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# Bulletin

**TO**: All Freddie Mac Servicers December 12, 2008

## SUBJECTS

Servicing requirements are provided in this *Single-Family Seller/Servicer Guide* (Guide) Bulletin. With this Bulletin we are:

- Providing the eligibility, processing, underwriting and reporting requirements for the Streamlined Modification Program announced on November 11, 2008
- Reminding Servicers of our six-week suspension of all foreclosure sales and scheduled evictions on occupied single-family 1- to 4-unit Primary Residences

### Background on the Streamlined Modification Program

On November 11, 2008, Freddie Mac jointly announced with the Federal Housing Finance Agency (FHFA), the U.S. Department of Treasury, Fannie Mae and members of the HOPE NOW Alliance a new loan modification program (Streamlined Modification Program or SMP) designed to assist Borrowers who could potentially face foreclosure. The Streamlined Modification Program has uniform eligibility requirements and delegates to Servicers the authority to execute a uniform Loan Workout Plan and Modification Agreement (Modification Agreement) with eligible Borrowers who among other things, have missed three or more monthly payments, own and occupy their property as a Primary Residence, and are not in active bankruptcy.

The Streamlined Modification Program offers another proactive workout solution that reinforces our long-standing commitment to help qualifying at-risk Borrowers with Freddie Mac-owned Mortgages keep their homes wherever possible. The primary objective of the SMP is to help more Borrowers stay in their homes by standardizing the modification criteria for Servicers and providing a sustainable, long-term solution for Borrowers.

The Streamlined Modification Program requires Servicers to use a sequential process to calculate an affordable housing payment for delinquent Borrowers that is no greater than 38% of the Borrower's gross monthly income (the maximum permissible monthly housing debt-to-income ratio). The Borrower will be required to remit the proposed affordable payment for a three payment trial period prior to the modification of the Mortgage, in order to demonstrate his or her capacity and desire to sustain those payments under the modified Mortgage.

## EFFECTIVE DATES

The following effective dates apply:

- The Streamlined Modification Program is effective **December 15, 2008**, for Mortgages originated **on or before January 1, 2008**, until further notice
- The Foreclosure Sale and Eviction Suspension is effective from **November 26, 2008** through **January 9, 2009.** (At the end of the foreclosure suspension period, Servicers must determine whether additional foreclosure relief should be extended to allow for time for a workout in process to be completed or whether the Servicer should proceed with the foreclosure sale. See the section of this Bulletin titled "FORECLOSURE SALE AND EVICTION SUSPENSION" for additional information regarding our requirements for Servicers.)

## BULLETIN EXHIBITS

The following exhibits for the Streamlined Modification Program are provided with this Bulletin:

- Exhibit A – Loan Modification documents for Borrowers whose current income is available
  - Exhibit A-1 – Modification Cover Letter for the Loan Modification package that includes Borrower Frequently Asked Questions (FAQs)
  - Exhibit A-2 – Hardship Affidavit
  - Exhibit A-3 – Streamlined Modification Program Loan Workout Plan and Modification Agreement (Multistate Streamlined Modification Program Loan Workout Plan and Modification Agreement – Single-Family -- Fannie Mae/Freddie Mac Uniform Instrument, Form 3169, 12/08)
- Exhibit B – Solicitation letter for Borrowers whose current income or other information is not available

In addition to being attached as an exhibit to this Bulletin and made available with the other Streamlined Modification Program materials at http://www.freddiemac.com/singlefamily/service/streamlined_modification.html, the Modification Agreement is being posted on the Freddie Mac Uniform Instrument web site (**http://www.freddiemac.com/uniform/**) with our other Special Purpose Instruments.

## ADDITIONAL RESOURCES

To assist Servicers in implementing the Streamlined Modification Program, we are providing the following resources on our web site at http://www.freddiemac.com/singlefamily/service/streamlined_modification.html:

- Access the Borrower Qualification Job Aid
- Retrieve report of AVM Values
- Review Streamlined Modification Program Term Sheet
- Read more about the Streamlined Modification Program

For more information regarding the use of the Borrower Qualification Job Aid that will help Servicers calculate the terms of a modification under the SMP, see Section III of this Bulletin.

## STREAMLINED MODIFICATION PROGRAM

### I. Program eligibility

#### (a) Eligible Mortgages, eligible properties and eligible Borrowers

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

- Conventional Mortgages sold to Freddie Mac with Note Dates on or before January 1, 2008, including Conforming Jumbo and other Mortgages sold to Freddie Mac under a Seller's negotiated Purchase Documents
- Mortgages with a mark-to-market loan-to-value (LTV) ratio equal to or greater than 90% - Ratio of payoff amount to current value (also known as indebtedness-to-value (ITV) ratio), determined in accordance with Section III(c) of this Bulletin
- Mortgages secured by 1-unit, owner-occupied, single-family Primary Residences, including Condominium Units and Manufactured Homes, that are not abandoned, vacant, condemned or in a state of disrepair. Cooperative Share Mortgages sold under a Seller's negotiated Purchase Documents are also eligible.
- Borrowers due for three or more monthly payments. The Mortgage may be in foreclosure but the Borrower may not be in active bankruptcy or in other pending litigation involving the Mortgage.
- Borrowers experiencing a financial hardship who are unable to pay the current Mortgage payment or reinstate the Mortgage

### (b) Previously modified Mortgages

Mortgages that were previously modified, but meet the above eligibility requirements, are eligible for modification under the Streamlined Modification Program.

### (c) Mortgages with subordinate junior liens

A Borrower is not required to satisfy outstanding junior liens. In addition, the Servicer must not consider the junior lien's unpaid principal balance (UPB) and monthly payment in calculating the mark-to-market LTV ratio or the new monthly payment under the Streamlined Modification Program.

### (d) Ineligible Mortgages

- Mortgages for which the Borrower is currently involved in active loss mitigation negotiations that the Servicer determines would result in a better alternative to the Streamlined Modification Program, or where the Borrower is performing in accordance with another workout arrangement (i.e., a repayment plan)
- FHA, VA and RHS-guaranteed Mortgages

## II. Process

### (a) Borrower outreach and solicitation

Freddie Mac expects Servicers to proactively contact potentially eligible Borrowers with Mortgages that appear to meet the Streamlined Modification Program eligibility criteria. Once potential eligibility has been established based on information then known to the Servicer, Servicers will utilize one of two outreach and processing paths:

- The first where the current income of all Borrowers obligated on the Note, property taxes, property and flood insurance premiums, and monthly HOA/condominium fees are available to the Servicer; and
- The other if any of this information necessary to calculate the proposed affordable payment is unavailable.

For purposes of this Streamlined Modification Program, a Borrower's current income is income that is stated or supported by documentation that is not more than 90 days old as of the date of the modification offer. (If stated income is used to underwrite the Borrower, it must be verified with documentation that meets the requirements of this Bulletin.)

For purposes of this Bulletin, use of the term "Borrower" includes all Borrowers obligated on the Note. Servicers must account for all Borrowers on the existing Mortgage when considering the Mortgage for modification under the Streamlined Modification Program.

- **Borrower's current income and other required information is available**

  The Servicer should underwrite the Borrower according to the SMP requirements described in Section III of this Bulletin, if the current income of all Borrowers obligated on the Note, amounts for property taxes, property and flood insurance premiums, and monthly HOA or condominium fees are available to calculate the proposed affordable payment. Mortgage insurance premiums, if any, must also be included in the proposed affordable payment calculation.

  If the Borrower qualifies for a modification, the Servicer must mail the Borrower all of the following documents (attached to this Bulletin as Exhibit A):

  1. A Modification Cover Letter indicating that the Borrower appears to qualify for a Mortgage modification based on current income, and prescribing the date by which the Borrower must sign and return the documentation (such date must be 14 days from the date the Servicer sent the Loan Modification Package (the Offer Deadline)); the cover letter also includes Borrower FAQs
  2. Two copies of the Modification Agreement specifying the proposed modified terms

3. A Hardship Affidavit that must be completed and executed by the Borrower, affirming the reason(s) behind the inability to pay the Mortgage

In addition to the above documents, the Servicer must provide the Borrower with any applicable disclosures related to the establishment of an Escrow account and any other disclosures required by applicable federal, State and local law. (An Escrow account must be maintained on each modified Mortgage, except if prohibited by law. See Section II(d) of this Bulletin.)

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

1. Two original executed Modification Agreements
2. The completed and executed Hardship Affidavit
3. Documentation supporting the gross monthly income for all Borrowers in accordance with Section II(f)(3) of this Bulletin
4. The first payment due under the trial period terms
5. Executed disclosures, if any, to the extent applicable federal, State or local law requires executed disclosures to be retained by the provider

***Special instructions for adjustable-rate Mortgages (ARMs) with a scheduled interest rate change(s) during the trial period***

For ARMs that have an interest rate adjustment occurring during the trial period, when the interest rate adjustment cannot be determined at the time of the offer, the Servicer should make a three-month forbearance offer to the Borrower, qualifying the Borrower in accordance with Section III below, disregarding the scheduled interest rate change. Once the Servicer is able to determine the last interest rate adjustment that will occur during the three-month trial period, the Servicer should determine the final amounts to be capitalized and corresponding new payment amount (in the event an interest rate adjustment during the trial period would cause a change in the capitalization of interest due) and send a modification agreement to the Borrower for execution and return.

The forbearance offer must be documented by a forbearance agreement that meets the current requirements of Section A65.20 of the Guide.

Freddie Mac will provide requirements with respect to the forbearance and modification agreements for use in these circumstances at a later date.

- **Borrower's current income or other information is not available**

  If current income or the amounts for property taxes, property and flood insurance premiums and monthly HOA/condominium fees are unavailable, the Servicer should mail the Borrower a solicitation letter in the form attached to this Bulletin as Exhibit B. This letter indicates that the Borrower may qualify for the Streamlined Modification Program, but the Servicer needs additional information to determine whether the Borrower qualifies.

  Once the Borrower contacts the Servicer and provides the necessary information, the Servicer should underwrite the Borrower in accordance with the requirements of Section III. If the Borrower is eligible for a modification under the Streamlined Modification Program, the Servicer must prepare and mail the Borrower the Loan Modification package attached to this Bulletin as Exhibit A together with any required disclosures (see above).

**(b) Preparing the Loan Modification package – recordation requirements:**

Once a Servicer determines the Borrower qualifies for a modification under the SMP, the Servicer must prepare and mail the original Modification Agreement as necessary to the Borrower together with the other required documents or disclosures described in Section II(a) of this Bulletin. The Servicer must prepare the Modification Agreement in accordance with Guide Section B65.20(1) and revise as necessary to comply with federal, State and local law.

If a Servicer chooses to solicit 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.*

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 Guide 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.

**(c) Trial period; three monthly payments**

If the Borrower signs the Modification Agreement, the Borrower will be required to remit three monthly payments at the proposed new payment amount during a trial period ("Trial Period"). The Servicer must service the Mortgage during the Trial Period as if it is under a forbearance plan relative to the existing Mortgage terms.

The terms of the Mortgage modification will not take effect unless the Borrower (1) returns all applicable documents, including the Modification Agreement and the first Trial Period payment by the Offer Deadline, and is in compliance with all conditions stated in those documents, (2) provides documentation that supports the income used to qualify the Borrower for the Mortgage modification, and (3) remits the remaining two Trial Period payments so that the Servicer receives them no later than the last Business Day of the third month of the Trial Period. 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 of the third month of the Trial Period.

If the Borrower complies with all of the conditions set forth in the Modification Agreement, the Modification Effective Date to be set forth in the Modification Agreement and the due date of the first payment due after the Trial Period (the First Modified Payment) will be the first day of the month following the third month 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). (See Section IV(b)1of this Bulletin.) The First Modified Payment will be calculated using the Modified Interest Rate (See Section III(b) the Modified Interest Rate is effective the first day of the last month of the Trial Period).

Late charges may accrue during the Trial Period; however, late charges must be waived in the event the Borrower successfully completes the Trial Period and the Mortgage is modified.

**(d) Escrows**

An Escrow account must be maintained or created on the Mortgage even if it currently does not have an Escrow account, except if prohibited by law. The Servicer must establish the Escrow account and include any Real Estate Settlement Procedures Act (RESPA) and any other required disclosures in the Loan Modification package that the Servicer sends to the Borrower.

***Escrows advanced by the Servicer***

Any advances previously made by the Servicer to pay property taxes or insurance premiums that were due and payable or are expected to be advanced for taxes and insurance premiums that will fall due during the Trial Period must be capitalized in the UPB as part of the qualification process for the new payment and terms.

***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 Deficiency) 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 Deficiency as a lump sum payment or pay the amount over a 60-month period (Monthly Escrow Deficiency Payment) as part of the proposed affordable payment. This amount may not be capitalized in the UPB of the Mortgage.

If the Borrower elects to make Monthly Escrow Deficiency Payments, the amount must be included when calculating the proposed affordable payment. (See Section III of this Bulletin for information on calculating the Affordable Payment.)

Unless the Borrower has indicated to the Servicer that he or she intends to remit the Escrow Deficiency as a lump sum payment, the Servicer should assume that the deficiency will be paid over a 60-month period and prepare the Loan Modification package based on that assumption. If, upon receipt of the Loan Modification package, the Borrower chooses to remit the payment as a lump sum, the Servicer must recalculate a new Affordable Payment and send the Borrower a revised Loan Modification package consisting of the documents set forth in Section II(a) of this Bulletin.

**(e) 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 written approval from the entity providing the enhancement. For example, if the Mortgage has mortgage insurance, the Servicer must first receive approval from the mortgage insurer (MI) (or delegated authority from Freddie Mac on behalf of the MI) to enter into a Modification Agreement that complies with the requirements of this Bulletin.

**(f) Other requirements**

Servicers do not need to obtain a credit report on the Borrower under the Streamlined Modification Program; however, Servicers must obtain the following documentation, at a minimum:

1. **Hardship Affidavit:** Must be completed and signed by the Borrower and retained in the Mortgage file.
2. **Executed Modification Agreement:** Refer to Section II(b) and Section IV(b) of this Bulletin for additional information regarding the Modification Agreement.
3. **Income documentation:** For all Borrowers obligated on the Note: (i) the Borrower's most recent pay stub or salary voucher; (ii) if the Borrower is self-employed, (a) a complete copy of Borrower's signed federal income tax return for the previous year including all schedules and forms, or (b) year-to-date profit and loss statement that, at a minimum, reflects the last full quarter's information. Documentation supporting income must not be more than 90 days old as of the date of the modification offer and must be retained in the Mortgage file.

## III. Underwriting

All Borrowers obligated on the Note must provide the Servicer with all of their current monthly income, except for income not required to be disclosed (e.g., alimony and child support), and the amounts for property taxes, all property and flood insurance premiums (if not already known by the Servicer) and monthly HOA/condominium fees.

**(a) Special requirements for current income and calculating qualifying ratios**

The Servicer should use the Borrower's gross monthly income, if available, when determining the Borrower's maximum permissible monthly debt-to-income ratio. However, if the Borrower's gross income is not available, the Servicer may use the net income. Net income must be multiplied by 125% for qualification purposes.

Stated income may be used to underwrite the Borrower and prepare the modification offer. However, the Borrower's verified income must support the stated income within a tolerance of plus or minus 10% of the income data used to calculate the proposed affordable payment. Sources of income are those identified in Guide Section B65.17. Rental income from Investment Properties must be documented in accordance with the requirements specified in Guide Section 37.23 and calculated in accordance with Guide Section 37.14(d), except that the Servicer must not include net negative rental income in calculating the proposed affordable payment.

If the Borrower's verified income is outside the 10% tolerance, the Servicer should re-underwrite the Borrower in accordance with Section III of this Bulletin, and as appropriate, prepare a new Loan Modification Package in accordance with Section II(a) of this Bulletin.

**(b) Solving for an Affordable Payment**

The Servicer must use the sequential steps below to the extent necessary to achieve a principal and interest payment that results in a monthly housing debt-to-income ratio that does not exceed 38% (such payment, the Affordable Payment).

To determine the necessary modifications to achieve the Affordable Payment, the Servicer will calculate a housing payment that consists of a modified principal and interest payment, amounts for taxes, all insurance premiums, including mortgage insurance premiums, if any, monthly HOA/condominium fees, and if necessary, the Monthly Escrow Deficiency Payment (PITIA). The Servicer may not include non-housing debt or junior lien monthly payments in the calculation of the monthly PITIA-to-income ratio. Servicers must limit the modification of the Mortgage terms under Sections III(b)2 of this Bulletin to those that first achieve the highest permissible monthly PITIA-to-income ratio (e.g., no greater than 38%). To determine whether an Affordable Payment has been reached Servicers will follow, only to the extent necessary, the sequential process in the order specified below.

***Borrower Qualification Job Aid***

To assist Servicers with calculating the terms of a modification under the SMP, Freddie Mac has made the Borrower Qualification Job Aid (Job Aid) available on our web site at http://www.freddiemac.com/singlefamily/service/streamlined_modification.html. Servicers may use this job aid, subject to the requirements of the Guide (as if the Job Aid was included in Exhibit 88), to assist them in calculating the Affordable Payment and to identify the viable modification scenarios under the Streamlined Modification Program. Servicers are responsible for the accuracy of all data entered into the job aid and ensuring that all data is entered accurately.

A secure User ID and password are required to access this Job Aid. This is the same 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.

1. **Capitalization of arrearages**: The Servicer must:

    a. Capitalize to the current UPB of the Mortgage accrued interest (and amounts expected to accrue during the Trial Period), amounts previously advanced (and amounts expected to accrue and be advanced during the Trial Period) for the payment of real estate taxes and insurance premiums, and the costs of collection paid to third parties and permitted under the terms of the Mortgage. 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.

    The current interest rate on the existing Mortgage will remain fixed for the remainder of the Mortgage term, except to the extent a further modification of this rate would be required under Section III(b)3 of this Bulletin (Modified Interest Rate).

    In accordance with Guide Chapter B65, interest, penalties, late charges and legal fees for late payment of real estate taxes, insurance premiums, delinquent water bills, and ground rents may not be capitalized and Servicers must waive all unpaid late charges upon successful completion of the Trial Period.

    b. If the new monthly principal and interest payment resulting from the steps set forth in Section III(b)1 of this Bulletin creates a monthly PITIA-to-income ratio of 38% or less, the Servicer may prepare the Loan Modification package using only the capitalization of arrearages and the permanently fixed Modified Interest Rate.

    **Example:** A Borrower who has lost a job, but has insufficient assets to reinstate the loan and pay the past due delinquencies, may capitalize the delinquency over the remaining term at a fixed rate of interest equal to the interest rate in effect on the Mortgage at the time the documents are prepared. Even if the Borrower's new position resulted in an increase in pay, under the SMP capitalization step, the Servicer must modify the Borrower's Mortgage, even if the resulting monthly PITIA-to-income ratio is less than 38% due to the increase in income.

If the monthly payment resulting from the modification set forth above creates a monthly PITIA-to-income ratio greater than 38%, the Servicer must consider a term extension as described in this Bulletin.

2. **Extend amortization term**:

   a. The Servicer must extend the Mortgage term only to the extent necessary to achieve the highest permissible monthly PITIA-to-income ratio of 38%. However, the Servicer may not extend the term to allow more than 480 modified payments from the due date of the first modified payment, which is the first day of the month following the third month of the Trial Period.

   **Examples:** If the third Trial Period payment is due March 1, 2009 and the first modified payment is due April 1, 2009, then the last possible modified monthly payment would be due on March 1, 2049 if the term were to be extended to 480 months. However, if the amortization schedule created an Affordable Payment by extending the term to allow only 390 modified payments, thereby creating a monthly PITIA-to-income ratio of 38% or slightly less (e.g., 37.999%), then the Servicer may not extend the term beyond those 390 modified payments to create a lower PITIA-to-income ratio.

   b. If an Affordable Payment is obtained based on the steps permitted under Sections III(b)1-2 (capitalization and amortization term extension), the Servicer may prepare the Loan Modification package using only these sequential steps. If a term extension fails to achieve the highest permissible monthly PITIA-to-income ratio of 38%, then the Servicer must consider reducing the interest rate on the Mortgage in accordance with Section III(b)3.

3. **Interest rate reduction**:

   a. The Servicer must reduce the current interest rate on the existing Mortgage in 0.125% decrements to the extent necessary to achieve the maximum permissible monthly PITIA-to-income ratio of 38%, but to no less than a minimum rate of 3.0%.

   The Modified Interest Rate will be in effect for only the first five years of the modified Mortgage if the Modified Interest Rate is below the lifetime interest rate cap. The Servicer will determine the lifetime interest rate cap at the time the Servicer prepares the Loan Modification package and it will equal the lesser of (a) the then current interest rate on the existing Mortgage or (b) the Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate conforming loans (Market Rate) at that time. Beginning with the sixth year, the interest rate will increase by 1% and on that day every twelve months thereafter, subject to the lifetime interest rate cap. If an annual interest rate adjustment would cause the interest rate to exceed the lifetime interest rate cap, then the annual interest rate adjustment would be limited to the amount necessary to equal to the lifetime interest rate cap.

   **Example:** The current interest rate on the Mortgage is 8.0%. The Market Rate is 6.5%. In order to achieve an Affordable Payment of the Borrower's monthly income, 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. The Modified Interest Rate may not be reduced below 5.0% as that would be more than the extent necessary to achieve the highest permissible monthly PITIA-to-income ratio.

   The Market Rate is available on FreddieMac.com.

   b. If an Affordable Payment is obtained after undertaking the steps permitted under Sections III(b)1-3 of this Bulletin (capitalization, amortization term extension, and interest rate reduction), the Servicer may prepare the Loan Modification package using only these sequential steps. If the Servicer is still unable to achieve an Affordable Payment, then the Servicer must consider forbearing a portion of the principal balance on the Mortgage in accordance with Section III(b)4 of this Bulletin.

4. **Partial principal forbearance**:

   a. Calculating the amount of partial principal forbearance

   The Servicer must incrementally forbear a portion of the principal balance at a 0.0% interest rate until the payment on the remaining interest-bearing balance creates an Affordable Payment at the highest permissible monthly PITIA-to-income ratio of 38%. However, at no time can the interest-bearing principal be reduced to an amount that would result in a mark-to-market LTV ratio of less than 100% based on the current value of property and the interest-bearing payoff balance of the Mortgage (also known as ITV ratio).

   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, payoff of the interest bearing balance, or the new maturity date of the modified Mortgage.

   **Examples:** The capitalized UPB calculated under Section III(b)1 of this Bulletin is $200,000 and the value of the property as determined under Section III(c) below is $150,000. The Servicer determines that an Affordable Payment is first obtained by forbearing only $25,000 of the capitalized UPB and forbearance of $24,999 would result in a monthly PITIA-to-income ratio greater than 38%. Then, even though the ITV ratio would exceed 100%, the Servicer may forbear no more than $25,000 under the Modification Agreement and $175,000 would be the interest bearing principal balance.

   See Section IV(b) in this Bulletin for special reporting and remitting requirements.

   b. If, after forbearing $50,000 in the above example, the monthly PITIA-to-income ratio still exceeded 38% when using an interest bearing balance of $150,000, the Servicer may not forbear more than $50,000 to achieve an Affordable Payment as the resulting ITV ratio would be less than 100% and the Borrower would not qualify for a modification under the SMP.

   If an Affordable Payment still cannot be achieved, the Borrower will not qualify for the Streamlined Loan Modification Program and the Servicer must provide adequate notice to the Borrower that they do not qualify for a modification under the Streamlined Modification Program and explore other foreclosure alternatives, including the standard fully underwritten modification process as specified in the Guide.

**(c) Special collateral requirements**

To be eligible for a modification under the Streamlined Modification Program, the property must be an eligible property occupied by the Borrower that is not abandoned, vacant, condemned or in a state of disrepair.

The property value that must be used to determine eligibility for the Streamlined Modification Program and to consider a partial principal forbearance is the automated value provided by Freddie Mac, if such a value is available. If an automated value is not available, the Servicer must obtain a value from our web site at **https://www.bpodirect.net** in accordance with the Guide. The property value the Servicer utilizes may not be more than 90 days old from the date of the modification offer.

If the Servicer has a Freddie Mac BPO that was ordered or an appraisal with an effective date no more than 90 days from the date the Servicer prepares the Loan Modification package, the Servicer may use that BPO or appraisal to determine eligibility for the SMP.

We will provide the AVM values in a special report that Servicers may retrieve through the link on our web site at http://www.freddiemac.com/singlefamily/service/streamlined_modification.html. The first report will be available today; thereafter, the report will be updated by the fifth Business Day of each month.

A secure User ID and password is required to retrieve this report. This is the same 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.

## IV. Reporting and remitting requirements

As noted above, the Borrower must make three payments at the proposed new payment amount during the Trial Period. The Borrower must remit the first Trial Period payment when he or she returns the Modification Agreement and the final Trial Period payment(s) no later than the last Business Day of the third month, as indicated in Section II(c) of this Bulletin.

### (a) During the Trial Period, the Servicer must:

1. Provide the Borrower with a copy of the Modification Agreement executed by the Servicer within a reasonable period of time following the beginning of the Trial Period
2. Continue to report and remit to Freddie Mac in accordance with the investor reporting and remitting requirements set forth in the Guide, which includes 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
3. Report the Mortgage as being in forbearance through Electronic Default Reporting (EDR) using default action code “09-Forebearance”
4. 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.
5. Report the Mortgage to the credit reporting agencies using the standard process required for loans on forbearance

### (b) After a successful completion of the Trial Period, the Servicer must:

1. Set the due date of the First Modified Payment to the first day of the month following the third month of the Trial Period. The Servicer must set the Modified Interest Rate effective date as of the first day of the last month of the Trial Period.

   **Example:** The Servicer prepares and sends the Borrower a cover letter and Modification Agreement on December 15. The Borrower executes the Modification Agreement and returns it to the Servicer on or before December 29, together with the first monthly payment due during the Trial Period (and all other required documentation). The Borrower subsequently makes the second Trial Period payment on February 5 and the final Trial Period payment on the last Business Day in March. Although the Borrower is technically late under the Modification Agreement (i.e., the third Trial Period payment was due on March 1, 2009), Servicers will waive this default only to the extent the Borrower makes the second and third Trial Period payments no later than the last Business Day in March. The effective date of the modification is April 1 and the first payment on the modified Mortgage is due on April 1. The Modified Interest Rate determined in Section III(b) will be effective the first day of the last month of the Trial Period.

   Modify the terms of the Mortgage using the Modification Agreement, as required by this Bulletin.
2. Submit the executed original Modification Agreement or recorded Modification Agreement, if applicable, to the Servicer’s Document Custodian. If Freddie Mac’s Document Custodial Operations (DCO) holds the Note, attach a completed Form 105, Multipurpose Loan Servicing Transmittal, and submit the agreement to DCO. The Servicer must retain a certified true copy of the Modification Agreement in the Mortgage file.
3. Submit to Freddie Mac a signed and dated copy of the completed Loss Mitigation Transmittal Worksheet (LMTW) (the LMTW for Mortgages modified under the Streamlined Modification

Program is available to Servicers in the Borrower Qualification Job Aid). The Servicer must also provide a copy of the Job Aid screen that reflects the results of the modification analysis. If the Servicer did not utilize the Job Aid to analyze the Mortgage and identify the terms of the modification, the Servicer must provide documentation supporting the results of its analysis.

At this time, Servicers are not required to enter or transmit data through Workout Prospector II on Mortgages modified under the Streamlined Modification Program.

4. Comply with the reporting and remitting requirements set forth in Guide Section B65.26 to complete the loan modification, with the exception of Guide Section B65.26(c)(3) (Servicers must update their Mortgage records to reflect the modified term of the Mortgage upon successful completion of the Trial Period).

***Special investor reporting and remitting requirements for modified Mortgages with a partial principal forbearance***

Freddie Mac will provide Servicers with the payoff reporting and remitting requirements and the monthly loan-level reporting requirements for modified Mortgages with a partial principal forbearance in a future Bulletin.

**(c) If the Borrower fails to meet the conditional terms of the agreement during the Trial Period, the Servicer must:**

1. Apply any Trial Period payments in accordance with the terms of the existing Mortgage; Trial Period payments must not be returned to the Borrower
2. Notify the Borrower in writing that due to their failure to comply with the conditional terms of the Modification Agreement, the offer to modify is no longer available and continue further loss mitigation efforts in accordance with the Guide
3. Report Borrower as delinquent pursuant to requirements in Guide Section 64.10 and comply with the collection requirements set forth in Guide Section 64.6
4. If the Mortgage was in foreclosure at the time the Borrower executed the Modification Agreement, resume foreclosure proceedings in accordance with applicable law, the Guide *and* as provided in the Modification Agreement. Report the re-initiation of foreclosure using default action code 43 and provide the date the foreclosure was re-initiated.

If a Borrower fails to meet the conditional terms of the Modification Agreement during the Trial Period and can demonstrate a new hardship, the Servicer may reconsider the Mortgage for modification under the SMP. The Servicer may also consider the Borrower for a standard fully underwritten modification or another alternative to foreclosure, as provided in the Guide.

## V. Additional information

### (a) Servicer workout compensation

Freddie Mac will compensate Servicers $800 for each successful Mortgage modification completed under the Streamlined Modification Program. This amount will be paid once the Trial Period has been successfully completed and the modification process has been completed.

### (b) Fees

Servicers may not assess any fees or 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 Deficiency in a lump sum.

Servicers may request reimbursement for certain costs associated with the modification that would otherwise be paid by the Borrower (e.g., notary fees, recordation fees, costs associated with obtaining a property value). We will provide instructions on the process for requesting reimbursement of such expenses at a later date.

**(c) Required documentation**

Servicers must utilize all documentation specified in this Bulletin (refer to Exhibits A and B of this Bulletin). This documentation will also be available on FreddieMac.com at http://www.freddiemac.com/singlefamily/service/streamlined_modification.html

A Servicer may add its logo to the Cover Letter (Exhibit A-1) and the Solicitation Letter (Exhibit B) that it sends to the Borrower.

## FORECLOSURE SALE AND EVICTION SUSPENSION

On November 20, 2008, Freddie Mac announced a six-week suspension of all foreclosure sales and scheduled evictions on occupied single-family 1- to 4-unit Primary Residences with Freddie Mac-owned Mortgages beginning **November 26, 2008 through January 9, 2009**. We made this announcement to provide Servicers additional time to pursue loan modifications with delinquent Borrowers, and for implementing the Streamlined Modification Program that Freddie Mac jointly announced with the FHFA, Fannie Mae and representatives of the HOPE NOW Alliance. We are reminding Servicers that as a result of this announcement:

- Servicers must postpone foreclosure sales on occupied, single-family 1- to 4-unit Freddie Mac-owned Mortgages scheduled between November 26, 2008 and January 9, 2009. This temporary suspension of foreclosure sales will not apply to vacant single-family properties. With respect to FHA and VA Mortgages, Servicers must comply with all FHA and VA guidelines, as applicable.
- Servicers should continue to refer delinquent Mortgages to foreclosure and process the foreclosure proceedings. However, Servicers must ensure that a foreclosure sale is not scheduled to occur until after the suspension period has expired. Servicers should not refer a delinquent Mortgage to foreclosure if the Borrower has executed the Modification Agreement and commenced payments during the Trial Period and has not received notice of the failure to qualify for the Streamlined Modification Program or default under the terms of the Modification Agreement.
- At the end of the foreclosure suspension period, Servicers must determine whether additional foreclosure relief should be extended to allow time for a workout in process to be completed (e.g. to permit a Borrower sufficient time to return a modification package) or whether the Servicer should proceed with the foreclosure sale. Servicers are not required to seek approval from Freddie Mac to proceed with foreclosure sales after January 9, 2009, if the Servicer has determined that a successful alternative to foreclosure is not possible.
- To prevent negative impacts to individual Servicer Performance Profiles by Mortgages for which foreclosure has been postponed under these temporary provisions, Servicers must report Default Action Code “09-Forebearance” through Electronic Default Reporting.
- Servicers must manage the need for additional fees and costs associated with the suspension and, in accordance with the requirements of Guide Section 66.69, obtain our approval to exceed the expense guidelines set forth in Exhibit 57, 1- to 4-Unit Property Approved Expense Amounts, and Exhibit 57A, Approved Attorney Fees and Title Expenses, by submitting Form 105 to Freddie Mac at overallowables@freddiemac.com.

This announcement supercedes the announcement made on October 8, 2008 and referred to in our special November 24, 2008 Guide Bulletin with respect to a temporary suspension of foreclosure sales on Freddie Mac-owned Mortgages secured by properties in the federally declared disaster areas caused by Hurricane Ike in Texas and Louisiana.

## CONCLUSION

Until further notice, you must retain this Bulletin for Freddie Mac's Servicing requirements for Mortgages modified under the Streamlined Modification Program. We believe that the Streamlined Modification Program will help to address Servicer capacity challenges resulting from increased delinquencies and help more at-risk Borrowers retain their homes. We look forward to working with our Servicers and the industry to implement the Streamlined Modification Program and other options to more quickly assist homeowners in danger of foreclosure.

For answers to questions about the requirements in this Bulletin, Servicers should contact their Freddie Mac Servicing representative or call (800) FREDDIE.

Sincerely,

Patricia J. McClung
Vice President
Offerings Management