) published a new Short Form Request for Individual Tax Return Transcript (Form 4506T-EZ) which is available via http://www.irs.gov/pub/irs-pdf/f4506tez.pdf, to streamline the income verification process Servicers must complete under HAMP. A link to the new form is also available at Freddie Mac's HAMP Web page at http://www.freddiemac.com/singlefamily/service/mha_modification.html.

Servicers are encouraged to use both the new Form 4506T-EZ and the IRS Income Verification Express Service (IVES), which uses secure e-mail to deliver tax return transcripts to Servicers. Whenever a Servicer obtains a signed and completed Form 4506T-EZ, they are not required to obtain a Form 4506-T from the Borrower.

Additional guidance with respect to SD 09-07 in future Bulletin

Freddie Mac will provide additional guidance with respect to SD 09-07 in a future Bulletin, including providing the income documentation and verification requirements for evaluating Borrowers where imminent default must first be determined.

CHANGES TO PARTIAL PRINCIPAL FORBEARANCE AND NPV REQUIREMENTS

Effective December 1, 2009

Partial Principal Forbearance

With this Bulletin, we are adding an additional limit around the amount of partial principal forbearance that can be used to achieve the Target Payment. Effective for Mortgages for which the Servicer begins a new evaluation under HAMP on or after **December 1, 2009**, the following forbearance requirements apply:

- If partial principal forbearance is necessary to achieve the Target Payment (as described in Guide Section C65.6 (b) Step 5), the amount of partial principal forbearance is limited to the greater of (i) 30% of the unpaid principal balance of the Mortgage including the capitalization of arrearages or (ii) an amount resulting in a modified interest-bearing balance that would create a Mark-to-Market LTV Ratio equal to100% (collectively, the "Forbearance Limit").

  If the amount of partial principal forbearance necessary to achieve the Target Payment is greater than the Forbearance Limit, then the Mortgage is not eligible for modification under HAMP. For example, if the amount of forbearance is 35% of the unpaid principal balance including capitalization and the interest-bearing balance creates a Mark-to-Market LTV Ratio of less than 100%, the Mortgage is not eligible for modification.

  However, Servicers may forbear principal beyond the Forbearance Limit to achieve the Target Payment when determining the final amounts to be capitalized and preparing the Modification Agreement, provided the Mortgage met the partial principal forbearance and all other eligibility requirements, including the Forbearance Limit, at the time the Borrower was qualified for the modification based on verified income.

- If the result of the Treasury NPV test is negative, Servicers must continue to limit the amount of principal forbearance in accordance with current Guide requirements. That is, when the result of the Treasury NPV test is negative, the interest-bearing principal balance is limited to a Mark-to-Market LTV Ratio that is equal to or greater than 100%. (See section titled "NPV Requirements" below for additional limitations when the Treasury NPV result is negative.)

NPV Requirements

Currently, we require Servicers to process every modification under HAMP regardless of its Treasury NPV result, unless the Treasury NPV result is negative and the amount of principal forbearance would create an interest-bearing balance with a Mark-to-Market LTV Ratio of less than 100%. To determine whether a Treasury NPV result is positive or negative, the Servicer must calculate and document the difference between the Treasury NPV output for the modification less the Treasury NPV output for the Mortgage without modification. If the NPV of the modified Mortgage is higher than the NPV of the Mortgage without modification, the modification is considered to be "NPV positive." For purposes of HAMP, a Treasury NPV result of zero is considered to be NPV positive. If the NPV of the Mortgage without modification is higher than the NPV of the modified Mortgage, the modification is considered to be "NPV negative."

Effective for new HAMP evaluations on or after **December 1, 2009**, we are updating our NPV requirements as follows:

- **NPV eligibility rules for modifications *without* partial principal forbearance**
  - If the proposed modification terms do not require partial principal forbearance and the Treasury NPV result is either positive or less than zero, but not less than negative $5,000, then the Servicer must process the modification.
  - The Mortgage is not eligible for a modification under HAMP if the Treasury NPV result is less than negative $5,000 (i.e., negative $5,000.01 or lower).

- **NPV eligibility rules for modifications *with* partial principal forbearance**
  - If the proposed modification terms require partial principal forbearance to reach the Target Payment and the Treasury NPV result is positive, then the Servicer must process the modification provided the amount of forbearance does not exceed the Forbearance Limit.
  - If the proposed modification terms require partial principal forbearance to reach the Target Payment and the Treasury NPV result is less than zero, but not less than negative $5,000, then the Servicer must process the modification provided the amount of partial principal forbearance does not create an interest-bearing balance with a Mark-to-Market LTV Ratio of less than 100%. If the amount of forbearance required to reach the Target Payment creates an interest-bearing balance with a Mark-to-Market LTV Ratio of less than 100%, the Mortgage is not eligible for a modification under HAMP.
  - The Mortgage is not eligible for a modification under HAMP if the Treasury NPV result is less than negative $5,000 (i.e., negative $5,000.01 or lower).

The following tables summarize these requirements:

NPV Eligibility rules for modifications *without* partial principal forbearance	
If the Treasury NPV result is:	**Then:**
Positive or Less than zero, but not less than negative $5,000	The Servicer must process the modification
Less than negative $5,000 (i.e., negative $5,000.01 or lower)	The Mortgage is ineligible for a modification under HAMP
NPV Eligibility rules for modifications *with* partial principal forbearance	
If the Treasury NPV result is:	**Then:**
Positive	The Servicer must process the modification provided the amount of forbearance does not exceed the Forbearance Limit
Less than zero, but not less than negative $5,000	The Servicer must process the modification provided the amount of forbearance does not create an interest-bearing balance with a Mark-to-Market LTV Ratio of less than 100%. The Servicer must not process the modification if the amount of forbearance creates an interest-bearing balance with a Mark-to-Market LTV Ratio of less than 100%.
Less than negative $5,000 (i.e., negative $5,000.01 or lower)	The Mortgage is ineligible for a modification under HAMP

Determining when to run the Treasury NPV Model

A Servicer must run the proposed modification terms through the Treasury NPV Model (previously referred to as the "NPV Model") when qualifying the Borrower for the Trial Period. The Servicer must retain the Treasury NPV Model's results (in addition to all assumptions, inputs, outputs and version) for the Mortgage in the Mortgage file.

If the Servicer relied on stated income to prepare and send the Trial Period Plan or Trial Period Plan Notice – Stated Income to the Borrower, the Servicer, before signing and returning the Trial Period Plan to the Borrower or sending an approval notice required under SD 09-07 must:

- Determine continued Borrower eligibility based on verified income and other required documentation, and
- If the verified income differs from the stated income, run the proposed modification terms through the Treasury NPV Model again using the same major Treasury NPV Model version that was used to qualify the Borrower for the Trial Period. The Servicer must retain the Treasury NPV Model's results (in addition to all assumptions, inputs, outputs and version) for both evaluations for the Mortgage in the Mortgage file. However, if the verified income is the same as the stated income, a re-run of the proposed modification terms through the Treasury NPV Model is not required.

Availability and use of the Treasury NPV Model

The Treasury NPV Model is available on the Home Affordable Modification Program servicer web portal accessible through **http://www.HMPadmin.com**. Detailed guidelines for submitting proposed modification data for evaluation are also available on this portal. Each Servicer represents and warrants that it is using the most current version of the Treasury NPV Model when processing a new evaluation for HAMP (or the same major Treasury NPV Model version when determining final eligibility based on verified income) and that the data input into the Treasury NPV Model is accurate and has been input accurately.

IMMINENT DEFAULT INDICATOR AVAILABLE SOON

As previously communicated to Servicers in a Single-Family Advisory e-mail, Freddie Mac will soon introduce Imminent Default Indicator (IDI), a new HAMP tool to help Servicers determine if a Borrower with a Freddie Mac-owned or guaranteed Mortgage is in imminent default. This tool will replace a portion of the current imminent default evaluation for a modification under HAMP and will be required when conducting this evaluation.

We encourage Servicers to begin preparing now to implement IDI by:

- Reviewing the Imminent Default Indicator Technical Specifications Version 1.0, which is available as a secure HAMP web link on our HAMP web page.
- Obtaining a User ID and password to access Workout Prospector®, one of Freddie Mac's online servicing tools. Servicers that already have access will automatically be able to use IDI when it becomes available. Because IDI will be required when evaluating certain Borrowers for HAMP in Workout Prospector, we have streamlined the process to enable access to both tools with just one User ID and password. Servicers that have not yet requested access to Workout Prospector must complete the online Workout Prospector registration form immediately.

Freddie Mac will provide further guidance on the determination of imminent default and timeframes for using IDI in an upcoming Bulletin.

RETIREMENT OF THE DATA COLLECTOR AND USE OF NEW HAMP REPORTING TOOL

As previously communicated by the Program Administrator in its September 17, 2009 HAMP Update (available at www.HMPadmin.com/portal/news/announcement.html), the Data Collector, the data collection tool currently used by Servicers to report HAMP data to the Program Administrator, is scheduled to be retired by the end of November 2009 and is being replaced with the new HAMP

Reporting Tool developed by Lender Processing Services, Inc. (LPS). If they have not already done so, Servicers must contact LPS regarding registration and set-up information for access to the HAMP Reporting Tool and/or direct integration options by calling the HAMP Support Center at 1-866-939-4469 (select option 1, option 5 and your call will be routed to LPS).

GUIDE REVISIONS

Chapter C65 and other applicable Guide sections will be updated in a future Bulletin to reflect these changes.

CONCLUSION

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

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

Sincerely,

Patricia J. McClung
Vice President
Offerings Management