

Bulletin

NUMBER: 2013-5

TO: Freddie Mac Servicers

March 27, 2013

SUBJECT: NEW FREDDIE MAC STREAMLINED MODIFICATION AND UPDATES TO FREDDIE MAC STANDARD MODIFICATION REQUIREMENTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are announcing the Freddie Mac Streamlined Modification (“Streamlined Modification”), which provides an additional modification opportunity to certain Borrowers who are at least 90 days delinquent but not more than 720 days delinquent. We are also adding solicitation requirements that are specific to the Streamlined Modification and must be implemented by Servicers in addition to, and not in place of, the existing solicitation requirements described in Guide Section 64.6, *Evaluation Hierarchy, Borrower Solicitation and Communication*.

In addition, we are revising some of the Freddie Mac Standard Modification (“Standard Modification”) eligibility requirements in Section B65.13, *Eligibility Requirements for a Freddie Mac Standard Modification*, and updating Section B65.14, *Ineligibility for Freddie Mac Standard Modification*, to reflect additional eligibility exclusions.

STREAMLINED MODIFICATION

Effective July 1, 2013

The Streamlined Modification, a part of the Servicing Alignment Initiative (SAI) developed under the direction of the Federal Housing Finance Agency (FHFA), is a temporary initiative designed to provide an additional modification opportunity for seriously delinquent Borrowers. In order to qualify for a Streamlined Modification, the Borrower is not required to provide a Borrower Response Package and the Servicer is not required to verify the Borrower’s income or that the Borrower has an eligible hardship. A Borrower who qualifies for a Streamlined Modification will be required to successfully complete a trial period of at least three months prior to being offered a permanent modification. The Streamlined Modification offers the same Mortgage terms as the Standard Modification, which are determined in accordance with Section B65.18(a).

Effective **July 1, 2013**, Servicers must evaluate any Borrower who is at least 90 days delinquent but not more than 720 days delinquent for a Streamlined Modification in accordance with the requirements of new Section B65.12.1, *Freddie Mac Streamlined Modification*.

If the Borrower is at least 90 days delinquent as of the evaluation date and otherwise meets all the eligibility requirements of Section B65.12.1, he or she remains eligible for a Streamlined Modification even if the Borrower subsequently makes a full Mortgage payment and becomes less than 90 days delinquent.

Section B65.12.1 contains detailed eligibility, ineligibility and other requirements for the Streamlined Modification, including unique requirements for reviewing a Borrower Response Package received after a Streamlined Modification Trial Period Plan Notice has been sent to the Borrower.

In addition:

- Section B65.19, *Trial Period Plan Requirements*, has been revised to incorporate requirements for the Streamlined Modification Trial Period Plan Notice
- Section B65.21, *Other Conditions and Requirements*, has been revised to reflect specific Electronic Default Reporting (EDR) requirements for a Streamlined Modification.
- Section 65.8, *Performance Standards*, has been updated to include information pertaining to Borrower Response Package benchmarks and incentives
- Guide Exhibit 93, *Evaluation Model Clauses*, has been updated to include the Streamlined Modification Trial Period Plan Notice

Except as otherwise provided in Section B65.12.1, Servicers must process a Streamlined Modification consistent with the requirements for a Standard Modification in Sections B65.16, *Property Valuation Requirements*, and B65.18, *Determining the Terms of a Freddie Mac Standard Modification*, through B65.26, *Reporting and Remittance Requirements*.

A Streamlined Modification must have a Trial Period Plan Effective Date no earlier than **August 1, 2013** and no later than **August 1, 2015**.

Workout Prospector®

We will communicate to Servicers in a future Bulletin the date Workout Prospector will be available to process the terms of the Streamlined Modification. In the interim, Servicers must begin evaluating Borrowers for a Streamlined Modification Trial Period Plan on or after July 1, 2013, and generate the terms of the Trial Period Plan using their proprietary systems. Servicers must still report the Streamlined Modification Trial Period Plan to Freddie Mac via Electronic Default Reporting (EDR), as described in the “Reporting” section below, even if they processed the Mortgage using their proprietary systems. Once Freddie Mac communicates the availability of Workout Prospector for the Streamlined Modification, Servicers must submit to Workout Prospector data relating to Streamlined Modification Trial Period Plans processed through their proprietary systems.

Guide Chapter B65, *Workout Options*, and Sections 65.8, 65.15, *Overview*, and 65.17, *Verifying a Borrower’s Hardship*, have been revised to reflect the Streamlined Modification.

Solicitation requirements

The following solicitation requirements for the Streamlined Modification are in addition to, and not in place of, existing Borrower solicitation requirements in Section 64.6.

Borrowers who become 90 days delinquent on or after July 1, 2013

For a Borrower who becomes 90 days delinquent on or after July 1, 2013, and the Servicer determines is eligible for a Streamlined Modification in accordance with the requirements of Section B65.12.1, the Servicer must send an initial solicitation, that includes new Exhibit 1191, *Streamlined Modification Solicitation Letter*, and the Streamlined Modification Trial Period Plan Notice, no later than the 105th day of Delinquency if:

- The Servicer has not received a complete Borrower Response Package prior to the 90th day of Delinquency, or
- The Servicer previously conducted an evaluation of a complete Borrower Response Package and determined that the Borrower was not eligible for an alternative to foreclosure, or
- The Borrower has rejected all other alternatives to foreclosure offered by the Servicer, or
- The Servicer has received a complete Borrower Response Package, but has not completed its evaluation of the package prior to the date a Streamlined Modification solicitation will be sent to the Borrower. Refer to the “Borrower Response Package” section below for requirements on evaluating a complete Borrower Response Package after a Streamlined Modification solicitation has been sent to the Borrower.

If the Servicer fails to send the Streamlined Modification solicitation to the Borrower by the 105th day of Delinquency, the Servicer must solicit the eligible Borrower as soon as possible to minimize the impacts of the delay.

Use of the Streamlined Modification Solicitation Letter and the Streamlined Modification Trial Period Plan Notice is optional and may be altered at the Servicer's discretion as it deems necessary to meet the requirements of the Guide and to comply with disclosure and other requirements under applicable law. However, the Streamlined Modification Solicitation letter must include the date the Borrower must return a complete Borrower Response Package in order to be evaluated for a Home Affordable Modification Program (HAMP) modification or another alternative to foreclosure. The response date in the solicitation letter must be after the scheduled due date for the second Trial Period Plan payment and prior to the date the Servicer anticipates sending the modification agreement to the Borrower for signature.

Borrowers who are more than 90 days delinquent as of July 1, 2013

For a Borrower who is more than 90 days delinquent but not more than 720 days delinquent as of July 1, 2013, and the Servicer determines is eligible for a Streamlined Modification in accordance with the requirements of Section B65.12.1, the Servicer must send at least one solicitation that includes the Streamlined Modification Solicitation Letter and the Streamlined Modification Trial Period Plan Notice no later than 15 days after the eligibility evaluation. However, Servicers must ensure solicitation attempts cease at least 60 days prior to the foreclosure sale date for a judicial foreclosure and 30 days prior to the foreclosure sale date for a non-judicial foreclosure.

Subsequent solicitations for a Streamlined Modification after the initial solicitation

After sending the initial Streamlined Modification solicitation, Servicers may use their discretion when deciding whether to continue soliciting Borrowers for the Streamlined Modification. However, Servicers must continue to comply with the solicitation requirements described in Section 64.6, including the requirement that they continue to try to contact and solicit the Borrower for alternatives to foreclosure throughout the Delinquency and foreclosure process, and up to 60 days prior to the foreclosure sale date for a judicial foreclosure or 30 days prior to the foreclosure sale date for a non-judicial foreclosure, unless:

- The Servicer has established direct contact with the Borrower and the Borrower does not want to pursue an alternative to foreclosure, or
- The Servicer has evaluated the Borrower for alternatives to foreclosure in accordance with the Guide and determined that foreclosure is the appropriate course of action

Sections 64.5, *Collection Efforts*, and 64.6 have been updated to reflect these solicitation requirements.

Borrower Response Package

If the Servicer receives a complete Borrower Response Package after the date the Streamlined Modification solicitation is sent to the Borrower and prior to sending the modification agreement, the Servicer must acknowledge receipt of the package and:

- Review the Borrower for eligibility under HAMP in accordance with the requirements in Chapter C65, *Home Affordable Modification Program*, if the Borrower has accepted the Streamlined Modification Trial Period Plan, or
- Review the Borrower for all alternatives to foreclosure in accordance with the Guide if the Borrower has not accepted the Streamlined Modification Trial Period Plan

In situations where the Servicer has received a complete Borrower Response Package, but has not completed its evaluation of the package **prior to sending the Streamlined Modification solicitation** and the Borrower has not yet accepted the offer, the Servicer must complete its review of the package for all alternatives to foreclosure in accordance with the Guide. However, if the Borrower has accepted the Streamlined Modification Trial Period Plan, the Servicer must complete its review of the Borrower Response Package for a HAMP modification.

If the Borrower qualifies for a HAMP modification and the post-modified monthly principal and interest payment under the HAMP modification is less than the principal and interest payment available under the Streamlined Modification, the Servicer must offer the Borrower the HAMP modification. Servicers must send a HAMP Agreement Cover Letter (Form 1118) to the Borrower indicating that a restart of the Trial Period is not required and if the Borrower complies with the terms of the Streamlined Modification Trial Period Plan and executes the Home Affordable Modification Agreement (Form 3157), he or she will receive the HAMP modification terms. The Servicer must require the Borrower to continue making the Streamlined Modification Trial Period Plan payments and send the Borrower a Home Affordable Modification Agreement reflecting HAMP modification terms upon successful completion of the Streamlined Modification Trial Period Plan. The Servicer must convert the existing Streamlined Modification Trial Period Plan to a HAMP Trial Period Plan in Workout Prospector. The Workout Prospector[®] Users' Guide will be updated to provide additional instruction for this purpose once Workout Prospector has been updated.

If the Borrower does not qualify for a HAMP modification based on a review of a complete Borrower Response Package received during the Trial Period, the Servicer must communicate to the Borrower verbally or in writing the Borrower's ineligibility for HAMP, and reconfirm that if the Borrower complies with the terms of the Streamlined Modification Trial Period Plan and returns an executed modification agreement, the Mortgage will be modified under the terms of the Streamlined Modification.

These requirements are included in Section B65.12.1.

Reporting

Exhibit 82, *Electronic Default Reporting Transmission Code List*, has been updated to reflect a specific default action code for the Streamlined Modification. Servicers must report Streamlined Modification Trial Period Plan activity using default action code TM – “Alternative Modification Trial Period,” by the third Business Day of each month for the previous month's activity and continue to report the code along with the Trial Period Plan Effective Date each month during the Trial Period.

Mortgages converting to HAMP terms during the Streamlined Modification Trial Period

If the Mortgage is converting from a Streamlined Modification Trial Period Plan to a HAMP modification without a restart of the Trial Period pursuant to the requirements in Section B65.12.1(d), the Servicer must report at least one month of HAMP Trial Period Plan activity using default action code 09 – “Forbearance”, along with reason code HMP – “Home Affordable Modification Program” to complete the reporting of the HAMP Trial Period Plan. The Servicer must report codes HMP and 09 via EDR to indicate a HAMP Trial Period Plan no later than the third Business day of the month in which the modification became effective for the prior month's activity and must indicate the original Trial Period Plan Effective Date that was reported for a Streamlined Modification Trial Period Plan. Refer to Section B65.21 for additional information including an example of the required EDR reporting.

Mortgages that convert from a Streamlined Modification Trial Period Plan to a HAMP Trial Period Plan and modification without restart of the Trial Period must also be reported to Fannie Mae, in its capacity as program administrator for the United States Department of the Treasury (“Program Administrator”), via the HAMP Reporting Tool. Servicers should refer to the Program Administrator for specific reporting requirements on reporting HAMP loan-level data in the HAMP Reporting Tool.

These requirements are provided in Sections B65.12.1 and B65.21, *Other Conditions and Requirements*.

STANDARD MODIFICATION REVISIONS

Effective for all new evaluations for a Standard Modification resulting in a Trial Period Plan Effective Date on or after August 1, 2013

With this Bulletin we are eliminating the requirement that the Standard Modification must result in a principal and interest payment reduction of at least 10%. Instead the new requirement is that the Standard Modification must result in a principal and interest payment that is less than or equal to the pre-modification principal and interest payment.

We are also eliminating the requirement that if the Mortgage had been previously modified within 12 months of the evaluation date, the previous modification must have resulted in a payment reduction of less than 10%.

Section B65.13 has been updated to reflect these changes.

We have also revised the list of Mortgages and Borrowers in Section B65.14 that are ineligible for Standard Modification to include the following:

- Mortgages previously modified to terms that were determined in accordance with Section B65.18 that subsequently became 60 or more days delinquent within 12 months of the Modification Effective Date
- Borrowers who previously failed a Trial Period Plan within 12 months of the evaluation date when the terms of the modification were determined according to the steps required in Section B65.18
- Updates to the eligibility exclusion with respect to Mortgages that are subject to non-routine litigation to incorporate the existing requirement that this exclusion does not apply to those Borrowers who, in good faith, are exercising a right under the federal Consumer Credit Protection Act

TRAINING

A suite of training materials and reference documents is available to support SAI requirements. To help our Servicers understand the requirements announced in this Bulletin, we are offering additional webinar training. Servicers are encouraged to enroll in the "Guide Bulletin 2013-5: Freddie Mac Streamlined Modification Program" webinar through Freddie Mac's Learning Center at:

http://www.freddiemac.com/ontrack/html/LearningCenter/ClassDescription.jsp?crsNum=Bul_FM_Stream.

Servicers should visit the Learning Center web page at: <http://www.freddiemac.com/learn/service> for additional Servicing training information and resources.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 64, 65 and B65
- Exhibits 82, 93 and 1191

CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE and select "Servicing."

Sincerely,



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Single-Family Servicing and REO