



TO: Freddie Mac SERVICERS

April 14, 2016

Freddie Mac Principal Reduction Modification FAQs for [Servicers](#) and [Borrowers](#)

For Servicers

1. When must servicers solicit borrowers on Freddie Mac's starting population list for Streamlined Modifications?

If the servicer has not implemented the Principal Reduction Modification program by July 15, 2016, then the servicer must send at least one additional solicitation for Freddie Mac's Streamlined Modification to all eligible borrowers who are on the Freddie Mac starting population list and who have a post-modification MTMLTV ratio greater than 115% at the time of solicitation. All borrowers who accept this modification and comply with the other terms of the program will later be eligible to have their deferred principal balance cancelled.

2. When must servicers evaluate and solicit borrowers on the Freddie Mac's starting population list for Principal Reduction Modifications?

Servicers must begin evaluating borrowers for the Principal Reduction Modification by October 1, 2016, and must send eligible borrowers at least one written solicitation no later than October 15, 2016. Servicers who are able to implement the program earlier are strongly encouraged to do so. Servicers may solicit for the Principal Reduction Modification more than once and may use alternate forms (phone, email, text, Web portal, etc.) of communication for additional outreach in accordance with applicable law. All Principal Reduction Modification solicitations must be sent no later than December 31, 2016.

3. Is a Borrower still eligible if he or she was eligible as of March 1, 2016, but subsequently became less than 90 days delinquent as of the servicer's evaluation date?

Yes, borrowers who are 90 days or more delinquent as of March 1, 2016 and later become less than 90 days delinquent prior to evaluation are still eligible for a Principal Reduction solicitation as long as they are at least 30 days delinquent when the servicer evaluates eligibility.

4. Should the servicer evaluate a complete BRP if it is submitted by a borrower who is eligible for the Principal Reduction Modification?

Yes, the Servicer must acknowledge receipt of the complete BRP and evaluate in accordance with Freddie Mac's requirements and applicable law. Freddie Mac's current loss mitigation hierarchy remains in place, and a borrower may still be eligible for principal reduction if they're on Freddie Mac's starting population list, they have a post-modification MTMLTV ratio greater than 115% and their Trial Period Plan first payment due date is on or after May 1, 2016 and no later than December 1, 2016.

5. Are eligible borrowers who complete other modifications able to have their principal reduced?

Yes, eligible borrowers who convert to a permanent Freddie Mac Streamlined, Standard, HAMP, or MyCity modification are eligible to have their modification's deferred principal balance cancelled provided their loan is on Freddie Mac's starting population list, they have a post-modification MTMLTV ratio greater than 115% and their modification Trial Period Plan has a first payment due date on or after May 1, 2016 but no later than December 1, 2016. Servicers must send an opt-out letter to these borrowers no later than December 31, 2016, regardless of whether these borrowers have completed their Trial Period Plan by that date.

6. If a servicer submits a request to Freddie Mac for a non-delegated approval of a modification, can the borrower still qualify for Principal Reduction?

Yes. For a non-delegated modification, however, the servicer must receive specific approval from Freddie Mac to offer the borrower principal reduction.

7. If a borrower receives a Principal Reduction Modification solicitation but specifically asks for MyCity Modification or HAMP, which modification solution should the servicer provide to the borrower?

If the borrower is eligible for either of these modifications and the modification provides a lower payment, the servicer should work with borrower to provide the offer for that modification. These borrowers may still be eligible for principal reduction as long as they're on Freddie Mac's starting population list, they have a post-modification MTMLTV ratio greater than 115% and have a Trial Period Plan first payment due date on or after May 1, 2016 but no later than December 1, 2016.

8. Is a borrower who is eligible for a short sale or eligible for a deed-in-lieu of foreclosure transaction also eligible to be solicited for a Principal Reduction Modification?

Yes. Servicers must solicit all eligible borrowers, including those eligible borrowers who do not have an approved short sale offer on the property and have not received deed-in-lieu of foreclosure documents for execution.

9. Are loans in the foreclosure process eligible for the Principal Reduction Modification? What about loans that recently went to foreclosure sale prior to implementation?

The Servicer may continue to solicit borrowers throughout the foreclosure process and up until 60 days prior to a foreclosure sale date in a judicial foreclosure state or 30 days prior to a foreclosure sale date in a non-judicial foreclosure state. Once a foreclosure sale has been completed, the mortgage loan no longer exists and cannot be modified.

10. If the borrower indicates they are currently living in the property that was originated as an investment property, can the borrower be considered for the Principal Reduction Modification?

Yes, the servicer should follow the guidance in Freddie Mac's announcement to evaluate the current occupancy status and submit a non-delegated case to the servicer for approval.

11. What documentation should the servicer obtain if they need to further validate the property is the borrower's primary residence if originated as an investment property?

The servicer can use a variety of industry accepted practices to verify occupancy, including, but not limited to, utility bills, tax returns, and state identification cards such as a driver's license.

12. Is the servicer permitted to send the opt-out letter prior to receipt of the modification agreement?

Yes. The requirements in the Bulletin establish the latest time frame in which it is permissible to send the opt-out letter. Servicers may always choose to send the opt out letter earlier

13. Should the servicer still send the opt-out letter to borrowers who are in an active Trial Period Plan that is not a Principal Reduction Modification if it misses the December 31, 2016 deadline to send the opt-out letter?

Yes. The servicer should still send the opt-out letter to the borrower because the borrower still needs to be advised of the possible tax consequences and given the opportunity to accept or decline the principal reduction.

14. What happens if the borrower does not reply to the servicer's notification of the opportunity to opt out of the Principal Reduction Modification?

If an eligible borrower does not respond to the servicer's notification during the opt-out period but completes the trial period and returns the executed modification agreement, then the Servicer will complete the forgiveness of the forbearance amount.

15. What if the servicer receives funds from the borrower for pay off of the full unpaid principal balance prior to effectuating the principal reduction?

The servicer should not include the impact of principal reduction in the mortgage loan payoff statements until the Loan Modification Agreement has been executed by both the borrower and the servicer and the borrower has not elected to opt-out of the principal reduction.

16. Is a borrower eligible for a Freddie Mac Streamlined Modification if the borrower defaults on a Freddie Mac Principal Reduction Modification Trial Period Plan or a Freddie Mac Principal Reduction Modification that is based upon a Principal Reduction Modification solicitation?

No. If the borrower defaults on a Freddie Mac Principal Reduction Modification Trial Period Plan or a Freddie Mac Principal Reduction Modification after receiving a Principal Reduction Modification solicitation, the borrower is not eligible for a Freddie Mac Streamlined Modification.

17. If there is more than one borrower on the mortgage loan, is the Servicer authorized to allow one of the borrowers to opt out of principal reduction and another borrower to receive principal reduction?

No. If there is more than one borrower on the mortgage loan, Servicers are not authorized to allow one of the borrowers to opt out of receiving principal reduction while allowing another borrower to receive principal reduction. No portion of the principal balance will be reduced if any borrower elects to opt-out of principal reduction. Servicers may revise the Principal Reduction Solicitation Letter and Principal Reduction Opt-Out Letter as necessary to clarify this requirement.

Borrowers

1. What is the new Freddie Mac Principal Reduction Modification program?

Freddie Mac, at the direction of the Federal Housing Finance Agency (FHFA), has implemented a principal reduction modification program for some seriously delinquent, underwater borrowers whose loans are owned or guaranteed by Freddie Mac. This program will allow eligible borrowers to obtain a loan modification that permanently forgives a portion of their mortgage debt. This final crisis-era modification program is a last chance for seriously delinquent, underwater homeowners to avoid foreclosure and a targeted effort to help improve the stability of neighborhoods that have not yet recovered from the financial crisis. Freddie Mac has implemented a range of program features and eligibility criteria to ensure that this program benefits both underwater borrowers and Freddie Mac.

2. Who is eligible for a Principal Reduction Modification?

The Principal Reduction Modification option is available to Freddie Mac borrowers who owe \$250,000 or less on the unpaid principal balance of their mortgage and were at least 90 days delinquent on their mortgage as of March 1, 2016. Only owner-occupied properties (primary residences or second homes) are eligible; the mortgage may not have been originated to purchase an investment property. The amount owed on the first lien mortgage, including any unpaid principal, interest, taxes, insurance or other arrearages, must be greater than or equal to 115% of the home's value at the time the borrower is evaluated for the modification. Borrowers 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 program. All other eligibility criteria generally track those of Freddie Mac's Streamlined Modification.

3. If I am eligible for a Principal Reduction Modification, when will I hear? What will I need to do to accept the modification?

After the date of program announcement but beginning no later than October 15, 2016, your mortgage servicer (the company to which you send your mortgage payments and that offers you loan modification options) is required to solicit you for a Principal Reduction Modification if you are eligible. Servicers may continue to solicit borrowers for Principal Reduction Modifications until December 31, 2016.

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

Generally, in order to get a Principal Reduction Modification, eligible borrowers must make their first trial payment within the month following their month of solicitation. Like Freddie Mac's successful Streamlined Modification program, this solicitation will not require borrowers to submit complex documentation regarding their income or assets. After making three timely trial payments, fulfilling all requirements of the trial period plan, and executing and returning the final modification documents, these borrowers will have earned a principal reduction modification. Borrowers who do not want their principal reduced will have an opportunity to opt out of the forgiveness component of the program.

4. What should I do if I think I am eligible for the Principal Reduction Modification and do not want to wait until my servicer implements the program?

Borrowers can act soon to get help and avoid foreclosure. Servicers will solicit all borrowers who are potentially eligible for the Principal Reduction Modification for a Streamlined Modification no later than July 15, 2016. This solicitation will allow borrowers to start the process toward earning a principal reduction modification before servicers have fully implemented the program. Borrowers who believe they may be eligible for a Principal Reduction Modification and wish to pursue one before their servicer can implement the program should accept this Streamlined Modification offer and complete the trial period plan (all trial modifications with first payment due dates on or between May 1 and December 1, 2016 may be eligible). While accepting a loan modification will halt foreclosure proceedings, it will not guarantee that you are eligible for principal reduction. If after accepting the Streamlined Modification offer and completing the trial period plan a servicer later determines a borrower is eligible, the servicer will convert the permanent modification's principal forbearance to principal forgiveness. All borrowers who are eligible for principal reduction will receive a solicitation for a Streamlined Modification that includes principal forbearance. Borrowers who are determined to be ineligible for principal reduction will remain in their original modifications.

Servicers are required to notify eligible borrowers who have a Streamlined Modification trial period plan first payment due date on or between May 1 and December 1, 2016 no later than December 31, 2016 of the opportunity to opt out of principal reduction. If an eligible borrower does not opt out, his or her servicer will automatically reduce a portion of the outstanding loan balance.

Borrowers struggling to pay their mortgages or who have additional questions about the program should contact their servicers. Servicers need time to implement the program and determine whether 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 program.

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

The Principal Reduction Modification is very similar to Freddie Mac's current Streamlined Modification and offers the same amount of monthly mortgage payment reduction. In order to offer Streamlined Modifications, servicers capitalize (add) outstanding arrearages (missed mortgage payments and other delinquent mortgage expenses) to the loan's principal balance, reduce 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 principal to either 115 percent of the mark-to-market loan-to-value ratio (MTMLTV) or 30 percent of the unpaid principal balance (UPB), whichever amount is less. Forbearance defers payments on a portion of outstanding principal until the end of the loan term and makes it non-interest bearing. 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 until the end of the loan term as required under a Streamlined Modification.

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.

6. If I determine principal reduction is not in my best financial interests, can I refuse it?

Yes, you can. If you accept a permanent Principal Reduction Modification or are eligible to have your modification's principal forbearance converted to principal forgiveness, you will receive an opt-out letter from your servicer with instructions for refusing the principal reduction. If you opt out, the terms of the modification will remain unchanged and you will remain obligated to repay the deferred principal balance at the earlier of the sale of your home, payoff or refinance of the mortgage, or the final maturity date. Opting out of principal reduction will not impact the amount of your modified monthly mortgage payment.

7. 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 permanent provided you sign and return the loan modification agreement to your servicer and 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 making all three trial period payments on time.

For borrowers in an active Streamlined or other modification trial period plan with a first payment due date on or between May 1 and December 1, 2016, that are eligible to have the principal forbearance converted to principal forgiveness, servicers will send them an opt-out letter no later than December 31, 2016.

8. Will a reduction in principal affect my taxes?

It may. Borrowers whose homes are their primary residence and who otherwise meet the terms of the Mortgage Forgiveness Debt Relief Act *may* be able to benefit from the exclusion of forgiven mortgage debt from taxable income. While FHFA and Freddie Mac designed the program with this aim, the Internal Revenue Service, not FHFA or Freddie Mac, has jurisdiction over the tax treatment

of Freddie Mac's Principal Reduction Modification. All borrowers should consult with a tax advisor regarding the tax consequences of accepting a Principal Reduction Modification.

9. I have been pursuing a short sale or deed-in-lieu of foreclosure. Am I eligible for the Principal Reduction Modification?

Loans subject to an approved short sale or deed-in-lieu of foreclosure transaction are not eligible for Principal Reduction Modifications. If you meet the criteria for the Principal Reduction Modification and do not have an approved agreement or sale, you should contact your servicer to see if you may be eligible.

10. I'm in a foreclosure process. Am I eligible?

You should contact your servicer to see if you are eligible. Servicers may continue to solicit borrowers for a modification throughout the foreclosure process and up until 60 days prior to a foreclosure sale date in a judicial foreclosure state or 30 days prior to a foreclosure sale date in a non-judicial foreclosure state. Accepting a Freddie Mac loan modification (Streamlined, Principal Reduction, or otherwise) will halt foreclosure proceedings. Once a foreclosure sale has been completed, the mortgage loan no longer exists and cannot be modified.

11. Although my home was originally purchased as an investment property, I have moved in permanently and it is now my primary residence. How does this affect my eligibility for a Principal Reduction Modification?

Check with your servicer to see if you may be eligible as a result of your current occupancy status. Servicers will use loan purpose data as of origination to exclude investor loans, although borrowers can request that their servicer evaluate them for a Principal Reduction Modification if they have subsequently moved into a property that was previously held for investment purposes.

12. Why is eligibility limited to owner-occupant borrowers whose loans have MTMLTVs greater than 115 percent and who had an Unpaid Principal Balance of \$250,000 or less and were 90 days or more delinquent as of March 1, 2016?

FHFA and Freddie Mac sought to design a program that balanced their obligations to assist struggling borrowers and to preserve and conserve the assets of Freddie Mac. FHFA and Freddie Mac considered a range of eligibility criteria in an effort to design a program that could meet both objectives. The eligibility restrictions strike an appropriate balance between these two obligations.

13. I already received a loan modification; why do I have principal forbearance instead of principal reduction?

This program is designed to provide a last chance to avoid foreclosure for at-risk underwater borrowers who have not taken up existing loss mitigation opportunities provided by Freddie Mac, and to provide a more economically promising outcome for Freddie Mac on loans that otherwise appear to be headed toward a costly foreclosure. The exclusion of borrowers who have already accepted loan modifications is necessary to avoid adverse economic consequences for Freddie Mac and taxpayers.