

Chapter C65: Home Affordable Modification Program

C65.1: Overview (03/11/09)

This chapter provides Servicing requirements in connection with the federal government 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
- **Borrower Qualification Worksheet:** A Microsoft Excel spreadsheet that the Servicer must use to determine the modified payment and whether a Borrower is qualified for the Program. The spreadsheet is available on http://www.freddiemac.com/singlefamily/service/mha_modification.html.
- **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 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 program is effective from October 1, 2008 to September 30, 2011.
- **Interest Rate Cap:** The lesser of (i) the current Note Rate on the fixed-rate Mortgage, or (ii) the fully indexed rate on an ARM calculated as of the date the Modification Agreement is prepared, or (iii) the Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate conforming Mortgages in effect as of the preparation date of the modification, rounded down to the nearest one eighth of one percent (1/8%). The Freddie Mac Weekly Primary Mortgage Market Survey Rate is available on FreddieMac.com.
- **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 at least 60 monthly payments.
- **Offer Deadline:** The date 14 days from the date the Servicer sent the Workout Plan offer package, 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 debt-to-income ratio that is as close as possible to, but no less than, 31%

- **Trial Period:** The three-month forbearance plan 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
- **Workout Plan Effective Date:** The date the Servicer signs the Home Affordable Modification Program – Workout Plan (Form 3156), in accordance with Section C65.7(a)

C65.2: Documentation (03/11/09)

The following documents and forms have been developed for, and, with respect to 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(e) and Section C65.12 for authorized changes and permitted uses of these forms):

- HMP Proactive Solicitation Letter: May be used to broadly solicit Borrowers who are 31 days or more delinquent (“Proactive Solicitation Letter”)
- HMP Documentation Request Letter: May be used to collect additional information required from the Borrower (“Documentation Request Letter”)
- HMP Hardship Affidavit (“Hardship Affidavit”)
- HMP Workout Plan Cover Letter - Stated: For use when the forbearance offer is based on stated income (“Workout Plan Cover Letter”)
- HMP Workout Plan Cover Letter - Verified: For use when the forbearance offer is based on documented income (“Workout Plan Cover Letter”)
- Home Affordable Modification Program – Workout Plan (“Workout Plan”) (Form 3156)
- Home Affordable Modification Program – Modification Agreement (“Modification Agreement”) (Form 3157)
- HMP Agreement Cover Letter

Form 3156 and Form 3157 are available on the Freddie Mac Uniform Instrument web site, available at <http://www.freddiemac.com/uniform/>, with our other Special Purpose Instruments.

Co-branding/use of Freddie Mac's logo

Servicers may download the Freddie Mac 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 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 (03/11/09)

Unless otherwise notified by Freddie Mac, all Freddie Mac Servicers are eligible to enter into a Workout 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 (03/11/09)

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:

- Conventional First Lien Mortgages serviced on behalf of 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 tax return or credit report.

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 facing imminent default, are also eligible for modification under the Program. A Borrower is facing imminent default if the Servicer determines, based on the Borrower Qualification Worksheet, that such a Borrower qualifies for modification under the Program.

The reason for hardship must be identified and explained in the Hardship Affidavit (refer to Section C65.2).

The Program will expire on **December 31, 2012**. For a Mortgage to be eligible for modification under the Program, the Borrower must have submitted the Workout Plan, made the first Trial Period payment, and provided all other required documentation to the Servicer on or before **December 31, 2012**.

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, Servicer must make an authorized change to the Modification Agreement as described later in Section C65.7(e). 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 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.)

(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
- FHA, VA and RHS-guaranteed Mortgages
- Mortgages that have been previously modified under this Program

C65.5: Borrower solicitation (03/11/09)

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 qualified for a modification under the Program using the Borrower Qualification Worksheet.

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 (refer to Section C65.2) for this purpose.

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 the 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 in accordance with Section C65.6(b) prior to signing the Workout Plan and returning it to the Borrower.

Verification of documentation

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 Workout 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 determining eligibility, all Borrowers must submit the following:

- Income documentation (See Section C65.6(b))
- Signed Form 4506-T, Request for Transcript of Tax Return
- Most recently signed and dated tax return, complete with all schedules submitted to and on file with the IRS for each Borrower
- Hardship Affidavit
- Form 1126, Borrower Financial Information
- Information on the amounts for real estate taxes and property and flood insurance premiums

C65.6: Underwriting the Borrower (03/11/09)

The objective of underwriting the Borrower is to achieve a monthly housing debt-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
- Sequential process for calculating a Target Payment
- Total monthly debt-to-income ratio
- Escrows
- Collateral valuation requirements

(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 merged credit report for each Borrower, dated within 60 days of the date the Servicer prepares the Workout Plan documents, to determine the Borrower's total monthly debt expenses. See Section C65.6(c) titled "Total Monthly Debt-to-Income Ratio" for more information
- For Borrowers who are less than 31 days delinquent that contact the Servicer as discussed in Section C65.5, Servicers must use the Borrower Qualification Worksheet to determine whether the Borrower qualifies for a modification under the Program.

If the Servicer determines using the Borrower Qualification Worksheet that the Borrower is not qualified for a modification under the Program, and the Servicer believes that further evaluation may be necessary, the Servicer may refer the Mortgage to Freddie Mac for evaluation by submitting all of the documentation described in Section C65.6(b) "Sequential Process for calculating a Target Payment," Step 6: Non-qualified Borrowers. The documentation must be faxed to (703) 918-8019.

- All Mortgages must be modified to a fully amortizing fixed-rate (e.g., modifying to adjustable-rate Mortgages or interest-only Mortgages 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 Workout 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 Workout Plan and Modification Agreement
- Servicers must consider Borrowers for refinancing into the 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.

(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 of the Workout Plan offer.

Servicers may rely on verbal (stated) income received from the Borrower to create and send a Workout Plan. The Borrower's verified income must be within a tolerance of plus or minus 10% of the income data used to calculate the proposed Target Payment. If the Borrower's verified income is outside the 10% tolerance, the Servicer must re-underwrite the Borrower in accordance with the sequential process described in this chapter to determine continued eligibility and may need to resend a revised Workout Plan.

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, and other income the Borrower wants considered and can provide reasonable documentation to support.

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

- A signed Form 4506-T, Request for Transcript of Tax Return, for each Borrower
- 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. For all others a copy of the extension request, signed and dated, must be provided.
- 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.
- For self-employed Borrowers, a signed and dated year-to-date profit and loss statement prepared by a third-party that, at a minimum, reflects the last full quarter's information

- For non-employed/non-wage income sources, written verification of the income such as pension statement or letter from Social Security or third party verification that provides reliable evidence of income
- Form 1126, Borrower Financial Statement, unless previously obtained

If a Borrower chooses to disclose income from alimony, child support or separate maintenance payments, Servicers must obtain documentation of such income. Acceptable documentation includes:

- Copy of the divorce decree, separation agreement or other type of legal agreement or court decree that sets forth the amount of such payments and the period of time over which they will be received
- Proof of full, regular and timely payments, such as deposit slips or bank statements for the two most-recent months

If the Borrower has rental income, that information must be completed on Form 1126. 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 to Income Ratio.

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 1/8% 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 PITIAS-to-income ratio. However, the Servicer must include such payments in the calculation of the Borrower's total monthly debt-to-income ratio.

Servicers will follow the sequential process in the order specified below only to the extent necessary to achieve the Target Payment.

Step 2: Capitalization of arrearages

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

- The accrued interest (and amounts expected to accrue during the Trial Period)
- Delinquent and unpaid interest that has accrued as of the end of 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.

Once all eligible amounts are capitalized, the Servicer must then calculate a new monthly principal and interest payment based on the new UPB, the current interest rate on the existing Mortgage, and the remaining term to maturity of the Mortgage.

If this new monthly PITIAS Payment is less than or equal to the Target Payment (e.g., the PITIAS-to-income ratio is 31% or less), then the Servicer must prepare and send the Borrower the Workout Plan using only the capitalization of arrearages. In this instance, the current interest rate on the Mortgage will be permanently fixed for the remainder of the existing term.

If the monthly payment resulting from the modification calculation described above creates a monthly PITIAS-to-income ratio greater than 31%, the Servicer must consider whether a reduction to the interest rate as provided in Step 3 below obtains a PITIAS Payment that is closer to the Target Payment.

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 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.

Example: The current interest rate on the Mortgage is 8.0%, the fully indexed rate on the Mortgage calculated as of the date the documents are prepared is 6.875%, and the Market Rate is 6.5%. In order to achieve the Target Payment, the interest rate on the Mortgage need only be reduced to 5.0%. The interest rate on the modified Mortgage will be fixed at 5.0% for the first five years. The interest rate will be increased 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 Steps 2 and 3, then the Servicer must prepare and send the Borrower the Workout Plan using only these steps. 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 2, 3 and 4, then the Servicer must prepare and send the Borrower the Workout 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, a Servicer may not choose to do a modification if the modified interest-bearing principal is reduced to an amount that would result in a mark-to-market loan-to-value (LTV) ratio of less than 100% based on the current value of property and the interest-bearing payoff balance of the Mortgage. (See Section C65.6(e) for additional information on obtaining the value that must be used for this purpose.)

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.

Examples: The capitalized UPB calculated under Step 2 is \$200,000 and the value of the property is \$150,000. The Servicer determines that the PITIAS Payment would be greater than the Target Payment if the Servicer forbore \$25,000, but be less than Target Payment if the Servicer forbore \$25,100 of the capitalized UPB. Then, even though the LTV ratio would exceed 100%, the Servicer may forbear no more or less than \$25,000 and \$175,000 would be the interest bearing principal balance.

If the Target Payment is achieved while maintaining a mark-to-market LTV on the interest-bearing principal balance that is equal to or greater than 100%, then the Servicer must prepare and send the Borrower the Workout Plan using these steps.

Freddie Mac recommends the Servicer provide the Borrower with regular principal forbearance balance statements at least annually.

Step 6: Non-qualified Borrowers

If the Target Payment cannot be achieved using Steps 1-5 above, the Servicer must refer the Mortgage to Freddie Mac for evaluation, by faxing the following documentation to **(703) 918-8019**:

- Form 1126, Borrower Financial Statement
- Borrower's income documentation
- Borrower's Hardship Affidavit
- Automated value or BPO if not obtained from a source other than Freddie Mac
- Mortgage insurance approval (if applicable)
- Copy of the Borrower Qualification Worksheet screen reflecting analysis results

Servicers must temporarily suspend any foreclosure sale 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

The Servicer must calculate a monthly debt payment-to-income ratio for each Borrower to whom a Workout 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))
- Installment debt, revolving account, HELOC or student loan. When these debts are not identified on the credit report or are listed as deferred, the Servicer must obtain documentation to support the deferment or use a minimum of 3% of the balance for qualifying purposes.
- Alimony, 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
- Payments on any subordinate lien
- Payments for mortgage insurance premiums, if applicable.

Credit counseling

Borrowers with a total 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.

For Borrowers with debt payment-to-income ratios equal to or greater than 55%, Servicers must notify these Borrowers in writing of the counseling requirement and retain the written notification 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 Workout 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 Workout 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 property value that must be used to calculate the mark-to-market LTV ratio upon which a partial principal forbearance decision is made, is:

- For Mortgages that are 31 days or more delinquent, the automated value provided by Freddie Mac, 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 value obtained by the Servicer 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 HVE data is not available or when the confidence score is low, the value obtained by the Servicer from our web site at <https://www.bpodirect.net> in accordance with the Guide

If the Servicer has a Freddie Mac BPO or appraisal with an effective date no more than 60 days from the date the Servicer prepares the Workout Plan or modification package, as applicable, the Servicer may use that BPO or appraisal.

C65.7: Modification process (03/11/09)

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, the Servicer must prepare and send the Borrower a Workout Plan offer that provides for a three-month Trial Period. During the Trial Period the Borrower will be required to make payments at the estimated modified payment amount.

Once the Borrower successfully completes the Trial Period and all final amounts that must be capitalized are known, the Servicer will prepare and process a Modification Agreement.

This section describes the following requirements for processing the Workout Plan offer and the Modification Agreement:

- Processing the Workout Plan (forbearance offer)
- Requirements during the Trial Period
- Requirements upon completion of the Trial Period
- General requirements for preparing the Modification Agreement
- Authorized changes to the Workout Plan and Modification Agreement
- Closing the modification

(a) Processing the Workout Plan (forbearance offer)

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 Workout 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 Workout Plan Cover Letter, depending on whether the Servicer qualified the Borrower based on verbal (stated) income or documented income to extend the workout offer. If the Servicer used unverified income, the Servicer must verify the income in accordance with Section C65.6 prior to signing the Workout Plan and returning it to the Borrower. The Servicer may not continue to accept Borrower payments under the Workout Plan from those Borrowers who do not qualify for the Program.
- Two Workout Plan documents (Refer to Section C65.7(e) “Authorized changes to the Workout 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

If the Borrower accepts the forbearance offer, the Borrower must then sign and return the following documentation by the Offer Deadline:

- Two original executed Workout Plan documents
- The completed and executed Hardship Affidavit, if not already provided
- The first payment due under the Trial Period terms
- All applicable income and debt documentation, if not already provided (see Section C65.6(b))
- 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 income and debt documentation and Hardship Affidavit and (2) received two signed Workout Plans from the Borrower and the Borrower’s first payment, the Servicer may then sign and date each Workout Plan and return a fully executed copy to the Borrower. (Refer to Section C65.6(b) “Step 1(a): Verify Borrower’s monthly income”.)

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 forbearance 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 Workout 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 Workout 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 Workout 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.

(c) Requirements upon completion of the Trial Period

Once the Servicer knows the final amounts that must be capitalized, the Servicer must re-underwrite the Borrower to determine the final modification terms using the sequential process described in Section C65.6(b), and prepare the Modification Agreement.

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

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 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. (Refer to Section C65.7(c) for authorized changes to 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 Workout 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.

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 will be permitted to forbear principal below 100% mark-to-market loan-to-value (LTV) to the extent needed to achieve the Target Payment.

(e) Authorized changes to the Workout Plan and Modification Agreement

Servicers must use the Home Affordable Modification Program -Workout Plan (“Workout Plan”), Form 3156, and Home Affordable Modification Program – Modification Agreement (“Modification Agreement”), Form 3157 (collectively “Program Documents”) for each Borrower to whom a modification offer is being made. Servicers are prohibited from modifying these Uniform Instruments except in the following circumstances:

- The Servicer must revise the Program Documents as necessary to comply with applicable federal, State and local law
- If a Servicer chooses to modify the Mortgage of a Borrower who has been discharged from a Chapter 7 bankruptcy proceeding, the Servicer must revise the Modification Agreement to include the following condition in Section 1:

I represent that 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 instruments on the existing Mortgage permits it to be assumed by a purchaser upon transfer of the property, the Program Documents must be revised to reflect that the assumability provision will be null and void upon modification of the Mortgage
- If the loan instruments on the existing Mortgage contain a prepayment penalty provision, the Program Documents must be revised to reflect that the prepayment penalty provision will be null and void upon modification of the Mortgage

- If the Mortgage has a temporary subsidy buydown, the Program Documents must be revised to ensure that any provisions or separate agreements governing the buydown are null and void upon modification of the Mortgage and any funds remaining in the subsidy buydown account are applied in accordance with the Security Instrument, prior to modification
- In the event an Escrow account may not be established due to prohibitions under applicable law, then Servicers must delete Section 4.D. to the Modification Agreement and resolve cross references as necessary (e.g., the cross reference to Section 4.G. found in Section 3.E. must be changed to cross reference Section 4.F. once Section 4.D. is deleted)

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.

(f) 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. Servicers must use the Borrower Qualification Worksheet to determine whether a Borrower is eligible for the Program.

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 will be used 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 (03/11/09)

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

(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 the loan instruments on the existing Mortgage contain an assumability provision, the assumability provision will be null and void upon modification of the 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
- If the existing Mortgage has a temporary subsidy buydown, then any funds remaining in the buydown account after the successful completion of the Trial Period must be applied in accordance with the Security Instrument before solving for a Target Payment described Section C65.6(b)

See Section C65.7(e) for additional information on changes that must be made to the documents.

(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 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

The Servicer must indicate on Form 981, Agreement for Subsequent Transfer of Servicing of Single-Family Mortgages, whether the modified Mortgage has an interest rate reduction that falls below the market rate (refer to Section C65.6(b), Step 3 : Interest rate reduction) 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).

C65.9: Program incentives (03/11/09)

(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 the Guide. 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 Workout 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 Borrower’s unmodified monthly PITIAS Payment assuming a fully indexed, fully amortizing principal and interest payment as of date the Modification Agreement was prepared. Annual pay for success payments will be:

- Equal to the lesser of (i) \$1,000 or (ii) half the reduction in the Borrower’s annualized monthly payment, which is equal to the difference between the Borrower’s original contractual payment and the modified payment multiplied by 12, and divided by 2
- Accrued monthly as long as the Borrower stays current on the modified Mortgage and the Mortgage has not been paid off prior to the first, second or third anniversary of the Workout Plan Effective Date.
- Considered earned as of the first, second, and third anniversaries of the Workout Plan Effective Date, provided the Mortgage did not become 90 days delinquent at any time before any annual payment is earned or any portion thereof accrued. If the Mortgage is 90 days delinquent at any time, no incentive payment will be made, even if the Borrower cures the delinquency.

(b) Borrower incentives

Borrowers who remain current on their monthly Mortgage payments under the Program will receive “Pay for Performance” incentives. The Pay for Performance incentive will be applied to the interest-bearing principal balance on the Mortgage. The incentive can be earned if a Borrower’s modified monthly PITIAS Payment results in at least a 6% reduction from the Borrower’s unmodified monthly PITIAS Payment assuming a fully indexed, fully amortizing principal and interest payment as of date the Modification Agreement was prepared. Annual Pay for Performance incentives will be:

- Equal to the lesser of (i) \$1,000 or (ii) half the reduction in the Borrower's annualized monthly payment, which is equal to the difference between the Borrower's original contractual payment and the modified payment multiplied by 12, and divided by 2
- Accrued monthly for each month the Mortgage remains current for five years until the Mortgage is paid off, provided no incentive will be accrued for each late Mortgage payment
- Considered earned as of the anniversary of the Workout Plan Effective Date, provided the Mortgage did not become 90 days delinquent 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.

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.

Freddie Mac encourages Servicers to prepare and send to the Borrower monthly reports indicating the accrual of Borrowers' incentives.

C65.10: Special requirements for Mortgages with a partial principal forbearance (03/11/09)

(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. You 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 an 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.

- 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.

- When reporting the payoff of a Mortgage with a partial principal forbearance, you must comply with the applicable reporting requirements set forth in Guide Chapter 78 except that:
 - The UPB that you report must be the combined UPB (interest-bearing and deferred UPB) of the Mortgage
 - In your interim remittance you 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, you 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) Credit bureau reporting for all Mortgages with a partial principal forbearance

Servicers must report the applicable status of the Mortgage in accordance with Guide Section 55.4 and all applicable laws and regulations including the Fair Credit Reporting Act. 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 (03/11/09)

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.

C65.12: Disclosures and communications with Borrowers (03/11/09)

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 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 Workout Plan (loss of loan modification) and Modification Agreement (risk of loss of the home through foreclosure)

C65.13: Fair treatment and legal compliance (03/11/09)

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. Loan modification programs are subject to the fair lending laws, and Servicers and lenders should ensure that they do not treat a Borrower less favorably than other Borrowers on grounds such as 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. Servicers must also engage in practices that treat all Borrowers fairly and avoid violations that prohibit “redlining” as commonly understood under applicable laws and judicial precedent.
- 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

C65.14: Responsiveness to Borrower inquiries (03/11/09)

Servicers should have procedures and systems in place to be able to 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.