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Freddie Mac Standard Modification

A modification that promotes long-term borrower success and sustainable homeownership

The Freddie Mac Standard Modification provides at-risk borrowers with an option to achieve affordable mortgage payments. Consistent with the joint-GSE Servicing Alignment Initiative, this new modification creates a sustainable modified payment by reducing the borrower’s principal and interest payments by at least 10 percent. In conjunction with our focus on earlier and more frequent borrower contact, the Standard Modification’s underwriting requirements enable Freddie Mac Servicers to evaluate financially distressed homeowners for a modification quickly.

Key Features

- Helps borrowers who are either 60 days or more delinquent, or current or less than 60 days delinquent and determined to be in imminent default. Eligible borrowers must also demonstrate an eligible hardship and have verifiable income available.
- Reduces the mortgage’s current principal and interest payment by at least 10 percent.
- Offers Servicers a new option to reduce monthly mortgage payments by capitalizing arrearages, adjusting the interest rate, extending the term, and when applicable, granting principal forbearance.
- Requires a trial period during which the borrower must remit the estimated new monthly payments. Servicers enter into a trial period plan with the borrower, and upon successful completion of the trial period, the borrower and Servicer will enter into a modification agreement.
- Replaces the “classic” modification.

Key Benefits

- Creates a more affordable first-lien housing payment that helps more borrowers with a sustainable modification solution.
- Simplifies the Servicer’s underwriting of the modification by establishing consistent modification terms, including the interest rate, for all eligible borrowers.
- Provides Servicers with an option that allows borrowers to sustain homeownership – even if the borrower previously defaulted on a modification.
- Offers financial incentives to Servicers who successfully settle the new modification within two months after the trial period ends.
- Reduces the risk of potential borrower re-defaults, which in turn reduces the Servicers’ delinquent portfolio pipeline.

STANDARD MODIFICATION REQUIREMENTS	
Effective Dates	<ul style="list-style-type: none"> • Servicers must evaluate eligible borrowers for a Standard Modification beginning January 1, 2012. • All “classic” modifications must have been approved by December 31, 2011, and be settled by February 28, 2012. <ul style="list-style-type: none"> ▪ Servicers must submit the associated Form 1128, <i>Loss Mitigation Transmittal Worksheet</i> (LMTW), no later than one business day after the Servicer receives the executed “classic” modification. All LMTWs for “classic” modifications must be submitted no later than March 6, 2012.
QUALIFICATION	
Eligible Property Types	<ul style="list-style-type: none"> • Owner- or nonowner-occupied properties (i.e., primary residences, investment properties, or second homes). • The property may be vacant, but it cannot be condemned.
Eligible Mortgages	<ul style="list-style-type: none"> • First-lien mortgages owned, guaranteed, or securitized by Freddie Mac. • The pre-modified mark-to-market loan-to-value (MTMLTV) ratio [gross unpaid principal balance of the current loan, including any principal forbearance as a result of a prior modification, divided by the property value obtained in accordance with <i>Single-Family Seller/Servicer Guide</i> (Guide) Section B65.16, <i>Property Valuation Requirements</i>] must be greater than or equal to 80 percent. • Mortgages originated at least 12 months prior to the evaluation date for the modification. • Mortgages may be previously modified, but not more than once. • Mortgages that do not meet the above-mentioned criteria are not eligible for the Servicer to approve under its delegated authority. • Mortgages processed through Freddie Mac’s Alternative Collateral Deal (ACD) system are ineligible.
Borrower Eligibility	<ul style="list-style-type: none"> • Borrower must be either 60 days or more delinquent, or current or less than 60 days delinquent and determined to be in imminent default in accordance with Guide Section B65.16, <i>Determining Imminent Default for a Freddie Mac Standard Modification</i>. <ul style="list-style-type: none"> ▪ Borrowers who are current or less than 60 days delinquent must occupy the property as their primary residence to be eligible. • Borrower must document an eligible hardship that is causing or expected to cause a permanent or long-term increase in expenses or decrease in income. <ul style="list-style-type: none"> ▪ Unemployment and other temporary hardships are not eligible hardships. • Borrower must have been determined to be ineligible for HAMP. In addition, borrowers who received, but defaulted on a HAMP trial period plan, HAMP modification, or other modification are eligible, unless the: <ul style="list-style-type: none"> ▪ Effective date of the prior HAMP modification or other modification is within 12 months of the evaluation for the Standard Modification, and ▪ Principal and interest payment on the mortgage was reduced by more than 10 percent as a result of the prior modification. <ul style="list-style-type: none"> ▪ Example: If the current modified monthly payment is \$900 as a result of the prior modification and before that modification the monthly payment was \$950, then the mortgage is eligible for a Standard Modification. ▪ Note: The exceptions above only apply to prior modifications, not prior HAMP Trial Period Plan defaults. • Borrower must have verified income available to make the modified mortgage payment. <ul style="list-style-type: none"> ▪ Unemployment benefits are not an acceptable source of income.

SOLICITATION AND DOCUMENTATION	
Solicitation Time Line	<ul style="list-style-type: none"> • Borrowers who are 31 days or more delinquent must be solicited between the 31st and 35th day of delinquency and again between the 61st and 65th day of delinquency if quality right party contact was not achieved or the borrower did not respond to the initial solicitation. <ul style="list-style-type: none"> ▪ Servicers using a loss mitigation tool to assist in tailoring their collection and solicitation efforts may elect to not send a Borrower Solicitation Package between days 31-35 of delinquency if the results of the tool indicate the mortgage is a low-risk for worsening delinquency. • Refer to Guide Section 64.6, <i>Evaluation Hierarchy, Borrower Solicitation and Communication</i>, for complete borrower solicitation requirements.
Borrower Solicitation Package	<ul style="list-style-type: none"> • Servicers must send the borrower a Borrower Solicitation Package, which includes: <ul style="list-style-type: none"> ▪ Form 710, <i>Uniform Borrower Assistance Form</i> <ul style="list-style-type: none"> ▪ Provides borrower's certified financial information and reasons for hardship and includes a request for income and hardship documentation. ▪ If a borrower's current hardship is not one of the options in the hardship affidavit section of Form 710, Servicers must advise the borrower to provide details of the hardship in their written explanation and submit relevant documentation that supports their current hardship. ▪ Guide Exhibit 1131, <i>Solicitation Letter – 31 Days Delinquent</i>, or Guide Exhibit 1161, <i>Solicitation Letter – 61 Days Delinquent</i> <ul style="list-style-type: none"> ▪ Represents information that should be sent to borrowers who are 31 or 61 days delinquent, respectively. ▪ Includes a cover letter, borrower checklist, description of all foreclosure alternatives, an FAQ document, and foreclosure scam notice. ▪ IRS Form 4506T-EZ, <i>Short Form Request for Individual Tax Return Transcript</i>, or IRS Form 4506-T, <i>Request for Transcript of Tax Return</i> <ul style="list-style-type: none"> ▪ If the borrower is self-employed and/or files federal income tax returns on a fiscal calendar year basis, then a completed IRS Form 4506-T must be obtained. • Borrowers who are less than 60 days delinquent may be required to provide additional hardship documentation in order for the Servicer to complete the imminent default evaluation for HAMP. • Servicers may use the templates in Guide Exhibits 1131 and 1161, or a customized equivalent that contains the same level of specificity as the templates, to solicit a borrower for an alternative to foreclosure, including a Standard Modification. <ul style="list-style-type: none"> ▪ Servicers may use a customized equivalent of Form 710, but if they do, they must accept the Freddie Mac Form 710 from borrowers who submit it. ▪ Refer to Guide Chapter Section 64.6, <i>Evaluation Hierarchy, Borrower Solicitation and Communication</i>, for complete Borrower Solicitation Package requirements. • Spanish translations for certain borrower solicitation documents are available to assist solicitation efforts. Servicers may use the Spanish translations to support their efforts to obtain the required completed and signed English-language documents from the borrower.

<p>Borrower Response Package and Evaluation Notice</p>	<ul style="list-style-type: none"> • Borrower must provide a complete Borrower Response Package, which includes Form 710, IRS Form 4506T-EZ or 4506-T, and required income and hardship documentation. • Borrower Evaluation Notice <ul style="list-style-type: none"> ▪ Guide Exhibit 93, <i>Evaluation of Model Clauses</i>, is updated to include a model template for the Standard Modification trial period plan. ▪ Must be sent within five days of an evaluation decision, but no later than 30 days, after receiving a complete Borrower Response Package. • Borrowers offered a Standard Modification must be given a deadline to indicate their intent to accept that is 14 days from the date the applicable borrower evaluation notice is sent. <ul style="list-style-type: none"> ▪ Borrowers may indicate their intent to accept either in writing or verbally (provided the offer for a Standard Modification trial period plan was not given within 37 days of a scheduled foreclosure sale date, in which case the borrower must indicate in writing an intent to accept the Standard Modification trial period plan). • Refer to Guide Section 64.6, <i>Evaluation Hierarchy, Borrower Solicitation and Communication</i>, for complete Borrower Evaluation Notice and Borrower Response Package requirements.
<p>MODIFICATION STRUCTURE</p>	
<p>Modification Process</p>	<ul style="list-style-type: none"> • Before being considered for a Standard Modification, the borrower must have been considered for a reinstatement, repayment, or forbearance plan under Guide Chapter A65, <i>Reinstatement and Relief Options</i>, and then for a HAMP modification in accordance with Guide Chapter C65, <i>Home Affordable Modification Program</i>. • If the gross UPB, before capitalization, creates a MTMLTV ratio that is greater than or equal to 80 percent, Servicers are delegated the authority to determine the proposed modification terms and final eligibility based on the following: <ul style="list-style-type: none"> ▪ Capitalize the arrearages in accordance with Guide Section B65.23, <i>Expenses, Delinquent Amounts, and Capitalization Rules</i>. ▪ Adjust the interest rate to a 5 percent fixed rate. ▪ Extend the amortization term to 480 months from the modification effective date. ▪ If the pre-modified MTMLTV ratio is greater than 115 percent, forbear the principal to create a post-modification interest-bearing MTMLTV ratio of 115 percent or forebear 30 percent of the post-capitalized UPB, whichever forbearance amount is less. <ul style="list-style-type: none"> ▪ Example: If the pre-modified MTMLTV ratio is greater than 115 percent, the gross capitalized UPB is \$200,000, and the property valuation is \$100,000, then the Servicer must forebear \$60,000 (30 percent of the gross capitalized UPB) resulting in a 140 percent MTMLTV ratio using the interest-bearing UPB of \$140,000. ▪ Example: If the pre-modified MTMLTV ratio is greater than 115 percent, the gross capitalized UPB is \$200,000, and the property valuation is \$150,000, then the Servicer must forebear \$27,500 (13.75 percent of the gross capitalized UPB) resulting in a 115 percent MTMLTV ratio using the modified interest-bearing UPB of \$172,500. ▪ Interest will not accrue on the forbore (or deferred) principal, and will become due at payoff of the interest-bearing UPB, maturity, or transfer of the property. • The modified mortgage will be a fixed-rate, fully amortizing mortgage. The mortgage may not be modified to or maintained as an adjustable-rate mortgage, an interest-only mortgage, a biweekly mortgage, or a daily simple interest mortgage.
<p>Final Eligibility Requirements</p>	<ul style="list-style-type: none"> • The modified principal and interest payment must be at least 10 percent less than the borrower's pre-modification principal and interest payment. • The modification must result in a housing expense-to-income ratio that is greater than or equal to 10 percent and less than or equal to 55 percent. <ul style="list-style-type: none"> ▪ Nonowner-occupied properties have a different calculation for the housing expense-to-income ratio. • The determination that the Standard Modification results in the above final eligibility requirements is based upon the monthly payment calculated for the trial period plan.

Trial Period	<ul style="list-style-type: none"> • Borrowers must complete a three-month trial period. <ul style="list-style-type: none"> ▪ Trial period plans may be up to two months longer in the event the borrower is in bankruptcy. • Borrowers must make timely monthly payments for each month of the trial period at the estimated modified payment amount and otherwise comply with the trial period plan before the Servicer finalizes the permanent modification agreement. • Servicers may use an interim month similar to the requirements in Guide Chapter C65, <i>Home Affordable Modification Program</i>.
ADDITIONAL TERMS	
Servicer Delegation	<ul style="list-style-type: none"> • Servicers are delegated to approve modifications that meet the eligibility criteria published in Guide Chapter B65. • If a borrower's situation does not meet all the eligibility requirements, but the Servicer believes that a workout option is still the best solution to the delinquency, then the Servicer may submit a recommendation to Freddie Mac for review. This includes modifications where the gross UPB (prior to capitalization) creates a MTMLTV ratio that is less than 80 percent.
Net Present Value (NPV) Test	<ul style="list-style-type: none"> • Servicers do not need to perform a net present value (NPV) test for the Standard Modification.
SERVICING TECHNOLOGY AND REPORTING	
Workout Prospector	<ul style="list-style-type: none"> • Servicers must use Workout Prospector to process all new and existing borrower evaluations for the Standard Modification, unless otherwise indicated by Freddie Mac. • All borrowers who are approved for a Standard Modification trial period plan as of December 12, 2011, must be entered into Workout Prospector no later than December 31, 2011.
Electronic Default Reporting (EDR)	<ul style="list-style-type: none"> • Servicers must report Standard Modification activity using the following EDR default action codes as applicable by the third business day of each month for the previous month's activity: <ul style="list-style-type: none"> ▪ HD – “Modification in Review”: To notify Freddie Mac that the borrower is being evaluated for a Standard Modification. Servicers are required to report this code along with the date they begin reviewing the loan. Servicers will only do this one time in the month following the month in which the event took place. ▪ HE – “Ineligible for Modification”: To notify Freddie Mac that the borrower is ineligible for a Standard Modification. Servicers are required to report this code along with the date they made the decision. Servicers will only do this one time in the month following the month in which the event took place. ▪ BF – “Standard Modification Trial Period”: To notify Freddie Mac that the borrower has entered into a trial period for the Standard Modification. Servicers must report this code along with the trial period start date each month during the trial period.

SERVICER INCENTIVES

Financial Incentives

- Servicers will receive incentives for successfully settled Standard Modifications based on the term of delinquency when the trial period plan starts:
 - \$1,600 for each settled Standard Modification for mortgages that are less than or equal to 120 days delinquent [less than or equal to 150 days from the due date of last paid installment (DDLPI)]
 - \$1,200 for each settled Standard Modification for mortgages that are 121-210 days delinquent (151-240 days from DDLPI)
 - \$400 for each settled Standard Modification for mortgages that are greater than 210 days delinquent (greater than 240 days from DDLPI)
- Servicers are required to settle a Standard Modification successfully by complying with all eligibility, underwriting, documentation, closing, and reporting requirements, including submitting accurate closing data to Freddie Mac, within two months after the trial period ends to be eligible to receive the financial incentives.
- Servicer incentives for completed HAMP modifications align with the Standard Modification's three-tiered incentive structure.
- Settled workout incentives for existing Freddie Mac workout solutions, HAFA and non-HAFA short sales, HAFA and non-HAFA deeds-in-lieu, and repayment plans remain unchanged.

For More Information:

- Refer to Guide Chapter B65, *Workout Options*.
- Contact your Freddie Mac representative.
- Call 800-FREDDIE.

Servicer understands that this document may not incorporate every requirement under, and is not to be relied on as a replacement or substitute for, the information contained in the Single-Family Seller/Servicer Guide (Guide) or Guide Bulletin. Servicer is responsible for complying with the requirements of the Guide and relevant Guide Bulletins(s), notwithstanding the extent to which they may be inconsistent with this document.