



TO: Freddie Mac Servicers

April 14, 2016 | 2016-7

SUBJECT: FREDDIE MAC PRINCIPAL REDUCTION MODIFICATION

This Bulletin announces the Freddie Mac Principal Reduction Modification. This temporary offering, which was designed at the direction of FHFA, significantly leverages the existing Freddie Mac Streamlined Modification with minor eligibility adjustments incorporated specifically to assist Borrowers who are most at risk of foreclosure. Under this initiative, the Servicer will send each eligible Borrower a Streamlined Modification Trial Period Plan and a solicitation letter that commits the Servicer, and therefore Freddie Mac, to forgive principal following the Borrower's successful completion of a Streamlined Modification Trial Period Plan and settlement of the modification. After the Trial Period Plan is completed and the Mortgage has converted to a permanent modification, the Servicer will forgive all forbearance amounts created as a result of the Streamlined Modification, unless the Borrower chooses to opt out of principal reduction (e.g., due to tax considerations). As described in more detail below, Borrowers in Active Trial Period Plans during the term of this temporary offering, including those that are not Streamlined Modification Trial Period Plans, may also be eligible.

This Bulletin contains the requirements for the Principal Reduction Modification, including the [eligibility](#), [Borrower notification](#), [evaluation hierarchy](#), and [processing and reporting requirements](#).

For the purposes of this Bulletin, an "Active Trial Period Plan" is any Trial Period Plan (other than a Principal Reduction Trial Period Plan sent to a Borrower within 15 days following Servicer implementation) with the first Trial Period Plan payment due on or after May 1, 2016 and on or before December 1, 2016, regardless of whether the Trial Period Plan has been completed or if it is still in process.

SERVICER IMPLEMENTATION

Servicers must evaluate their Servicing portfolios using the criteria described in the [Eligibility Requirements and Exclusions](#) section of this Bulletin no later than **October 1, 2016**. All required solicitations for this modification must be sent on or before **December 31, 2016**. Servicers may implement the Principal Reduction Modification prior to October 1, 2016 if they are able to do so.

REVISIONS TO THE GUIDE

The Guide will not be updated to include these requirements. Servicers should refer to this Bulletin to ensure compliance with Principal Reduction Modification requirements.

ELIGIBILITY REQUIREMENTS AND EXCLUSIONS

General eligibility requirements and exclusions

Eligibility for the Principal Reduction Modification will be determined in two stages. First, Freddie Mac will provide the Servicer with a list of Mortgages that, based on loan origination data provided to us at Mortgage delivery and/or by the Servicer, meet certain criteria described in the "As of March 1, 2016" row in the [Principal Reduction Modification Eligibility Requirements table](#) below. This list will be available on the Servicer Performance Profile web site under the following path:

Additional Resources -> Additional Portfolio Analysis -> Other Reports -> Principal Reduction Modification Starting Population List

The list will serve as a starting population for the Principal Reduction Modification. If the Servicer needs access to the Servicer Performance Profile web site, it should contact its user administrator or call Customer Support at (800) FREDDIE and select option four for Servicing.

The Servicer must conduct additional evaluations of the starting population to determine final eligibility in accordance with the “As of the Servicer evaluation date” row in the [Principal Reduction Modification Eligibility Requirements](#) table below. Mortgages that have any of the characteristics described in the [Principal Reduction Modification Eligibility Exclusions](#) table below are not eligible for a Principal Reduction Modification. Servicer evaluations may begin as soon as is feasible, and must be conducted no later than the mandatory effective date of October 1, 2016.

To be eligible for the Principal Reduction Modification, the following eligibility requirements must be met:

Principal Reduction Modification Eligibility Requirements	
Date	Requirements
As of March 1, 2016	<ul style="list-style-type: none"> • The Mortgage must have a UPB less than or equal to \$250,000, before capitalizing eligible arrearages • The Mortgage must be at least 90 days delinquent • The property securing the Mortgage must not have been an Investment Property at origination <p>NOTE: Freddie Mac will provide the Servicer with a list of Mortgages that, based on data provided to us at delivery and/or by the Servicer, meet the above criteria and will serve as a starting population. The Servicer may validate occupancy status as of the evaluation date. The Servicer must validate that the Mortgages in the starting population meet the delinquency and UPB requirements described above, and must evaluate them using the additional eligibility criteria as of the Servicer evaluation date, described below.</p>
As of the Servicer evaluation date	<ul style="list-style-type: none"> • The Mortgage must have a post-modification mark-to-market loan-to-value (MTMLTV) ratio greater than 115% (determined in accordance with Guide Section 9206.10) • The property may be vacant or condemned • The Mortgage must have been originated at least 12 months prior to the evaluation date for the Modification • The Principal Reduction Modification must result in a principal and interest (P&I) payment that is less than or equal to the pre-modification P&I payment (determined in accordance with Section 9206.10) • If the Mortgage is secured by a leasehold estate, the term of the lease must not terminate earlier than five years after the maturity date of the proposed modified Mortgage. If the current term of the lease terminates earlier than five years after the maturity date, the term of the lease must be renegotiated in order to satisfy this requirement prior to offering the Borrower a Trial Period Plan. • The Mortgage must be a conventional First Lien Mortgage currently owned or guaranteed in whole or in part by Freddie Mac • If the Borrower made monthly mortgage payments after March 1, 2016 to become less than 90 days delinquent, the Borrower must be at least 30 days delinquent on the evaluation date

	<ul style="list-style-type: none"> • The Mortgage may be subject to an unexpired offer to the Borrower for another modification provided the Borrower is eligible to be converted to a permanent Principal Reduction Modification in accordance with the Eligibility Requirements for a Modification in Progress section in this Bulletin • The Borrower may be performing under another Trial Period Plan provided the Borrower is eligible to be converted to a permanent Principal Reduction Modification in accordance with the Eligibility Requirements for a Modification in Progress section in this Bulletin
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Principal Reduction Modification Eligibility Exclusions

The following **eligibility exclusions** apply for the Principal Reduction Modification:

- The Borrower was previously offered but failed to comply with the terms of a Streamlined Modification or Streamlined Modification Trial Period Plan
- The Mortgage was previously modified with Freddie Mac Standard Modification terms and the Mortgage became 60 or more days delinquent within 12 months of the Modification Effective Date
- The Borrower failed to comply with the terms of a previous Trial Period Plan within 12 months of its evaluation date and the terms of the Trial Period Plan were determined in accordance with the Standard Modification
- The Mortgage is subject to an approved short sale or deed-in-lieu of foreclosure transaction
- The Mortgage is insured by the FHA or guaranteed by the VA or RHS
- The Mortgage has previously been modified three or more times
- The Mortgage is subject to an indemnification or recourse agreement

Eligibility requirements for a modification in progress in the interim between May 1, 2016 and December 1, 2016

To assist more eligible Borrowers, Servicers must evaluate Borrowers who are in, or who have completed, Active Trial Period Plans for the Principal Reduction Modification in accordance with the eligibility requirements in this section. For such eligible Borrowers, the terms of the existing modification offer (i.e., the MyCity Modification, Home Affordable Modification Program (HAMP®) modification, Standard Modification or Streamlined Modification terms) will be honored, except that the forbearance amount calculated in accordance with the terms of that specific program will be forgiven after the mortgage modification takes effect and settles on Freddie Mac’s systems.

Active Trial Period Plans that are in process or that have been completed are eligible for the Principal Reduction Modification, provided that:

- The Mortgage is on the starting population list provided by Freddie Mac, which is comprised of Mortgages that, as of March 1, 2016, meet the following conditions:
 - Prior to capitalization, the UPB of the Mortgage is less than or equal to \$250,000, and
 - The Mortgage is at least 90 days delinquent, and
 - At origination, the property securing the Mortgage was not an Investment Property. (NOTE: The Servicer may validate occupancy status as of the evaluation date, and in these instances the Mortgage may not be on the starting population list, and the Servicer must ensure that all eligibility requirements are met.)
- The post-modification MTMLTV ratio is greater than 115% as of the Servicer evaluation date

- The Trial Period Plan has a first Trial Period Plan payment due date on or after May 1, 2016, and on or before December 1, 2016
- The Borrower successfully complies with the terms of the Trial Period Plan
- The mortgage modification agreement is executed and returned by the Borrower in a timely manner (in accordance with Section 9206.16 or 9205.9, as applicable)

In these instances, Servicers are not required to send a [Principal Reduction Modification Solicitation Letter](#) (“solicitation letter”) but must send all such eligible Borrowers a [Principal Reduction Modification Opt-Out Letter](#) (“opt-out letter”), as described in the [Sending an Offer to the Borrower](#) section below, to provide Borrowers with the opportunity to opt out of the Principal Reduction Modification.

SENDING AN OFFER TO THE BORROWER

The Servicer must solicit each eligible Borrower in accordance with the following requirements:

Principal Reduction Modification Solicitation Requirements	
Trial Period Plan Status	Requirements
The Borrower is not in an Active Trial Period Plan as of October 1, 2016	<p>The Servicer must send at least one solicitation letter (a template of which is provided as Attachment A to this Bulletin) to each eligible Borrower within 15 days of the Servicer’s implementation, and in all instances by no later than October 15, 2016, along with the Streamlined Modification Trial Period Plan offer. The Servicer must also provide an opt-out letter (a template of which is provided as Attachment B to this Bulletin), which may be sent with the solicitation letter or at any point during the Trial Period Plan, provided the Notice of Cancellation is sent by no later than 30 days after the Servicer receives an executed mortgage modification agreement.</p>
The Borrower is in an Active Trial Period Plan as of October 1, 2016	<p>The Servicer must send an opt-out letter to each Borrower who is eligible for principal reduction in accordance with the Eligibility Requirements for a Modification in Progress section in this Bulletin. The Servicer may send the opt-out letter as early as is feasible, provided it is sent on or before the later of:</p> <ul style="list-style-type: none"> • 30 days after the Servicer’s implementation of the Principal Reduction Modification, or • 30 days after the Servicer’s receipt of an executed mortgage modification agreement <p>In all cases, regardless of the timing of the Servicer’s implementation date or the date the Servicer receives an executed mortgage modification agreement, the opt-out letter must be sent no later than December 31, 2016.</p>

The Servicer may continue to solicit the Borrower for a Principal Reduction Modification throughout the foreclosure process up to 60 days prior to a foreclosure sale date for a judicial foreclosure or 30 days prior to a foreclosure sale date for a non-judicial foreclosure, provided that all solicitations cease on or before December 31, 2016.

The Servicer must send the following documents to eligible Borrowers who are not in an Active Trial Period Plan as of October 1, 2016:

- The [solicitation letter](#)

- The Streamlined Modification Trial Period Plan Notice (Review based on MTMLTV Ratio Greater than or Equal to 80%) provided in Guide Exhibit 93

If the Servicer receives a complete Borrower Response Package after the date the [solicitation letter](#) is sent to the Borrower and prior to sending the modification agreement, the Servicer must acknowledge receipt of the package and comply with applicable law with respect to evaluation of that package.

Additional Streamlined Modification Solicitation Requirements	
If...	Then...
The Servicer has not implemented the Principal Reduction Modification as of July 15, 2016	<p>The Servicer must send at least one additional Streamlined Modification solicitation to all Borrowers with Mortgages that (i) appear on the starting population list, (ii) have a post-modification MTMLTV ratio that is greater than 115% and (iii) are otherwise eligible for the Streamlined Modification. Servicers must solicit these Borrowers for the Streamlined Modification regardless of whether the Mortgaged Premises is located in an eligible MyCity Modification jurisdiction. Servicers must send this solicitation no later than July 15, 2016.</p> <p>NOTE: Servicers must evaluate any Borrower who accepts the Streamlined Modification Trial Period Plan offer and is in an Active Trial Period Plan as of October 1, 2016, for principal reduction in accordance with the requirements in the Eligibility Requirements for a Modification in Progress section in this Bulletin. For those determined to be eligible, the Servicer must send an opt-out letter in accordance with the Principal Reduction Modification Solicitation Requirements table in this Bulletin.</p>
The Servicer has implemented the Principal Reduction Modification as of July 15, 2016	No additional Trial Period Plan solicitations are required. The Servicer must proceed with Principal Reduction Modification evaluations and solicitations in accordance with the requirements in this Bulletin.

EVALUATION HIERARCHY

Prior to Servicer implementation of the Principal Reduction Modification, there will be no changes to the existing Freddie Mac loss mitigation evaluation hierarchy. As described in this Bulletin, under certain circumstances, Servicers must evaluate Borrowers who are in Active Trial Period Plans for principal reduction.

If an eligible Borrower is in an Active Trial Period Plan prior to Servicer implementation and the Mortgage meets the requirements described in the [Eligibility Requirements for a Modification in Progress](#) section of this Bulletin, the Servicer should process the modification in accordance with existing Guide requirements related to that specific modification offering. The Servicer must also submit the Principal Reduction Modification request through Workout Prospector® as described in the [Processing and Reporting](#) section of this Bulletin.

After the Servicer has implemented the Principal Reduction Modification in its systems and processes, the Servicer must solicit all eligible Borrowers for the Principal Reduction Modification, including Borrowers who would have otherwise been eligible for the MyCity Modification. Servicers must suppress the MyCity Modification solicitation letter and send the [solicitation letter](#) and Streamlined Modification Trial Period Plan instead.

If a Borrower is solicited for the Principal Reduction Modification and he or she subsequently submits a Borrower Response Package, the Servicer must evaluate the Borrower for all options in accordance with the existing loss mitigation evaluation hierarchy. If the Borrower is eligible for a Principal Reduction Modification and instead accepts another mortgage modification offer, the Borrower remains eligible for principal reduction, provided that the Mortgage is on the starting population list provided by Freddie Mac (refer to the [Eligibility Requirements for a Modification in Progress](#) section in this Bulletin for the requirements for a Mortgage to be on this list). In these

instances, the Servicer must also send the Borrower an [opt-out letter](#) and convert forbearance to principal reduction as described in this Bulletin.

BORROWER OPT-OUT PERIOD

The Servicer must send an [opt-out letter](#) to provide eligible Borrowers the opportunity to opt-out of the Principal Reduction Modification. The Servicer may send the opt-out as early as the date the [solicitation letter](#) is sent, but no later than the deadline described in the [Principal Reduction Modification Solicitation Requirements](#) section above. The [opt-out letter](#) must explain how the Principal Reduction Modification will work, inform the Borrower of possible tax consequences and describe what action the Borrower must take to opt out of the Principal Reduction Modification.

If the Servicer sends the [opt-out letter](#) prior to determining the final deferred principal balance, the Servicer must specify that the amount of deferred principal provided in the [opt-out letter](#) is an estimate, and the precise amount of deferred principal will be stated in the modification agreement when the Mortgage is permanently modified.

A Borrower must call or write the Servicer within 30 days of the date of the [opt-out letter](#) in order to exercise his or her right to opt out of the Principal Reduction Modification.

PROCESSING AND REPORTING

For Borrowers who are not in Active Trial Period Plans, the Servicer will determine the modification terms and process the Principal Reduction Modification as a Streamlined Modification in its proprietary systems through the completion of the Trial Period Plan. For all eligible Borrowers, once the modification has settled, the Servicer must submit the terms to Freddie Mac to have the deferred principal written off and the Borrower released from liability with respect to that amount.

Workout Prospector

The Servicer must use the following steps when submitting a Principal Reduction Modification to Freddie Mac:

1. Determine eligibility and terms per the Principal Reduction Modification requirements described in this Bulletin
2. Once the Borrower successfully completes the Trial Period Plan and executes the modification agreement, enter the terms of the modification and data for all required fields using the Workout Prospector Court-Mandated Modification/Litigation exception path. Enter forborne principal in the Court-Mandated Modification Write-off field.
3. In the comments section of Workout Prospector:
 - Label as a Principal Reduction Modification
 - Provide a breakdown of the terms, including rate, term, forbearance amount, interest-bearing UPB, interest rate change date (effective date of the modification), first payment due date and forbearance/forgiven amount.
4. Submit Guide Form 1128, *Loss Mitigation Transmittal Worksheet*, to NPL_Settlement@freddiemac.com

Credits for forgiven amounts will be issued after successful settlement of the workout. If the Borrower opts out of the principal reduction post-settlement option, the Servicer must notify Freddie Mac by submitting Form 1205, *Post Settlement Correction Request*, to Post_settlement_correction@freddiemac.com.

Note: For Borrowers who are in Active Trial Period Plans, once the Borrower successfully completes the Trial Period Plan, the Servicer must update the modification terms in Workout Prospector and save the modification in Trial Period Approved status. Once the Servicer receives the executed modification documents, the Servicer must submit the modification via the Court Mandated Modification/Litigation exception path following the instructions above. HAMP modifications should be processed and settled via the existing HAMP process as described in Section 9205.9. After settlement, submit Form 1205 to Post_settlement_correction@freddiemac.com to request that the forborne principal be forgiven.

Reporting

The Servicer must provide Freddie Mac a list of approved Trial Period Plans by the third Business Day of the month after solicitations are sent and continue reporting appropriate updates by the third Business Day of each month. The report must be sent to Shortsales@freddiemac.com and include the following fields:

- Title: Principal Reduction Modification Trial Report
- Freddie Mac Loan Number
- Servicer Loan Number
- Servicer Name
- Date Trial Approved (the date the solicitation offer was sent to the Borrower)
- Forgiven Amount
- Date Final Modification Settled
- Opt-out – Yes or No

Except for Borrowers in Active Trial Period Plans, the Servicer must report Principal Reduction Modification Trial Period Plan activity using default action code TM – “Alternative Modification Trial Period” in accordance with the requirements in Section 9206.13. Servicers must report Borrowers who are in Active Trial Period Plans for other modifications according to existing reporting requirements.

OTHER REQUIREMENTS

Other requirements for the Principal Reduction Modification include:

- If the Mortgage is subject to mortgage insurance, the Servicer must obtain approval of the Principal Reduction Modification from the MI prior to offering principal reduction to a Borrower
- Mortgage payoffs do not include the impact of the principal reduction under the Principal Reduction Modification until the modification agreement has been signed by the Borrower and the Servicer
- Except as otherwise provided in this Bulletin, Servicers must process a Principal Reduction Modification in accordance with, and subject to, the same requirements that are otherwise applicable to processing a Streamlined Modification as described in Section 9206.3. If a Borrower who is in an Active Trial Period Plan has the forbearance waived, the Servicer should process and report the modification as a HAMP modification, MyCity Modification, Standard Modification or Streamlined Modification, as applicable.
- Except as otherwise provided in this Bulletin, Servicers must not write-off or permanently reduce the UPB, delinquent interest or other non-interest arrearages of the Mortgage as required in Section 9206.1
- The Servicer will be eligible to receive an incentive payment in accordance with the Standard and Streamlined Modification tiered payment structure described in Exhibit 96
- For situations where a Borrower does not meet the eligibility requirements for a Principal Reduction Modification, and the Servicer believes it to be the best option for addressing the Delinquency, the Servicer may submit a recommendation to Freddie Mac for review
- Use of the [solicitation letter](#) template and the [opt-out letter](#) template is optional; however, these templates reflect the minimum amount of information and level of specificity that complies with the requirements within this Bulletin. Servicers that use the templates must revise them as necessary to comply with applicable law.

ADDITIONAL RESOURCES

We encourage Servicers to:

- Review the list of [Frequently Asked Questions for the Principal Reduction Modification](#)

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- Visit the [Freddie Mac Learning Center](#) for updates. A reference guide and tutorial on the Principal Reduction Modification will be available by April 30, 2016.

CONCLUSION

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

Sincerely,

A handwritten signature in black ink, appearing to read "Yvette W. Gilmore", with a long horizontal flourish extending to the right.

Yvette W. Gilmore
Vice President
Servicer Performance Management

[Servicer Logo]

[Borrower 1 Name] [Borrower 2 Name]
[Address 1]
[Address 2]
[City, State Zip Code]

[Date]

Reference: [LOAN NUMBER]

Dear [Borrower Name(s)]:

Act Now for a Principal Reduction Modification

We are pleased to inform you that you are eligible for a loan modification, which includes the opportunity to reduce the overall amount you owe on your mortgage. In addition to modifying the terms of your loan after you successfully complete the enclosed three-month trial period plan, we will cancel a portion of the principal balance of your loan.

But you have to act now.

The enclosed trial period plan requires that you make three consecutive monthly payments in the amount of [\$XX]. The trial period plan payment approximates the monthly payment you will pay under the terms of your modified mortgage. Many people in your community have benefitted from loan modifications in recent years. Under this modification, we will change the terms of your mortgage to allow you to make modified monthly mortgage payments over a 40-year period at a low fixed interest rate. We have attached more information on the terms of the program for your review.

Principal Reduction

After you receive a permanent change to the terms of your loan, we will reduce a portion of your mortgage balance. We will do so by canceling your “deferred principal amount.” The deferred principal amount is described in the attached trial period plan and the precise amount of deferred principal will be stated in your modification agreement.

Reducing the principal balance you owe may have tax implications. Please consult your tax advisor to discuss those implications.

You will receive written instructions on how to decline the principal reduction if you do not want your principal balance reduced. You may also decline the principal reduction by calling us at [SERVICER PHONE NUMBER] or by writing to the address provided below. It’s not too late. Get in touch with us today to learn more about your options.

We want to help. Call us today or simply send your first payment. You have options but you need to act now. If you do not respond by [DATE – 14 days from date of this letter], foreclosure actions on your home may commence or continue.

Sincerely,
Customer Support
[Servicer Name]

**AVOID
FORECLOSURE
ACT BY**

[Month Day, Year]!

Contact a member of our customer support team at [8XX-XXX-XXXX] to ask questions and discuss your foreclosure prevention options.

PRINCIPAL REDUCTION MODIFICATION OPT-OUT LETTER

[Servicer Logo]

[Borrower 1 Name] [Borrower 2 Name]

[Date]

[Address 1]

[Address 2]

Reference: [LOAN NUMBER]

[City, State Zip Code]

Dear [Borrower Name(s)]:

Important Mortgage Notification – Principal Reduction

We are pleased to inform you that we are reducing the principal balance of your mortgage loan. Because the amount you owe significantly exceeds the value of your home and you meet other eligibility requirements, we are canceling the deferred principal balance of your loan. The amount of the deferred principal balance will be provided in your modification agreement. You will never have to pay that amount back and no further action by you is needed. **Reducing the principal balance you owe may have tax implications. Please consult your tax advisor to discuss those implications.**

Principal Reduction Amount

The table below shows how your principal balance will be reduced.

[The Servicer must use the following language if the actual amount of the deferred principal balance has not been determined when the Servicer sends this opt out letter:

The table below shows how your principal balance will be reduced. **The amounts provided are based on an estimate of your deferred principal balance.** The precise amount of the deferred principal balance will be stated in your modification agreement when the loan is permanently modified.]

Current Total Principal Balance: \$ [XXX,XXX.XX]	Amount Reduced (deferred principal balance): \$ [XX,XXX.XX]	New Principal Balance: \$ [XX,XXXX.XX]
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All other terms of your modification agreement, including the amount of your monthly principal and interest payment, will remain unchanged. Your monthly statement will reflect the new principal balance after cancellation of the deferred principal balance as a result of the modification. Please keep a copy of this letter with your mortgage documents, for your records.

How to Decline Principal Reduction

If you do not want us to reduce the principal balance of your mortgage loan, you must contact us at [SERVICER PHONE NUMBER] or in writing at the address provided below within [XX] days of the date of this letter. If you choose to decline the principal reduction, the deferred principal balance will be due and payable according to the terms of your modification agreement.

Questions?

If you have any questions about this notice, or you do not want us to reduce your principal balance, please contact us at [SERVICER PHONE NUMBER] or in writing at the address provided below within [XX] days of the date of this letter.

Sincerely,

Customer Support

[Servicer Name]