Dear Customer,

Thank you for your recent application for a modification under the Making Homes Affordable Program. Based on our review of the documentation you provided, you are not eligible for a Home Affordable Modification.

The Home Affordable Modification option is designed specifically to allow existing homeowners to keep their homes by making mortgage payments affordable; however, the plan will not help everyone. For example, it will not help investor borrowers, borrowers who have no income and cannot make any mortgage payment or if a borrower’s current monthly mortgage ratio is less than 31% of their gross monthly income. (Note: Monthly mortgage ratio is the current first mortgage monthly payment, including principal, interest, taxes, insurance and homeowner's association dues, if applicable, divided by the gross monthly income).

If I'm not eligible for a Home Affordable Modification, then what do I do?

Remember at Ocwen, HELPING HOMEOWNERS IS WHAT WE DO™. We understand that unanticipated changes in your financial situation can impact every area of your life, including your ability to pay your mortgage obligation. Our Associates and Home Retention Consultants are trained to work with you to set up a plan of action specifically designed to address your current circumstances. By completing the financial information attached, we can begin the process of presenting you with some alternative solutions to resolve your delinquent mortgage loan. Below please find a brief description of possible solutions.

ALTERNATIVES TO FORECLOSURE

1. REPAYMENT PLAN - A plan that enables you to bring the loan current at the end of the plan period by dividing the delinquent amount by the number of months in the plan and then adding this additional amount to your contractual payment.

2. MODIFICATION - A change to one or more terms of the original mortgage agreement. This may include a change in interest rate, loan balance or term, which may lower your payment and bring the account current.

3. LISTING YOUR PROPERTY FOR SALE - By listing your property, you may receive a sale offer acceptable to both you and Ocwen. The sale of your property could help you to avoid a foreclosure sale of your home.

4. DEED IN LIEU OF FORECLOSURE - If you do not intend on keeping the property, then depending on your current financial situation Ocwen may accept the deed to the property and extinguish the debt, even if the property is worth less than the loan balance. Title must be clear of any other liens.

FINANCIAL COUNSELING SERVICES

When you are experiencing a financial hardship, counseling may be a way to help you manage your finances. We urge you to contact HUD approved agencies to obtain assistance in keeping your home.

HUD Approved Housing Counseling: 1-800-569-4287 www.HUD.gov

This communication is from a debt collector attempting to collect a debt; any information obtained will be used for that purpose. However, if the debt is in active bankruptcy or has been discharged through bankruptcy, this communication is not intended as and does not constitute an attempt to collect a debt.
There are three ways for you to begin the process of working with us to identifying a solution to resolving your delinquent mortgage loan.

Option 1: Visit our website at www.OCWENcustomers.com. Under the Financial Difficulties section, select the Purview Alternative Payments Option. Here, you can enter your financial information at your convenience. Once you have entered the information, a Home Retention Consultant will review it and then contact you to discuss potential resolution options.

Option 2: Complete the attached form and fax to our Home Retention Processing Department at 407-737-6174. Once you have sent the information, a Home Retention Consultant will review it and then contact you to discuss potential resolution options.

Option 3: Call a Home Retention Consultant to discuss your options. Call 1-800-746-2936

Sincerely,

Ocwen Loan Servicing, LLC
Making Home Affordable will offer assistance to as many as 7 to 9 million homeowners, making their mortgages more affordable and helping to prevent the destructive impact of foreclosures on families, communities and the national economy.

The Home Affordable Refinance program will be available to 4 to 5 million homeowners who have a solid payment history on an existing mortgage owned by Fannie Mae or Freddie Mac. Normally, these borrowers would be unable to refinance because their homes have lost value, pushing their current loan-to-value ratios above 80%. Under the Home Affordable Refinance program, many of them will now be eligible to refinance their loan to take advantage of today’s lower mortgage rates or to refinance an adjustable-rate mortgage into a more stable mortgage, such as a 30-year fixed rate loan.

GSE lenders and servicers already have much of the borrower’s information on file, so documentation requirements are not likely to be burdensome. In addition, in some cases an appraisal will not be necessary. This flexibility will make the refinance quicker and less costly for both borrowers and lenders. The Home Affordable Refinance program ends in June 2010.

The Home Affordable Modification program will help up to 3 to 4 million at-risk homeowners avoid foreclosure by reducing monthly mortgage payments. Working with the banking and credit union regulators, the FHA, the VA, the USDA and the Federal Housing Finance Agency, the Treasury Department today announced program guidelines that are expected to become standard industry practice in pursuing affordable and sustainable mortgage modifications. This program will work in tandem with an expanded and improved Hope for Homeowners program.

With the information now available, servicers can begin immediately to modify eligible mortgages under the Modification program so that at-risk borrowers can better afford their payments. The detailed guidelines (separate document) provide information on the following:

Eligibility and Verification

- Loans originated on or before January 1, 2009.
- First-lien loans on owner-occupied properties with unpaid principal balance up to $729,750. Higher limits allowed for owner-occupied properties with 2-4 units.
- All borrowers must fully document income, including signed IRS 4506-T, two most recent pay stubs, and most recent tax return, and must sign an affidavit of financial hardship.
- Property owner occupancy status will be verified through borrower credit report and other documentation; no investor-owned, vacant, or condemned properties.
- Incentives to lenders and servicers to modify at risk borrowers who have not yet missed payments when the servicer determines that the borrower is at imminent risk of default.
- Modifications can start from now until December 31, 2012; loans can be modified only once under the program.

Loan Modification Terms and Procedures

- Participating servicers are required to service all eligible loans under the rules of the program unless explicitly prohibited by contract; servicers are required to use reasonable efforts to obtain waivers of limits on participation.
- Participating loan servicers will be required to use a net present value (NPV) test on each loan that is at risk of imminent default or at least 60 days delinquent. The NPV test will compare the net present value of cash flows with modification and without modification. If the test is positive
meaning that the net present value of expected cash flow is greater in the modification scenario
the servicer must modify absent fraud or a contract prohibition.

- Parameters of the NPV test are spelled out in the guidelines, including acceptable discount rates, property valuation methodologies, home price appreciation assumptions, foreclosure costs and timelines, and borrower cure and redefault rate assumptions.
- Servicers will follow a specified sequence of steps in order to reduce the monthly payment to no more than 31% of gross monthly income (DTI).
- The modification sequence requires first reducing the interest rate (subject to a rate floor of 2%), then if necessary extending the term or amortization of the loan up to a maximum of 40 years, and then if necessary forbearing principal. Principal forgiveness or a Hope for Homeowners refinancing are acceptable alternatives.
- The monthly payment includes principal, interest, taxes, insurance, flood insurance, homeowner’s association and/or condominium fees. Monthly income includes wages, salary, overtime, fees, commissions, tips, social security, pensions, and all other income.
- Servicers must enter into the program agreements with Treasury’s financial agent on or before December 31, 2009.

Payments to Servicers, Lenders, and Responsible Borrowers

- The program will share with the lender/investor the cost of reductions in monthly payments from 38% DTI to 31% DTI.
- Servicers that modify loans according to the guidelines will receive an up-front fee of $1,000 for each modification, plus “pay for success” fees on still-performing loans of $1,000 per year.
- Homeowners who make their payments on time are eligible for up to $1,000 of principal reduction payments each year for up to five years.
- The program will provide one-time bonus incentive payments of $1,500 to lender/investors and $500 to servicers for modifications made while a borrower is still current on mortgage payments.
- The program will include incentives for extinguishing second liens on loans modified under this program.
- No payments will be made under the program to the lender/investor, servicer, or borrower unless and until the servicer has first entered into the program agreements with Treasury’s financial agent.
- Similar incentives will be paid for Hope for Homeowner refinances.

Transparency and Accountability

- Measures to prevent and detect fraud, such as documentation and audit requirements, will be central to the program.
- Servicers will be required to collect, maintain and transmit records for verification and compliance review, including borrower eligibility, underwriting, incentive payments, property verification, and other documentation.
- Freddie Mac will audit compliance.

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Announcement 09-05R

April 21, 2009

Amends these Guides: Servicing

Reissuance of the Introduction of the Home Affordable Modification Program, HomeSaver Forbearance™, and New Workout Hierarchy

Introduction

This Announcement (09-05R) is a reissuance of Announcement 09-05, which was originally issued on March 4, 2009. This Announcement provides additional policy clarification and instruction and supersedes Announcement 09-05 in its entirety. Policy clarifications and new instructions that are incorporated into this Announcement are identified by bold type. (Other minor editorial changes are included in this document but not identified in bold.)

Background

On February 18, 2009, President Obama announced the Homeowner Affordability and Stability Plan to help up to 7 to 9 million families restructure or refinance their mortgage loans to avoid foreclosure. As part of this plan, the Treasury Department (Treasury) announced a national modification program aimed at helping 3 to 4 million at-risk homeowners — both those who are in default and those who are at imminent risk of default — by reducing monthly payments to sustainable levels. Treasury issued uniform guidance for loan modifications across the mortgage industry in Supplemental Directive 09-01 on April 6, 2009. This Announcement provides guidance to Fannie Mae servicers for adoption and implementation of the Home Affordable Modification Program (HMP) for Fannie Mae loans.

Under the HMP, servicers will use a uniform loan modification process to provide eligible borrowers with sustainable monthly payments. The HMP implementation guidelines set forth in this Announcement apply to all eligible one- to four-unit owner-occupied properties securing Fannie Mae portfolio mortgage loans and MBS pool mortgage loans guaranteed by Fannie Mae. The HMP will replace the Streamlined Modification Program introduced in Announcement 08-33 and the Early Workout™ program announced in Announcement 08-31. The HMP will expire on December 31, 2012.

All Fannie Mae-approved servicers must participate in the program for all eligible Fannie Mae portfolio mortgage loans and MBS pool mortgage loans guaranteed by Fannie Mae.
Servicers may also elect to participate in the HMP for other qualifying mortgage loans that:

- are not subject to Fannie Mae’s credit loss guarantee, and
- are held by servicers in their own portfolios or are serviced for other portfolios or securitization trusts or investors.

These other qualifying mortgage loans are referred to as Non-GSE Mortgages in this Announcement.

As announced in Supplemental Directive 09-01, in order for a servicer to participate in the HMP with respect to Non-GSE Mortgages, the servicer must execute a servicer participation agreement and related documents with Fannie Mae in its capacity as financial agent for the United States (as designated by Treasury).

This Announcement also introduces a new HomeSaver Forbearance™ foreclosure prevention option and a new Fannie Mae loan workout hierarchy. The HomeSaver Forbearance provides an additional foreclosure prevention option for borrowers who are NOT eligible for the HMP.

This Announcement covers the following topics:

- HMP Eligibility
- Underwriting
- Modification Process
- Servicer Delegation, Duties and Responsibilities
- Reporting Requirements
- Fees and Compensation
- FHA HOPE for Homeowners
- Compliance
- HomeSaver Forbearance
- New Workout Hierarchy
- Retirement of the Streamlined Modification Program (SMP) and the Early Workout Program

**HMP Eligibility**

*Servicing Guide, Part VII, Section 502.02: Modifying Conventional Mortgages*

A mortgage loan is eligible for the HMP if it is a Fannie Mae portfolio mortgage loan or MBS pool mortgage loan guaranteed by Fannie Mae and all of the following criteria are met:

- The mortgage loan is a first lien conventional mortgage loan originated on or before January 1, 2009. Jumbo-conforming mortgage loans are eligible.
- The mortgage loan has not been previously modified under the HMP.
- The mortgage loan is delinquent or default is reasonably foreseeable; mortgage loans currently in foreclosure are eligible.
• The mortgage loan is secured by a one- to four-unit property, one unit of which is the borrower’s principal residence. Cooperative share mortgages and mortgage loans secured by condominium units are eligible for the HMP. Loans secured by manufactured housing units are eligible for the HMP.

• The property securing the mortgage loan must not be vacant or condemned.

• The borrower documents a financial hardship and represents that (s)he does not have sufficient liquid assets to make the monthly mortgage payments by completing a Home Affordable Modification Program Hardship Affidavit (Form 1021) and provides the required income documentation. The documentation supporting income may not be more than 90 days old (as of the date the servicer is determining HMP eligibility).

• The borrower currently has a monthly mortgage payment ratio greater than 31 percent.

• A borrower in active litigation regarding the mortgage loan is eligible for the HMP.

• The servicer may not require a borrower to waive legal rights as a condition of the HMP.

• A borrower actively involved in a bankruptcy proceeding is eligible for the HMP at the servicer’s discretion. Borrowers who have received a Chapter 7 bankruptcy discharge in a case involving the first lien mortgage who did not reaffirm the mortgage debt under applicable law are eligible, provided the Home Affordable Modification Trial Period Plan (Form 3156) and Home Affordable Modification Agreement (Form 3157) are revised as outlined in the “Acceptable Revisions to HMP Documents” section of this Announcement.

• The borrower agrees to set up an escrow account for taxes, hazard, and flood insurance prior to the beginning of the trial period if one does not currently exist.

• Mortgage loans subject to full lender recourse, including MBS pool mortgage loans and portfolio mortgage loans are ineligible for the Fannie Mae HMP. However, servicers should consider these mortgage loans for the non-GSE HMP.

• Borrowers may be accepted into the program if the Home Affordable Modification Trial Period Plan is in the servicer’s possession on or before December 31, 2012.

Note: Mortgage loans insured, guaranteed or held by a federal government agency (e.g., FHA, HUD, VA and Rural Development) may be eligible for the HMP in the future and will be subject to guidance issued by the applicable agency.

The HMP documents are available on eFannieMae.com. Documents include the following:

• SIGTARP Fraud Notice;
• Solicitation Letter;
• Home Affordable Modification Program Trial Period Plan Cover Letters (Income Stated and Income Verified);
• Home Affordable Modification Trial Period Plan (Form 3156, hereinafter referred to as the “Trial Period Plan”);
• Home Affordable Modification Program Hardship Affidavit (Form 1021, hereinafter referred to as the “Hardship Affidavit”);
• Home Affordable Modification Documentation Request Letter;
• IRS Form 4506-T (Request for Transcript of Tax Return);
• Home Affordable Modification Agreement Cover Letter;
• Home Affordable Modification Agreement (Form 3157, hereinafter referred to as the "Agreement"); and
• Home Affordable Modification Program Counseling Letter.

Underwriting

Determining Hardship

Every borrower and co-borrower (if applicable) seeking a modification, whether in default or not, must sign a Hardship Affidavit that attests to and describes one or more of the following types of hardship:

1. A reduction in or loss of income that was supporting the mortgage loan, e.g., unemployment, reduced job hours, reduced pay, or a decline in self-employed business earnings.
2. A change in household financial circumstances, e.g., death in family, serious or chronic illness, permanent or short-term disability, or increased family responsibilities (adoptive birth of a child, taking care of elderly relatives or other family members).
3. A recent or upcoming increase in the monthly mortgage payment.
4. An increase in other expenses, e.g., high medical and health-care costs, uninsured losses (such as those due to fires or natural disasters), unexpectedly high utility bills, or increased real property taxes.
5. A lack of sufficient cash reserves to maintain payment on the mortgage loan and cover basic living expenses at the same time. Cash reserves include assets such as cash, savings, money market funds, marketable stocks or bonds (excluding retirement accounts and assets that serve as an emergency fund – generally equal to three times the borrower’s monthly debt payments).
6. Excessive monthly debt payments and overextension with creditors, e.g., the borrower was required to use credit cards, a home equity loan, or other credit to make the mortgage payment.

A borrower may provide evidence of hardship for reasons other than those explicitly listed above. A servicer who believes that Fannie Mae should consider a borrower for the HMP for reasons not listed above must request prior written approval from Fannie Mae on a case-by-case basis. To request Fannie Mae approval, servicers must contact Fannie Mae at 1-888-FANNIE5 (1-888-326-6435) or by email to servicing_solutions@fanniemae.com.

Note: The borrower is not required to have the Hardship Affidavit notarized.

Government Monitoring Data

The Department of Housing and Urban Development (HUD) has directed Fannie Mae, 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. (the Act) to require servicers to request and report data on the race, ethnicity, and sex of borrowers involved in potential loan modifications under HMP ("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 the Announcement is incorporated by reference into the Mortgage Selling and Servicing Contract between Fannie Mae and its servicers and constitutes an agreement entered into between Fannie Mae, on behalf of HUD, and Fannie Mae’s approved servicers. As such, this is an agreement entered into by Fannie Mae’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 the HMP 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 Hardship Affidavit was received by mail, telephone, or Internet, if it is not otherwise evident on the face of the Hardship Affidavit.

Reasonably Foreseeable (Imminent) Default

A borrower who is current, contacts the servicer for a modification, appears potentially eligible for a modification, and has suffered an eligible hardship (as described above) must be evaluated using the imminent default screen set forth below. This screen must also be used to evaluate such borrowers who are in default but less than 30 days delinquent.

Evaluating the Borrower’s Financial Condition and Property Condition to Determine if Default is Imminent

For borrowers who must be evaluated using the imminent default screen, the servicer must evaluate the borrower’s financial condition in light of the borrower’s hardship, as well as the condition of and circumstances affecting the property securing the mortgage loan. The servicer must make a determination of whether the borrower satisfies the following imminent default screen:

- The borrower’s debt coverage ratio is less than 1.20. The debt coverage ratio is the borrower’s monthly disposable net income divided by the borrower’s current monthly principal and interest payment on the first lien mortgage loan (excluding tax and insurance payments). Monthly disposable net income is the borrower’s monthly gross income less (1) monthly payroll deductions, (2) monthly escrow allocations of property taxes, property insurance and mortgage insurance premiums, (3) monthly homeowner’s or condominium association fees, (4) monthly allocations of all other monthly credit
obligations, (5) all other reasonable living expenses allocated monthly, and (6) any other monthly net negative amounts paid or incurred by borrower (such as negative rental income, mortgage loan payments on investment properties); and

- The borrower’s cash reserves are less than three times the current monthly mortgage payment, including tax and insurance payments (using estimated payments if the mortgage loan is not currently escrowed). Cash reserves are liquid assets the borrower has available for withdrawal from any financial institution or brokerage firm, including checking and savings accounts, certificates of deposit (even if held for an extended time), mutual funds, money market funds, stocks or bonds.

Servicers must obtain a completed Borrower’s Financial Statement (Fannie Mae Form 1020 or 1020S) from the borrower(s) to evaluate the borrower’s financial condition in determining whether the borrower satisfies the imminent default screen, and must also obtain a current credit report for the borrower(s) to validate and supplement the borrower’s information. As an alternative, the servicer may customize a financial form using its own letterhead so long as it collects the same information, or it may use Freddie Mac Form 1126, Borrower Financial Information. The servicer should request such other documents from borrower(s) as deemed necessary to evaluate the borrower’s financial condition.

Documenting the Basis for Satisfying the Imminent Default Screen

A servicer must document in its servicing system the basis for its determination that the borrower satisfies the imminent default screen. The servicer’s determination must include identification of the borrower’s hardship, which will generally be identified in the Hardship Affidavit, and the anticipated or actual timing of the default. The servicer’s documentation must also include the information regarding the borrower’s financial condition utilized in determining that the borrower satisfies the imminent default screen as required above, as well as the condition and circumstances of the property securing the mortgage loan. The servicer must report the reason(s) for the anticipated or actual delinquency along with the delinquency status code 09 – Forbearance, during the trial payment period.

Borrower Solicitation

Servicers are prohibited from soliciting borrowers who are current or less than 30 days delinquent for participation in the HMP. However, if such a borrower contacts the servicer, the servicer may consider the HMP as a viable foreclosure prevention alternative. The servicer must make a determination that the borrower satisfies the imminent default screen prior to sending a firm offer to such a borrower.

Net Present Value (NPV) Test

All loans that meet the HMP eligibility criteria and either satisfy the imminent default screen (as described above) or are 30 or more days delinquent must be evaluated using a standard NPV test for reporting purposes. The servicer must maintain detailed documentation of the NPV model and version used, all NPV inputs and assumptions and
the NPV results. However, the result of the NPV test is not used to make the decision whether or not to modify a mortgage loan owned or securitized by Fannie Mae.

The NPV Model is available on the Home Affordable Modification servicer web portal accessible through HMPadmin.com. On this portal, servicers will have access to the NPV model as well as the NPV User Guide, providing detailed guidelines for submitting proposed modification data.

A servicer having at least a $40 billion servicing book will have the option to create a customized NPV model that uses a set of default rates and redefault rates estimated based on the experience of its own portfolios, taking into consideration, if feasible, current LTV, current monthly mortgage payment, current credit score, delinquency status and other loan or borrower attributes. Detailed guidance on required inputs for a customized NPV model is forthcoming on HMPadmin.com.

To obtain a property valuation input for the NPV model, servicers may use either an automated valuation model (AVM), provided that the AVM renders a reliable confidence score, or a broker price opinion (BPO). Servicers may use an AVM provided by one of the GSEs. As an alternative, servicers may rely on their own internal AVM provided that:

- the servicer is subject to supervision by a Federal regulatory agency,
- the servicer's primary Federal regulatory agency has reviewed the model, and
- the AVM renders a reliable confidence score.

If a GSE AVM or the servicer AVM is unable to render a value with a reliable confidence score, the servicer must obtain an assessment of the property value utilizing a BPO or a property valuation method acceptable to the servicers' Federal regulatory supervisor. Such assessment must be rendered in accordance with the Interagency Appraisal and Evaluation Guidelines (as if such guidelines apply to loan modifications). In all cases, the property valuation used cannot be more than 90 days old from the date of the NPV calculation.

The servicer should obtain the results of the NPV model at the time of the HMP eligibility determination. Additionally, if the verified income evidenced by the borrower's income documentation differs from the initial income information obtained from the borrower, a new NPV result must be obtained as a part of a reevaluation of the borrower's HMP eligibility (as outlined in the "Trial Payment Period" section of this Announcement).

Verifying Borrower Income and Occupancy Status

Servicers may use recent verbal financial information (provided 90 days or less from the date the servicer is determining HMP eligibility) obtained from the borrower (the term "borrower" includes any co-borrower) to assess the borrower's eligibility and to prepare and send to the borrower a solicitation indicating the borrower may qualify for the HMP and an offer of a Trial Period Plan. When the borrower returns the Trial Period Plan and related documents, the servicer must review them to verify the borrower's financial information and eligibility.
As an alternative, the servicer may require a borrower to submit the required documentation to verify the borrower’s eligibility and income prior to preparing a Trial Period Plan. Upon receipt of the documentation and determination of the borrower’s eligibility, the servicer may prepare and send to the borrower a firm offer solicitation indicating the borrower is eligible for the HMP using the SIGTARP Fraud Notice, the HMP Trial Period Plan Cover Letter (Step One - Income Verified), and the Trial Period Plan.

A borrower is eligible for the HMP if the verified income documentation confirms that the monthly mortgage payment ratio prior to the modification is greater than 31 percent. For purposes of this Announcement, “monthly mortgage payment ratio” is the ratio of the borrower’s current monthly mortgage payment to the borrower’s monthly gross income (or the borrowers’ combined monthly gross income in the case of co-borrowers).

**Determining the Monthly Mortgage Payment**

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 the 60-month repayment plan). When determining a borrower’s monthly mortgage payment ratio, servicers must adjust the borrower’s current 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 must not include mortgage insurance premium payments or payments due to holders of subordinate liens.

**Determining Gross Monthly Income**

The borrower’s “monthly gross income” is the borrower’s income amount before any payroll deductions and includes wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, other compensation for personal services, Social Security payments, including Social Security received by adults on behalf of minors or by minors intended for their own support, and monthly income from annuities, insurance polices, retirement funds, pensions, disability or death benefits, unemployment benefits, rental income and other income. If only net income is available, the servicer must multiply the net income amount by 1.25 to estimate the monthly gross income.

Servicers should include non-borrower household income in monthly gross income if it is voluntarily provided by the borrower and if there is documentary evidence that the income has been, and can reasonably 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. (An example of non-borrower income is boarder income.)

If the verified income evidenced by the borrower’s documentation exceeds the initial income information used by the servicer to solicit or place the borrower in the trial period

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by more than 25 percent, the borrower must be reevaluated based on the program eligibility and underwriting requirements. If this reevaluation determines that the borrower is still eligible, new documents must be prepared and the borrower must restart the trial period.

Documenting Gross Monthly Income

All parties whose income was used to qualify for the original mortgage note must submit income documentation which must not be more than 90 days old from the date HMP eligibility is determined.

The borrower must provide certain financial information to the servicer as outlined below.

If the borrower is employed:
- A signed copy of the most recently filed federal income tax return, including all schedules and forms, if available,
- A signed IRS Form 4506-T (Request for Transcript of Tax Return), and
- Copies of the two most recent paystubs indicating year-to-date earnings.
- For additional income such as bonuses, commissions, fees, housing allowances, tips and overtime, a servicer must obtain a letter from the employer stating that the income will in all probability continue.

If the borrower is self-employed:
- A signed copy of the most recent federal income tax return, including all schedules and forms, if available,
- A signed IRS Form 4506-T (Request for Transcript of Tax Return),
- The most recent quarterly or year-to-date profit and loss statement for each self-employed borrower, and
- Other reliable third-party documentation the borrower voluntarily provides.

Note: For both employed and self-employed borrowers, if the borrower does not provide a signed copy of the most recently filed federal income tax return, or if the Compliance Agent (described in the Compliance section) so requires, the servicer must submit the Form 4506-T to the IRS to request a transcript of the return.

If the borrower elects to use alimony or child support income to qualify, acceptable documentation includes:
- Photocopies of the divorce decree, separation agreement or other type of legal written agreement or court decree that provides for the payment of alimony or child support and states the amount of the award and the period of time over which it will be received. Servicers must determine that the income will continue for at least three years, and
- Documents supplying reasonably reliable evidence of full, regular and timely payments, such as deposit slips, bank statements or signed federal income tax returns.
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
- The servicer must obtain copies of signed federal income tax returns, IRS W-2 forms, or copies of the two most recent bank statements.

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 and Scheduled E – Supplemental Income and Loss. The monthly net rental income to be calculated for HMP purposes must equal 75 percent of the gross rent, with the remaining 25 percent being considered vacancy loss and maintenance expense.

Verifying Occupancy

A servicer must confirm that the property securing the mortgage loan is the borrower’s primary residence as evidenced by the most recent signed federal income tax return (or transcript of 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 in the borrower’s name).

A servicer is not required to modify a mortgage loan if there is reasonable evidence indicating the borrower submitted false or misleading information or otherwise engaged in fraud in connection with the modification.

Standard Modification Waterfall

Servicers must apply the proposed modification steps enumerated below in the stated order of succession until the borrower’s monthly mortgage payment ratio is reduced as close as possible to 31 percent, without going below 31 percent (the “target monthly mortgage payment ratio”).

Servicers must request prior written approval from Fannie Mae to deviate from the modification steps enumerated below or to reduce the borrower’s monthly mortgage payment ratio below 31 percent. Prior written approval may be requested by submitting a non-delegated case into the HomeSaver Solutions® Network (HSSN). If approval is granted, borrower and servicer incentive payments for these modifications will be paid based on modification terms that reflect the target monthly mortgage payment ratio of 31 percent.
In the event that a modification step (e.g., principal forbearance) is prohibited under applicable state law, a servicer may skip the modification step without obtaining Fannie Mae's prior written approval.

Note: If a borrower has an ARM loan or interest-only mortgage loan, the existing interest rate will convert to a fixed interest rate, fully amortizing mortgage loan.

Step 1: Capitalize accrued interest, out-of-pocket escrow advances to third parties and any required escrow advances that will be paid to third parties by the servicer during the trial period and servicing advances paid to third parties in the ordinary course of business and not retained by the servicer, if allowed by state law. Late fees may not be capitalized and must be waived if the borrower satisfies all conditions of the Trial Period Plan. If applicable state law prohibits capitalization of past due interest or any other amount, the servicer must collect such funds from the borrower over a 60-month repayment period unless the borrower decides to pay the amount upfront.

Step 2: Reduce the interest rate. If the loan is a fixed rate mortgage loan or an ARM loan, then the starting interest rate is the current interest rate (the note rate).

Reduce the starting interest rate in increments of .125 percent to get as close as possible to the target monthly mortgage payment ratio. The interest rate floor in all cases is 2.0 percent.

- If the resulting rate is below the Interest Rate Cap, this reduced rate will be in effect for the first five years followed by annual increases of one percent per year (or such lesser amount as may be needed) until the interest rate reaches the Interest Rate Cap, at which time it will be fixed for the remaining loan term.
- If the resulting rate exceeds the Interest Rate Cap, then that rate is the permanent rate.

The "Interest Rate Cap" is the Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed rate conforming mortgage loans, rounded to the nearest 0.125 percent, as of the date that the Agreement is prepared.

Step 3: If necessary, extend the term and reamortize the mortgage loan by up to 480 months from the modification effective date (i.e., the first day of the month following the end of the trial period) to achieve the target monthly mortgage payment ratio. Negative amortization after the effective date of the modification is prohibited.

Step 4: If necessary, the servicer must provide for principal forbearance to achieve the target monthly mortgage payment ratio. The principal forbearance amount is non-interest bearing and non-amortizing. The amount of principal forbearance will result in a balloon payment fully due and payable upon the earliest of the borrower’s transfer of the property, payoff of the interest bearing unpaid principal balance (UPB) or maturity of the mortgage loan. The modified interest-bearing balance (i.e., the unpaid principal balance excluding the deferred principal balloon amount) must create a current mark-to-market LTV (current LTV based upon the new valuation) greater than or equal to 100 percent if the result of the NPV test is negative. A principal write-down or principal forgiveness is prohibited on Fannie Mae mortgage loans.
Verifying Monthly Gross Expenses

A servicer must obtain a credit report for each borrower or a joint report for a married couple who are co-borrowers to validate installment debt and other liens. In addition, a servicer must consider information concerning monthly obligations obtained from the borrower either verbally or in writing. The “monthly gross expenses” equal the sum of the following monthly charges:

- The monthly mortgage payment, including any mortgage insurance premiums, taxes, property insurance, homeowner’s or condominium association fee payments and assessments related to the property whether or not they are included in the mortgage payment.
- Monthly payments on all closed-end subordinate mortgages.
- 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 student 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 percent of the balance.
- Monthly payment 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 percent.
- Monthly payment on a home equity line of credit (HELOC) must be included in the payment 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 one percent of the balance.
- Alimony, child support and separate maintenance payments with more than 10 months of payments remaining, if supplied by the borrower.
- Car lease payments, regardless of the number of payments remaining.
- Aggregate negative net rental income from all investment properties owned, if supplied by the borrower.
- Monthly mortgage payment for a second home (principal, interest, taxes and insurance and, when applicable, mortgage insurance, leasehold payments, homeowner association dues, condominium unit or cooperative unit maintenance fees (excluding unit utility charges)).

Total Monthly Debt Ratio

The borrower’s total monthly debt ratio ("back-end ratio") is the ratio of the borrower’s monthly gross expenses divided by the borrower’s monthly gross income. Servicers will be required to send the HMP Counseling Letter to borrowers with a post-HMP modification back-end ratio equal to or greater than 55 percent. The letter states that the borrower must work with a HUD-approved housing counselor on a plan to reduce their total indebtedness below 55 percent. The letter also describes the availability and advantages of counseling and provides a list of HUD-approved housing counseling agencies and directs the borrower to the appropriate HUD website where such information is located. The borrower must represent in writing in the HMP documents that (s)he will obtain such counseling.
Fannie Mae encourages face-to-face counseling; however, telephone counseling is also permitted from HUD-approved housing counselors that cover the same topics as face-to-face sessions. Telephone counseling sessions provide flexibility to borrowers who are unable to attend face-to-face sessions or who do not have an eligible provider within their area.

A list of approved housing counseling agencies is available at hud.gov or by calling the toll-free housing counseling telephone referral service at 1-800-569-4287. A servicer must retain in its mortgage files evidence of the borrower notification.

There is no charge to either the borrower or the servicer for this counseling.

Mortgages with No Due-on-Sale Provision

If a mortgage loan that is not subject to a due-on-sale provision is modified under the HMP, the borrower agrees that the HMP will cancel the assumability feature of that mortgage loan.

Escrow Accounts

All of the borrower’s monthly payments must include a monthly escrow amount unless prohibited by applicable law. The servicer must assume full responsibility for administering the borrower’s escrow deposit account in accordance with the mortgage documents and all applicable laws and regulations. If the mortgage loan being considered for the HMP is a non-escrowed mortgage loan, the servicer must establish an escrow deposit account in accordance with the Servicing Guide, Part III, Sec. 103: Escrow Deposit Accounts. The escrow account must be established prior to the beginning of the trial period.

Servicers are encouraged to perform an escrow analysis prior to establishing the trial period payment. When performing an escrow analysis, servicers should take into consideration tax and insurance premiums that may come due during the trial period. When the borrower’s escrow account does not have sufficient funds to cover an upcoming expense and the servicer advances the funds necessary to pay an expense to a third party, the amount of the servicer advance that is paid to a third party may be capitalized.

In the event the initial escrow analysis identifies a shortage - a deficiency in the escrow deposits needed to pay all future tax and insurance payments - the servicer must collect such funds from the borrower over a 60-month period unless the borrower decides to pay the shortage upfront. Any escrow shortage that is identified at the time of HMP eligibility may not be capitalized. Servicers are not required to fund any existing escrow shortage. A servicer may encourage a borrower to contribute to the escrow shortage upfront; however, that is not an eligibility requirement of the HMP.

When a servicer spreads the escrow shortage identified during the HMP eligibility process over a 60-month period, any subsequent shortage that may be identified in the next annual analysis cycle should be spread out over the remaining term of the initial 60-month period. For example, if the next analysis cycle is performed 12 months after the initial escrow shortage is identified,
any additional shortage identified in that analysis cycle should be spread over the remaining 48-month period.

Compliance with Applicable Laws

Fannie Mae reminds each servicer (and any subservicer it uses) to be aware of, and in full compliance with, all federal, state, and local laws (including statutes, regulations, ordinances, administrative rules and orders that have the effect of law, and judicial rulings and opinions), including, but not limited to, the following laws that apply to any of its practices related to the HMP:

- Section 5 of the Federal Trade Commission Act, which prohibits unfair or deceptive acts or practices.
- The Equal Credit Opportunity Act and the Fair Housing Act, which prohibit discrimination on a prohibited basis in connection with mortgage transactions. Loan modification programs are subject to the fair lending laws, and servicers and lenders should ensure that they do not treat a borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income in connection with any loan modification. These laws also prohibit redlining.
- 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.

Modification Process

Borrower Solicitation

Servicers may only solicit a borrower for the HMP if the borrower is currently two or more payments (31 or more days) past due. Once a borrower is two or more payments past due:

- A servicer may make a firm offer solicitation to borrowers for whom the servicer has recent financial information (provided within 90 days of the date the servicer is determining HMP eligibility) indicating that the borrower may qualify for the HMP. The offer must be made utilizing the HMP Trial Period Plan Cover Letter, enclosing the Trial Period Plan, and a Hardship Affidavit.
- If a servicer does not have a delinquent borrower’s recent financial information, the servicer may send a letter instructing an eligible borrower to call the servicer to discuss the details of their individual circumstances. Fannie Mae has prepared a sample Solicitation Letter (which includes Fannie Mae’s logo) for the servicer’s use.

A servicer may also receive calls from current or delinquent borrowers inquiring about the availability of the HMP. A servicer should work with such borrowers to obtain the borrower’s financial and hardship information and to determine if the HMP is appropriate. The servicer may
not require a borrower to make an up-front cash contribution (other than the first trial period payment) for a borrower to be considered for the HMP.

As outlined in Servicing Guide Part VII, Section 103: Letters, a servicer must send a loss mitigation solicitation letter to the borrower by no later than the 50th day of delinquency. For loans that become delinquent on or after June 1, 2009, a servicer must also send the Solicitation Letter for HMP no later then the 50th day of delinquency. Should a servicer not receive a response from the borrower within 30 days of sending the Solicitation Letter for HMP, the servicer should pursue other remedies including foreclosure. A servicer should not delay sending a breach letter, when required, while awaiting a response from the borrower. As an alternative to sending a separate solicitation letter for HMP, a servicer may revise its loss mitigation solicitation letter to include the details of the HMP as outlined in the sample Solicitation Letter. If a servicer revises its loss mitigation solicitation letters to include HMP or decides to develop its own HMP solicitation letter, it must be approved by Fannie Mae prior to its use.

When discussing the HMP, the servicer should provide the borrower with information designed to help the borrower understand the modification terms that are being offered and the modification process. Such communication should help minimize potential borrower confusion, foster good customer relations, and improve legal compliance and reduce other risks in connection with the transaction. A servicer also must provide a borrower with clear and understandable written information about the material terms, costs, and risks of the modified mortgage loan in a timely manner to enable borrowers to make informed decisions. The servicer should inform the borrower during discussions that a modification under the HMP will cancel any assumption, variable or step-rate feature, or enhanced payment options (e.g., Timely Payment Rewards®) in the borrower’s existing loan, at the time the loan is modified.

Fannie Mae expects servicers to have adequate staffing, resources and facilities for receiving and processing the HMP documents and any requested information that is submitted by borrowers. Servicers must have procedures and systems in place to be able to respond to inquiries and complaints about the HMP. Servicers should ensure that such inquiries and complaints are provided fair consideration, and timely and appropriate responses and resolution.

Document Retention

Servicers must retain all documents and information received during the process of determining borrower eligibility, including borrower income verification, total monthly mortgage payment and total monthly gross debt payment calculations, NPV calculations (NPV model and version used, assumptions, inputs and outputs), evidence of application of each step of the modification waterfall, escrow analysis, escrow advances, and escrow set-up. The servicers must retain all documents and information related to the monthly payments during and after the trial period as well as the incentive payment calculations and such other required documents.

Servicers must retain detailed records of borrower solicitations or borrower-initiated inquiries regarding the HMP, the outcome of the evaluation for modification under the
HMP and specific justification with supporting details if the request for modification under the HMP was denied. Records must also be retained to document the reason(s) that a Trial Period Plan is not finalized. If a borrower under an HMP modification loses good standing, the servicer must retain documentation of its consideration of the borrower for other foreclosure prevention alternatives. Servicers must retain HMP documentation as prescribed in Servicing Guide, Part I, Section 405: Record Retention.

Temporary Suspension of Foreclosure Proceedings

Servicing Guide, Part VIII, Section 105.01: Temporary Suspension of Proceedings

To ensure that a borrower currently at risk of foreclosure has the opportunity to apply for the HMP, servicers should not proceed with a foreclosure sale until the borrower has been evaluated for the program and, if eligible, an offer to participate in the HMP has been made. Servicers must use reasonable efforts to contact borrowers facing foreclosure to determine their eligibility for the HMP, including in-person contacts at the servicer’s discretion. Servicers must not conduct foreclosure sales on mortgage loans previously referred to foreclosure or refer new mortgage loans to foreclosure during the 30-day period that the borrower has to submit documents evidencing an intent to accept the Trial Period Plan offer. Except as noted herein, any foreclosure sale will be suspended for the duration of the Trial Period Plan, including any period of time between the borrower’s execution of the Trial Period Plan and the Trial Period Plan effective date. However, borrowers in Georgia, Hawaii, Missouri, and Virginia will be considered to have failed the trial period if they are not current under the terms of the Trial Period Plan as of the date that the foreclosure sale is scheduled. Accordingly, servicers of HMP loans secured by properties in these states must proceed with the foreclosure sale if the borrower has not made the trial period payments required to be made through the end of the month preceding the month in which the foreclosure sale is scheduled to occur.

Mortgage Insurer Approval

Fannie Mae has obtained blanket delegations of authority from most mortgage insurers so that servicers can more efficiently process HMP modifications without having to obtain mortgage insurer approval on individual mortgage loans. A list of the mortgage insurers from which Fannie Mae has received a delegated authority agreement can be found on eFannieMae.com. If applicable, servicers must continue to obtain mortgage insurer approval on a case-by-case basis from any mortgage insurer for which we have not yet received a delegated authority agreement. Servicers should consult their mortgage insurance providers for specific processes related to the reporting of modified terms, payment of premiums, payment of claims, and other operational matters in connection with mortgage loans modified under the HMP.

Executing the HMP Documents

Servicers must use a two-step process for HMP modifications. Step 1 involves providing a document outlining the terms of the forbearance (the Trial Period Plan), and step 2 involves providing the borrower with a separate document (the Agreement) outlining the terms of the modification.
Step 1: The servicer should instruct the borrower to return the signed Trial Period Plan, together with a signed Hardship Affidavit and income verification documents (if not previously obtained) and the first trial period payment (when not using automated drafting arrangements), to the servicer within 30 calendar days after the Trial Period Plan is sent by the servicer. The servicer is encouraged to contact the borrower before the expiration of the 30-day period if the borrower has not yet responded to encourage submission of the material. If the borrower’s submission is incomplete, servicers should work with borrowers to complete the Trial Period Plan submission. The servicer may, in its discretion, consider the offer of a Trial Period Plan to have expired at the end of up to 60 days if the borrower has not submitted both an executed Trial Period Plan and complete documentation as required under the Trial Period Plan.

Upon receipt of the Trial Period Plan from the borrower, the servicer must confirm that the borrower meets the underwriting and eligibility criteria. Once the servicer makes this determination and has received good funds for the first month’s trial payment, the servicer should sign and immediately return an executed copy of the Trial Period Plan to the borrower. Payments made by the borrower under the terms of the Trial Period Plan will count toward successful completion irrespective of the date of the executed copy of the Trial Period Plan.

If the servicer determines that the borrower does not meet the underwriting and eligibility standards of the HMP after the borrower has submitted a signed Trial Period Plan to the servicer, the servicer should promptly communicate that determination to the borrower in writing and consider the borrower for another foreclosure prevention alternative using the new workout hierarchy (refer to “New Workout Hierarchy” section for additional information).

As an alternative, a servicer may require a borrower to submit the required documentation to verify the borrower’s eligibility and income prior to sending the borrower a firm offer solicitation. If this alternative is utilized, the servicer should use the HMP Documentation Request letter and Hardship Affidavit to obtain the required documentation from the borrower. The servicer should instruct the borrower to return the required documentation within 30 days from the date the HMP Documentation Request letter and Hardship Affidavit is sent by the servicer.

Step 2: Servicers must calculate the terms of the modification using verified income, taking into consideration amounts to be capitalized during the trial period. Servicers are encouraged to send the Agreement for execution by the borrower after receipt of the second payment under the trial period (or third payment for mortgage loans facing imminent default, which require a four-month trial period).

Servicers are reminded that modification agreements must be signed by an authorized representative of the servicer, must reflect the actual date of signature by the servicer’s representative and signature must not occur until after the mortgage loan has been removed from the MBS pool, and either reclassified as a Fannie Mae portfolio mortgage or repurchased by the servicer, if applicable.
Acceptable Revisions to HMP Documents

Servicers are strongly encouraged to use the HMP documents provided on eFannieMae.com. Should a servicer decide to revise the HMP documents or draft its own HMP documents, it must obtain prior written approval from Fannie Mae with the exception of the following circumstances:

- The servicer must revise the HMP documents as necessary to comply with Federal, State and local law. For example, in the event that the HMP results in a principal forbearance, servicers are obligated to modify the uniform instrument to comply with laws and regulations governing balloon disclosures.

- The servicer may include, as necessary, conditional language in HMP offers and modification agreements that condition the implementation of any modification on the servicer's receipt of an acceptable title endorsement, or similar title insurance product, or subordination agreements from other existing lien holders, as necessary, to ensure that the modified mortgage loan retains its first lien position and is fully enforceable as required by the Servicing Guide.

- If the borrower previously received a Chapter 7 bankruptcy discharge but did not reaffirm the mortgage debt under applicable law, the following language must be inserted in Section 1 of the Trial Period Plan and Section 1 of the Agreement: “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.”

- The servicer may include language in the HMP Cover Letters providing instructions for borrowers who elect to use an automated payment method to make trial period payments.

- All servicers of Fannie Mae mortgage loans must insert the following at the end of the Home Affordable Modification Trial Period Plan as section 4.E. before the signature block:

  Notwithstanding anything herein to the contrary, if my final two Trial Period Payments are received by Servicer after the close of business on the 15th calendar day of the last month of the Trial Period but before the end of the Trial Period, I agree that the Trial Period shall be extended by one calendar month (the "Additional Trial Period"). I agree to abide by all terms and provisions of this Trial Period Plan during the Additional Trial Period. In addition, I agree to make a Trial Period Payment in the amount of $______ [the same amount of the other Trial Period Payments] no more than 30 days after the last due date listed in the chart in Section 2 above.

Unless a borrower or co-borrower is deceased or a borrower and co-borrower are divorced, all parties who signed the original note and security instrument, or their duly authorized representative(s), must execute the HMP documents. 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 the HMP documents. Fannie Mae's agreement to permit only one divorced spouse to execute the HMP Documents is without prejudice to its rights against the non-executing divorced
spouse, all of which are expressly retained. 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. An existing borrower may elect to add a new co-borrower to the mortgage loan.

Use of Electronic Records

Electronic records for HMP are acceptable as long as the electronic record complies with all requirements of the Selling and Servicing Guides and applicable law.

Assignment to MERS

If the original mortgage loan was registered with Mortgage Electronic Registration Systems, Inc. (MERS) and MERS was named as the original mortgagee of record, (as nominee for the lender) the servicer MUST make the following changes to the Agreement:

(a) Insert a new definition under the “Property Address” definition on page 1, which reads 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 the mortgagee under the Mortgage. 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 as section 4.1:

That 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) MERS must be added to the signature lines at the end of the Agreement, as follows:

Mortgage Electronic Registration Systems, Inc. – Nominee for Lender

The servicer may execute the Agreement on behalf of MERS and, if applicable, submit it for recordation.
Trial Payment Period

Servicers may use recent verbal financial information to prepare and offer a Trial Period Plan. Servicers are not required to verify financial information prior to the effective date of the trial period. The servicer must service the mortgage loan during the trial period in the same manner as it would service a loan in forbearance. During the trial period for MBS mortgage loans, the mortgage loan will remain in the related MBS pool and the servicer must continue to service the mortgage loan under the servicing guidelines applicable to MBS mortgage loans. (Refer to “Reclassification or Removal of MBS Loans Prior to Effective Date of Modification” section below.)

The effective date of the trial period will be set forth in the Trial Period Plan. In most cases, the effective date is the first day of the month following the servicer’s mailing of the offer for the Trial Period Plan. The trial payment period is three months long for mortgage loans where the payment is already in default and four months long for mortgage loans where the servicer has determined that a borrower’s payment default is imminent but no default has occurred. The borrower must be current under the terms of the Trial Period Plan at the end of the trial period in order to receive a permanent modification.

The borrower is considered to have failed the trial period and thus, not eligible for an HMP modification, if all the trial period payments are not received by the end of the trial payment period. In the event that the next to last and last trial period payments are received after the 15th calendar day of the final month of the trial period but before the end of the trial period, the servicer must extend the trial payment period by one month. Refer to the “Reclassification or Removal of MBS Loans Prior to Effective Date of Modification” section for further details.

If the verified income evidenced by the borrower’s documentation exceeds the initial income information used by the servicer to place the borrower in the trial period by more than 25 percent, the borrower must be reevaluated based on the program eligibility and underwriting requirements. If this reevaluation determines that the borrower is still eligible, new documents must be prepared and the borrower must restart the trial period.

If the verified income evidenced by the borrower’s documentation is less than the initial income information used by the servicer to place the borrower in the trial period, or if the verified income exceeds the initial income information by 25 percent or less, and the borrower is still eligible as determined by a reevaluation of HMP eligibility, 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 Agreement. However, if the servicer determines the borrower is not eligible for the HMP 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 loan in accordance with the borrower’s current loan documents.

For a borrower facing imminent default, the borrower’s payment during the trial period must not be equal to or greater than the contractual mortgage payment in effect prior to the trial period.
If the borrower complies with the terms and conditions of the Trial Period Plan, the loan modification will become effective on the first day of the month following the trial period as specified in the Trial Period Plan and the Agreement. However, because the monthly payment under the Agreement will be based on verified income documentation, the monthly payment due under the Agreement may differ from the payment amount due under the Trial Period Plan.

If a servicer has information that the borrower does not meet all of the eligibility criteria for the HMP (e.g., because the borrower has moved out of the house) the servicer should explore other foreclosure prevention alternatives prior to resuming or initiating foreclosure.

Use of Suspense Accounts and Application of Payments

In accordance with the Servicing Guide, Part III, Section 102.06: Pending Modifications, Announcement 07-03R2, and, if permitted by the applicable loan documents, servicers may accept and hold as "unapplied funds" (held in a T&I custodial account) amounts received which do not constitute a full monthly, contractual principal, interest, tax and insurance (PITI) payment. However, when the total of the reduced payments held as “unapplied funds” is equal to a full PITI payment, the servicer is required to apply all full payments to the mortgage loan.

Any unapplied funds remaining at the end of the trial payment period which do not constitute a full monthly, contractual principal, interest, tax and insurance payment should be applied to reduce any amounts that would otherwise be capitalized onto the principal balance.

Reclassification or Removal of MBS Mortgage Loans Prior to Effective Date of Modification

Under the Agreement, if the borrower successfully completes the trial period, the modification of the loan will become effective on the first day of the calendar month immediately following the end of the trial period.

Reclassification of MBS Mortgage Loans – Payment Default Imminent

For an MBS mortgage loan where the servicer has determined that a borrower’s payment default is imminent, the mortgage loan must be removed from the MBS pool before the effective date of the loan modification. Accordingly, to facilitate removals of mortgage loans from MBS pools, a servicer must use HSSN to request that a loan be reclassified and purchased out of the MBS pool. Reclassifications are subject to the following:

- As long as the borrower has made the third payment and the servicer has accepted the payment and notified Fannie Mae of receipt of the payment before the servicer’s reclassification date in the fourth month of the trial period, the servicer should request that the loan be reclassified during the fourth month of the trial period.
- If, prior to the close of the servicer’s reclassification date in the fourth month, (i) the borrower has not made the third payment, or (ii) the servicer has not applied the third payment, notified Fannie Mae that the payment has been made and requested reclassification,
then it will not be possible to reclassify the loan from the MBS pool prior to the modification effective date. In the event that the third and fourth trial period payments are received after the 15th calendar day (i.e., servicer’s reclassification date) of the fourth month of the trial period but before the end of the trial period, the servicer must extend the trial period by one month.

- If the required trial period payments are not made by the end of the trial period, the preconditions to make the modification effective will not have been satisfied and Fannie Mae will cancel the case. The servicer must ensure that the loan modification is not implemented.

Reclassification of MBS Mortgage Loans – Payment in Default

For an MBS mortgage loan that already has a payment in default at the time the HMP is negotiated, the mortgage loan must be removed from the MBS pool before the effective date of the loan modification. Accordingly, to facilitate removals of mortgage loans from MBS pools, a servicer must use HSSN to request that a loan be reclassified and purchased out of the MBS pool. Reclassifications are subject to the following:

- As long as the borrower has made the second payment and the servicer has accepted the payment and notified Fannie Mae of receipt of the payment before the servicer’s reclassification date in the third month of the trial period, the servicer should request that the loan be reclassified during the third month of the trial period.
- If, prior to the close of the servicer’s reclassification date in the third month, (i) the borrower has not made the second payment, or (ii) the servicer has not applied the second payment, notified Fannie Mae that the payment has been made and requested reclassification, then it will not be possible to reclassify the loan from the MBS pool prior to the modification effective date. In the event that the second and third trial period payments are received after the 15th calendar day (i.e., servicer’s reclassification date) of the third month of the trial period but before the end of the trial period, the servicer must extend the trial period by one month.
- If the required trial period payments are not made by the end of the trial period, the preconditions to make the modification effective will not have been satisfied and Fannie Mae will cancel the case. The servicer must ensure that the loan modification is not implemented.

Thus, during the trial period it is very important that servicers timely report to Fannie Mae the receipt of funds from the borrower and promptly request reclassification of the mortgage loan.

For an MBS loan to be eligible for reclassification from an MBS pool for the purpose of modification, the mortgage loan must have been in a continuous state of delinquency for at least four consecutive monthly payments (or at least eight consecutive payments in the case of a biweekly mortgage loan) without a full cure of the delinquency. The servicer must represent and warrant that, after application of all trial payments made by the borrower, once the sum of payments totals a full payment, the borrower has been in a delinquent status (i.e., not current in monthly mortgage payments) on each of the last four monthly payment due dates and continues to be delinquent. After a mortgage loan is reclassified, the servicer will follow the existing
procedure and update the Officer Signature Date in HSSN to close the modification. Servicers
are reminded that a current MBS mortgage loan is ineligible for reclassification for the purpose
of modifying the mortgage loan.

Removal of Regular Servicing Option MBS Mortgage Loans

Servicers of regular servicing option MBS mortgage loans are encouraged to offer the HMP for
these mortgage loans. If a servicer decides to use the HMP for such mortgages, the servicer will
be expected to follow the Treasury’s Home Affordable Modification Program, sign the servicer
participation agreement, obtain any third-party approvals, and comply with the requirements of
this Announcement governing reporting and removal of these mortgage loans from MBS pools,
if applicable. Fannie Mae is not responsible for any losses or expenses the servicer incurs and
will not pay borrower or servicer incentive fees for these mortgage loans which are not
considered Fannie Mae HMP mortgage loans.

The servicer of a mortgage loan that is part of a regular servicing option MBS pool or part of a
shared-risk special servicing option MBS pool for which the servicer's shared risk liability has
not expired must not modify the mortgage loan as long as it remains in the MBS pool. The
servicer must purchase the mortgage loan from the MBS pool upon completion of the trial
period provided the mortgage loan has been in a continuous state of delinquency for at
least four consecutive monthly payments (or at least eight consecutive payments in the case
of a biweekly mortgage loan) without a full cure of the delinquency. Regular servicing option
MBS pool mortgage loans and such shared-risk special servicing option MBS pool mortgage
loans that have been purchased from an MBS pool for purposes of modification are not eligible
for redelivery to Fannie Mae. Performing MBS mortgage loans (i.e., those that do not meet the
delinquency criteria described above) are ineligible for repurchase for the purpose of modifying
the mortgage loan.

Recording the Modification

For all mortgage loans that are modified pursuant to the HMP, the servicer must ensure that the
modified mortgage loan retains its first lien position and is fully enforceable. The Agreement
must be executed by the borrower(s) and, in the following circumstances, must be in recordable
form:

- if State or local law requires a modification agreement be recorded to be enforceable;
- if the property is located in the State of New York or Cuyahoga County, Ohio;
- if the amount capitalized is greater than $20,000 (aggregate capitalized amount of all
  modifications of the mortgage loan completed under our mortgage modification alternatives);
- if the remaining term on the mortgage loan is less than or equal to ten years and the servicer
  is extending the term of the mortgage loan more than ten years beyond the original maturity
date; or
- if the servicer’s practice for modifying mortgage loans in the servicer’s portfolio is to create
  modification agreements in recordable form.
In addition, to retain the first lien position, servicers must:

- ensure all real estate taxes and assessments that could become a first lien are current especially those for manufactured homes taxed as personal property, personal property taxes, condominium/HOA fees, utility assessments (such as water bills), ground rent and other assessments;
- obtain a title endorsement or similar title insurance product issued by a title insurance company if the amount capitalized is greater than $20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our mortgage modification alternatives);
- obtain subordination agreements from any junior lien holders, if (1) the amount capitalized is greater than $20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our modification alternatives) or (2) the remaining term on the mortgage loan is less than or equal to ten years and the term of the mortgage loan is being extended more than ten years beyond the original maturity date; and
- record the executed Agreement if (1) State or local law requires the modification agreement be recorded to be enforceable; (2) the property is located in the State of New York or Cuyahoga County, Ohio; (3) the amount capitalized is greater than $20,000 (aggregate capitalized amount of all modifications of the mortgage loan completed under our modification alternatives); or (4) the remaining term on the mortgage loan is less than or equal to ten years and you are extending the term of the mortgage loan more than ten years beyond the original maturity date.

**Monthly Statements**

For modifications that include principal forbearance, servicers are encouraged to include the amount of the gross UPB on the borrower’s monthly payment statement. **In addition, the borrower should receive information on a monthly basis regarding the accrual of “pay-for performance” principal balance reduction payments.**

**Redefault and Loss of Good Standing**

If, following a successful trial period, a borrower defaults on a loan modification executed under the HMP (three monthly payments are due and unpaid on the last day of the third month), the loan is no longer considered to be in “good standing.” Once lost, good standing cannot be restored even if the borrower subsequently cures the default. A loan that is not in good standing is not eligible to receive borrower or servicer incentives and reimbursements and these payments will no longer accrue for that mortgage loan. Further, the mortgage loan is not eligible for another HMP modification.

In the event a borrower defaults, the servicer must work with the borrower to cure the modified loan, or if that is not feasible, evaluate the borrower for any other available foreclosure prevention alternatives prior to commencing foreclosure proceedings.
Servicer Delegation, Duties and Responsibilities

All Fannie Mae approved servicers are eligible to participate in the HMP without obtaining prior approval from Fannie Mae.

In performing the duties incident to the servicing of mortgage loans modified under the HMP, a servicer must:

- Collect and record the details of all executed mortgage modifications, including, but not limited to: the original terms of the modified mortgage loan; the modified terms of the modified mortgage loan; data supporting the modification decision; updates to payoff information and the last payment date; additional information and data as may be requested by Fannie Mae or the Compliance Agent from time to time. All such data must be compiled and reported to Fannie Mae and the Compliance Agent in the form and manner set forth in this Announcement.

- Retain all data, books, reports, documents, audit logs and records, including electronic records, related to the HMP. In addition, the servicer shall maintain a copy of all computer systems and application software necessary to review and analyze any electronic records. Unless otherwise directed by Fannie Mae or the Compliance Agent, the servicer shall retain these records for mortgage loans owned or securitized by Fannie Mae in accordance with the Servicing Guide Part I, Section 405: Record Retention, or for such longer period as may be required pursuant to applicable law. The Compliance Agent may also notify the servicer from time to time of any additional records retention requirements resulting from litigation, or other proceedings in which the Treasury or any agents of the Treasury may have an interest, and the servicer agrees to comply with such requirements.

- Construe the terms of this Announcement and any related instructions from the Treasury or Fannie Mae in a reasonable manner to serve the purposes and interests of the United States.

- Use any nonpublic information or assets of the United States or Fannie Mae received or developed in connection with the HMP solely for the purposes of fulfilling its obligations hereunder.

- Comply with all lawful instructions or directions received from the Treasury and Fannie Mae.

- Develop, enforce, and review for effectiveness at least annually, an internal control program designed to ensure effectiveness of duties in connection with the HMP and compliance with this Announcement, to monitor and detect loan modification fraud and to monitor compliance with applicable consumer protection and fair lending laws. The internal control program must include documentation of the control objectives for HMP activities, the associated control techniques, and mechanisms for testing and validating the controls.

- Provide Fannie Mae and the Compliance Agent with access to all internal control reviews and reports that relate to duties performed under the HMP by the servicer and/or its independent auditing firm.

- Supervise and manage any contractor that assists in the performance of services in connection with the HMP. A servicer shall remove and replace any contractor that fails to perform and ensure that all of its contractors comply with the terms and provisions of the Servicing Guide. A servicer shall be responsible for the acts or omissions of its contractors as if the acts or omissions were those of the servicer.
The Treasury will designate another party to fulfill the role of Compliance Agent in connection with the HMP. The Compliance Agent, its independent auditor and other parties designated by the Treasury shall have the right during normal business hours to conduct unannounced, informal onsite visits and to conduct formal onsite and offsite physical, personnel and information technology testing, security reviews, and audits of the servicer and to examine all books, records and data related to the duties and compensation received in connection with the HMP with 30 days prior written notice. The servicer shall take corrective actions associated with reporting and audits as directed by Fannie Mae or the Compliance Agent.

**Reporting Requirements**

**Reporting to Fannie Mae**

**Reporting Through HSSN**

For all Fannie Mae portfolio mortgage loans and MBS pool mortgage loans guaranteed by Fannie Mae (including lender recourse loans), a servicer must enter loan level HMP data by submitting a delegated case into HSSN when a servicer has received a successfully executed Trial Period Plan. Additionally, the servicer must record in HSSN receipt of the trial period payments due under the plan. The servicer must use HSSN to request reclassification for MBS mortgage loans as outlined in the Reclassification or Removal of MBS Mortgage Loans Prior to Effective Date of Modification section of this Announcement when appropriate. The servicer must represent and warrant that, after application of all trial payments made by the borrower, once the sum of payments total a full payment, the borrower has been in a delinquent status (i.e., not current in contractual payments) on each of the last four monthly payment due dates and continues to be delinquent. After a mortgage loan is reclassified, if applicable, the servicer will follow the existing procedure and update the Officer Signature Date in HSSN to close the modification.

**Monthly Investor Reporting and Remitting**

Existing monthly Loan Activity Record (LAR) reporting requirements for Fannie Mae servicers will not change. Servicers must continue to report the standard LAR format for loan payment by the 3rd business day and for payoff activity by the 2nd business day of each month for the prior month’s activity (e.g., payoff reporting to be received by April 2nd will contain March activity).

*Servicing Guide*, Part VII, Section 502.03: Reporting to Fannie Mae; and Part X, Chapter 3: Special Reporting Requirements

If the modification includes principal forbearance, the servicer should report the net UPB (full UPB minus the forbearance amount) in the “Actual UPB” field on both LARs for the reporting month that the modification becomes effective. The initial reduction in UPB caused by the principal forbearance should not be reported to Fannie Mae as a principal curtailment. The interest reported on the LAR must be based on the net UPB.
If the modification includes principal forbearance resulting in a balloon payment due upon borrower’s sale of the property or payoff, or maturity of the mortgage loan, interest must never be computed on the principal forbearance amount, including at the time of liquidation. When reporting a payoff or repurchase of the mortgage loan, the principal reported on the LAR must include the principal forbearance amount. Attempting to report a payoff or repurchase without including the principal forbearance amount will generate an exception upon submission of the LAR.

If a principal curtailment is received on a loan that has a principal forbearance, servicers are instructed to apply the principal curtailment to the interest bearing UPB. If, however, the principal curtailment amount is greater than or equal to the interest-bearing UPB, then the curtailment should be applied to the principal forbearance portion. If the curtailment satisfies the principal forbearance portion, any remaining funds should then be applied to the interest bearing UPB.

Delinquency Status Reporting

Servicing Guide, Part VII, Chapter 6, Exhibit 1: Delinquency Status Codes

The servicer must report a delinquency status code 09 - Forbearance - during the trial period. The servicer must then report a delinquency status code 28 – Mortgage Modification – to indicate that the delinquency status has changed once the borrower has successfully completed the trial period and the modification becomes effective, if applicable.

Reporting to Treasury

In addition to reporting to Fannie Mae, each servicer must report periodic HMP loan activity to Treasury through the servicer web portal accessible through HMPAdmin.com. Data should be reported by a servicer at the start of the modification trial period and during the modification trial period, for loan set up of the approved modification, and monthly after the modification is set up. Servicers will be required to submit three separate data files. Detailed guidelines for submitting these data files and a list of data elements for each report are available upon request by sending an email to servicing_solutions@fanniemae.com. This information will also be accessible on the servicer web portal in the near future.

A servicer will receive a username and password for the servicer web portal upon submission of the HMP Registration form. All servicers will be required to provide the HMP Registration form with information such as contact information and banking instructions for deposits of compensation payments. The HMP Registration form is a one-time submission; however, after the initial form is submitted, a servicer may submit a new form to update existing information at any time.
Mortgage Insurance

Reporting to Mortgage Insurers

Servicers must maintain their mortgage insurance processes and comply with all reporting required by the mortgage insurer for mortgage loans modified under the HMP. Servicers should consult with the mortgage insurer for specific processes related to the reporting of modified terms, payment of premiums, payment of claims, and other operational matters in connection with mortgage loans modified under the HMP. Servicers are required to report successful HMP modifications and the terms of those modifications to the appropriate mortgage insurers, if applicable, within 30 days following the end of the trial period and in accordance with procedures that currently exist or may be agreed to between servicers and the mortgage insurers.

Maintenance of Mortgage Insurance

Servicers must include the mortgage insurance premium in the borrower’s modified payment, and must ensure that any existing mortgage insurance is maintained. Among other things, the servicer must ensure that the mortgage insurance premium is paid. In addition, servicers must adapt their systems to ensure proper reporting of modified loan terms so as not to impair coverage for any existing mortgage insurance. For example, in the event that the modification includes principal forbearance, servicers must continue to pay the correct MI premiums based on the gross UPB, including any principal forbearance amount, must include the gross UPB in their delinquency reporting to the mortgage insurer, and must ensure any principal forbearance does not erroneously trigger automatic mortgage insurance cancellation or termination.

Transfers of Servicing

When a transfer of servicing includes mortgage loans modified under the HMP, we require the transferor servicer to provide special notification to the transferee servicer. Specifically, the transferor servicer must advise the transferee servicer that mortgage loans modified under the HMP are part of the portfolio being transferred and must confirm that the transferee servicer is not only aware of the special requirements for these mortgage loans, but also agrees to assume the additional responsibilities associated with servicing these mortgage loans.

The transferee servicer must assume all of the responsibilities and duties of the HMP. However, the transferee servicer's assumption of these responsibilities, duties, and warranties will in no way release the transferor servicer from its contractual obligations related to the transferred mortgage loans. The two servicers will be jointly and severally liable to us for all warranties and for repurchase, all special obligations under agreements previously made by the transferor servicer or any previous servicer or servicer (including actions that arose prior to the transfer), and all reporting, compliance and audit oversight related duties regarding the transferred mortgage loans.
Credit Bureau Reporting

In accordance with the Servicing Guide, Part VII, Section 107: Notifying Credit Repositories, the servicer should continue to report a "full-file" status report to the four major credit repositories for each loan under the HMP in accordance with the Fair Credit Reporting Act and credit bureau requirements as provided by the Consumer Data Industry Association (the "CDIA") on the basis of the following:

- 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 payments by the 30th day of each trial period month at the modified amount during the trial period, as well as report the modification when completed.
- For borrowers who are delinquent when they enter the trial period, 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 loan it is servicing as of the last business day of each month.

Fees and Compensation

Servicing Fees

During the trial period, servicing fees will continue to be earned by the servicer to the extent that the borrower payments equal a contractual full payment. When the HMP modification becomes effective, the servicer will receive servicing fees based on our existing fee schedule for modified mortgage loans in accordance with the Servicing Guide, Part VII, Section 502.02: Modifying Conventional Mortgages.

Late Fees

All late charges, penalties, stop payment fees or similar fees must be waived upon successful completion of the trial period.

Administrative Costs

Servicers may not charge the borrower to cover the administrative processing costs incurred in connection with a HMP. The servicer must pay any actual out-of-pocket expenses such as any required notary fees, recordation fees, title costs, property valuation fees, credit report fees or other allowable and documented expenses. Fannie Mae will reimburse the servicer for allowable out-of-pocket expenses. Servicers will not be reimbursed for the cost of the credit report(s).
Incentive Compensation

No incentives of any kind will be paid if (i) the servicer has not provided an HMP Registration form or HMP loan set-up data prior to the effective date of the modification, or (ii) the borrower's monthly payment ratio starts below 31 percent prior to the implementation of the HMP. The incentive compensation will only be paid for HMP modifications that are based on the borrower’s verified income. Each servicer must promptly apply or remit, as applicable, all borrower and investor compensation it receives with respect to any modified mortgage loan.

With respect to payment of any incentive that is predicated on at least a six percent reduction in the borrower’s monthly mortgage payment, the reduction will be calculated by comparing the monthly mortgage payment used to determine eligibility (adjusted as applicable to include property taxes, hazard insurance, flood insurance, condominium association fees and homeowner’s association fees) and the borrower’s payment under HMP.

Timing and mechanics of the borrower and servicer incentive compensation plans will be provided in a subsequent Announcement.

Servicer Incentive Compensation

A servicer will receive compensation of $1,000 for each completed modification under the HMP. In addition, if a borrower was current under the original mortgage loan, a servicer will receive an additional compensation amount of $500. All such servicer incentive compensation shall be earned and payable once the borrower successfully completes the trial payment period.

If a borrower’s monthly mortgage payment (principal, interest, taxes and all related property insurance and homeowner’s or condominium association fees, but excluding mortgage insurance) is reduced through the HMP by six percent or more, a servicer will also receive an annual “pay for success” fee equal to the lesser of: (i) $1,000 ($83.33 per month), or (ii) one-half of the reduction in the borrower’s annualized monthly payment, for up to three years as long as the loan is a performing loan modification. The “pay for success” fee will be payable annually for each of the first three years after the anniversary of the month in which a Trial Period Plan is executed. If and when the loan ceases to be in good standing, the servicer will cease to be eligible for any further incentive payment after that time, even if the borrower subsequently cures his or her delinquency.

Borrower’s Incentive Compensation

To provide an additional incentive for borrowers to keep their modified loan current, borrowers whose monthly mortgage payment (principal, interest, taxes and all related property insurance and homeowner’s or condominium association fees, but excluding mortgage insurance) is reduced through the HMP by six percent or more and who make timely monthly payments will earn an annual “pay for performance” principal balance reduction payment equal to the lesser of: (i) $1,000 ($83.33 per month), or (ii) one-half of the reduction in the borrower’s annualized
monthly payment for each month a timely payment is made. A borrower can earn the right to receive a “pay for performance” principal balance reduction payment for payments made during the first five years following execution of the Agreement provided the loan continues to be in good standing as of the date the payment is made. The “pay for performance” principal balance reduction payment will accrue monthly and be applied annually for each of the five years in which this incentive payment accrues, prior to the first payment due date after the anniversary of the month in which the Trial Period Plan is executed. This payment will be paid to the servicer to be applied first towards reducing the interest bearing UPB and then towards any principal forbearance amount (if applicable) on the mortgage loan. Any applicable prepayment penalties on partial principal prepayments made by Fannie Mae must be waived. Borrower incentive payments do not accrue during the Trial Period; however, in the first month of the modification, the borrower will accrue incentive payments equal to the number of months in the trial period in addition to any accrual earned during the first month of the modification.

If and when the loan ceases to be in good standing (i.e., three monthly payments are due and unpaid on the last day of the third month), the borrower will cease to be eligible for any further incentive payments after that time, even if the borrower subsequently cures his or her delinquency. The borrower will lose his or her right to any accrued incentive compensation when the loan ceases to be in good standing.

Servicers must place the borrower incentives into an existing custodial account.

**FHA HOPE for Homeowners**

Servicers will be required to consider a borrower for refinancing into the FHA HOPE for Homeowners program when feasible. Consideration for a HOPE for Homeowners refinance should not delay eligible borrowers from receiving a modification offer and beginning the trial period. Servicers must use the modification options to begin the HMP modification and work to complete the HOPE for Homeowners refinance during the trial period.

**Compliance**

Treasury has selected Freddie Mac to serve as its Compliance Agent for the HMP. In its role as Compliance Agent, Freddie Mac will conduct independent compliance assessments. Fannie Mae-approved servicers are subject to the compliance guidelines outlined in Supplemental Directive 09-01 issued by Treasury on April 6, 2009, available through HMPadmin.com, which may be updated from time to time.

**HomeSaver Forbearance**

HomeSaver Forbearance is a new loss mitigation option available to borrowers that are either in default or for whom default is imminent and who do not qualify for the HMP. A servicer should offer a HomeSaver Forbearance if such borrowers have a willingness and ability to make reduced monthly payments of at least one-half of their contractual monthly payment. The plan should reduce the borrower’s payments to an amount the borrower can afford, but no less than 50 percent of the borrower’s contractual monthly payment, including taxes and insurance and any
other escrow items at the time the forbearance is implemented. During the six month period of forbearance, the servicer should work with the borrower to identify the feasibility of, and implement, a more permanent foreclosure prevention alternative. The servicer should evaluate and identify a permanent solution during the first three months of the forbearance period and should implement the alternative by the end of the sixth month.

**Incentive Fee**

Servicers will receive a $200 incentive fee upon successful reporting to Fannie Mae of the initiation of a HomeSaver Forbearance plan and the collection of one payment under the forbearance plan. Servicers are eligible for one HomeSaver Forbearance incentive fee during the life of the loan. A servicer will also be eligible to receive an incentive upon the successful completion of the resulting permanent foreclosure prevention alternative as outlined in Announcement 08-20 and Announcement 08-33.

**Reporting Requirements**

A servicer is required to submit information on an encrypted Microsoft Excel® spreadsheet that outlines the terms of the HomeSaver Forbearance plan. Servicers are required to submit weekly HomeSaver Forbearance updates to Fannie Mae through the upload functionality in HSSN. Each weekly report must be submitted on the first business day of the following week. The weekly reports should include information on new HomeSaver Forbearance plans and on the payments received from borrowers under such plans. For any month in which the end of the month occurs on a business day other than a Friday, the servicer must provide two weekly updates:

1. One update for the business day(s) in that week to month end; and
2. One update for the business day(s) in that week for the new month

Both updates must be provided on the first business day of the following week.

A sample Excel spreadsheet outlining the data elements, specifying the order in which the data elements must be presented, and containing instructions for submitting the spreadsheet is available on eFannieMae.com.

**Mortgage Insurer Approval**

Granting forbearance is contingent on the servicer’s ability to ensure the continuation of mortgage insurance coverage. Fannie Mae has obtained blanket delegations of authority from most mortgage insurers so that servicers can grant HomeSaver Forbearances without having to obtain mortgage insurer approval on individual mortgage loans to extend the delinquency beyond the date that foreclosure proceedings would otherwise be required to begin. Fannie Mae has posted and will maintain on eFannieMae.com a list of the mortgage insurers from which it receives a delegated authority agreement for the HomeSaver Forbearance. Servicers must continue to obtain mortgage insurer approval on a case-by-case basis from any mortgage insurer for which we have not yet received a delegated authority agreement. Servicers should consult their mortgage insurance providers for specific processes related to the reporting of forbearance.
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 HMP 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 HMP 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 HMP 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 HMP, 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 HMP 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 HMP. However, if a borrower contacts a servicer directly to inquire about converting to the HMP prior to the execution of the SMP Agreement, and the borrower meets all the eligibility requirements of the HMP, the servicer may offer the borrower the HMP. The borrower will be required to meet all the terms of the HMP, 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 HMP will also replace the Early Workout Program.

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

Michael A. Quinn
Senior Vice President
Single-Family Risk Officer

Announcement 09-05R
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.

- **PITI+AS 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 PITIA+ 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.
• **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)


**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)

http://www.allregs.com/tpl/batchPrint.aspx?did3=aa7efc0617b84e82a017dbde7d12844e&li... 6/2/2009
• 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 http://www.freddiemac.com/singlefamily/service/mha_modification.html.

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.


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.


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 PITIAS Payment 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 law. (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 less 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 PITIA 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.


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:

- Established 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

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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-

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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 PITIAS-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 PITIASC 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**

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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:

- **PITI+AS 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 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.

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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 elected 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/mha_modification.html](http://www.freddiemac.com/singlefamily/service/mha_modification.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.