



# Principal Reduction Modification

*Mortgage Modification Solution to Help You Avoid Foreclosure*

**Are you behind on your mortgage?** You may be eligible for a new mortgage loan modification called the Principal Reduction Modification — even if you are in an active Trial Period Plan for another loan modification program.

## What is the Principal Reduction Modification?

The Principal Reduction Modification is a temporary offering, designed to help seriously delinquent, underwater borrowers who are most at risk of foreclosure, mainly in neighborhoods that were hit the hardest by the housing crisis. This program allows eligible borrowers to obtain a loan modification that permanently forgives a portion of their mortgage debt.

## You May be Eligible\* If:

- Your mortgage is owned or guaranteed by Freddie Mac. Check Freddie Mac's Loan Look-Up Tool if you're unsure: <https://ww3.freddiemac.com/loanlookup>
- Your mortgage is at least 90 days delinquent as of March 1, 2016.
- Your mortgage has an unpaid principal balance of \$250,000 or less as of March 1, 2016.
- The total you owe on your mortgage is more than 115% of your home's current value.
- The property is owner-occupied.

Borrowers who are currently performing under a loan modification Trial Period Plan with a first payment due date before May 1, 2016, are not eligible for the Principal Reduction Modification.

*\*Your eligibility for a Principal Reduction Modification is based on a number of factors, including, but not limited to, those described above. Your mortgage loan servicer (the company to which you send mortgage payments) can tell you whether you are eligible.*

## Did You Know?

- If you are eligible for the Principal Reduction Modification and you enter into a modification with a first trial payment due date between May 1, 2016, and December 1, 2016, your servicer may forgive a portion of the principal balance.
- Modification terms include capitalization of outstanding arrearages (missed mortgage payments and other delinquent mortgage expenses), an interest rate change

to the current market rate, an extension of the loan term to 40 years, and forbearance of some of the principal up to a certain amount to be forgiven later.

## Steps to Obtain a Principal Reduction Modification

- If you have missed your mortgage loan payments, contact your mortgage loan servicer.
- If you are eligible, your mortgage servicer will offer you a Trial Period Plan for a Principal Reduction Modification.
- This Trial Period Plan offer does not require you to submit any documentation regarding your income or assets.
- If you receive an offer for another modification Trial Period Plan from your servicer, you should accept the offer.
- If any of these offers have a Trial Period Plan first payment due date on or between May 1 and December 1, 2016, your servicer will notify you by no later than December 31, 2016, if you are eligible to have a portion of your principal balance reduced.
- You will have an opportunity to opt out of any principal reduction offer. If you do not opt out, your servicer will forgive the principal balance that was forborne under the terms of the modification.

## How Will Payments Work?

Generally, to obtain a Principal Reduction Modification, eligible borrowers must make their first trial payment within the month following the month their servicer sends a Trial Period Plan.

## Trial Period Plans

If you're approved for the program, you will be required to pay three or more Trial Period Plan payments before being offered a final modification agreement.

You must pay the Trial Period Plan payments on time and meet all other conditions described in the Trial Period Plan. To make the modification agreement effective, it must be signed by both you and your servicer. Once these things occur, the principal forbearance amount will be calculated under the applicable modification program and, if you are eligible for that, forbearance amount will be forgiven.

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Borrowers who do not want their principal forgiven will have an opportunity to opt out of the forgiveness component of the program.

### **What are the terms of a Principal Reduction Modification? How will my servicer determine the amount of principal it will reduce?**

Unless you are in an active Trial Period Plan for another modification, the Principal Reduction Modification provides terms similar to Freddie Mac's current Streamlined Modification and offers the same amount of monthly mortgage payment reduction.

In order to offer a Streamlined Modification, servicers capitalize (add) outstanding arrearages to the loan's principal balance, change the loan's interest rate to the current market rate, extend the loan's term to 40 years, and, if a borrower is underwater, forbear a portion of the principal balance to create either a post-modification interest-bearing mark-to-market loan-to-value ratio (MTMLTV) of 115% or forbear 30 percent of the post-capitalized unpaid principal balance (UPB), whichever forbearance amount is less.

Forbearance defers the payment of a portion of outstanding principal balance until the interest-bearing balance is paid off, transfer of the property occurs, or the loan term ends and makes it non-interest bearing – whichever of these three occurs first.

While it reduces a borrower's monthly payment in the same way that forgiveness does, forbearance does not reduce a borrower's overall indebtedness. Under the Principal Reduction Modification, eligible borrowers will have the amount of principal forbearance forgiven instead of deferred.

For example, if a property is valued at \$150,000, but an eligible borrower owes \$200,000, a servicer would forbear principal down to 115 percent of the value of the property (\$172,500). The \$27,500 in principal forbearance would later be forgiven following the closing of a permanent loan modification, provided the borrower does not opt out of forgiveness.

### **How long will it take for the principal reduction to occur once I'm approved for the modification?**

The principal reduction will occur after the modification becomes effective, provided you do not opt out of the program. Prior to the loan modification becoming permanent, you must fulfill the requirements of the Trial Period Plan, which include, but are not limited to, making all three trial period payments on time.

If you're in an active Streamlined Modification (or other modification) Trial Period Plan with a first payment due date on or between May 1 and December 1, 2016, that is eligible to have the principal forbearance converted to principal forgiveness, servicers will send you an opt-out letter no later than December 31, 2016. If you choose to opt out, you

will still receive the modified mortgage terms with principal forbearance, but you will not receive principal forgiveness. If you want principal forgiveness, then you will not need to do anything and your Servicer will forgive the forbearance amount.

### **Keep in Mind**

Servicers need time to implement the program and determine which individual borrowers are eligible. Borrowers who are current on their mortgages, or who are making trial period payments on an existing Freddie Mac modification offering, should continue to make payments on their mortgages, as no borrower who becomes delinquent after March 1, 2016, will be eligible for the Principal Reduction Modification.

### **Principal Reduction Modification Key Dates**

- **March 1, 2016** – Eligibility cut-off date; borrowers who are not at least 90 days delinquent on this date are not eligible for the Principal Reduction Modification.
- **July 15, 2016** – Servicers must solicit all borrowers who are potentially eligible for Principal Reduction Modification for a Streamlined Modification if the borrower has not been sent a Trial Period Plan offer or is not already in an active Trial Period Plan.
- **October 15, 2016** – Servicers must solicit all borrowers eligible for the Principal Reduction Modification starting no later than this date.
- **December 31, 2016** – Final date by which servicers may solicit borrowers eligible for the program or inform borrowers that they are eligible to have principal forgiven.

Due to different capacities to implement the program at different mortgage servicers, some eligible borrowers may hear from their servicers earlier than others.

### **Questions?**

- If you are struggling to pay your mortgage or have additional questions about the program, please contact your servicer. The telephone number and mailing address should be listed on your monthly statement or coupon book.
- Read the Principal Reduction Modification FAQ for borrowers: [http://www.freddiemac.com/singlefamily/service/pdf/prmod\\_faqs.pdf](http://www.freddiemac.com/singlefamily/service/pdf/prmod_faqs.pdf)
- Contact a Freddie Mac Borrower Help Center or national Network: <http://myhome.freddiemac.com/mortgage-help/borrower-help-centers.html>
- Visit the "Foreclosure & Alternatives" section of the My Home by Freddie Mac consumer website: <http://myhome.freddiemac.com>

Consult with a tax advisor regarding any potential tax consequences of accepting a Principal Reduction Modification. The terms of the Mortgage Forgiveness Debt Relief Act may apply.