terms, payment of premiums, payment of claims, and other operational matters in connection with forbearances granted under HomeSaver Forbearance.

Servicers are reminded that, in accordance with Servicing Guide, Part III, Section 103.04: Advances to Cover Expenses, a servicer must advance the funds to cover the monthly remittance of the full mortgage insurance premium in the event that the borrower’s deposit account does not have enough funds due to the reduction in the monthly payment amount.

**New Workout Hierarchy**

As a result of the introduction of the HAMP and HomeSaver Forbearance, Fannie Mae is establishing a new workout hierarchy which establishes the preferred order of consideration of foreclosure prevention alternatives to resolve a delinquency. The new hierarchy supersedes the previously announced "RAMPD" hierarchy introduced in Announcement 08-14. A servicer should first evaluate a borrower to determine if the HAMP is appropriate, and if not, the servicer should then determine whether the borrower is eligible for an alternative foreclosure prevention option based on whether the borrower is experiencing a temporary or permanent financial hardship.

**Temporary Hardship**

For a borrower who is expected to overcome a temporary financial hardship and be able to make future scheduled payments in addition to an amount to cure any outstanding arrearage over time, the following foreclosure prevention alternatives should be considered. Notwithstanding the options below, in the event a borrower requires a particular workout that the servicer deems to be in both Fannie Mae and the borrower’s best interest, the servicer is strongly encouraged to submit the workout case to Fannie Mae for review and approval.

- Forbearance — A temporary reduction or suspension of payments which must be immediately followed by an arrangement to cure the delinquency.
- Repayment Plan — An arrangement in which a borrower agrees to pay down past due amounts while still making regularly scheduled payments.
- HSA — A monetary advance to cure a delinquent loan resulting in a separate unsecured loan for the arrearage amount.

**Permanent Hardship**

For a borrower who has experienced a permanent or long-term/enduring financial hardship, foreclosure prevention alternatives should be considered in the following preferred order:

- HomeSaver Forbearance — For a borrower who is not eligible for, or who does not meet the terms of the HAMP but has the willingness and ability to make reduced monthly payments of at least half the borrower’s contractual monthly payment.
• Other Forbearance — A temporary reduction or suspension of payments (subject to the limits of the governing MBS trust document under which that mortgage loan was pooled), which will culminate in a more permanent foreclosure prevention alternative listed below.

Note: The HSA is not an appropriate foreclosure prevention alternative, and must not be used, for a borrower with a permanent or long-term financial hardship.

Once a borrower is on a HomeSaver Forbearance or other forbearance, the following options, along with any new programs that may become available, should be considered in the following preferred order:

• Modification — For mortgage loans that are ineligible for the HAMP, such as non-owner occupied property, any permanent change to the terms of a mortgage loan, including changes to the interest rate, interest and expense capitalization, or changes to the loan term.

• Pre-Foreclosure Sale — For delinquent mortgage loans, the acceptance of a sales contract prior to a foreclosure sale resulting in a payoff of less than the total amount owed on the mortgage loan and release of the mortgage lien.

• Deed-in-Lieu — For delinquent mortgage loans, the voluntary transfer of title from a borrower to the servicer to satisfy the mortgage loan and avoid foreclosure (also called a "voluntary conveyance").

Retirement of the Streamlined Modification Program (SMP) and the Early Workout Program

Effective March 4, 2009, servicers can no longer offer the SMP to borrowers. The HAMP will replace the SMP. Servicers must continue to offer the original SMP terms to borrowers that are completing SMP trial payment periods after the SMP end date. Once the borrower completes the SMP trial payment period the SMP modification will become effective. A borrower who defaults on an SMP is eligible for an HAMP. However, if a borrower contacts a servicer directly to inquire about converting to the HAMP prior to the execution of the SMP Agreement, and the borrower meets all the eligibility requirements of the HAMP, the servicer may offer the borrower the HAMP. The borrower will be required to meet all the terms of the HAMP, execute the Trial Period Plan, and enter into a new trial payment period.

The Early Workout Program was announced in Announcement 08-31. At that time, Fannie Mae promised additional information on the program. The implementation of the HAMP will also replace the Early Workout Program.

******

Servicers should contact their Servicing Consultant, Portfolio Manager, or the National Servicing Organization's Servicer Support Center at 1-888-FANNIE5 (1-888-326-6435) if they have any questions about this Announcement.

Michael A. Quinn
Senior Vice President
Single-Family Risk Officer
C65.1: Overview (05/26/09)

This chapter provides Servicing requirements in connection with the federal government’s Home Affordable Modification Program (HAMP).

Under HAMP, Borrowers who meet certain eligibility criteria will be offered a modification of their existing Mortgage. The Borrower must first demonstrate both hardship and his or her ability and willingness to pay under the modified terms by entering into a Trial Period during which the Borrower will be required to remit three monthly payments at an estimated modified payment amount.

This chapter sets forth Freddie Mac’s eligibility, underwriting, processing and other requirements for modifying Mortgages under HAMP. The following topics are covered in this chapter:

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(a) Defined terms

Servicers should be familiar with Freddie Mac’s definitions for the following terms as they relate to HAMP:

- AVM
- Borrower (within the context of HAMP, the term "Borrower" includes all Borrowers obligated on the Note)
- Broker’s Price Opinion (BPO)
- Delinquency
- Escrow
- First Lien
- Manufactured Home
- Primary Residence
- Purchase Documents
- Servicing Spread

Definitions for these terms are located in the Glossary of this Guide.

In addition, Servicers should be familiar with the following terms as they relate to HAMP:

- **HAMP**: Home Affordable Modification Program
- **Borrower Qualification Worksheet**: A Microsoft Excel spreadsheet that the Servicer may use to determine the Trial Period payment, the terms of the Modification Agreement and whether a Borrower, who is current or less than 31 days delinquent, is in imminent default and therefore eligible for a modification under HAMP. The spreadsheet is available on [http://www.freddiemac.com/singlefamily/service/mha_modification.html](http://www.freddiemac.com/singlefamily/service/mha_modification.html).
- **Compliance Agent**: Freddie Mac acting as a financial agent of the United States Department of the Treasury will manage the compliance and monitoring of Servicer performance under HAMP, including performance in accordance with Freddie Mac and Fannie Mae requirements
- **Conforming Jumbo Mortgages**: Conforming Jumbo Mortgages are conventional Mortgages sold to Freddie Mac under negotiated Purchase Contracts only that were originated between July 1, 2007 and December 31, 2008, with original unpaid principal balances that exceed Freddie Mac's base conforming loan limits ($417,000 for a 1-unit property). The original unpaid principal balance of a Conforming Jumbo Mortgage may not exceed the lesser of:
  - 125% of the "area median house price" (as determined at a County level) of a residence of applicable size, or
  - 175% of the base conforming loan limit - $729,750 for a 1-unit property (except in Alaska, Hawaii, Guam and the U.S. Virgin Islands, where the limit is higher). The Conforming Jumbo loan limits were enacted as part of the Economic Stimulus Act of 2008
- **Home Value Explorer (HVE)**: HVE is part of Freddie Mac's Home Value Suite of tools that automate collateral valuation. HVE provides a point value estimate for a property with a Confidence Score and Forecast Standard Deviation, indicating the accuracy of the estimated value. HVE Forecast Deviation scores of 0.20 and lower indicate that the degree of confidence in the valuation estimate is of a high or medium level. Forecast Standard Deviation scores above 0.20 indicate that the degree of confidence in the valuation estimate is low.
- **HOPE for Homeowners**: The Federal Housing Administration's HOPE for Homeowners program was created by Congress to help those at risk of default and foreclosure refinance into more affordable, sustainable loans. HOPE for Homeowners is an additional
mortgage option designed to keep Borrowers in their homes. The HOPE for Homeowners program is effective from October 1, 2008 to September 30, 2011.

- **Interest Rate Cap:** The Interest Rate Cap is the Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate conforming mortgages, rounded to the nearest one-eighth of one percent (0.125%), as of the date that the Modification Agreement is prepared. The Freddie Mac Weekly Primary Mortgage Market Survey Rate is available on FreddieMac.com.

- **Mark-to-Market LTV Ratio:** The ratio that is based upon the modified interest-bearing principal balance of the Mortgage and the current value of the property

- **Modification Effective Date:** The first day of the month following the third month of the Trial Period. This is the first payment due date of the modified Mortgage. However, once the modification is effective, the terms of the modified Mortgage are established so that the first payment due under the modified Mortgage pays interest in arrears that accrued under the modified terms.

- **Monthly Escrow Shortage Payment:** For purposes of HAMP, the Escrow shortage is the amount necessary to fully fund the Escrow account, if any, upon its establishment in order to pay taxes and insurance premiums that are not yet due or payable before the Modification Effective Date, plus any funding cushion permitted under applicable law. The Escrow Shortage Payment is the Escrow shortage equally divided into 60 monthly payments.

- **NPV Calculator:** The tool that Servicers must use to submit loans for the standardized net present value (NPV) test that compares the NPV result for a modification completed under HAMP to the NPV result for not modifying the Mortgage.

- **Offer Deadline:** The date the Servicer inserts in the Trial Period Plan Cover Letter that is 30 calendar days from the date the Servicer sends the Trial Period Plan offer package to the Borrower, or if that date is not a business day, the next business day thereafter

- **PITIAS Payment:** The monthly payment that must be used to calculate the Target Payment that consists of:
  
  - A modified monthly principal and interest payment
  
  - Monthly pro rata amount for real estate taxes, plus applicable monthly Escrow cushion
  
  - Monthly pro rata amount for property and flood insurance, if applicable, plus applicable monthly Escrow cushion
  
  - Monthly pro rata amount of Homeowner's Association/condominium fees
  
  - If applicable, the Monthly Escrow Shortage Payment (see Section C65.6(d) titled "Escrows")

- **Target Payment:** Monthly PITIAS Payment that achieves a monthly housing expense-to-income ratio that is as close as possible to, but no less than, 31% of the Borrower's gross monthly income

- **Trial Period:** The three-month time period during which the Borrower makes payments that are an estimate of the anticipated modified payment amount, as one of the preconditions to modification

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• **Trial Period Plan Effective Date:** The date the Servicer signs the Home Affordable Modification Trial Period Plan (Form 3156, 3/09 (rev.3/09)), in accordance with Section C65.7(a)


**Home Affordable Modification Program/C65.2: Documentation (05/26/09)**

**C65.2: Documentation (05/26/09)**

The documents and forms identified in this section have been developed for, and, with respect to the documents identified as mandatory below and the Uniform Instruments must be used with, HAMP and are available on our website at [http://www.freddiemac.com/singlefamily/service/mha_modification.html](http://www.freddiemac.com/singlefamily/service/mha_modification.html) (Refer to Section C65.7(d) and Section C65.12 for information regarding authorized changes and use of these forms).

Unless a Borrower or co-Borrower is deceased or a Borrower and a co-Borrower are divorced, all parties who signed the original loan documents or their duly authorized representative(s) must execute any required HAMP documents, including the Trial Period Plan and the Modification Agreement. If a Borrower and a co-Borrower are divorced and the property has been transferred to one spouse in the divorce decree, the spouse who no longer has an interest in the property is not required to execute any required HAMP documents. Servicers may evaluate requests on a case-by-case basis when the Borrower is unable to sign due to circumstances such as mental incapacity, military deployment, etc. Furthermore, a Borrower may elect to add a new co-Borrower, provided the new co-Borrower occupies the property as a Primary Residence.

HAMP documents include the following:

- **HAMP Proactive Solicitation Letter:** May be used to broadly solicit Borrowers who are 31 days or more delinquent ("Proactive Solicitation Letter") (Freddie Mac Form 1120)

- **HAMP Documentation Request Letter:** May be used to collect additional information required from the Borrower ("Documentation Request Letter") (Freddie Mac Form 1121)

- **HAMP Hardship Affidavit:** Must be used to determine Borrower hardship and to request information on ethnicity, race and sex for government monitoring purposes ("Hardship Affidavit") (Freddie Mac Form 1122)

- **HAMP Trial Period Plan Cover Letter - Stated:** For use when the Trial Period terms are based on stated income ("Trial Period Plan Cover Letter") (Freddie Mac Form 1123)

- **HAMP Trial Period Plan Cover Letter - Verified:** For use when the Trial Period terms are based on documented income ("Trial Period Plan Cover Letter") (Freddie Mac Form 1124)

- **HAMP Counseling Referral Letter:** Must be used to notify Borrowers with a total monthly debt payment-to-income ratio equal to or greater than 55% that they must enter a counseling program as a condition for the modification (refer to Section C65.6(c)) (Freddie Mac Form 1119)

- **HAMP Special Inspector General Troubled Asset Relief Program (SIGTARP) Fraud Notice:** Must be provided to the Borrower one time, with either the HAMP Documentation Request Letter or the HAMP Trial Period Plan Cover Letter - Stated (Freddie Mac Form 1125)

- **Home Affordable Modification Trial Period Plan ("Trial Period Plan")** (Form 3156, 3/09)

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(rev.3/09))

- Home Affordable Modification Agreement ("Modification Agreement") (Form 3157, 3/09 (rev.
  3/09))

- HAMP Agreement Cover Letter (Freddie Mac Form 1118)

Form 3156 and Form 3157 are Fannie Mae/Freddie Mac Uniform Instruments available on the
Freddie Mac Uniform Instrument web site at http://www.freddiemac.com/uniform/, with our
other Special Purpose Instruments.

Co-branding/use of Freddie Mac's logo and the Making Home Affordable logo

Servicers may download the Freddie Mac logo and the Making Home Affordable logo for use on
HAMP letters, envelopes and packages from FreddieMac.com at

A Servicer may use the Making Home Affordable logo by itself, together with the Servicer's logo, or
together with the Servicer's and Freddie Mac's logos on envelopes and packages used to send
HAMP materials to Borrowers. The Servicer's name and return address must be shown on any
solicitation materials sent to Borrowers.

A Servicer may use Freddie Mac's logo together with its own logo, to co-brand the solicitation letter
and Program cover letters. However, a Servicer may not use the Freddie Mac logo without also
including its own logo.

Guide, Volume 2/Chs. 64-69: Servicing Nonperforming Mortgages/Chapter C65:
Home Affordable Modification Program/C65.3: Delegation of Authority (05/26/09)

C65.3: Delegation of Authority (05/26/09)

Unless otherwise notified by Freddie Mac, all Freddie Mac Servicers are eligible to enter into a Trial
Period Plan with a Borrower and approve a modification of a Mortgage under HAMP in accordance
with the requirements of this chapter.

Guide, Volume 2/Chs. 64-69: Servicing Nonperforming Mortgages/Chapter C65:
Home Affordable Modification Program/C65.4: Eligibility (05/26/09)

C65.4: Eligibility (05/26/09)

The following requirements are included in this section:

- Mortgage, Property and Borrower eligibility requirements

- Mortgages ineligible to be modified under HAMP

(a) Mortgage, Property and Borrower eligibility requirements

The requirements in this chapter apply to Freddie Mac-owned Mortgages that meet the
following requirements:
First Lien Mortgages owned, securitized or guaranteed by Freddie Mac originated on or before January 1, 2009, including super conforming Mortgages and Conforming Jumbo Mortgages sold to Freddie Mac under a Seller's negotiated Purchase Documents, which are secured by:

- 1- to 4-unit, single-family Primary Residences, including Condominium Units and Guide-eligible Manufactured Homes that are not abandoned, vacant or condemned. Cooperative Share Mortgages sold under a Seller's negotiated Purchase Documents are also eligible. Servicers must verify that the property serves as the Borrower's Primary Residence using the Borrower's most recent signed federal income tax return (or transcript of the tax return obtained from the IRS), a credit report and one other form of documentation that would supply reasonable evidence that the property is the Borrower's Primary Residence (such as utility bills for the subject property in the Borrower's name).

- The Borrower must currently have a monthly housing expense-to-income ratio that is greater than 31% of the Borrower's verified and documented gross monthly income

Borrowers who, due to hardship, have defaulted on their Mortgages are eligible for modification under HAMP. Borrowers who are current or less than 31 days delinquent but who, due to hardship, may be facing in imminent default, are also eligible for modification under HAMP. Such a Borrower must be screened for imminent default in accordance with the criteria set forth in this section.

The reason for hardship must be identified and explained in the Hardship Affidavit (refer to Section C65.2). On the Hardship Affidavit, Servicers must request from the Borrower and co-Borrower information for government monitoring purposes, including the ethnicity, race and sex of the Borrower and co-Borrower. See Section C65.13(b) for additional information regarding requirements related to requests for collection of government monitoring data.

HAMP will expire on December 31, 2012. For a Mortgage to be eligible for modification under HAMP, the Servicer must have received the Trial Period Plan executed by the Borrower together with the first Trial Period Payment and verified all HAMP eligibility requirements have been met on or before December 31, 2012.

With respect to FHA, VA and RHS Mortgages, Servicers must comply with the guidance issued by the relevant agency.

**Foreclosure/Bankruptcy**

The Mortgage may be in foreclosure or in other pending litigation. The Borrower may be in active bankruptcy; however, the Servicer should consult with its own legal counsel on the proper method to communicate with and offer a modification under HAMP to a Borrower in active bankruptcy. For Borrowers who have received a Chapter 7 bankruptcy discharge but did not reaffirm the mortgage debt under applicable law, the Servicer must make an authorized change to the Trial Period Plan and the Modification Agreement as described later in Section C65.7(d). Servicers must follow applicable federal, State and local laws, including, but not limited to, judicial and professional rules of conduct governing discussions with opposing parties in litigation when represented by counsel and federal bankruptcy laws, rules and regulations that govern entering into a loan modification when the Borrower is a debtor in bankruptcy.

**Another workout arrangement**
If the Borrower is currently performing under another interim workout arrangement that has not been completed but requests to be considered for a modification under HAMP, the Servicer must consider the Borrower for such a modification.

**Junior liens**

Borrowers are not required to satisfy any outstanding junior lien(s). In addition, the Servicer must not consider the monthly payment on any junior lien(s) in calculating the Borrower’s PITI or the Target Payment; however, the monthly payment on any junior lien(s) must be included in the Borrower's total monthly debt payment-to-income ratio.

**Escrows**

The Borrower must agree to set up an Escrow account on the Mortgage if an Escrow account is not currently maintained on the Mortgage, provided its establishment is not prohibited under applicable federal, State and local laws. (Refer to Section C65.6(d) for additional information on establishing an Escrow account.)

**Determining imminent default**

A Borrower who (a) is current or less than 31 days delinquent, (b) contacts the Servicer for a modification, (c) appears potentially eligible for a modification, and (d) claims a hardship must be screened for imminent default.

In the process of making a determination for imminent default, the Servicer must evaluate the Borrower's financial condition in light of the Borrower's hardship as well as inquire as to the condition of and any circumstances affecting the property securing the Mortgage loan. If the Servicer determines that the Borrower has not experienced a hardship, then the Borrower does not qualify for the Program.

The Borrower is required to identify the hardship type and detail the circumstances of the hardship on the Hardship Affidavit. In addition, the Borrower will be required to complete and sign page two of Form 1126, Borrower Financial Information, and the Servicer must legibly print the Borrower’s name below the Borrower’s signature and add the Freddie Mac loan number to the form. Servicers are to rely on the Hardship Affidavit, page 2 of Form 1126, the Borrower’s credit report, and income documentation to determine the hardship and financial condition of the Borrower.

If the Servicer makes a preliminary determination that the Borrower has a hardship and is otherwise eligible for evaluation under the Program, the Servicer shall determine whether the Borrower is in imminent default in accordance with the procedures described below. This imminent default calculation is independent of the calculation of the monthly housing expense-to-income ratio and the total monthly debt payment-to-income ratio.

- The Servicer must consider the Borrower's financial condition, liquid assets, combined monthly income from wages and all other identified sources of income, monthly liabilities (including personal debts, revolving accounts and installment loans), other monthly expenses, including a reasonable allowance for living expenses such as food, utilities, etc., and make a determination of whether the Borrower is in imminent default based on the following evaluation:
  - The Servicer must consider the Borrower for a modification under the Program if both:
- The Borrower's Debt Coverage Ratio ("DCR Ratio") is less than 1.20, and
- The Borrower's Cash Reserves are less than three times the current monthly PITIA payment (if the loan is not currently escrowed, use estimated taxes, insurance and HOA assessments).

The following are definitions for purposes of this calculation:

- **Disposable Net Income**: The Borrower's monthly Disposable Net Income is the Borrower's monthly gross income less (1) payroll deductions, (2) monthly escrow allocations of property taxes, insurance premiums, and mortgage insurance premiums (or if the loan does not have escrows, the monthly amounts of such items should be prorated as if the amounts were escrowed), (3) monthly HOA assessments, (4) monthly allocations of all other monthly credit obligations (except investor mortgages covered in item 6 below and excluding principal and interest payments on the Mortgage being modified), (5) all other reasonable living expenses allocated monthly, and (6) any other net negative amounts paid or incurred by Borrower (such as rental income that is exceeded by associated Mortgage payments)

- **DCR Ratio**: The DCR Ratio is the ratio of the Borrower's Disposable Net Income divided by the Borrower's current monthly principal and interest payment (not including escrows)

- **Cash Reserves**: Cash Reserves are any non-retirement liquid assets the Borrower has available for withdrawal from any financial institution or brokerage, including checking and savings accounts, CDs (even if held for an extended time), mutual funds, money market funds, stocks or bonds

The Borrower Qualification Worksheet includes the imminent default evaluation. The Servicer may use the Borrower Qualification Worksheet to evaluate whether the Borrower is in imminent default or may perform the DCR Ratio and Borrower's Cash Reserves calculations manually or with its own systems. (See Section C65.6(f) for additional information on the Borrower Qualification Worksheet.)

If the Servicer determines the Borrower is not in imminent default or otherwise does not qualify for the Program, then the Servicer should evaluate the Borrower for other available loss mitigation alternatives.

If the Servicer determines that default is imminent, the Servicer must continue to process the request using the required Program parameters set forth in this Chapter C65.

A Servicer must document in its servicing system the basis for its determination of whether a payment default is imminent and retain all documentation used to reach its conclusion. The Servicer's documentation must also include information on the Borrower's financial condition as well as the condition and circumstances of the property securing the Mortgage loan, pursuant to the requirements described above. (See Section C65.8(i) for additional information regarding documentation retention requirements.)

The Servicer shall comply with all applicable federal, State and local laws in making the determination.

(b) **Mortgages ineligible to be modified under HAMP**

Mortgages ineligible to be modified under the Program include:

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- Mortgages secured by Investment Properties or second homes
- Mortgages that have been previously modified under HAMP or those for which the Borrower failed to comply with the terms of a HAMP Trial Period Plan, executed by the Servicer


C65.5: Borrower solicitation (05/26/09)

Borrowers who are current or less than 31 days delinquent

A Servicer may not solicit a Borrower whose Mortgage is current or less than 31 days delinquent for a modification under HAMP. If a Borrower who is current or less than 31 days delinquent contacts the Servicer to inquire about eligibility for HAMP, the Servicer must first evaluate the Borrower for eligibility for a Freddie Mac Relief Refinance MortgageSM (refer to Chapter A24). If the Borrower is not eligible for a Freddie Mac Relief Refinance Mortgage the Servicer must then determine whether the Borrower is in imminent default in accordance with Section C65.4(a).

Borrowers who are 31 days or more delinquent

The Servicer must solicit all Borrowers who are 31 days or more delinquent for a modification under HAMP, provided the eligibility criteria specified in this chapter are met. For Mortgages that are or become delinquent on or after July 1, 2009, Servicers must solicit such Borrowers no later than the 50th day of delinquency.

Servicers may contact eligible Borrowers by phone. If the Servicer is unable to contact a Borrower by phone to discuss HAMP (see Section C65.12), the Servicer must send the Borrower a written HAMP solicitation letter in the form of the HAMP Proactive Solicitation Letter, a Documentation Request Letter or a Trial Period Plan Cover Letter (Stated) (or the Servicer’s own version of these letters), no later than the 50th day of delinquency.

Servicers may send a HAMP solicitation letter prior to or at the same time as the foreclosure alternative letter specified in Section 64.6 but no later than the 50th day of delinquency.

Servicers may solicit such Borrowers for a modification under HAMP electronically (e.g., e-mail or fax), provided all of the following requirements are met:

- The Borrower has previously expressly consented to the receipt of Servicer communications concerning the Borrower’s Mortgage through such electronic means
- The Servicer has reasonable assurance that the Borrower’s contact information for receipt of the communication is accurate (e.g., e-mail address)
- The solicitation is conducted in compliance with all applicable federal, State, and local laws, including, without limitation, the federal Electronic Signatures in Global and National Commerce Act ("E-Sign"), disclosure regulations, the Gramm-Leach-Bliley Act and its implementing regulations, and other applicable privacy laws and regulations

See also Section C65.8(i) for document retention requirements relating to Servicer solicitations and the outcome of those solicitations.

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If the Borrower is non-responsive to a solicitation or is ineligible for HAMP, then Servicers must send a foreclosure alternative letter no later than the 60th day of delinquency pursuant to Section 64.6.

Servicers must provide all eligible Borrowers with the HAMP SIGTARP Fraud Notice. The HAMP SIGTARP Fraud Notice must accompany the HAMP Documentation Request Letter, the HAMP Trial Period Plan Cover Letter-Stated, or the Servicer's own version of either of these two letters.

See Section C65.2 for additional information regarding HAMP documentation and forms.

The solicitation requirements described above are in addition to the collections requirements set forth in Chapter 64.

**Reliance on stated income and other information**

A Servicer may elect to rely on a Borrower's verbal (stated) communication of any information necessary to qualify an eligible Borrower for a modification under HAMP, such as the components of the PITIAS Payment. The Servicer may then underwrite the Borrower in accordance with Section C65.6 and, if the Borrower is qualified, the Servicer must prepare and send to the Borrower all of the documentation specified in Section C65.7(a). However, the Servicer must verify income and ensure continued eligibility in accordance with Section C65.6(b) prior to signing the Trial Period Plan and returning it to the Borrower.

**Verification of eligibility and income**

Alternatively, a Servicer may require a Borrower to submit all the required documentation necessary to verify the Borrower's eligibility and income under HAMP before preparing the Trial Period Plan. The Servicer may elect to send the Borrower a HAMP Proactive Solicitation Letter or a HAMP Documentation Request Letter requesting the required documentation before qualifying the Borrower under Section C65.6. Once the Borrower is qualified based on verified information and documentation, the Servicer must prepare and send to the Borrower all of the documentation specified in Section C65.7(a).

**Required documentation**

Regardless of whether a Servicer chooses to initially rely on verbal (stated) information or verify the Borrower's income based on documentation provided, prior to the Offer Deadline, all Borrowers must submit the following:

- Two original executed Trial Period Plan documents
- First payment due under the Trial Period terms
- Documentation to verify occupancy (see Section C65.4 (a))
- Income documentation (see Section C65.6(b))
- Signed Form 4506-T, Request for Transcript of Tax Return
- Fully executed Hardship Affidavit
- Completed and signed page two of Form 1126, Borrower Financial Information, if the Borrower is current or less than 31 days delinquent
- Executed disclosures, if any, to the extent applicable federal, State or local law requires
executed disclosures to be retained by the provider

**Electronic transactions conducted between Servicer and Borrower**

In lieu of having the Servicer or Borrower, as applicable, prepare, sign and return paper documents, certain documents may be prepared, signed and sent electronically by a Servicer to the Borrower or by a Borrower to the Servicer. See Section 50.3.1 for eligible documents (referred to in that section as “loss mitigation documents”) and related requirements. With the exception of the first payment due under the Trial Period terms, and IRS Form 4506 T, Request for Transcript of Tax Return, the required documentation identified above in this section are all considered "loss mitigation documents" for purposes of Section 50.3.1. (IRS Form 4506-T may only be a loss mitigation document for purposes of Section 50.3.1 if Form 4506-T is received from the Borrower in a manner that permits the Servicer to submit the Form 4506-T to the IRS in strict compliance with the IRS instructions on the Form 4506-T and any other applicable IRS requirements.)

The required forms and documentation described in Section C65.2 (except for the Modification Agreement) are also considered "loss mitigation documents" for purposes of Section 50.3.1.

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**C65.6: Underwriting the Borrower (05/26/09)**

The objective of underwriting the Borrower is to achieve a monthly housing expense-to-income ratio that is as close as possible to, but no less than 31% (“Target Payment”). The Servicer must underwrite the Borrower and calculate the Target Payment, once the Servicer has:

- Establish that the Mortgage, property and the Borrower are eligible under HAMP
- Collected the necessary income information from the Borrower
- Analyzed the Borrower’s financial situation and verified that all of the information needed to calculate the Target Payment has been provided

This section provides the following requirements related to underwriting the Borrower:

- General requirements, including net present value (NPV) test
- Sequential process for calculating a Target Payment
- Total monthly debt payment-to-income ratio
- Escrows
- Collateral valuation requirements
- Borrower Qualification Worksheet ("Worksheet")

(a) **General requirements**

- Servicers must account for the income of all Borrowers on the existing Mortgage when considering the Mortgage for modification under HAMP

http://www.allregs.com/tpl/batchPrint.aspx?did3=aa7efc0617b84e82a017dbde7d12844e&li... 6/2/2009
- Servicers must obtain a credit report for each Borrower, or a joint report for a married couple who are co-Borrowers, dated within 90 days of the date the Servicer first determines Borrower eligibility, to determine the Borrower's total monthly debt expenses. (See Section C65.6(c) titled "Total Monthly Debt Payment-to-Income Ratio" for more information.)

- All Mortgages must be modified to a fully amortizing fixed-rate Mortgage (e.g., modifying to, or maintaining, an adjustable-rate Mortgage or an interest-only Mortgage is not permitted)

- For eligible Mortgages with a scheduled interest rate or payment adjustment occurring during the Trial Period, when the adjustment cannot be determined at the time the Trial Period Plan documents are prepared, Servicers should calculate the Target Payment and underwrite the Borrower assuming the interest rate and payment due at the time of the underwriting remains unchanged during the Trial Period.

- Servicers must use current amounts due for taxes and insurance premiums when qualifying the Borrower for the Trial Period Plan and Modification Agreement.

- Servicers must consider Borrowers for refinancing into the FHA HOPE for Homeowners program. If the underwriting process for a HOPE for Homeowners refinancing would delay eligible Borrowers from receiving a modification offer, Servicers must use the sequential process in Section C65.6 to begin the Home Affordable Modification and work to complete the HOPE for Homeowners refinancing during the Trial Period. Consideration for a HOPE for Homeowners refinancing should not delay eligible Borrowers from receiving a modification offer and beginning the Trial Period.

- The Servicer must use verified income to determine that the Borrower's current monthly housing expense-to-income ratio is greater than 31% prior to executing the Trial Period Plan. The "monthly housing expense-to-income ratio" is the ratio of the Borrower's current monthly Mortgage payment to the Borrower's monthly gross income (or the Borrower's combined monthly gross income in the case of co-Borrowers). The "monthly Mortgage payment" includes the monthly payment of principal, interest, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner's association fees, as applicable (including any Escrow payment shortage amounts subject to a repayment plan). When determining a Borrower's "monthly housing expense-to-income ratio," Servicers must adjust the Borrower's current monthly Mortgage payment to include, as applicable, property taxes, hazard insurance, flood insurance, condominium association fees and homeowner's association fees if these expenses are not already included in the Borrower's payment. The monthly Mortgage payment does not include mortgage insurance premium payments or payments due to holders of subordinate liens.

**Net present value test**

All Mortgages that meet HAMP eligibility criteria must be evaluated using the standardized NPV test that compares the NPV result for a modification completed pursuant to HAMP to the NPV result for not modifying the Mortgage.

- If the NPV result for the modification scenario is greater than the NPV result for not completing the modification, the result is deemed "positive" and the Servicer must process the modification.

- If the result of the NPV test is negative, the Servicer must modify the Mortgage, unless the Mark-to-Market LTV Ratio is less than 100% and principal is being forborne. If principal forbearance is needed to achieve a Target Payment and the resulting Mark-to-
Market LTV Ratio would fall below 100%, then the Borrower is not eligible for a modification under HAMP, except as set forth in Section C65.7(c), and the Servicer should review the Borrower for other foreclosure alternatives.

The Servicer must perform the NPV test for the Mortgage at least twice: the first time when qualifying the Borrower for the Trial Period, and a second time, when the final terms of the modification are known. The Servicer must retain the results of the NPV tests (including assumptions, inputs and outputs) performed on the Mortgage. (Note: If the Servicer relied on stated income to prepare and send the Trial Period Plan to the Borrower, the Servicer, before signing and returning the Trial Period Plan to the Borrower must (a) determine continued Borrower eligibility based on verified income, and (b) if the verified income is less than the stated income and principal is being forbeared, must also run the NPV test again. See Section C65.6(b) Step 1(a) for additional information.)

Servicers must use the NPV Calculator to submit loans for the NPV test. The NPV Calculator is available on the Home Affordable Modification Program servicer web portal accessible through http://www.HMPAdmin.com. On this portal, Servicers will have access to the NPV Calculator as well detailed guidelines for submitting proposed modification data for evaluation.

A user ID and password are required for access to the NPV Calculator. Servicers must complete and submit the HMP Registration Form, available at http://www.HMPAdmin.com, to obtain a user ID and password.

(b)

Sequential process for calculating an Target Payment

Step 1(a): Verify Borrower's monthly income

The Servicer must verify the gross monthly income for all Borrowers on the Note. For purposes of HAMP, a Borrower's income is income that is supported by documentation that is not more than 90 days old as of the date the Servicer first determines Borrower eligibility.

Servicers may rely on verbal (stated) income received from the Borrower to create and send a Trial Period Plan; however, if the verified income evidenced by the Borrower's documentation:

- Is greater than the initial verbal income information used by the Servicer to place the Borrower in the Trial Period by more than 25%, the Borrower must be reevaluated based on HAMP eligibility and underwriting requirements. If this reevaluation determines that the Borrower is still eligible, a new Trial Period Plan must be prepared and the Trial Period must be restarted.

- Is less than the initial verbal income information used by the Servicer to place the Borrower in the Trial Period, and the Borrower is still eligible, including meeting the NPV test requirements under Section C65.6(a), or if the verified income is greater than the initial verbal income information by 25% or less, and the Borrower is still eligible, then the Trial Period will not restart and the Trial Period payments will not change; provided, that verified income will be used to calculate the monthly Mortgage payment under the Modification Agreement.

If the Servicer determines the Borrower is not eligible for HAMP based on verified income, the Servicer must notify the Borrower of that determination and that any Trial Period payments made by the Borrower will be applied to the Mortgage in accordance with the Borrower's current loan documents.

Net income or tax-exempt income may be used for preliminary screening and qualification but
must be multiplied 1.25 to obtain an estimate of gross income.

The Borrowers' gross income amount before any payroll deductions includes base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, other compensation for personal services, Social Security payment, including Social Security received by adults on behalf of minors or by minors intended for their own support, annuities, insurance policies, retirement funds, pensions, disability or death benefits, unemployment benefits, positive net rental income, and other income the Borrower wants considered and can provide reasonable documentation to support.

Servicers should include non-Borrower household income in the monthly gross income if information supporting it is voluntarily provided by the Borrower and if there is documentary evidence that the income has been, and reasonably can continue to be, relied upon to support the Mortgage payment. All non-Borrower household income included in monthly gross income must be documented and verified by the Servicer using the same standards for verifying a Borrower's income.

For income verification, Servicers must obtain the following income documentation:

- The most recently signed and dated tax return, complete with all schedules submitted to and on file with the IRS for each Borrower. If the previous year's return is not available, previous year's W-2 for salaried Borrowers must be provided. For all others a copy of the extension request, signed and dated, must be provided. In addition, in all cases where the previous year's tax return is not provided, the Servicer must obtain a tax transcript by processing IRS Form 4506-T, Request for Transcript of Tax Return.

- A signed Form 4506-T for each Borrower. If the Borrower is not able to provide a signed copy of the most recently filed federal tax return complete with all schedules, or if the Compliance Agent so requires, the Servicer must immediately submit the Form 4506-T to the IRS to request a transcript of the tax return, in order to verify income and occupancy status.

- For wage earners, the two most recent pay stubs for each wage earner on the Note that reflects at least 30 days of year-to-date earnings. For additional income such as bonuses, commissions, tips or overtime, the two most recent pay stubs that reflect at least 30 days of year-to-date earnings or letter from the employer stating frequency of payment and probability of continuance.

- For self-employed Borrowers, the most recent signed and dated quarterly or year-to-date profit and loss statement and other reliable third-party documentation the Borrower voluntarily provides.

- Completed and signed page two of Form 1126, Borrower Financial Information, if the Borrower is current or less than 31 days delinquent. The Servicer must legibly print the Borrower's name below the Borrower's signature and add the Freddie Mac loan number to the form.

If the Borrower has other income such as social security, disability or death benefits, or a pension, acceptable documentation includes:

- Letters, exhibits, a disability policy or benefits statement from the provider that states the amount, frequency, and duration of the benefit. The Servicer must determine that the income will continue for at least three years, and

- Copies of signed federal income tax returns, IRS W-2 forms, or copies of the two most
recent bank statements

If a Borrower chooses to disclose income from alimony, child support or separate maintenance payments, acceptable documentation includes:

- Copy of the divorce decree, separation agreement or other type of legal written agreement or court decree that sets forth the amount of such payments and the period of time over which they will be received. The Servicer must determine that the income will continue for at least three years, and

- Documentation that provides proof of full, regular and timely payments, such as deposit slips, bank statements, or signed federal income tax returns

If the Borrower receives public assistance or collects unemployment, acceptable documentation includes letters, exhibits or a benefits statement from the provider that states the amount, frequency, and duration of the benefit. The Servicer must determine that the income will continue for at least nine months.

If the Borrower has rental income, acceptable documentation includes:

- Copies of all pages from the Borrower’s most recent two years of signed federal income tax returns, including Schedule E - Supplemental Income and Loss. To compensate for vacancies and operating and maintenance expenses, no more than 75% of the gross rental income may be used as qualifying income. The Mortgage payment related to the rental property, if any, must be deducted from the 75% of net rental income. If the result is positive, then include the amount in income, otherwise include the negative amount in the total monthly debt payment-to-income ratio.

The Servicer is not required to modify a Mortgage if there is reasonable evidence indicating the Borrower submitted false or misleading information or otherwise engaged in fraud in connection with the modification.

**Step 1(b): Calculate the Target Payment**

The Servicer must use the sequential steps below to the extent necessary to calculate a Target Payment.

To determine the necessary steps to achieve the Target Payment, the Servicer must calculate the PITIAS Payment after each sequential step (e.g., after every 0.125% decrease in rate, after every additional month in term, if any, and after each forbearance of $100, if any).

The PITIAS Payment is the monthly payment that must be used to calculate the Target Payment that consists of:

- A modified monthly principal and interest payment
- Monthly pro rata amount for real estate taxes, plus applicable monthly Escrow cushion
- Monthly pro rata amount for property and flood insurance, if applicable, plus applicable monthly Escrow cushion
- Monthly pro rata amount of Homeowner’s Association/condominium fees
- If applicable, the Monthly Escrow Shortage Payment (see Section C65.6(d) titled
"Escrows")

The Servicer may not include non-housing debt, payments on junior liens or mortgage insurance premium payments in the calculation of the monthly housing expense or PITI-to-income ratio. However, the Servicer must include such payments in the calculation of the Borrower's total monthly debt payment-to-income ratio.

Servicers must follow the sequential process in the order specified below only to the extent necessary to achieve the Target Payment. The Servicer must continue to apply the sequential process to the point that the Target Payment falls just below 31% of the Borrowers' gross monthly income and then reverse that last sequential step in order to determine the payment that is closest to, but not less than 31% of the Borrower's gross monthly income.

**Step 2: Capitalization of arrearages**

Amounts that may be capitalized to the unpaid principal balance (UPB) are limited to the following:

- Delinquent accrued interest (and amounts expected to accrue during the Trial Period)
- Funds advanced by the Servicer, or to be advanced and paid to a third party during the Trial Period, for the payment of real estate taxes and insurance premiums
- Foreclosure expenses incurred, including attorney fees and title costs incurred as part of the foreclosure process, subject to the reimbursable limits in Guide Exhibit 57A, Approved Attorney Fees and Title Expenses
- Property preservation expenses not to exceed the reimbursable limits in Exhibit 57, 1- to 4- Unit Property Approved Expense Amounts
- Any other expenses that were advanced and paid to a third party, as specified in Guide Sections 66.29 and 71.13, provided that they were paid to a third party during the Trial Period

Title costs incurred outside of the foreclosure process (i.e., to preserve the First Lien priority of the modified Mortgage, if applicable) are reimbursable through the reimbursement of expenses process described later in this chapter.

**Step 3: Interest rate reduction**

The Servicer must next reduce the current interest rate on the existing Mortgage in decrements of 0.125% to the extent necessary to achieve the Target Payment. However, the Servicer may not reduce the interest rate below the 2% interest rate floor.

If the resulting interest rate is at or above the Interest Rate Cap, this modified interest rate will be the new Note Rate for the life of the modified Mortgage.

If the resulting rate is below the Interest Rate Cap this reduced rate will be in effect for the first five years of the modified Mortgage. Beginning with sixth year, the modified interest rate will increase annually by 1% per year (or such lesser amount that may be needed) until the interest rate reaches the Interest Rate Cap.

The Interest Rate Cap is the Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate conforming mortgages, rounded to the nearest one-eighth of one percent.
(0.125%), as of the date that the Modification Agreement is prepared.

**Example:** The current interest rate on the Mortgage is 8.0% and the Interest Rate Cap is 6.5%. In order to achieve the Target Payment, the interest rate on the Mortgage must be reduced to 5.0%. The interest rate on the modified Mortgage will be fixed at 5.0% for the first five years and then increase by 1.0% in year 6 to 6.0%, and 0.5% in year 7 to 6.5%. Thereafter, the interest rate will remain at 6.5% for the remaining term of the Mortgage.

If the Target Payment is reached based on a reduction to the interest rate, then the Servicer must prepare and send the Borrower the Trial Period Plan. If the Servicer is able to achieve a PITIAS Payment that is closer to the Target Payment using Step 4, then the Servicer must consider extending the term of the Mortgage as provided in Step 4.

**Step 4: Extend amortization term**

The Servicer must extend the Mortgage term in one-month increments only to the extent necessary to achieve the Target Payment. However, the Servicer may not extend the term to allow more than 480 modified payments from the Modification Effective Date.

If the Target Payment is reached based on Steps 3 and 4, then the Servicer must prepare and send the Borrower the Trial Period Plan using only these steps. If the Servicer is able to achieve a PITIAS Payment that is closer to the Target Payment using Step 5, then the Servicer must consider forbearance of part of the Mortgage principal as provided in Step 5.

**Step 5: Partial principal forbearance**

The Servicer must incrementally forbear a portion of the unpaid principal balance in $100 amounts, to the extent necessary until the payment on the remaining interest-bearing balance creates the Target Payment. However, if the result of the NPV test is negative, the amount of principal forbearance is limited, so that the modified interest bearing principal balance (i.e., the unpaid principal balance excluding the deferred principal amount) creates a Mark-to-Market LTV Ratio (the ratio that is based on the modified interest-bearing principal balance of the Mortgage and the current value of the property) greater than or equal to 100%, except as set forth in Section C65.7(c). (See Section C65.6(e) for additional information on obtaining the value that must be used for this purpose.)

**(Note:** Until the Servicer has obtained access to the NPV Calculator, the Servicer must, for purposes of sending the Borrower a Trial Period Plan, limit the amount of principal forbearance to an amount that would not cause the Mark-to-Market LTV Ratio to fall below 100%, and only to the extent necessary to achieve the Target Payment. However, the Servicer must have obtained access to the NPV Calculator and must perform the NPV test prior to the modification of the Mortgage. Except as set forth in Section C65.7(c), if after completing this step, the Mark-to-Market LTV Ratio would fall below 100% in order to achieve the Target Payment and the Servicer does not have access to the NPV Calculator, then the Servicer must contact Freddie Mac for further directions. See Step 6 for documentation and submission requirements.)

This process splits the debt into an interest bearing amortizing principal balance and a deferred non-amortizing principal portion. The deferred principal, or principal forbearance balance, is non-interest bearing and non-amortizing and will be due in the form of a balloon payment upon the earlier of transfer of all or a portion of the property, the payoff of the interest bearing balance, or the new maturity date of the modified Mortgage.

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If the Target Payment is achieved while either maintaining a Mark-to-Market LTV Ratio on the interest-bearing principal balance that is equal to or greater than 100% or obtaining a NPV positive result, regardless of the Mark-to-Market LTV Ratio, then the Servicer must prepare and send the Borrower the Trial Period Plan using these steps.

For Mortgages that have a principal forbearance, the Servicer must make the authorized changes to the Modification Agreement as described in Section C65.7(d).

Refer to Section C65.10 for special servicing requirements for Mortgages with a partial principal forbearance.

**Step 6: Non-qualified Borrowers**

Once the Servicer has verified the Borrower’s income, if the Target Payment cannot be achieved using Steps 2-5 above or the Borrower feels he or she cannot afford the Target Payment, the Servicer must consider the Borrower for a different alternative to foreclosure solution. If the Servicer is unable to offer the Borrower a different foreclosure alternative solution, the Servicer must refer the Mortgage to Freddie Mac for evaluation.

The Servicer must fax the following information and documentation to (571) 382-4902:

- Contact name, phone number and email address for the Servicer
- Page two of Form 1126, Borrower Financial Information, if the Borrower is current or less than 31 days delinquent
- Borrower’s income documentation
- Documentation used to verify Borrower’s occupancy
- Copy of the Borrower’s credit report
- Borrower’s Hardship Affidavit
- Automated value or BPO if obtained from a source other than Freddie Mac
- Mortgage insurance approval (if applicable)
- Copy of the Borrower Qualification Worksheet screen, or equivalent reflecting all input and analysis results, including any and all information used to determine the following:
  - Imminent default
  - Proposed Trial Period Plan and/or Modification Agreement terms
  - Any and all information required to be input into the NPV Calculator and the results of the NPV test

Servicers must temporarily suspend any foreclosure sale and must not refer a Mortgage to foreclosure while Freddie Mac is evaluating the Borrower.

Servicers may not forgive principal on Mortgages serviced for Freddie Mac.

(c)

**Total Monthly Debt Payment-to-Income Ratio**
Servicers must calculate the Borrower’s total monthly debt payment-to-income ratio using monthly expenses verified by obtaining a credit report for each Borrower (or a joint report for a married couple who are co-Borrowers) in addition to any monthly obligations provided by the Borrower either verbally or in writing.

The Servicer must calculate a total monthly debt payment-to-income ratio for each Borrower to whom a Trial Period Plan Plan is being offered. For this purpose, the monthly debt payment is the sum of the monthly charges for the following:

- **PITIAS Payment (see Section C65.6(a))**
- Payments on all installment debts with more than 10 months of payments remaining, including debts that are in a period of either deferment or forbearance. When payments on an installment debt are not on the credit report or are listed as deferred, the Servicer must obtain documentation to support the payment amount included in the monthly debt payment. If no monthly payment is reported on a loan that is deferred or is in forbearance, the Servicer must obtain documentation verifying the proposed monthly payment amount, or use a minimum of 1.5% of the balance.

- Monthly payments on revolving or open-end accounts, regardless of the balance. In the absence of a stated payment, the payment will be calculated by multiplying the outstanding balance by 3%

- Monthly payment on a Home Equity Line of Credit (HELOC) must be included in the total monthly debt payment-to-income ratio using the minimum monthly payment reported on the credit report. If the HELOC has a balance but no monthly payment is reported, the Servicer must obtain documentation verifying the payment amount, or use a minimum of 1% of the balance.

- Alimony, child support and separate maintenance payments with more than 10 months of payments remaining

- Car lease payments, regardless of the number of payments remaining

- Aggregate negative net rental income from all Investment Properties owned

- Monthly mortgage payment for second home (principal, interest, taxes and insurance and, when applicable, leasehold payments, homeowner association dues, condominium unit or cooperative unit maintenance fees (excluding unit utility charges))

- Payments on any subordinate lien

- Payments for mortgage insurance premiums, if applicable.

**Credit counseling**

Borrowers with a total monthly debt payment-to-income ratio (calculated as described above) that is equal to or greater than 55% are required to enter a counseling program with a Department of Housing and Urban Development (HUD)-approved housing counseling agency as a condition for the modification.

Servicers must notify Borrowers with a total monthly debt payment-to-income ratio equal to or greater than 55% of the counseling requirement using the HAMP Counseling Referral Letter (see Section C65.2), and must retain a copy of the HAMP Counseling Referral Letter provided to the Borrower in the Mortgage file.
The modification will not take effect until the Borrower provides a signed statement indicating that he or she will obtain counseling. The Modification Agreement that the Borrower must sign includes such a statement and will satisfy this requirement.

A list of HUD-approved counseling agencies is available at http://www.hud.gov or by calling the toll-free number at 1-800-569-4287.

(d) Escrows

Unless prohibited by applicable law, an Escrow account must be created on the Mortgage when Escrows are not maintained on the existing Mortgage. The Servicer must establish the Escrow account at the time the Trial Period Plan becomes effective and provide any Real Estate Settlement Procedures Act (RESPA) and any other disclosures required by applicable federal, State, or local law within the time periods prescribed by such laws.

**Escrows advanced by the Servicer**

Any advances previously made by the Servicer or any advances that will be made during the Trial Period to pay property taxes or insurance premiums may be capitalized in the UPB as part of the qualification process as long as they were paid to third parties prior to the modification.

Servicers must use known amounts due for taxes and insurance premiums when qualifying the Borrower and determining the final terms of the Modification Agreement.

**Escrow reserve deficiencies**

For taxes and insurance premiums that are not yet due before the Modification Effective Date, the Servicer must determine the amount needed to establish the Escrow account (Escrow shortage) that, together with the monthly Escrow payment included in the monthly Mortgage payment, will be sufficient to pay all future taxes and insurance premiums when they fall due.

The Borrower may either remit the Escrow shortage as a lump sum payment or Monthly Escrow Shortage Payment as part of the Target Payment. This amount may not be capitalized in the UPB of the Mortgage.

If the Borrower elects to make Monthly Escrow Shortage Payments, the amount must be spread equally over a 60-month period and be included when calculating the proposed Target Payment. The Servicer then prepares the Trial Period Plan based on this election.

**Subsequent Escrow analyses**

If the Borrower elected to pay the Escrow shortage described above over a 60-month period, the Servicer must take that into account in any subsequent Escrow analysis to ensure that the Borrower may continue to pay those amounts over the remaining months and not have the amounts accelerated or compressed into a new Escrow payment as a result of a future Escrow analysis. To facilitate this, Servicers may choose to spread any additional Escrow shortage as a result of a subsequent Escrow analysis over the remaining months of the 60-month period.

**Example:** The Escrow analysis completed at the beginning of the Trial Period indicates an Escrow shortage of $1,000 and the Borrower elected to pay this shortage over a 60-month period, which equaled a Monthly Escrow Shortage Payment of $16.67 included as part of the proposed Target Payment. A subsequent Escrow analysis completed 12 months after the loan has been modified resulted in an additional Escrow deficiency of...
$500. The Servicer may spread this shortage amount of $500 over the remaining 48 months of the Escrow shortage payment period, which would result in a total monthly Escrow shortage payment of $27.09 to fund the Escrow account.

(e) **Collateral valuation requirements**

The Servicer must obtain a property valuation for input into the NPV Calculator and for purposes of determining the Mark-to-Market LTV Ratio. The property valuation used may not be more than 90 days old from the date the Servicer first determines Borrower eligibility.

- For Mortgages that are 31 days or more delinquent, Freddie Mac will provide an AVM value, if such a value is available. We will provide the AVM values in a special report that we will update by the fifth Business Day of each month on our web site at [http://www.freddiemac.com/singlefamily/service/mhaModification.html](http://www.freddiemac.com/singlefamily/service/mhaModification.html).

A secure User ID and password is required to retrieve this report. This is the same User ID and password Servicers use to access their Servicer Performance Profile and any of the Manager Series tools. Servicers may request access using the signup form provided on the web site.

- For Mortgages that are current or less than 31 days delinquent, the Servicer must either obtain a value through our web site at [https://www.bpodirect.net](https://www.bpodirect.net) or by requesting an HVE automated value through one of Freddie Mac's distributors.

HVE values may only be obtained for 1-unit attached or detached dwellings or Condominium or PUD units. Mortgages secured by 2- to 4-unit properties, Manufactured Homes, dwellings on a leasehold estate, and, if eligible under a Seller's Purchase Documents, Cooperative Share Mortgages, are not eligible for HVE.

When obtaining a value through HVE, the Servicer will be given the following data:

- HVE Point value
- HVE Low value
- HVE High value
- Forecast Standard Deviation
- Confidence Score

The HVE point value that the Servicer uses must have a Forecast Standard Deviation that is no greater than 0.20 (corresponding to a high or medium confidence score).

If a Servicer has not yet set up a relationship to obtain HVE values through one of our distributors, the Servicer should consider doing so now. Information related to HVE and our distributors can be found at [http://www.freddiemac.com/hve/hve.html](http://www.freddiemac.com/hve/hve.html).

- For all Mortgages for which AVM or HVE data is not available or when the confidence score is low, the Servicer must obtain the value from our web site at [https://www.bpodirect.net](https://www.bpodirect.net) in accordance with Section 65.39.

If the Servicer has a Freddie Mac BPO or appraisal with an effective date no more than 90 days from the date the Servicer first determines Borrower eligibility the Servicer may use that BPO or appraisal.
(f) Borrower Qualification Worksheet

The Servicer may use the Worksheet to determine the Trial Period payment for a Borrower and the terms of the modification, subject to the NPV test requirements and principal forbearance limits. The Servicer may also use the Worksheet to evaluate whether a Borrower who is current or less than 31 days delinquent is in imminent default.

The Worksheet is available on our secure web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html. The Servicer may use this Worksheet, subject to the requirements of the Guide (as if the Worksheet was included in Exhibit 88, Servicing Tools). Servicers are responsible for the accuracy of all data entered into the Worksheet, ensuring that all data is entered accurately, and for the integrity of the results.

Servicers must use their Mortgage Servicing Products ID to access the secure web page. Servicers that do not have an ID may request one by submitting the Servicing Applications Sign Up Form available on the web site.

We have also prepared and made available on the web site the Borrower Qualification Worksheet Users' Guide to assist Servicers in using the Worksheet.

If the Servicer determines using the Worksheet that the Borrower is not qualified for a modification under HAMP, and the Servicer is unable to offer the Borrower a different foreclosure alternative solution, the Servicer must refer the Mortgage to Freddie Mac for evaluation pursuant to Section C65.6(b) "Sequential Process for calculating a Target Payment," Step 6: Non-qualified Borrowers. The documentation must be faxed to (571) 382-4902.


C65.7: Modification process (05/26/09)

Servicers must utilize a two-step documentation process for modifications under HAMP. The first step is to send the Borrower a Trial Period Plan that describes the terms of the Trial Period and the conditions upon which the Borrower's Mortgage may be modified. The Servicer must perform this step once the Servicer has determined using the sequential process described in Section C65.6(b) that the Borrower qualifies for a modification under HAMP. During the Trial Period the Borrower will be required to make payments at the estimated modified payment amount.

The second step involves sending the Borrower a Modification Agreement. The Servicer must calculate the terms of the modification once all final amounts that must be capitalized are known, using verified income.

This section describes the following requirements for offering and processing the Trial Period Plan and the Modification Agreement:

- Processing the Trial Period Plan
- Requirements during the Trial Period
- General requirements for preparing the Modification Agreement
- Authorized changes to the Trial Period Plan and Modification Agreement
- Closing the modification

(a) Processing the Trial Period Plan

If the Borrower qualifies for a modification under HAMP using the sequential process described in Section C65.6(b), the Borrower will be required to enter into a Trial Period Plan under the terms of which the Borrower must remit three monthly payments at the estimated new payment amount.

The Servicer must send the Borrower:

- The applicable Trial Period Plan Cover Letter, depending on whether the Servicer qualified the Borrower based on verbal (stated) income or documented income to extend the Trial Period Plan offer. If the Servicer used verbal income, the Servicer must verify the income and determine continued eligibility in accordance with Section C65.6 prior to signing the Trial Period Plan and returning it to the Borrower. The Servicer may not continue to accept Borrower payments under the Trial Period Plan from those Borrowers who do not qualify for HAMP. Any further Borrower payments are to be credited to the Borrower’s account in accordance with the current loan documents.
- Two Trial Period Plan documents (Refer to Section C65.7(d) "Authorized changes to the Trial Period Plan and Modification Agreement")
- Any applicable disclosures related to the establishment of an Escrow account and any other disclosures required by applicable federal, State and local law
- The HAMP SIGTARP Fraud Notice, if the Servicer did not send this notice to the Borrower with the HAMP Documentation Request Letter
- The HAMP Counseling Referral Letter if the Borrower's total monthly debt payment-to-income ratio is equal to or greater than 55% For information about the HAMP Counseling Referral Letter, see Section C65.6(c).

The Offer Deadline is the date the Servicer inserts in the Trial Period Plan Cover Letter that is 30 calendar days from the date the Servicer sends the Trial Period Plan offer package to the Borrower, or if that date is not a business day, the next business day thereafter. If the Borrower accepts the Trial Period Plan, the Borrower must then sign and return the following documentation, if not previously provided, by the Offer Deadline:

- Two original executed Trial Period Plan documents
- First payment due under the Trial Period terms
- Documentation to verify occupancy (See Section C65.4 (a))
- Income documentation (See Section C65.6(b))
- Signed Form 4506-T, Request for Transcript of Tax Return
- Fully executed Hardship Affidavit
- Completed and signed page two of Form 1126, Borrower Financial Information, if the Borrower is current or less than 31 days delinquent
• Executed disclosures, if any, to the extent applicable federal, State or local law requires executed disclosures to be retained by the provider

Once the Servicer has (1) verified the Borrower's continued eligibility based on verified income and debt documentation and Hardship Affidavit and (2) received two signed Trial Period Plans from the Borrower and the Borrower's first payment, the Servicer may then sign and date each Trial Period Plan and return a fully executed copy to the Borrower. (Refer to Section C65.6(b) "Step 1(a): Verify Borrower's monthly income".)

The Servicer is encouraged to contact the Borrower before the expiration of the Offer Deadline if the Borrower has not yet submitted two executed originals of the Trial Period Plan, any payments due under the Trial Period Plan and all other required documentation. The Servicer may, in its discretion, consider the offer of a Trial Period Plan to have expired at the end of 60 days if the Borrower has not submitted both executed Trial Period Plans and all other complete and executed documentation required under the Trial Period Plan. If the Borrower's submission is incomplete, the Servicer should work with the Borrower to complete the Trial Period Plan submission. **Note:** The Borrower is not required to have the Hardship Affidavit notarized.

In addition, Servicers must not refer a Mortgage to foreclosure or conduct a foreclosure sale of the property securing the Mortgage, until the Borrower has had time to respond to the Trial Period Plan offer, the Servicer has made the required attempts to contact the Borrower, and the Offer Deadline has expired. Servicers should postpone any foreclosure sale scheduled to occur during that time period in the most effective manner to avoid the need to restart the foreclosure process, except to the extent State law requires the foreclosure process be restarted.

(b) **Requirements during the Trial Period**

The first Trial Period payment is due with the return of the Trial Period Plan. The Servicer must require the Borrower to remit timely payments; however, all Trial Period payments must be received no later than the last Business Day of the third month of the Trial Period.

During the Trial Period, Servicers must service the Mortgage consistent with the servicing requirements for Mortgages on a forbearance plan. In addition, the Servicer must:

• Provide the Borrower with a copy of the Trial Period Plan executed by the Servicer within a reasonable period of time following the beginning of the Trial Period

• Continue to report and remit to Freddie Mac in accordance with the investor reporting and remitting requirements set forth in the Guide, which include the advancing of scheduled interest (and principal, if applicable) under the existing Mortgage terms to Freddie Mac, provided that the Servicer has not inactivated the Mortgage

• Credit to an unapplied or suspense funds account, payments made by the Borrower during the Trial Period. Once enough funds have accumulated in the unapplied or suspense funds account to satisfy a full payment under the existing Mortgage terms (including applying the portion of the Trial Period Payment allocable to escrowed items to the existing or newly established Escrow account), the Servicer must apply the payment in accordance with the current Note and Security Instrument.

If there is any remaining balance of payments made by the Borrower in the unapplied or suspense funds account at the end of the Trial Period that is insufficient to satisfy a scheduled payment under the existing Mortgage terms, the Servicer must apply this balance in accordance with the Security Instrument towards the outstanding arrearages
on the Mortgage before such amounts are capitalized. Any excess funds remaining after the Trial Period must not be returned to the Borrower regardless of whether or not the Mortgage is modified.

- Not refer the Mortgage to foreclosure if the Borrower has executed the Trial Period Plan and commenced payments during the Trial Period. If the Mortgage is already in foreclosure, the Servicer must postpone the foreclosure sale in the most cost effective way and ensure there is minimal impact on the foreclosure timeline if the Borrower fails to remit the remaining payments during the Trial Period.

Late charges may accrue during the Trial Period. However, all accrued and unpaid late charges must be waived in the event the Borrower successfully completes the Trial Period and the Mortgage is modified.

**Special EDR requirements during the Trial Period**

The Servicer must report the Mortgage as being in forbearance through Electronic Default Reporting (EDR) using default action code "09 – Forbearance plan." Beginning October 1, 2009, Servicers must also report the default reason code "HMP." The Servicer must report these codes:

- In the first EDR reporting cycle after the Servicer receives the Trial Period Plan executed by the Borrower, together with all required documentation and the first payment due under the Trial Period Plan. The Servicer must report these codes even if the Trial Period offer was based on stated income and the Servicer has not yet verified the Borrower’s continued eligibility based on verified income.

- For each month that the status applies. For example, the Servicer would no longer report these codes once the Mortgage is modified, the Borrower fails to comply with the terms of the Trial Period Plan, or the Borrower is re-underwritten based on verified income and is no longer eligible for a modification. If, based on verified income, the Trial Period Plan must be restarted, then the "09 Forbearance" code must be reported again with a new default action date and the "HMP" default reason code, once the Servicer receives the revised Trial Period Plan executed by the Borrower together with the Borrower’s documentation and first payment due under the new Trial Period.

**Special credit reporting requirements**

The Servicer must continue to report a "full-file" status report to the four major credit repositories for each loan under HAMP in accordance with the Fair Credit Reporting Act and credit bureau standards as provided by the Consumer Data Industry Association (CDIA) on the basis of the following:

(i) For Borrowers who are current when they enter the Trial Period, the Servicer should report the Borrower current but on a modified payment if the Borrower makes timely Trial Period payments by the 30th day of each Trial Period month, as well as report the modification when completed

(ii) For Borrowers who are delinquent when they enter the Trial Period or who fail to make timely Trial Period payments by the 30th day of each Trial Period month, the Servicer should continue to report in such a manner that accurately reflects the Borrower's delinquency and workout status following usual and customary reporting standards, as well as report the modification when completed

More detailed information on these reporting standards will be published by the CDIA.
"Full-file" reporting means that the Servicer must describe the exact status of each Mortgage it is servicing as of the last Business Day of each month.

(c) General requirements for preparing the Modification Agreement for any Mortgage under HAMP

Once the Servicer knows the final amounts that must be capitalized, the Servicer must recalculate the final modification terms using the Borrower's verified income and prepare the Modification Agreement. If the Servicer, in determining the final amount capitalized for the Modification Agreement, determines that the Borrower would no longer be qualified under HAMP, the Servicer must undertake additional steps required under Section 65.6(b) and in this circumstance only will be permitted to forbear principal below the 100% Mark-to-Market LTV Ratio to the extent needed to achieve the Target Payment, regardless of the final net present value (NPV) result.

To prepare the Modification Agreement, the Servicer must:

- Prepare the Modification Agreement in accordance with Guide Section B65.20(1) and revise it as necessary to comply with federal, State and local law. The Servicer must also ensure that the Mortgage, whether during the Trial Period or upon modification, retains its First Lien position and is fully enforceable in accordance with Section B65.20(1) and B65.20(1)(a)-(d), except that for B65.20(1)(c), the Servicer must obtain a subordination agreement when recordation is required. If the Servicer is unable to obtain any necessary subordination agreements or title policy endorsement, the Servicer must not enter into the Modification Agreement. (Refer to Section C65.7(d) for authorized changes to the Trial Period Plan and the Modification Agreement.)

- Set the Modification Effective Date in the Modification Agreement and the due date of the first payment due after the Trial Period (the First Modified Payment) to be the first day of the month following the end of the Trial Period (even if the last two Trial Period payments are received as late as the last Business Day of the third month of the Trial Period). The new interest rate and new principal balance on the modified Mortgage are effective the first day of the last month of the Trial Period (i.e., which is exactly one month prior to the first modified payment date to allow for payment of interest in arrears).

- Mail the Borrower two copies of the Modification Agreement, together with any applicable disclosures, and provide the Borrower the date by which the Borrower must sign and return the two executed Modification Agreements (and disclosures, if applicable), which must be no more than 14 days from the date the Servicer sent the Modification Agreement. The Borrower must sign both copies of the Modification Agreement and return them to the Servicer. Once the Borrower has made the last required monthly payments due during the Trial Period and otherwise remains in compliance with the terms of the Trial Period Plan, the Servicer must sign the two Modification Agreements, and return one Modification Agreement with all signatures to the Borrower in order for the modification to take effect.

(d)

Authorized changes to the Trial Period Plan and Modification Agreement

Servicers must use the Home Affordable Modification Trial Period Plan ("Trial Period Plan") and Home Affordable Modification Agreement ("Modification Agreement") for each Borrower to whom a modification offer is being made. Servicers are prohibited from modifying these Uniform Instruments, except in the following circumstances:
Trial Period Plan

- The Servicer must revise the Trial Period Plan as necessary to comply with applicable federal, State and local law.

- If the Borrower previously received a Chapter 7 bankruptcy discharge but did not reaffirm the mortgage debt under applicable law, the Servicer must add the following Borrower representation as paragraph G in Section 1:

  I was discharged in a Chapter 7 bankruptcy proceeding subsequent to the execution of the Loan Documents. Based on this representation, Lender agrees that I will not have personal liability on the debt pursuant to this Plan.

- If the Note and Mortgage may be assumed by a transferee of an interest in the property, the Servicer must add the following sentence before the last sentence in Section 3:

  The Modification Agreement will provide that, as of the Modification Effective Date, a buyer or transferee of the Property will not be permitted, under any circumstance, to assume the loan.

- If the Servicer is required to obtain one or more subordination agreements or a title policy endorsement to ensure that the modified Mortgage retains its first lien position and is fully enforceable, the Servicer must add the following sentence to the end of paragraph G in Section 2:

  I understand and agree that the Lender will not be obligated or bound to make any modification of the Loan Documents or to execute the Modification Agreement if the Lender has not received an acceptable title endorsement and/or subordination agreements from other lienholders, as necessary, to ensure that the modified mortgage loan retains its first lien position and is fully enforceable.

- If under applicable law, a Servicer may not establish an Escrow account, the Servicer must delete paragraph C in Section 4 of the Trial Period Plan and replace it with "Intentionally Deleted" as follows:

  C. Intentionally Deleted

Modification Agreement

- The Servicer must revise the Modification Agreement as necessary to comply with applicable federal, State and local law.

- If the Borrower previously received a Chapter 7 bankruptcy discharge but did not reaffirm the mortgage debt under applicable law, the Servicer must add the following Borrower representation in a new paragraph H in Section 1:

  I was discharged in a Chapter 7 bankruptcy proceeding subsequent to the execution of the Loan Documents. Based on this representation, Lender agrees that I will not have personal liability on the debt pursuant to this Agreement.

- If the Loan Documents contain a prepayment penalty, the Servicer must add the following new paragraph in Section 4 of the Modification Agreement:

  That, as of the Modification Effective Date, any provision in the Note, as amended, for the assessment of a penalty for full or partial prepayment of the Note is null and
void.

* If the terms of the loan modification include principal forbearance, the Servicer must amend the Modification Agreement as follows:

(a) Delete the existing Section 3.C. and replace it with the following new Section 3.C.:

$_{____________}$ of the New Principal Balance shall be deferred (the "Deferred Principal Balance") and I will not pay interest or make monthly payments on this amount. The New Principal Balance less the Deferred Principal Balance shall be referred to as the "Interest Bearing Principal Balance" and this amount is $_{____________}$. Interest at the rate of ___% will begin to accrue on the Interest Bearing Principal Balance as of _______________ and the first new monthly payment on the Interest Bearing Principal Balance will be due on _______________. My payment schedule for the modified loan is as follows:

<table>
<thead>
<tr>
<th>Years</th>
<th>Interest Rate</th>
<th>Interest Rate Change Date</th>
<th>Monthly Principal and Interest Payment Amount</th>
<th>Monthly Escrow Payment Amount</th>
<th>Total Monthly Payment</th>
<th>Payment Begins On</th>
<th>Number of Monthly Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>[2.00%]</td>
<td>00/00/0000</td>
<td>$00000.00</td>
<td>$000.00, adjusts annually after year 1</td>
<td>$000.00, adjusts annually after year 1</td>
<td>00/00/0000</td>
<td>60</td>
</tr>
<tr>
<td>6</td>
<td>[3.00%]</td>
<td>00/00/0000</td>
<td>$00000.00</td>
<td>Adjusts Annually</td>
<td>Adjusts Annually</td>
<td>00/00/0000</td>
<td>12</td>
</tr>
<tr>
<td>7</td>
<td>[4.00%]</td>
<td>00/00/0000</td>
<td>$00000.00</td>
<td>Adjusts Annually</td>
<td>Adjusts Annually</td>
<td>00/00/0000</td>
<td>12</td>
</tr>
<tr>
<td>8</td>
<td>[5.00%]</td>
<td>00/00/0000</td>
<td>$00000.00</td>
<td>Adjusts Annually</td>
<td>Adjusts Annually</td>
<td>00/00/0000</td>
<td>12</td>
</tr>
<tr>
<td>9-40</td>
<td>[6.00%]</td>
<td>00/00/0000</td>
<td>$00000.00</td>
<td>Adjusts Annually</td>
<td>Adjusts Annually</td>
<td>00/00/0000</td>
<td>[Insert Remaining months]</td>
</tr>
</tbody>
</table>

The above terms in this Section 3.C. shall supersede any provisions to the contrary in the Loan Documents, including but not limited to, provisions for an adjustable or step interest rate.

(b) Insert after Section 3.E. the following new Sections 3.F. and 3.G.:

F. I agree to pay in full the Deferred Principal Balance and any other amounts still owed under the Loan Documents by the earliest of: (i) the date I sell or transfer an interest in the Property, (ii) the date I pay the entire Interest Bearing Principal Balance, or (iii) the new Maturity Date.

G. If I make a partial prepayment of Principal, the Lender may apply that partial prepayment first to any Deferred Principal Balance before applying such partial prepayment to other amounts due.

http://www.allregs.com/tpl/batchPrint.aspx?did3=aa7efc0617b84e82a017dbde7d12844e&li... 6/2/2009
• If under applicable law a Servicer may not establish an Escrow account, the Servicer must delete paragraph D in Section 4 of the Modification Agreement and replace it with "Intentionally Deleted" as follows:

D. Intentionally Deleted.

• If the Modification Agreement must be recorded and the original Security Instrument was registered with Mortgage Electronic Registration Systems, Inc. (MERS) and MERS was named as the nominee for the Lender, the Modification Agreement must be changed as follows:

(a) Insert a new definition under the "Property Address" definition on page one as follows:

"MERS" is Mortgage Electronic Registration Systems, Inc. MERS is a separate corporation that is acting solely as a nominee for Lender and Lender's successors and assigns. MERS is organized and existing under the laws of Delaware, and has an address and telephone number of P.O. Box 2026, Flint, MI 48501-2026, (888) 679-MERS.

(b) Add a new paragraph in Section 4 as follows:

MERS holds only legal title to the interests granted by the Borrower in the Mortgage, but if necessary to comply with law or custom, MERS (as nominee for Lender and Lender's successors and assigns) has the right to exercise any or all of those interests, including, but not limited to, the right to foreclose and sell the Property; and to take any action required of Lender including, but not limited to, releasing and canceling the mortgage loan.

(c) Add MERS to the signature line at the end of the Modification Agreement, as follows:

Mortgage Electronic Registration Systems, Inc. – Nominee for Lender

The Servicer is eligible to execute the Modification Agreement on behalf of MERS.

Servicers must refer to Guide Exhibit 5, Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application, or Freddie Mac's Uniform Instrument web site at http://www.freddiemac.com/uniform/ for instructions on how to make these changes.

(e) Closing the modification

Once the Servicer has sent the Borrower an original Modification Agreement with both the Servicer's and Borrower's signatures, the Servicer must:

• Submit the other original Modification Agreement with both the Servicer's and Borrower's signatures for recordation if required (see Section C65.7(c) and Section B65.20) within one Business Day of the Servicer's receipt of the executed agreement

• If the other original Modification Agreement is sent for recordation, send a certified copy of the executed Modification Agreement to the Custodian (or Freddie Mac's Document Custodial Operations (DCO), as applicable) to be maintained with the Note. Once the other original Modification Agreement is returned from the recorder's office, send it to the Custodian.
If recordation is not required, send the other original Modification Agreement to the Custodian.

If the Note is held by DCO, attach a completed Form 105, Multipurpose Loan Servicing Transmittal, and submit the agreement to DCO.

- Retain a copy of the executed Modification Agreement in the Mortgage file
- Submit to Freddie Mac via fax at (571) 382-4905 (or as otherwise directed by Freddie Mac), all of the following:
  - A signed and dated copy of the completed Form 1128, Loss Mitigation Transmittal Worksheet. If the Servicer used the Borrower Qualification Worksheet to determine eligibility, this form is available as part of the Borrower Qualification Worksheet
  - A copy of the Borrower Qualification Worksheet screen that reflects the results of the modification analysis. If the Servicer did not utilize the Borrower Qualification Worksheet to analyze the Mortgage and identify the terms of the modification, the Servicer must provide documentation reflecting any and all information used to determine the following:
    - Imminent default
    - Modification terms
  - Any and all information required to be input into the NPV Calculator and the results of the NPV test

At this time, Servicers are not required to enter or transmit data through Workout Prospector II on Mortgages modified under HAMP. Form 1128 and copy of the Borrower Qualification Worksheet screen, or other supporting documentation if the Borrower Qualification Worksheet was not used, must be provided to Freddie Mac in lieu of using Workout Prospector II.

- Comply with the reporting and remitting requirements set forth in Section B65.26 to complete the loan modification


C65.8: Other general requirements (05/26/09)

This section provides the information on the following topics:

- Retention of existing credit enhancements
- Additional requirements for Mortgages with mortgage insurance
- Servicing Spread
- Other requirements for Mortgages modified under HAMP
• Administrative Costs/Fees
• Reservation of rights to invoke remedies
• Transfers of Servicing
• Reimbursement of expenses
• Document retention requirements

(a) Retention of existing credit enhancements required

Servicers may approve modifications on Mortgages with in-place credit enhancements provided that, if the Servicer is not the credit enhancement provider, the Servicer first obtains any required approval under the terms of the credit enhancement from the entity providing the enhancement, in writing. For example, if the Mortgage has mortgage insurance, the Servicer must first receive approval from the mortgage insurer (MI) of the modification (or have obtained a blanket delegation of authority from the MI directly or through Freddie Mac to approve the modification on the MI’s behalf) to enter into a Modification Agreement that complies with the requirements of this chapter.

(b) Additional requirements for Mortgages with mortgage insurance

Mortgage insurer approval of Mortgage modifications

Servicers are reminded that they must comply with all requirements of applicable mortgage insurance policies when servicing Freddie Mac-owned Mortgages. Servicers must service all Mortgages, including any Mortgage to be modified in accordance with the terms of HAMP, so as to preserve and not to impair existing mortgage insurance coverage. When executing a Mortgage modification under HAMP, a Servicer must either (i) obtain the applicable mortgage insurer’s approval of the terms of the Mortgage modification made in accordance with the requirements of HAMP for each Mortgage on a case-by-case basis, or (ii) ensure that the applicable mortgage insurer has provided a delegation of authority to approve Mortgage modifications made in accordance with the requirements of HAMP on its behalf directly to the Servicer or to Freddie Mac for implementation through its Servicers and Servicer’s compliance with the delegation of authority.

Freddie Mac is seeking to obtain delegations of authority from each MI so that Servicers will not have to obtain approval on a case-by-case basis for each modification they process under HAMP. We will post on our web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html, a list of the MIs from which we have received a delegated authority agreement and will update that list as we obtain delegations.

Regardless of the grant of delegated authority from a MI, Servicers should always consult the applicable MI for specific processes related to the reporting of modified terms, payment of premiums, and other operational matters in connection with Mortgages modified under HAMP and to determine compliance with mortgage insurance requirements, including the existence of and compliance with the terms of any delegation of authority.

Application of mortgage insurance premium payment

Once the Mortgage has been modified, future mortgage insurance premium payment calculations for those MIs who have entered into delegation of authority agreements with Freddie Mac must be based on the gross capitalized unpaid principal balance (UPB) (including...
the amount of any partial principal forbearance) at the time of the modification. Servicers should consult directly with any MI regarding mortgage insurance premiums that have not provided a delegation of authority or has provided a delegation of authority directly to the Servicer.

**Cancellation of Borrower-paid mortgage insurance**

Servicers must accurately determine any automatic cancellation of Borrower-paid mortgage insurance or Borrower-requested cancellation of Borrower-paid mortgage insurance in accordance with Chapter 61 and in accordance with the Homeowners Protection Act of 1998 (HPA). For the purpose of canceling mortgage insurance on a modified Mortgage (either HPA or pre-HPA) with a partial principal forbearance, the required loan-to-value (LTV) ratios and the midpoint of the amortization period, as applicable, must be based on the gross capitalized UPB (including the amount of any partial principal forbearance).

(c) **Servicing Spread**

The Servicing Spread the Servicer retains on the Mortgage once modified will be as specified in Section B65.21.

(d) **Other requirements for Mortgages modified under HAMP**

- If a Mortgage that is not subject to a due-on-sale provision receives a modification under HAMP, the Borrower agrees that the modification will cancel the assumability feature of that Mortgage.
- If the loan instruments on the existing Mortgage contain a prepayment penalty provision, the prepayment penalty provision will be null and void upon modification of the Mortgage

See Section C65.7(e) for information on authorized changes that must be made to the documents with respect to these requirements.

(e) **Administrative Costs/Fees**

Servicers may not charge the Borrower a processing fee, or any other administrative costs or fees associated with the processing of the modification. Further, the Servicer may not require any upfront cash contributions from the Borrower, except to the extent the Borrower chooses to fund the entire amount, or a portion, of any Escrow shortage. Servicers must permit Borrowers who so choose to make a cash contribution.

Servicers may request reimbursement for certain costs associated with the modification that would otherwise be paid by the Borrower (e.g., notary fees, credit report, title costs and recordation fees, if applicable). See Section C65.8(h) for information on the process for requesting reimbursement of such expenses.)

(f) **Reservation of Rights to Invoke Remedies**

Notwithstanding the terms of this chapter and Freddie Mac's delegation of authority to Servicer to approve modifications under HAMP, Freddie Mac reserves its rights to exercise any remedies provided by the Guide and the Purchase Documents, including a repurchase of the Mortgage or a call on a credit enhancement, in the event Freddie Mac determines that there has been a failure to comply with the selling or Servicing representations and warranties of the Guide.
(g) Transfers of Servicing

When a Transfer of Servicing includes Mortgages modified under HAMP, the Transferor Servicer must provide special notification to the Transferee Servicer. Specifically, the Transferor Servicer must advise the Transferee Servicer that Mortgages modified under the Home Affordable Modification Program are part of the portfolio being transferred and must confirm that the Transferee Servicer is aware of and agrees to assume the additional responsibilities associated with the Servicing of these Mortgages.

If the portfolio being transferred includes Mortgages modified under HAMP, the Transferor Servicer must so indicate on Form 981, Agreement for Subsequent Transfer of Servicing of Single-Family Mortgages, and also indicate whether the transfer includes modified Mortgages that have a step-rate provision (i.e., the interest rate is subject to incremental increases beginning in year 6 of the modification) or a partial principal forbearance.

(h) Reimbursement of expenses

Servicers may request reimbursement for the following costs associated with the modification under HAMP (as well as expenses previously incurred under the Streamlined Modification Program) that would otherwise be paid by the Borrower and which may not be capitalized:

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Expense Code</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recordation fees</td>
<td>300003</td>
<td>Actual cost</td>
</tr>
<tr>
<td>Property inspection fees</td>
<td>404007</td>
<td>Reimbursement is limited to two inspections for each Mortgage. Reimbursable amounts are in accordance with the limits specified in Exhibit 57.</td>
</tr>
<tr>
<td>Title costs, if applicable (except with respect to title costs in connection with a foreclosure proceeding)</td>
<td>300004</td>
<td>Reimbursable amounts are in accordance with the limits specified in Exhibit 57A</td>
</tr>
<tr>
<td>Notary fees</td>
<td>42001</td>
<td>Actual cost. Reimbursement limited to expenses paid to third parties only</td>
</tr>
<tr>
<td>HVE</td>
<td>400003</td>
<td>Actual cost</td>
</tr>
</tbody>
</table>

In order to be reimbursed for the expenses listed above, the Servicer must provide Freddie Mac with a spreadsheet that includes the list of Mortgages for which expenses were incurred. The spreadsheet must be submitted to overallowables@freddiemac.com and must include the Servicer number, Servicer name and current date in the filename in addition to the following data in the order specified:

1. Date of Submission
2. Freddie Mac loan number
3. Servicer's "Vendor ID" number
4. Program No.: P19
5. Contact name
6. Reimbursement amount requested
7. Date the service was performed
8. Expense detail
9. Expense code

Servicers must submit the spreadsheet by the 5th Business Day of the month for all expense reimbursement requests on modifications completed in the prior month. All reimbursement requests must be received by Freddie Mac within 30 days of the first modified payment due date, unless there is a delay in recordation of the Modification Agreement that causes the Servicer to exceed this time frame.

Servicers should contact our Foreclosure/Bankruptcy department via overallowables@freddiemac.com with any questions about the reimbursement process for expenses associated with modifications under HAMP (as well as expenses previously incurred under the Streamlined Modification Program).

(i) Document retention requirements

In addition to complying with the requirements for Mortgage file retention described in Guide Chapter 52, Servicers must retain all documents and information received during the process of determining Borrower eligibility for a modification under HAMP, including Borrower income verification, total monthly Mortgage payment and total monthly gross debt payment calculations, net present value (NPV) calculations (NPV model and version used, assumptions, inputs and outputs), evidence of application of each step of the standard waterfall Escrow analysis, Escrow advances, and Escrow set-up. Servicers must retain all documents and information related to the monthly payments during and after the Trial Period, as well as incentive payment calculations and such other required documents.

Servicers must retain detailed records of Borrower solicitations or Borrower-initiated inquiries regarding HAMP, the outcome of the evaluation for modification under HAMP and specific justification with supporting details if the request for modification under HAMP was denied.

Records must also be retained to document the reason(s) for a trial modification failure, where the Borrower enters into a Trial Period, but fails to successfully complete it. If a HAMP modification is not pursued when the NPV result is "negative," the Servicer must document its consideration of other foreclosure prevention options. If a Borrower under a HAMP modification loses good standing by becoming 90 days or more past due (e.g., three monthly payments are due and unpaid on the last day of the third month), the Servicer must retain documentation of its consideration of the Borrower for other loss mitigation alternatives.

With respect to requirements related to the request for Borrower and co-Borrower information for government monitoring purposes, the Servicer must retain the appropriate documentation in the Mortgage file (see Section C65.13(b)).

Servicers must retain required documents for the period set forth in Section 52.3.


C65.9: HAMP incentives (05/26/09)

No incentives of any kind will be paid if the Borrower’s monthly Mortgage payment ratio starts

http://www.allregs.com/tpl/batchPrint.aspx?did3=aa7efc0617b84e82a017dbde7d12844e&li... 6/2/2009
below 31 percent prior to the implementation of HAMP because the Borrower is ineligible. The calculation and payment of all incentive compensation will be based strictly on the Borrower’s verified income.

(a) Servicer incentives

Freddie Mac will pay Servicers:

- A workout compensation fee of $1,000 for each modification meeting the requirements of HAMP. This fee will be in lieu of the $800 workout compensation fee provided in Section B65.8. If a Servicer closes a modification that only capitalizes arrears, but does not involve an interest rate reduction or other modification feature, the Servicer may only earn this workout compensation fee and neither the Servicer nor the Borrower are eligible for any other incentive related payments.

- An additional $500 incentive payment for each modification for an eligible Borrower who was current (less than 31 days delinquent) and who remains current during the Trial Period Plan. The Servicer must be required to maintain records and documentation evidencing that the Trial Period payment arrangements were agreed to while the Borrower was less than 31 days delinquent.

The $1,000 workout compensation fee and the $500 incentive payment will be considered earned when the Borrower has made the three payments required under the Trial Period and has executed the Modification Agreement.

In addition, Freddie Mac will pay Servicers a "pay for success" fee of up to $1,000 a year for three years.

The Servicer will only receive a pay-for-success fee if the Borrower’s modified monthly PITIAS Payment results in at least a 6% reduction from the monthly Mortgage payment used to determine eligibility. Annual pay for success payments will be:

- Equal to the lesser of (i) $1,000 ($83.33/month) or (ii) one-half the reduction in the Borrower’s annualized monthly Mortgage payment

- Accrued monthly unless the Borrower loses good standing by becoming 90 days or more past due (e.g., three monthly payments are due and unpaid on the last day of the third month) on the modified Mortgage and the Mortgage has not been paid off prior to the first, second or third anniversary of the Trial Period Plan Effective Date.

- Considered earned as of the first, second, and third anniversaries of the Trial Period Plan Effective Date, unless the Borrower loses good standing by becoming 90 days or more past due on the modified Mortgage at any time before any annual payment is earned. If the Mortgage is 90 days delinquent at any time, no incentive payment will be made, even if the Borrower cures the delinquency.

- Paid approximately one month after the incentive is earned

(b) Borrower incentives

Borrowers who remain current on their monthly Mortgage payments under HAMP will receive "Pay for Performance" incentives. The incentive will be accrued monthly and applied to principal annually. The Pay for Performance incentive will be applied first to the interest-bearing principal balance on the Mortgage and then to any principal forbearance amount (if applicable). The incentive can be earned if a Borrower’s modified monthly PITIAS Payment

http://www.allregs.com/tpl/batchPrint.aspx?did3=aa7efc0617b84e82a017dbde7d12844e&li... 6/2/2009
results in at least a 6% reduction from the monthly Mortgage payment used to determine eligibility. Annual Pay for Performance incentives will be:

- Equal to the lesser of (i) $1,000 ($83.33/month) or (ii) one-half the reduction in the Borrower’s annualized monthly Mortgage payment

- Accrued monthly for each month the Mortgage remains current for five years until the Mortgage is paid off, provided no incentive will accrue for any late Mortgage payment

- Considered earned as of the anniversary of the Trial Period Plan Effective Date, unless the Borrower loses good standing by becoming 90 days or more past due on the modified Mortgage prior to any payment anniversary. If the Mortgage is 90 days delinquent at any time, no incentive payment will be made, even if the Borrower cures the delinquency.

- Paid to the Servicer approximately one month after the incentive is earned and must be applied as described above to the Borrower’s account upon receipt

Servicers are not required to reamortize the Borrower’s Mortgage balance to reduce the Mortgage payment as a result the application of this incentive to the unpaid principal balance.

Servicers should prepare and send to the Borrower information on a monthly basis regarding the accrual of “pay for performance” principal balance reduction payments. Servicers are encouraged to incorporate this information into the Borrower’s monthly statements.


**C65.10: Special requirements for Mortgages with a partial principal forbearance (05/26/09)**

(a) **Investor Reporting and Remitting requirements for all Mortgages with a partial principal forbearance**

- When reporting monthly loan-level activity for a Mortgage with a partial principal forbearance, the data that Servicers report in their loan-level reporting must be based on the interest-bearing unpaid principal balance (UPB) of the Mortgage. That is:

  - The UPB that is reported is the interest-bearing UPB of the Mortgage, without regard to the deferred UPB

  - The amount of “principal due Freddie Mac” that is reported is Freddie Mac’s share of principal payments, including prepaid principal, curtailments, etc. applied to the interest-bearing UPB during the accounting cycle

- Additionally, Servicers must provide Freddie Mac with a report on a monthly basis that includes a cumulative listing of all modified Mortgages with a partial principal forbearance. Servicers must submit the report by the 5th Business Day after the accounting cycle cutoff to PL_HMP@freddiemac.com. The report must be in the form of a Microsoft Excel spreadsheet and must include the following data elements in the order specified below:
1. Freddie Mac loan number
2. Date of accounting cycle cutoff
3. Total principal curtailment amount
4. Beginning interest-bearing UPB
5. Principal curtailments applied to the interest-bearing UPB as of the accounting cycle cutoff
6. Ending interest-bearing UPB
7. Beginning deferred UPB
8. Principal curtailments applied to the deferred UPB as of the accounting cycle cutoff
9. Ending deferred UPB
10. Gross combined UPB

The Microsoft Excel spreadsheet being submitted to Freddie Mac must include the Servicer number in the filename. A template of the required spreadsheet containing the data specified above is available on our HAMP web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html.

- When reporting the payoff of a Mortgage with a partial principal forbearance, Servicers must comply with the applicable reporting requirements set forth in Guide Chapter 78 except that:

  - The interest-bearing UPB must be reported via MIDANET® in accordance with the requirements set forth in Chapter 78 and the deferred UPB must be reported using Form 315, Exception Activity Transmittal Summary. Servicers must complete Form 315 and submit the form to PL_HMP@freddiemac.com by the 2nd Business Day after the Servicer receives the payoff proceeds.

  - In the Servicer's interim remittance, the Servicer must remit the proceeds (interest-bearing and deferred UPB) due to Freddie Mac, plus or minus the exception interest.

Note: Monthly interest and any exception interest must be based on the interest-bearing UPB only.

(b) Application of partial prepayments of principal

Partial prepayments of principal ("curtailments") must be applied first to the interest-bearing UPB before any remaining funds may be applied to the deferred UPB, except if the principal curtailment is equal to or greater than the interest-bearing UPB. If the principal curtailment is equal to or greater than the interest-bearing UPB, then the principal curtailment must first be applied to the deferred UPB and any remaining curtailment to the interest-bearing UPB.

If a principal curtailment is applied to the deferred UPB, it must be reported to Freddie Mac via Form 315, Exception Activity Transmittal Summary, and submitted to PL_HMP@freddiemac.com no later than the 5th Business Day after the accounting cycle cutoff. Form 315, Exception Activity Transmittal Summary, is available on our HAMP web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html.
(c) Monthly statements

Freddie Mac recommends the Servicer provide the Borrower with statements that reflect the deferred principal balance at least annually.

(d) Credit bureau reporting for all Mortgages with a partial principal forbearance

Servicers can access additional information on credit reporting unique to HAMP including the reporting of Mortgages with a partial principal forbearance from the Consumer Data Industry Association, which gives general credit reporting guidelines for Mortgage and home equity loans in response to current financial conditions, at http://cdia.files.cms-plus.com/Metro2/MortgageHomeEquityReportingGuidelines.pdf.


C65.11: HAMP activity reporting requirements (05/26/09)

(a) Reporting activity to Freddie Mac

Servicers must track certain key data in a Microsoft Excel spreadsheet and submit the completed spreadsheet to Freddie Mac on a weekly basis. The spreadsheet must be submitted electronically to Freddie Mac at HMPModificationTracking@freddiemac.com by 12 p.m. Eastern Standard Time each Monday for the prior week's activity. In a month when the last Business Day of the month falls on a day other than a Friday, the Servicer must provide two updates for the previous week:

- One update for the Business Day(s) in that week to month end
- One update for the Business Day(s) in that week for the new month

The template for the spreadsheet is available on our web site at http://www.freddiemac.com/singlefamily/service/mha_modification.html.

Effective October 1, 2009, Servicers must report specific loan level information, as applicable, to Freddie Mac using the Electronic Default Reporting (EDR) codes described below. Servicers may begin reporting these new codes beginning June 1, 2009.

The Servicer must report the default action codes described below in addition to complying with other EDR requirements set forth in Section 64.10 and Exhibit 82, Electronic Default Reporting Transmission Code List, and Section C65.7(b) for reporting during the Trial Period.

<table>
<thead>
<tr>
<th>HAMP Default Action</th>
<th>Default Action Code</th>
<th>Description</th>
</tr>
</thead>
</table>
| Eligible for HAMP   | H6                  | Report code H6 together with the date the Borrower was determined to be eligible for HAMP (including the determination that Borrowers, who are current or less than 31 days delinquent, are in imminent default). This event may occur prior to or on the same date as the date the Servicer begins to review the Borrower for a modification under HAMP, or sends...
the solicitation letter or Trial Period Plan offer package.

<table>
<thead>
<tr>
<th>HAMP in Review</th>
<th>H7</th>
<th>Report code H7 together with the date the Servicer begins to review an eligible Borrower for a modification under HAMP. This event may occur on the same date as the date the Servicer determines the Borrower to be eligible for a modification under HAMP, or sends the solicitation letter or Trial Period Plan offer package.</th>
</tr>
</thead>
<tbody>
<tr>
<td>HAMP Modification Agreement Sent</td>
<td>H8</td>
<td>Report code H8 together with the date the Servicer sends the Borrower the HAMP Modification Agreement (not the Trial Period Plan)</td>
</tr>
<tr>
<td>HAMP Modification Agreement Received</td>
<td>H9</td>
<td>Report code H9 together with the date the Servicer receives the signed Modification Agreement from the Borrower.</td>
</tr>
</tbody>
</table>

Refer to the EDR Quick Reference Guide available on FreddieMac.com for additional information on the reporting of these codes.

Refer to Section C65.7(b) for additional EDR requirements.

(b) **Reporting to Fannie Mae as financial agent for the United States Department of the Treasury**

All Servicers are required to register with Fannie Mae in its capacity as financial agent for the United States Department of the Treasury ("Financial Agent") and provide periodic HAMP loan level data to the Financial Agent. To register, Servicers must complete and submit the HMP Registration Form, which is available on the [http://www.HMPAdmin.com](http://www.HMPAdmin.com) web site.

The data that Servicers provide must be accurate, complete and in agreement with the Servicer's records. The Servicer must report data:

- At the start of the Trial Period
- During the Trial Period
- For loan set up of the approved modification
- Monthly after the modification is set up on the Financial Agent's system

Data must be submitted through a data collection tool ("Data Collector") available on the servicer web portal available through [http://www.HMPAdmin.com](http://www.HMPAdmin.com). A unique user ID and password is required to access the Data Collector. The Servicer will be provided its unique user ID and password by the Financial Agent once the Financial Agent has received and processed the Servicer's HMP Registration Form.

Servicers should refer to [http://www.HMPAdmin.com](http://www.HMPAdmin.com) for additional information regarding these data reporting requirements.
C65.12: Disclosures and communications with Borrowers (05/26/09)

When promoting or describing Mortgage modifications, Servicers/lenders should provide Borrowers with information designed to help them understand the modification terms that are being offered and the modification process. Such communication should help minimize potential Borrower confusion and complaints, foster good customer relations and reduce legal compliance and other risks in connection with the transaction.

Servicers/lenders also must provide Borrowers with clear and understandable written information about the material terms, costs and risks of the modified Mortgage in a timely manner to enable Borrowers to make informed decisions. The letters set forth in Section C65.2 (Proactive Solicitation Letter, Documentation Request Letter, Trial Period Plan Cover Letter and HAMP Agreement Cover Letter) are templates and may be altered in the Servicer’s discretion as they deem necessary to meet the requirements of this Section C65.12 and to comply with disclosure and other requirements under applicable federal, State or local law.

Information should be provided, as applicable, that:

- Describes how the modified loan balance is calculated
- Describes any new terms, interest rates, payment amounts, or loan maturity dates
- Describes how the new rate will be determined and provides a payment schedule that illustrates how subsequent increases in the modified interest rate will cause payment amounts to increase correspondingly over time
- Provides the amount and date of any balloon payments
- Describes applicable Escrow requirements for taxes and insurance
- Explains the need to make full and timely payments on the modified loan
- Describes Borrower incentive payments for timely loan payments
- Explains the consequences of failure to make timely payments on the Trial Period Plan (loss of loan modification) and Modification Agreement (risk of loss of the home through foreclosure)


C65.13: Fair treatment and legal compliance (05/26/09)

(a) Compliance with applicable laws

Mortgage modification programs must be implemented in a manner that complies with all applicable federal, State and local laws and regulations, including, but not limited to:

- Section 5 of the Federal Trade Commission Act and similar applicable laws that prohibit unfair or deceptive acts or practices
- The Equal Credit Opportunity Act and the Fair Housing Act, which prohibits discrimination on a prohibited basis in connection with mortgage transactions. Servicers and lenders
should ensure that loan modification programs comply with all applicable laws and regulations prohibiting discrimination. Servicers and lenders must not treat a Borrower less favorably than other Borrowers based even in part on race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income, or any other protected class or basis under applicable federal, State and local laws, in connection with any loan modification.

- The Real Estate Settlement Procedures Act, which imposes certain disclosure requirements and restrictions relating to transfers of the servicing of certain loans and Escrow accounts.

- The Fair Debt Collection Practices Act, which restricts certain abusive debt collection practices by collectors of debts, other than the creditor, owed or due to another

(b) Government monitoring data

The Department of Housing and Urban Development (HUD) has directed Freddie Mac, pursuant to HUD's authority under Section 1325(2) of the Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA), 24 C.F.R. 81.44(a) and (b), 12 C.F.R. 202.5 (a)(2), and its general regulatory authority under the Fair Housing Act, 42 U.S.C. 3601 et seq. ("Act") to require Servicers to request and report data on the race, ethnicity, and sex of Borrowers and co-Borrowers involved in potential loan modifications under HAMP ("Government Monitoring Data") in order to monitor compliance with the Act and other applicable fair lending and consumer protection laws. As a result of such direction from HUD, this section of this chapter constitutes an agreement entered into between Freddie Mac, on behalf of HUD, and Freddie Mac's approved Servicers. As such, this is an agreement entered into by Freddie Mac's approved Servicers with an enforcement agency (i.e., HUD) to permit the enforcement agency to monitor or enforce compliance with federal law, within the meaning of 12 C.F.R. 202.5(a)(2).

HUD has specified that the Government Monitoring Data shall be collected in the Hardship Affidavit. Servicers must request, but not require, that each Borrower who completes a Hardship Affidavit in connection with HAMP furnish the Government Monitoring Data. If any Borrower chooses not to provide the Government Monitoring Data, or any part of it, the Servicer must note that fact on the Hardship Affidavit in the space provided. In such circumstances, and if the Hardship Affidavit is completed in a face-to-face setting, the Servicer, its representative or agent shall then also note on the form, to the extent possible on the basis of visual observation or surname, the race, ethnicity and sex of any Borrower or co-Borrower who has not furnished the Government Monitoring Data. If any Borrower declines or fails to provide the Government Monitoring Data on a Hardship Affidavit taken by mail or telephone or on the Internet, the data need not be provided. In such a case, the Servicer must indicate that the request for a loan modification was received by mail, telephone or Internet, if it is not otherwise evident on the face of the Hardship Affidavit.

For modifications closed on or after April 21, 2009, the Servicer must use the new Hardship Affidavit form that requires Servicers to request the Government Monitoring Data.

For modifications in process where the earlier version of the Hardship Affidavit form was used (i.e., the version that does not include the Information for Government Monitoring Purposes section), the Servicer must contact the Borrower and any co-Borrower (hereinafter referred to as "Borrower") to request the monitoring data. The Servicer may:

- Mail a blank new Hardship Affidavit form (containing the Information for Government Monitoring Purposes section) to the Borrower and request that the Borrower read and complete the monitoring data section only and mail the Affidavit back to the Servicer. To
avoid confusion, we encourage the Servicer to strike through all sections of the Hardship Affidavit (including the signature lines) except for the Information for Government Monitoring Purposes section.

- E-mail to the Borrower, pursuant to the new requirements in Section C65.5, which govern solicitation of Borrowers and collection of loss mitigation information and documents electronically, either (i) an electronic version of the new Hardship Affidavit (containing the Information for Government Monitoring Purposes section) or (ii) a single page with the exact text of the Information For Government Monitoring Purposes section, which is on page two of the new form Hardship Affidavit. If you provide the entire new Hardship Affidavit, request the Borrower to only complete the Information for Government Monitoring Purposes section.

- Contact the Borrower by phone and read the exact text of the Information for Government Monitoring Purposes’ section on page two of the new Hardship Affidavit to request and record responses from the Borrower.

- Contact the Borrower by phone and read the exact text of the Information for Government Monitoring Purposes section on page two of the new form Hardship Affidavit to request and record responses from the Borrower.


C65.14: Responsiveness to Borrower inquiries (04/21/09)

Servicers should have procedures and systems in place to be able to track and respond to inquiries and complaints about Mortgage modifications. Servicers should ensure that such inquiries and complaints are provided fair consideration, and timely and appropriate responses and resolution. This information should be available for review by the Compliance Agent.


C65.15: Compliance (05/26/09)

Servicers must comply with HAMP requirements and must document the execution of loan evaluation, loan modification and accounting processes. Servicers must develop and execute a quality assurance program that includes either a statistically based (with a 95% confidence level) or a 10% stratified sample of loans modified, drawn within 30-45 days of final modification and reported on within 30-45 days of review. In addition, a trending analysis must be performed on a rolling 12-month basis.

The United States Department of the Treasury ("Treasury") has selected Freddie Mac to serve as its compliance agent for HAMP ("Compliance Agent"). In its role as Compliance Agent, Freddie Mac will utilize Freddie Mac employees and contractors to conduct independent compliance assessments. In addition, loan level data will be reviewed for eligibility and fraud.

The scope of the assessments will include, among other things, an evaluation of documented evidence to confirm adherence (e.g., accuracy and timeliness) to HAMP requirements with respect to the following:

http://www.allregs.com/pl/batchPrint.aspx?did3=aa7efc0617b84e82a017dbde7d12844e&li... 6/2/2009
• Evaluation of Borrower and property eligibility
• Compliance with underwriting guidelines
• Execution of net present value (NPV)/waterfall processes
• Completion of Borrower incentive payments
• Investor subsidy calculations
• Data integrity

The review will also evaluate the effectiveness of the Servicer's quality assurance program; such evaluation will include, without limitation, the timing and size of the sample selection, the scope of the quality assurance reviews, and the reporting and remediation process.

There will be two types of compliance assessments: on-site and remote. Both on-site and remote reviews will consist of the following activities (among others): notification, scheduling, self assessments, documentation submission, interviews, file reviews, and reporting.

For on-site reviews, the Compliance Agent will strive to provide the Servicer with (i) a 30-day advance notification of a pending review and (ii) subsequent confirmation of the dates of the review. However, the Compliance Agent reserves the right to arrive at the Servicer's site unannounced. The Compliance Agent will request the Servicer to make available documentation, including, without limitation, policies and procedures, management reports, loan files and a risk control self assessment ready for review. Additionally, the Compliance Agent may request additional loan files during the review. Loan files subject to review (for both on-site and remote reviews) include (but are not necessarily limited to) files relating to loan modifications that are (i) approved or declined by the Servicer under HAMP, (ii) approved by the Servicer, but as to which the offer to modify is not accepted by the Borrower, and (iii) subject to a default by the Borrower during or after the Trial Period. In connection with on-site reviews, interviews will usually be conducted in person.

During the review window, the Compliance Agent will review loan files and other requested documentation to evaluate compliance with HAMP terms. Upon the completion of the review, the Compliance Agent will conduct an exit interview with the Servicer to discuss preliminary assessment results.

For remote reviews, the Compliance Agent will request the Servicer to send documentation, including, without limitation, policies and procedures, management reports, loan files and a risk control self assessment within 30 days of the request. In addition, time will be scheduled for phone interviews, including a results summary call after the compliance review is completed to discuss preliminary results.

The targeted time frame for publishing the Servicer assessment report is 30 days after the completion of the review. Treasury will receive a copy of the report five business days prior to the release of the report to the Servicer.

There will be an issue/resolution appeal process for Servicer assessments. Servicers will be able to submit concerns or disputes to an independent quality assurance team within the Compliance Agent.
U.S. DEPARTMENT OF THE TREASURY  
Washington  
March 4, 2009

Making Home Affordable  
Updated Detailed Program Description

The deep contraction in the economy and in the housing market has created devastating consequences for homeowners and communities throughout the country. Millions of responsible families who make their monthly payments and fulfill their obligations have seen their property values fall, and are now unable to refinance to lower mortgage rates. Meanwhile, millions of workers have lost their jobs or had their hours cut, and are now struggling to stay current on their mortgage payments. As a result, as many as 6 million families are expected to face foreclosure in the next several years, with millions more struggling to stay current on their payments.

The present crisis is real, but temporary. As home prices fall, demand for housing will increase, and conditions will ultimately find a new balance. Yet in the absence of decisive action, we risk an intensifying spiral in which lenders foreclose, pushing area home prices still lower, reducing the value of household savings, and making it harder for all families to refinance. In some studies, foreclosure on a home has been found to reduce the prices of nearby homes by as much as 9%.

The Obama Administration’s Making Home Affordable program will offer assistance to as many as 7 to 9 million homeowners making a good-faith effort to make their mortgage payments, while attempting to prevent the destructive impact of the housing crisis on families and communities. It will not provide money to speculators, and it will target support to the working homeowners who have made every possible effort to stay current on their mortgage payments. Just as the American Recovery and Reinvestment Act works to save or create several million new jobs and the Financial Stability Plan works to get credit flowing, the Making Home Affordable program will support a recovery in the housing market and ensure that these workers can continue paying off their mortgages.

By supporting low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac, providing up to 4 to 5 million homeowners with new access to refinancing and creating a comprehensive stability initiative to offer reduced monthly payments for up to 3 to 4 million at-risk homeowners, this plan—which draws off the best ideas developed within the Administration, as well as from Congressional housing leaders and Federal Deposit Insurance Corporation Chair Sheila Bair—brings together the government, lenders, loan servicers, investors and borrowers to share responsibility towards ensuring working Americans can afford to stay in their homes.

### Making Home Affordable

1. **Home Affordable Refinance Program for Responsible Homeowners Suffering From Falling Home Prices**

2. **A Comprehensive $75 Billion Home Affordable Modification Program**
   - A Loan Modification Plan To Reach up to 3 to 4 Million Homeowners
     - Shared Effort with Lenders to Reduce Mortgage Payments
     - Incentives to Servicers and Borrowers
   - Clear and Consistent Guidelines for Loan Modifications
   - Required Participation By Financial Stability Plan Participants
   - Modifications of Home Mortgages During Bankruptcy
   - Strengthen Hope for Homeowners and Other FHA Loan Programs
   - Support Local Communities and Help Displaced Renters

3. **Support Low Mortgage Rates by Strengthening Confidence in Fannie Mae and Freddie Mac**
U.S. DEPARTMENT OF THE TREASURY  
Washington  
March 4, 2009

1. A Home Affordable Refinance Program to Provide Access to Low-Cost Refinancing for Responsible Homeowners Suffering From Falling Home Prices:

   •  **Provide the Opportunity for Up to 4 to 5 Million Responsible Homeowners to Refinance:** Mortgage rates are currently at historically low levels, providing homeowners with the opportunity to reduce their monthly payments by refinancing. But under current rules, most families who owe more than 80% of the value of their homes have a difficult time securing refinancing. (For example, if a borrower’s home was worth $200,000, he or she would have limited refinancing options if he or she owed more than $160,000.) Yet millions of responsible homeowners who put money down and made their mortgage payments on time have – through no fault of their own – seen the value of their homes drop low enough to make them unable to take advantage of these lower rates. As a result, the Obama Administration’s program will provide the opportunity for up to 4 to 5 million responsible homeowners who took out loans owned or guaranteed by Freddie Mac and Fannie Mae (the GSEs) to refinance through the two institutions over time.

   •  **Reducing Monthly Payments:** For many families, a low-cost refinancing could reduce mortgage payments by thousands of dollars per year. For example, consider a family that took a 30-year fixed rate mortgage of $207,000 with an interest rate of 6.50% on a house worth $260,000 at the time. Today, that family has $200,000 remaining on their mortgage, but the value of that home has fallen 15% to $221,000 – making them ineligible for today’s low interest rates that generally require the borrower to have 20% home equity. Under this refinancing plan, that family could refinance to a rate near 5.16% – reducing their annual payments by over $2,300.

2. A $75 Billion Home Affordable Modification Program to Prevent Foreclosures and Help Responsible Families Stay in Their Homes: The Treasury Department, working with the GSEs, FHA, the FDIC and other federal agencies, will undertake a comprehensive multi-part strategy to prevent millions of foreclosures and help families stay in their homes. This strategy includes the following five features:

   •  **A Home Affordable Modification Program to Reach Up to 3 to 4 Million At-Risk Homeowners**

   •  **Clear and Consistent Guidelines for Loan Modifications**

   •  **Requiring That Financial Stability Plan Recipients Use Treasury Guidelines for Loan Modifications**

   •  **Allowing Judicial Modifications of Home Mortgages During Bankruptcy When A Borrower Has No Other Options**

   •  **Requiring Strong Oversight, Reporting and Quarterly Meetings with Treasury, the FDIC, the Federal Reserve and HUD to Monitor Performance**

   •  **Strengthening FHA Programs and Providing Support for Local Communities**
A. **A Home Affordable Modification to Reach Up to 3 to 4 Million At-Risk Homeowners:**

This program is intended to reach millions of responsible homeowners who are struggling to afford their mortgage payments because of the current recession, yet cannot sell their homes because prices have fallen so significantly. In the current economy, in which 3.6 million jobs have been lost over the past 14 months, millions of hard-working families have seen their mortgage payments rise to 40 or even 50% of their monthly income—particularly if they received subprime and exotic loans with exploding terms and hidden fees. The Home Affordable Modification program operates through a shared partnership to help those who commit to make reasonable monthly mortgage payments to stay in their homes, providing families with security and neighborhoods with stability. This plan will also help to stabilize home prices for homeowners in neighborhoods hardest hit by foreclosures. Based on estimates concerning the relationship between foreclosures and home prices, with the average house in the U.S. valued around $200,000, the average homeowner could see his or her home value stabilized against declines in price by as much as $6,000 relative to what it would otherwise be absent the Home Affordable Modification program.

**Who the Program Reaches:**

- **Focusing on Homeowners At Risk:** Homeowners at risk, such as those suffering serious hardships, decreases in income, increases in expenses, payment “shock,” high combined mortgage debt compared to income, who are “underwater” (with a combined mortgage balance higher than the current market value of the house), or who show other indications of being at risk of default may be eligible for a loan modification. Eligibility for the program will sunset at the end of three years.

- **Reaching Homeowners Before They Have Missed Payments:** Delinquency will not be a requirement for eligibility. Rather, because loan modifications are more likely to succeed if they are made before a borrower misses a payment, modifications for households at risk of imminent default despite being current on their mortgage payments are eligible to participate, in addition to those who have fallen behind.

- **Common Sense Restrictions:** Only owner-occupied homes qualify; no home mortgages larger than the FHFA conforming limit of $729,750 will be eligible. *This program will focus solely on supporting responsible homeowners willing to make payments to stay in their home – it will not aid speculators or house flippers.*

- **Special Provisions for Families with High Total Debt Levels:** Borrowers with high total debt qualify, but only if they agree to enter HUD-certified consumer debt counseling. Specifically, homeowners with total “back end” debt (which includes not only housing debt, but other debt including car loans and credit card debt) equal to 55% or more of their income will be required to agree to enter a HUD-certified counseling program as a condition for a modification.

**How the Program Works**

- The Home Affordable Modification program has a simple goal: reduce the amount homeowners owe per month to sustainable levels to stabilize communities. This
program will bring together lenders, investors, servicers, borrowers, and the government, so that all stakeholders share in the cost of ensuring that responsible homeowners can afford their monthly mortgage payments – helping to reach up to 3 to 4 million at-risk borrowers in all segments of the mortgage market, reducing foreclosures, and helping to avoid further downward pressures on overall home prices. The program has several key components:

i. **Shared Effort to Reduce Monthly Payments:** Treasury will partner with financial institutions and investors to reduce homeowners’ monthly mortgage payments.

   - The lender will have to first reduce monthly payments on mortgages to a specified affordability level (specifically, the lender must bring down monthly payments so that the borrower’s monthly mortgage payment is no greater than 38% of his or her income).

   - Next, the program will match further reductions in monthly payments dollar-for-dollar, from 38% down to 31% debt-to-income ratio for the borrower.

   - To ensure long-term affordability, the modified payments will be kept in place for five years and the loan rate will be capped for the life of the loan. After five years, the interest rate can be gradually stepped-up by 1% per year to the conforming loan survey rate in place at the time of the modification.

   - To reach the target affordability level of 31%, interest payments will first be reduced down to as low as 2%. If at that rate the debt to income level is still over 31%, lenders then extend the term or amortization period up to 40 years, and finally forbear principal at no interest, until the payment is reduced to the 31% target.

   - Treasury will share the costs of reducing the payment from 38% DTI to 31% DTI dollar for dollar.

   - **Note:** Lenders can also bring down monthly payments to these affordability targets through reducing the amount of mortgage principal. The program will provide a partial share of the costs of this principal reduction, up to the amount the lender would have received for an interest rate reduction as long as the lender reaches the target rate of affordability at 31% debt-to-income.

ii. **“Pay for Success” Incentives to Servicers:**

   - Servicers will receive an up-front fee of $1,000 for each eligible modification meeting guidelines established under this initiative. Servicers will also receive “pay for success” fees—as long as the borrower is successful at staying in the program—of $1,000 each year for three years, subject to a de minimis threshold.
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- Servicers will get similar incentives if they modify FHA, VA, or Agriculture Department loans, or refinance loans according to the Hope for Homeowners or similar FHA programs.

iii. Responsible Modification Incentives:
- Because loan modifications are more likely to succeed if they are made before a borrower misses a payment, the plan will include an incentive payment of $1,500 to mortgage holders and $500 for servicers for modifications made while a borrower at risk of imminent default is still current on their payments.

- The servicer portion of this incentive will also be available for modifications of FHA, VA, or Agriculture Department loans, or refinance loans under the Hope for Homeowners or similar FHA programs.

iv. Incentives to Help Borrowers Stay Current: To provide an extra incentive for borrowers to keep paying on time under the modified loan, the initiative will provide a monthly pay for performance success payment that goes straight towards reducing the principal balance on the mortgage loan.

- As long as the borrower stays current on his or her payments, he or she can get up to $1,000 each year for five years, subject to a de minimis threshold.

- As with the servicer incentives, these borrower incentives are also available for modifications of FHA, VA, or Agriculture Department loans, or refinance loans under the Hope for Homeowners or similar FHA programs.

v. Home Price Decline Payments: To encourage the modification of more mortgages and enable more families to keep their homes, the Administration -- together with the FDIC -- has developed an innovative payment that provides compensation that can partially offset losses from failed modification when home prices decline, but is structured as a simple cash payment on every eligible loan. The Treasury Department will make payments totaling up to $10 billion to discourage lenders, servicers and investors from opting to foreclose on mortgages that could be viable now out of fear that home prices will fall even further later on. This initiative provides servicers with the security to undertake more mortgage modifications by assuring that if home price declines continue to occur or worsen, investor losses are partially offset. Holders of mortgages modified under the program would be provided with an additional payment on each modified loan, linked to declines in the home price index.

vi. Second Liens: While eligible loan modifications will not require any participation by second lien holders, the program will include additional incentives to extinguish second liens on loans modified under the program, in order to reduce the overall indebtedness of the borrower and improve loan performance. Servicers will be eligible to receive compensation when they
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contact second lien holders and extinguish valid junior liens (according to a schedule to be specified by the Treasury Department, depending in part on combined loan to value). Servicers will be reimbursed for the release according to the specified schedule, and will also receive an extra $250 for obtaining a release of a valid second lien.

*How It Will Be Effective*

- **Protecting Taxpayers and Communities:** To protect taxpayers, the Home Affordable Modification program will focus on sound modifications. No payments will be made unless the modification lasts for at least three months, and all the payments are designed around the principal of “pay for success.” Borrowers, servicers and lenders/investors all have aligned incentives under the program to get successful modifications at an affordable and sustainable level.

- **Counseling and Outreach to Maximize Participation:** Under the plan, the Department of Housing and Urban Development will also make available funding for non-profit counseling agencies to improve outreach and communications, especially to disadvantaged communities and those hardest-hit by foreclosures and vacancies. Borrowers with high debt-to-income levels must agree to use counseling services.

- **Creating Proper Oversight and Tracking Data to Ensure Program Success:** Fannie Mae and Freddie Mac will be responsible – subject to Treasury’s oversight and the Federal Housing Finance Agency’s conservatorship – for monitoring compliance by servicers with the program. Every servicer participating in the program will be required to report standardized loan-level data on modifications, borrower and property characteristics, and outcomes. The data will be pooled so the government and private sector can measure success and make changes where needed. Treasury will meet quarterly with the FDIC, the Federal Reserve, the Department of Housing and Urban Development and the Federal Housing Finance Agency to ensure that the program is on track to meeting its goals.

- **Limiting the Impact of Foreclosure When Modification Doesn’t Work:** Servicers will receive incentives to take alternatives to foreclosures, like short sales or taking of deeds in lieu of foreclosure. For those borrowers unable to maintain homeownership, even under the affordable terms offered, the plan will provide incentives to encourage families and servicers to avoid the costly foreclosure process and minimize the damage that foreclosure imposes on financial institutions, borrowers and communities alike. Servicers will be eligible for a payment of $500 and can make reimbursable payments up to $1000 to extinguish other liens, and borrowers are eligible for a payment of $1500 in relocation expenses in order to effectuate short sales and deeds-in-lieu of foreclosure. Such methods reduce vacancy, neighborhood decline, and overall costs for financial institutions, borrowers, and affected communities alike.

Treasury will also work with the GSEs to provide data on foreclosed properties to streamline the process of selling or redeveloping them, thereby ensuring that they do not remain vacant and unsold.
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B. **Clear and Consistent Guidelines for Loan Modifications:** A lack of common standards has limited loan modifications, even when they are likely to both reduce the chance of foreclosure and raise the value of the securities owned by investors. Mortgage servicers—who should have an interest in instituting common-sense loan modifications—often refrain from doing so because they fear lawsuits. Clear and consistent guidelines for modifications are a key component of foreclosure prevention.

- **Clear and Consistent Guidelines for Loan Modifications:** Working with the FDIC, other federal banking and credit union regulators, the FHA and the Federal Housing Finance Agency, the Administration today announced guidelines for sustainable mortgage modifications that may be used by all federal agencies and the private sector—brining order and consistency to foreclosure mitigation. The guidelines include detailed protocols for loss mitigation and will serve as standard industry practice.

- **Applied Across Government and the Private Sector:** Treasury today issued Guidelines for loan modifications that should serve as standard industry practice across the mortgage industry by working closely with the FDIC and other banking agencies and building on the FDIC’s pioneering role in developing a systematic loan modification process last year. The Guidelines—to be posted online—will be used for the Administration’s new foreclosure prevention plan. Moreover, all financial institutions receiving Financial Stability Plan financial assistance going forward will be required to implement loan modification plans consistent with Treasury Guidelines. Fannie Mae and Freddie Mac will use these guidelines for loans that they own or guarantee, and the Administration will work with regulators and other federal and state agencies to implement these guidelines across the entire mortgage market. Ginnie Mae, the Federal Housing Administration, Treasury, the Federal Reserve, the FDIC, The Department of Veterans’ Affairs and the Department of Agriculture also have agreed to seek to apply these guidelines when permissible and appropriate to all loans owned or guaranteed by these agencies. In addition, it is expected that the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Reserve, the Federal Deposit Insurance Corporation and the National Credit Union Administration where possible and appropriate will encourage the institutions that they supervise to participate in the loan modification program and use the Treasury Guidelines.

- **Mortgage Insurer Participation.** The major mortgage insurance firms have agreed to develop a mechanism by which they will make partial claims on modified loans where appropriate in order help prevent avoidable foreclosures.

C. **Requiring All Financial Stability Plan Recipients to Use Guidelines for Loan Modifications:** The Treasury Department will require all Financial Stability Plan recipients going forward to participate in foreclosure mitigation plans consistent with Treasury’s loan modification guidelines.

D. **Allowing Judicial Modifications of Home Mortgages During Bankruptcy for Borrowers Who Have Run Out of Options:** The Obama administration will seek
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carefully crafted changes to bankruptcy provisions which will help to facilitate the goals of the Making Home Affordable program

- **How Judicial Modification Works**: Appropriately tailored bankruptcy legislation provides a mechanism for homeowners who are out of other options to file for bankruptcy and implement a responsible plan to pay the debts that they are able to pay. After borrowers have tried unsuccessfully to obtain affordable loan modifications from their lenders or servicers, in the appropriate circumstances, a bankruptcy judge should be able to reduce the outstanding principal balance of a primary residence home mortgage loan to current fair market value—just as is done with vacation homes or investment properties—when a person has no other options.

- **Bolster FHA and VA Authority to Protect Issuers and Ensure Loan Modifications Occur**: Legislation will provide the FHA and VA with the authority they need to provide partial claims in the event of bankruptcy or voluntary modification so that issuers guaranteed by the FHA and VA are not disadvantaged.

E. **Strengthening FHA Programs and Providing Support for Local Communities**

- **Ease Restrictions in FHA Programs and Improve Hope for Homeowners**
  An improved Hope for Homeowners program can offer an important avenue for struggling borrowers to obtain a sustainable mortgage. In order to ensure that many more borrowers are able to participate in Hope for Homeowners, we will work to improve the program and actively pursue legislation so that the FHA may reduce fees paid by borrowers, increase flexibility for lenders to refinance troubled loans, permit borrowers with higher debt loads to qualify, and address additional challenges that could limit uptake under the program. We will also ensure servicers consider borrowers for refinancing into the improved Hope for Homeowners program whenever feasible, and make similar incentives available to servicers for Hope for Homeowners refinance loans in order to encourage servicers to use this program.

- **Strengthening Communities Hardest Hit by the Financial and Housing Crises**: As part of the recovery plan signed by the President, the Department of Housing and Urban Development will award $2 billion in competitive Neighborhood Stabilization Program grants for innovative programs that reduce foreclosure. Additionally, the recovery plan includes an additional $1.5 billion to provide renter assistance, reducing homelessness and avoiding entry into shelters

3. **Support Low Mortgage Rates By Strengthening Confidence in Fannie Mae and Freddie Mac**

- **Ensuring Strength and Security of the Mortgage Market**: Using funds already authorized in 2008 by Congress for this purpose, the Treasury Department increased its funding commitment to Fannie Mae and Freddie Mac to ensure the strength and security of the mortgage market and to help maintain mortgage affordability.
  
  - **Provide Forward-Looking Confidence**: The increased funding will enable Fannie Mae and Freddie Mac to carry out ambitious efforts to ensure
mortgage affordability for responsible homeowners, and provide forward-looking confidence in the mortgage market.

- Treasury is increasing its Preferred Stock Purchase Agreements to $200 billion each from their original level of $100 billion each.

- **Promoting Stability and Liquidity:** In addition, the Treasury Department will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities to promote stability and liquidity in the marketplace.

- **Increasing the Size of Mortgage Portfolios:** To ensure that Fannie Mae and Freddie Mac can continue to provide assistance in addressing problems in the housing market, Treasury will also be increasing the size of the GSEs’ retained mortgage portfolios allowed under the agreements – by $50 billion to $900 billion – along with corresponding increases in the allowable debt outstanding.

- **Support State Housing Finance Agencies:** The Administration will work with Fannie Mae and Freddie Mac to support state housing finance agencies in serving homebuyers.

- **No EESA or Financial Stability Plan Money:** The $200 billion increase in Treasury’s GSE stock purchase funding commitments are being made under the Housing and Economic Recovery Act and do not use any money from the Financial Stability Plan or Emergency Economic Stabilization Act/TARP.
Dear Borrower,

There is help available if you are having difficulty making your mortgage loan payments. You may be eligible for the Home Affordable Modification program, part of the initiative announced by President Obama to help homeowners.

As your mortgage loan servicer, we will work with you in an effort to make your mortgage payment affordable. You will not pay any fees to take advantage of this opportunity to modify your mortgage loan payment and keep your home. Now is the time to act. We are ready to help you.

Here's how it works: We will first determine if you are eligible based on your situation. If you are eligible, we will look at your monthly income and housing costs, including any past due payments, and then determine an affordable mortgage payment.

At first, you will make new, affordable monthly payments on your mortgage loan during a trial period. If you make those payments successfully and fulfill all trial period conditions, we will permanently modify your mortgage loan.

The modification may involve some or all of the following changes to your mortgage loan: 1) Bringing your account current; 2) Reducing the interest rate on your loan; 3) Extending the term of the loan, and/or 4) delaying your repayment of a portion of the mortgage principal until the end of the loan term. [Servicer can also mention the possibility of principal forgiveness if permitted by the investor.]

**STEP 1 GATHER THE INFO WE NEED TO HELP YOU**

To take advantage of this opportunity and the Home Affordable Modification program, contact us as soon as possible. To help speed the process it will be helpful if you have the following information when you call:

- Loan number
- Monthly pre-tax income of each borrower
- Information about any financial hardship you are suffering

If you do not qualify for a loan modification under this program, or do not want to stay in your home, we will work with you to explore other options available to help you keep your home or ease your transition to a new home.

**STEP 2 CONTACT US**

We want to make modifying your mortgage loan as easy as possible. However, you must take the first step by contacting us at [phone number]. You may also write to us at the address at the [bottom/top] of this letter. Be sure to include the information listed above. [Servicer may insert any fax or e-mail contact alternatives.]

Sincerely,

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The Making Home Affordable program was created to help millions of homeowners refinance or modify their mortgages. As part of this program, Fannie Mae (the owner of your loan), your servicer, and the Federal Government are working to offer you options to help you stay in your home.
Beware of Foreclosure Rescue Scams. Help is free!

- There is never a fee to get assistance or information about the Making Home Affordable program from your lender or a HUD-approved housing counselor.
  
  o For a HUD-approved counselor, visit: http://www.hud.gov/offices/hsg/sfh/hcc/fc/

- Beware of any person or organization that asks you to pay a fee in exchange for housing counseling services or modification of a delinquent loan.

- Beware of anyone who says they can "save" your home if you sign or transfer over the deed to your house. Do not sign over the deed to your property to any organization or individual unless you are working directly with your mortgage company to forgive your debt.

- Never make your mortgage payments to anyone other than your mortgage company without their approval.
Overview

As a part of the Making Home Affordable Program, we are providing standardized guidance and a base net present value (NPV) model described herein that any servicer who participates in the Home Affordable Modification Program can use or, if eligible, customize into a proprietary NPV model. The base NPV model is illustrative of an NPV model that meets the specifications put forward under the Making Home Affordable Program. Servicers are not precluded from using the illustrative model for making program NPV determinations. It is our expectation that servicers may use the Base NPV Model Documentation to customize the model based on their individual portfolio experience – all within the standardized guidelines put forward for the model under the program. The base NPV model will provide consistency in NPV calculations for the Home Affordable Modification Program and help the industry move toward a more standard process for evaluating the NPV of mortgages for purposes of making modifications.

A participating servicer in the Home Affordable Modification Program must modify any loan that meets the program’s eligibility criteria if the modification tests “positive” for NPV. When mortgage modifications have a positive NPV, it is in the best interests of lenders, servicers, investors, and borrowers to modify mortgages to reduce the risk of foreclosure. The Home Affordable Modification Program increases the potential number of mortgage modifications that will have a positive NPV, resulting in more servicers modifying mortgages, and keeping more Americans in their homes. The Home Affordable Modification Program specifies a precise method for determining NPV and provides a base NPV model that any servicer can use or customize into a proprietary NPV model that satisfies all of the program’s methodological requirements.

Under the program, a defined set of parameters for the base NPV model can be customized for each servicer. Every servicer is given discretion, within specified limits, to choose a discount rate. In addition, larger servicers are given discretion to develop portfolio-specific default rates. These customization capabilities are built into the base NPV model to preserve the ability of servicers, lenders, and investors to tailor the base NPV model to reflect the unique characteristics of the loans that they service or own, and to incorporate knowledge gained from years of working with those particular groups of mortgages. For other servicers, the baseline parameters can provide a sufficient NPV tool to evaluate loans being considered for modification.

Net Present Value of Modification

In general, NPV refers to the value today of a cash-generating investment – such as a bond or mortgage loan. When an investor is faced with a choice between two alternative investments – specifically, between the timing and amounts of the cash flows for each investment – the investor obviously prefers the choice that has a higher present value.
In the context of a mortgage borrower who has become distressed, the investor — or a third party servicer, acting on behalf of the investor — faces a choice of whether to modify the mortgage or leave it as-is. Each choice generates expected cash flows, and the present values of these two cash flows are likely to be different. If the loan is modified, there is a greater chance that the borrower will eventually be able to repay the loan in full. If not, there is a higher likelihood that the loan will go to foreclosure, and the investor will absorb the associated losses. If the NPV of the modified loan is higher than the NPV of the loan as is, a modification is said to be “NPV positive.”

The Making Home Affordable Program is structured to produce modifications that are more likely to test NPV positive, increasing the number of modifications that will be done and keeping more Americans in their homes. It does this, first, by lowering the probability that borrowers will default by making borrower payments more affordable and, second, by providing incentive payments that are added to cash flows received by lenders (or investors).

If a borrower meets the eligibility criteria for the Home Affordable Modification Program, a servicer will adjust the terms of the borrower’s loan (modify the loan) to reduce the borrower’s payment to the program’s target front-end debt-to-income (DTI) ratio of 31 percent. At a 31 percent DTI, the borrower will have a monthly mortgage payment that is more affordable over the long term, so that the borrower will be more able to afford to stay in his or her home.

Servicers must reduce payments in the precise manner specified by the Making Home Affordable Program (the “Standard Waterfall”), starting with reducing the interest rate on the mortgage. Once the servicer knows which loan terms will change, the servicer is ready to run an NPV model calculation. If the expected value to the lender of the loan after a Home Affordable Modification exceeds the expected value of the same loan to the lender if it is not modified, then the NPV test result is positive and the servicer must modify the loan.

Requiring servicers to modify all NPV-positive loans ensures that there is help for all distressed borrowers when an objective test demonstrates the modification will benefit both the borrower and the investor. The program does not require the servicer to modify the loan if the modification tests negative, though the servicer must consider other ways to prevent foreclosure.

*The Base NPV Model*

The program supplies a base NPV model that any servicer may use to satisfy the requirement to modify all eligible loans that test NPV positive for modification. Large servicers — those having a book of business exceeding $40 billion — have some discretion to customize the base NPV model with respect to two important inputs, the expected default rates for loans that are not modified and the re-default rates for loans that are modified, as discussed further below.

Both the base NPV model and a servicer’s proprietary customized version will:

1. Compute the net present value of the mortgage assuming it is not modified.
a. Determine the probability that the mortgage defaults.

b. Project the future cash flows of the mortgage if it defaults and the present value of these cash flows.

c. Project the future expected cash flows of the mortgage if it does not default and the present value of these cash flows.

d. Take the probability weighted average of the two present values.

2. In the same manner, compute the net present value of the mortgage assuming it is modified, incorporating the effects on cash flows and performance of the modification terms and subsidies provided by the Home Affordable Modification Program.

3. Compare the two present values to determine if the Home Affordable Modification is NPV positive.

An NPV model used in the HMP takes into account the principal factors that can influence these cash flows, including:

1. The value of the home relative to the size of the mortgage.
2. The likelihood that the loan will be foreclosed on.
3. Trends in home prices.
4. The cost of foreclosure including:
   a. legal expenses,
   b. lost interest during the time required to complete the foreclosure action,
   c. property maintenance costs, and
   d. expenses involved in reselling the property.
5. The cost of conducting a modification including:
   a. a lower monthly payment from the borrower,
   b. the likelihood a borrower will default even after the loan is modified,
   c. financial incentives provided by the government, and
   d. the likelihood that a loan will be paid off before its term expires (prepayment probability).

The base NPV model was designed by an expert working group including the Department of the Treasury, the Federal Deposit Insurance Corp., the Federal Housing Finance Agency, Fannie Mae, and Freddie Mac. It was designed specifically for the Home Affordable Modification Program. The base NPV model reflects aggregate data across many servicers, as well as the professional judgment of the working group.
Individual servicers have their own unique experience with the loans they service. The program permits servicers to customize the base NPV model to reflect that unique experience, within certain constraints and guidelines. As a result of customization, servicer NPV results, and resulting modification decisions, will likely vary even when borrowers’ circumstances appear to be similar, but the results will be more accurate and provide a better gauge of appropriate modifications.

**Key Parameters of the Base NPV Model and Customization of Inputs**

Below is a summary of important parameters used in the Home Affordable Modification Program base NPV model, and the extent to which servicers may customize the parameters of the base NPV model.

**Discount Rate:** For a firm that owns a mortgage loan (the investor), the mortgage is a series of future cash payments expected from the borrower. But the promise of a payment in the future is worth less to an investor than cash today. How much less will depend on the discount rate—the higher the discount rate, the less a future payment is worth to an investor today. For example, a $1,000 payment in one year would be worth about $950 today using a 5 percent discount rate, and that same $1,000 payment in a year would be worth about $800 today using a 25 percent discount rate. In the base NPV model, all servicers are permitted limited discretion to adjust the discount rate by up to 250 basis points because different investors may place different values on future payments versus payments received today.

The discount rate the servicer uses may be as low as Freddie Mac’s Primary Mortgage Market Survey rate (PMMS) for 30-year fixed-rate conforming loans, and as high as the PMMS rate plus 250 basis points. (To find the current PMMS go to [http://www.freddiemac.com/pmms/](http://www.freddiemac.com/pmms/).) With respect to loans that are not owned or guaranteed by Fannie Mae or Freddie Mac, the servicer may apply a single discount rate or two discount rates, one for loans in its own portfolio and another for loans serviced for all other investors. However, in no case may a servicer use a higher discount rate for loans in its own portfolio than the rate used for loans it serves for other investors. With respect to loans owned or guaranteed by Fannie Mae or Freddie Mac, the servicer must apply the rate specified in Fannie Mae and Freddie Mac guidance.

Whatever discount rate the servicer chooses to use must be applied to both cash flows—that is, to the cash flows if the loan is modified under the Home Affordable Modification Program, as well as the cash flows if the loan is not modified.

**Default Rates:** The base NPV model projects default rates in two scenarios. It projects the probability of default if the loan is not modified and the probability of default if the loan is modified. Default rates depend on a number of variables particular to the loan. In general, however, the default rate is assumed to vary based on the credit quality of the borrower, the borrower’s debt burden, the loan-to-value (LTV) of the home at the time of modification, and whether the loan is modified earlier or later in the delinquency cycle.

In the base NPV model, the default rates are generated by a model based on the performance of GSE and non-GSE loans. As Home Affordable Modification Program
performance data become available, the base model will be updated to reflect actual program experience.

Large servicers – those with a book exceeding $40 billion – may customize the base model to use modeled default rates that reflect their own portfolio experience. These customized default rate models must be empirically validated where possible, commercially reasonable, and will be subject to review and oversight by program monitors.

Default rates may vary significantly from one large servicer to another based on differences in their portfolios. Therefore, allowing servicers flexibility to use rates that reflect their own portfolio experience should result in more accurate evaluations of proposed modifications.

**Home Prices:** Future increases or decreases in home prices impact a borrower’s willingness to stay in a house and potential financial loss in the event of foreclosure. A servicer must use the home price projection provided in the base NPV model. A servicer does not have discretion to substitute a different projection. The home price projection for the program has been made available by FHFA exclusively for this program, is based on data from a broad cross section of mortgage transactions, and will be updated quarterly. The projection is not based on the FHFA House Price Index and does not represent an official forecast of FHFA or any other government agency.

**REO “Stigma”:** Foreclosed or real estate owned (REO) properties generally sell for less than similar, non-distressed assets. This is referred to as the REO stigma and it recognizes the deterioration in perceived value that buyers often place on a home that has been foreclosed. The REO stigma is worse in some markets than in others. The REO stigma values used in the base NPV model are based on an analysis of sale prices of foreclosed homes sold by Fannie Mae and Freddie Mac. REO stigma values vary by state and home price. Servicers are not permitted to change the REO assumptions in the base NPV model.
For Immediate Release
March 04, 2009
Contact: corp.rel@freddiemac.com
or (703) 903-3933

FREDDIE MAC STOPS FORECLOSURE SALES ON LOANS ELIGIBLE FOR NEW OBAMA HOME AFFORDABLE MODIFICATION PROGRAM

McLean, VA – Freddie Mac (NYSE: FRE) today announced it is suspending foreclosure sales on mortgages eligible for the Home Affordable Modification Program announced today as part of the Obama Administration’s Making Home Affordable plan. Freddie Mac’s previously announced suspension of foreclosure sales on occupied properties will expire on March 6, 2009.

“Today’s announcement underscores Freddie Mac’s commitment to the successful implementation of President Obama’s Making Home Affordable initiative, and builds on our ongoing efforts to prevent unnecessary foreclosures,” said Ingrid Beckies, Senior Vice President of default asset management at Freddie Mac.

Specifically, Freddie Mac will instruct its servicers not to complete a foreclosure sale on a mortgage eligible for the Home Affordable Modification program unless they completed their effort to contact the borrower and either the borrower did not respond or lacked the capacity or willingness to participate in the Home Affordable Modification program or any other Freddie Mac workout program.

For all other mortgages, in accordance with its longstanding policies, Freddie Mac gives Servicers broad authority to postpone foreclosure sales on a case-by-case basis when the Servicers are working with borrowers to avoid foreclosure using any of Freddie Mac’s many workout options.

Freddie Mac was established by Congress in 1970 to provide liquidity, stability and affordability to the nation’s residential mortgage markets. Freddie Mac supports communities across the nation by providing mortgage capital to lenders. Over the years, Freddie Mac has made home possible for one in six homebuyers and more than five million renters.

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