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(Fannie and Freddie Only)
Loan Modification Instructions

Congratulations! You have successfully activated your online loan modification station and you are one step closer to submitting a complete package to your lender.

This system will automatically prepare a Bank Ready loan modification package, which includes completed forms that you will need to review and sign prior to sending to your lender.

Included in your Bank Ready loan modification package are the following:

- Cover Sheet
- Loan Modification Request Letter (please sign)
- Income & Expense worksheets (please sign)
- Loan Modification Proposal – 3 pages
- Letter of Hardship (please sign)
- Qualifications Summary
- Real Estate Cash Flow Worksheet (complete if you own investment property)
- 4506-T (please complete and sign page 1)
- Home Affordable Modification Program Hardship Affidavit (please complete)

The following items are required and you will need to gather these items to include:

- Copy of your most recent Mortgage Statement
- Copy of any delinquency notices, notice of default, etc from your lender
- Past 2 years tax returns (signed)
- Past 2 months pay stubs
- Past 2 months bank statements (all pages)
- Last 6 months profit and loss statement (only if self-employed)
- Copy of drivers license
- Most recent real estate tax bill (only if your taxes are not currently escrowed)
- Proof of Insurance (only if your insurance is not currently escrowed)

Once you have gathered the required items, it is recommended that you write your loan number on the bottom of each page and put the package in the order listed on the Cover Sheet to prepare to send, fax or email to your lender using the information provided on the cover sheet*. Please make a photo copy of the complete package and it is recommended that you do not send originals. Always keep a copy for your records. Some clients may choose to mail their loan modification package to their lender. If you mail your package, you should request “return receipt delivery” notification to ensure its delivery. However you choose to submit your loan modification package, you must follow up to make sure your package was received and continue to follow up with your lender until you are assigned to a negotiator. This is the person who will work on your loan modification.

Your lender may request additional documentation and may even require you to complete some information on their forms.

Be patient and persistent when dealing with your lender or servicer. You can and should utilize our web system to make notes of your conversations with your lender and to create a task or reminder that will send you an email to remind you to follow up or perform the task you set.

Now, gather your required items and you are ready to submit your package to your lender.

*Bank or Servicer contact information is not guaranteed to be 100% accurate. Please call your Bank or Servicer to confirm.
Top Ten Reasons: **HOW** and **WHY** to Modify Your Mortgage

1. With the most brutal economy since the depression, banks are being very lenient toward modifying mortgages to avoid more costly foreclosures and government is supporting them...

   **TAKE ADVANTAGE OF THESE OFFERED PROGRAMS!**

   A. Converting Adjustable Rate Mortgages and Pay Option Loans into low Fixed Rate loans (as low as 2.00%)
   B. Lowering the rate on a high Fixed Rate loan
   C. Add past due payments to the balance of the loan
   D. Re-Amortizing your loan into 15, 30, or 40 years

2. Take any arrears (months behind) and put the amount back into your mortgage to get back on track.

3. Negotiate to stop any foreclosure action before it is too late.

4. Save your credit by going into a loan you can afford and easily make timely payments on all your debts.

5. To modify your mortgage, you should learn how the process works from the banks perspective. Read this E-book to learn the process.

6. Make your first contact with the bank by providing a full bank-ready Loan Modification Package. Specifically, you will need a formal Loan Modification Request Letter, Modification Proposal, Income Worksheets, Expense Worksheets, Hardship Letter, and contact information for submission to your bank's loss mitigation department. If you have two mortgages, you will need two separate packages. This system will automatically prepare these documents. If the mitigation department's information is missing or incorrect, be pro-active and call your bank or whoever is your loan’s servicer. Ask for the “Loss Mitigation Department” or the “Loan Modification or Work Out Department”. As always, make sure the loan modification proposal that our system generates makes sense for your financial situation. You ultimately are responsible for the terms that are submitted to the bank.

7. Follow up with the same person who has your file and make sure your case is assigned to a loss mitigation agent/specialist as soon as possible. Get their names, phone number, and extension. Ask what to expect and when to expect it. Take GOOD NOTES!

8. When a modification is offered, make sure it is sent to you in writing and carefully review the details. **NOTE:** The bank is always looking out for their financial interest first!

9. **NEGOTIATE!** Always try to re-negotiate your bank's offer.
How It Works

Once you activate an account to your loan modification station, you will be guided step by step to answer questions that will populate onto a “Bank Ready” loan modification package.

**Step 1. Borrower Info**
Answer all questions relating to your contact information and current mortgage scenario. Position your mouse over any of the question mark icons to see a full explanation of what the question is asking.

**Step 2. Income/Expense Info**
Answer all questions relating to your HOUSEHOLD income and expenses, regardless of whether all individuals in the household are listed on the loan or the title of property. Lenders will look at all income sources in qualifying you for a loan modification. NOTE: The system will automatically calculate the disposable income. This number should be within a relevant range. Too much disposable income will indicate your household makes too much money and represents no need for a loan modification. A large negative amount shown for disposable income will indicate that you have too much debt and your mortgage payment is too large. If this is the case, the lender will quickly see no matter how much they modify your loan; you will still be in a bad financial situation.

**Step 3. Proposal**
Here is where you can adjust and suggest new terms for your lender to consider. The proposal module will automatically calculate and analyze other variables such as Market Value, Cost of Foreclosure, Asset Liquidation Analysis, and overall proceeds to the lender in the event of a foreclosure.

Your lender does not want to foreclose on you in today’s real estate market. Their goal will be to try to keep you in the home. The proposal will demonstrate a win-win solution for both parties.

**Step 4. Hardship Letter**
It is very important to demonstrate and prove a hardship to your lender. The loss mitigation department for your lender will review this explanation and want verifiable proof of your explanation. So be prepared to back up what you say. Read below for some sample hardship cases.

**Step 5. Q+A**
The system will ask you detailed questions that are important for the lender to review so they are able to determine eligibility for a loan modification.
Step 6. Approvals

As you start the process and engage in conversations with your lender, you will want to document every discussion and track any offer they give you. The more notes you keep: date, time, and whom you spoke with, the better.

Your Bank Ready Loan Modification Package includes the following:

- Fax Cover sheet with your Bank’s Fax number, Phone numbers and address to the loss mitigation office handling loan modifications
- Loan Modification Request Letter
- Loan Modification Proposal
- Detailed Monthly Expense Worksheet
- Detailed Monthly Income Worksheet
- Your Personalized Hardship Letter
- Questionnaire

You will need to submit the remaining financial documents (see check list in your loan modification request documents) and a copy of your driver’s license with this package.
What is the Process and How Do I Qualify?

A loan modification is a change to the loan contract which is agreed to by the lender and the homeowner. The lender will modify the existing loan(s) in order to work with the homeowner because of a hardship. The purpose is to help make the loan(s) more affordable. Usually loan modifications are in the form of a rate reduction and/or fixing the rate for a certain period of time and/or even lowering your principal balance in extreme cases. In the past, loan modifications were only utilized when a borrower was delinquent and suffered a hardship such as a job loss, divorce, or illness. Now, borrowers can obtain modifications from their lender for affordable rate adjustments on adjustable rate mortgages. The earlier the homeowner addresses the issue, the better the chances are of negotiating a fixed rate and a payment that is manageable. If the household can afford the home, but not their current mortgage then they may be eligible for a loan modification. A key factor that is required in every loan modification submission is the existence of a hardship. The hardship can be temporary in nature or permanent, but the borrower must be able to prove the hardship. The following are a sample of hardships that may get a loan modification request approved:

1. Adjustable Rate Mortgage Reset (Payment Increase)
2. Illness
3. Loss of Income
4. Loss of Job
5. Damaged Property
6. Inability to Sell the Property
7. Failed Business
8. Job Relocation
9. Death of Spouse or family member
10. Incarceration
11. Divorce/Separation

Without proper documentation, your file may be flagged as fraudulent. You definitely do not want this to happen as it will slow down the process or may even terminate the process completely!
Other than a verifiable hardship, lenders look at the household's ability to make timely mortgage payments. To understand what the lender or servicer considers qualified, you have to know how lenders calculate your income. The income you can use to qualify for a modification is different from traditional income calculations used to qualify for traditional loans.

For a modification, you can qualify based on your total household income. As such, you can count income from almost any source: Grandma’s SSI, income from child day care services, from a second job paid under the table, etc. so long as it can be proved. Proof must be in the form of bank statements, 1099’s or in some other form as outlined in the submission paperwork you will provide the lender. In addition, if only one of two spouses was on the original loan, the other spouse’s income can count so long as it is verifiable.

Once you calculate all monthly income from all household sources, you then have what you need to present to the lender as the new qualifying income. To calculate a qualifying monthly mortgage payment, use the benchmark fully amortizing 2.00%-5.00% rate on whatever the new balance might be, counting arrearages if they are added back into the loan. NOTE: Late fees and penalties are usually dropped. You can use the proposal module to adjust your new proposed rate and terms to get your DTI down to 31%-38% per the requirements of the federal government’s new Home Affordable Modification Program (HAMP).

Proposing a new rate through our system is ONLY a proposal. You should not expect this rate or payment! If the payment at 2.00% is leaving you with a DTI higher than 38%, then you may not be an appropriate candidate for the HAMP Loan Modification Program. Some lenders have the capability to reduce rates below 2% and/or reduce your principal balance. Just because the lender does NOT reduce your rate to receive a DTI below 38%, does not mean you will be denied a modification. Remember any help or reduction is better than no help. The more aggressive and persistent you are in trying to contact your lender or servicer, the more likely you will get a timely modification with aggressive terms. However, you can still request help with other options such as deed-in-lieu, a short sale or postponing as long as possible a notice of trustee’s sale in an effort to help you transition to more affordable housing.

After you submit your package, financial documents, and any verification documents, you will need to follow up within a few days to make sure they received everything and to see if they need anything to expedite the review. Once the file is placed in the loss mitigation department, a loss mitigation officer will review your case. They will contact you when they get to your case, but you MUST follow up on your own, prompting the mitigation officer to open your case and review it over the phone.

Assuming the documents are in order, nothing else is requested, and you meet certain requirements, they should offer modified loan terms. Typically they will reduce your rate, adjust the amortization and in some cases reduce the principal. You will need to request this, as they are not willing to offer a blanket principal reduction to everyone.
FAQs

1. What is a Loan Modification?
   A Loan Modification is when the bank allows a change in the terms of your existing mortgage. The purpose of a modification is to significantly lower your monthly payments, for either a temporary or permanent period of time.

2. Who qualifies for a loan modification?
   Anyone that is having trouble paying their existing loan may qualify for a loan modification. In today’s housing market banks are willing to work with mortgage holders who are having trouble paying their mortgage. However, homeowners with a high probability of getting a loan modification are those currently in an adjustable rate mortgage, who have a high interest rate, are upside down on their home mortgage, and/or are experiencing any kind of hardship.

3. Why will it work for me?
   The government has asked for ALL lending banks to help in the foreclosure epidemic and modify mortgages for all troubled homeowners. This system will automatically produce your Bank Ready Loan Modification Package. Going to your lender with a complete modification package which was provided with complete instructions will make a scary process seem simple.

4. What if my credit is bad?
   A Loan Modification is not based on credit. The banks are trying to make a good loan out of a troubled loan. The loan modification will not hurt your credit either, only late payments or a foreclosure will negatively affect your credit score.

5. What if I have no equity or I am upside on my home?
   It does not matter! Some banks are doing a principal reduction, which means the bank will discount the total loan amount to the current value of your home. This is becoming popular for banks.

6. What if my income is too low?
   You will need to show the bank you or all others in your household together can afford the new payment. This is done within our Pre-Qualification step when you start the process.

7. What should I expect the terms to be on my new loan?
   Banks have rapidly changing guidelines for Loan Modifications. A bank will typically modify your loan into a loan you can afford and continue to pay. This may include a lower interest rate, payment reschedule, principal reduction, longer terms or any other modification that will make and keep the loan a ‘performing loan’.

8. How much can I really save by doing a loan modification?
   1. Hundreds or Thousands a month. Remember, a Loan is typically for 30 years. So the Loan Modification that saves you $500 a month really equals $180,000 over the life of the loan.
9. Does every bank do modifications?

Almost all banks do. We are in a housing crisis and banks are willing to work with clients to help them save their homes.

10. How do the government programs affect my chances of getting a loan modification?

The government is telling banks they need to do their part to fix the housing crisis. The Bail-Out Bill, Obama’s Home Affordable Program (HAP), TARP and other plans will only improve your chances of getting a loan modification. The government is now offering incentives to banks and servicers, and even homeowners, depending on certain criteria. Make sure you inquire with your lender to determine if you are eligible for these programs.

11. How long does the process take?

With our service you will have all the documents needed to submit to the bank. Every bank is different and can take from 30-90 days or more for a decision.

12. What are some negotiation tactics to use with my lender?

The proposal documents display the overall potential loss to the lender in the event of a foreclosure, which is used as a negotiation tactic. The threat of one more foreclosure on their books is scary for a bank or servicer. You should also understand that you do not have to accept the 1st offer given. ALWAYS try to negotiate beyond the 1st offer, by suggesting lower interest rates, or longer loan terms such as a 40 or 50 year amortization.

13. Are there any other costs involved? Appraisal, credit report, title, closing costs, broker fees, etc...

There are no other costs associated with a loan modification. The banks are modifying loans for no charge. They may sometime ask for a good faith deposit, which demonstrates that you are serious about staying in your home. This is usually requested if you are behind on your payments.
Glossary

Amortization: Repayment of a mortgage loan through monthly installments of principal and interest; the monthly payment amount is based on a schedule that will allow you to own your home at the end of a specific time period (for example, 15, 30, 40, or even 50 years).

Annual Percentage Rate (APR): Calculated by using a standard formula, the APR shows the cost of a loan; expressed as a yearly interest rate, it includes the interest, points, mortgage insurance, and other fees associated with the loan.

ARM: Adjustable Rate Mortgage; a mortgage loan subject to changes in interest rates; when rates change, ARM monthly payments increase or decrease at intervals determined by the lender; the change in monthly payment amount, however, is usually subject to a cap.

Bankruptcy: A federal law whereby a person's assets are turned over to a trustee and used to pay off outstanding debts; this usually occurs when someone owes more than they have the ability to repay.

Borrower: A person who has been approved to receive a loan and is then obligated to repay it and any additional fees according to the loan terms.

Credit history: History of an individual's debt payment; lenders use this information to gauge a potential borrower's ability to repay a loan.

Credit report: A record that lists all past and present debts and the timeliness of their repayment; it documents an individual's credit history.

Debt-to-income ratio (DTI): A comparison of gross income to housing and non-housing expenses; With the FHA, the monthly mortgage payment should be no more than 29% of monthly gross income (before taxes) and the mortgage payment combined with non-housing debts should not exceed 41% of income.

Deed-in-lieu: To avoid foreclosure ("in lieu" of foreclosure), a deed is given to the lender to fulfill the obligation to repay the debt; this process doesn't allow the borrower to remain in the house but helps avoid the costs, time, and effort associated with foreclosure.

Delinquency: Failure of a borrower to make timely mortgage payments under a loan agreement.

Equity: An owner's financial interest in a property; calculated by subtracting the amount still owed on the mortgage loan(s) from the fair market value of the property.

Fair market value: The hypothetical price that a willing buyer and seller will agree upon when they are acting freely, carefully, and with complete knowledge of the situation.

Fixed-rate mortgage: A mortgage with payments that remain the same throughout the life of the loan because the interest rate and other terms are fixed and do not change.

Foreclosure: A legal process in which mortgaged property is sold to pay the loan of the defaulting borrower.

Forbearance: A loss mitigation option where the lender arranges a revised repayment plan for the borrower that may include a temporary reduction or suspension of monthly loan payments.

Government Sponsored Enterprises (GSE): The government sponsored enterprises (GSEs) are a group of financial services corporations created by the United States Congress. Their function is to enhance the flow of credit to targeted sectors of the economy and to make those segments of the capital
market more efficient and transparent. The desired effect of the GSEs is to enhance the availability and reduce the cost of credit to the targeted borrowing sectors: agriculture, home finance and education.

**Good faith estimate (GFE):** An estimate of all closing fees including pre-paid and escrow items as well as lender charges; must be given to the borrower within three days after submission of a loan application.

**Hard expenses:** Hard expenses are monthly expenses that are definite and documented. Examples include installment debt such as mortgage payments, car loans, and personal loans. Most hard expenses will be included on one’s credit report.

**Interest:** A fee charged for the use of money.

**Interest rate:** The amount of interest charged on a monthly loan payment expressed as a percentage.

**Interest Only:** A feature of some MLCC loan programs that allows the borrower to pay only the interest on a loan, without paying down any principal with each monthly payment.

**Lender:** To give/lend money on condition that it is returned and that interest is paid for its temporary use. Banks are commonly known as lenders. Your mortgage broker is not a lender, but rather sold your loan to a lender.

**Lien:** A legal claim against property that must be satisfied when the property is sold.

**Loan-to-value (LTV) ratio:** A percentage calculated by dividing the amount borrowed by the price or appraised value of the home to be purchased; the higher the LTV, the less cash a borrower is required to pay as down payment.

**Loss mitigation:** A process to avoid foreclosure; the lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan.

**Mortgage (Mortgage Backed Security):** A lien on the property that secures the promise to repay a loan.

**Mortgage banker:** A company that originates loans and resells them to secondary mortgage lenders, for instance Fannie Mae or Freddie Mac.

**Mortgage broker:** A firm that originates and processes loans for a number of lenders.

**Mortgage insurance:** A policy that protects lenders against some or most of the losses that can occur when a borrower defaults on a mortgage loan; mortgage insurance is required primarily for borrowers with a down payment of less than 20% of the home's purchase price.

**Principal Balance Reduction:** Instance where the bank forgives a portion of your principal balance as part of a loan modification. The mortgage payment due for this note is based on the revised loan amount. Only applicable in heavily depreciated areas.

**Refinancing:** Paying off one loan by obtaining another; refinancing is generally done to secure better loan terms (such as a lower interest rate).

**Repayment Plan:** Adding a portion of the delinquent mortgage balance on top of the normal monthly payments until caught up.

**RESPA:** Real Estate Settlement Procedures Act (visit [http://www.hud.gov/offices/hsg/sfh/res/respa_hm.cfm](http://www.hud.gov/offices/hsg/sfh/res/respa_hm.cfm) for details)

**Short Sale:** A sale of a house in which the proceeds fall short of what the owner still owes on the mortgage. Many lenders will agree to accept the proceeds of a short sale and forgive the rest of what is
owed on the mortgage when the owner cannot make the mortgage payments. By accepting a short sale, the lender can avoid a lengthy and costly foreclosure, and the owner is able to pay off the loan for less than what he owes.

**Soft expenses:** Monthly expenses that fluctuate and are difficult to document. These include food, gas, incidentals, entertainment and are not reported on one’s credit report.

**Teaser Rate:** A temporary rate reduction at the beginning of a loan’s term.

Home Affordable Modification Program

The Home Affordable Modification Program (HAMP), a component of the Making Home Affordable Program, is a uniform loan modification process that provides eligible borrowers with sustainable monthly mortgage payments equal to a target 31 percent of their gross monthly income.

Borrower and Loan Eligibility

Eligibility criteria highlights include:

Mortgage loan is secured by a one- to four-unit property, one of which is the owner’s principal residence (condos, coops and manufactured homes that are permanently affixed to real property also eligible)

Jumbo-conforming loans eligible

Documented financial hardship (e.g., job loss, divorce or separation, reduced income—use “Home Affordable Modification Program Hardship Affidavit,” Form 1021)

Borrower in default, at risk of imminent default, or in foreclosure—loan may be in active litigation or, at servicer’s discretion, in bankruptcy

Loans originated on or prior to January 1, 2009

Escrow account required for taxes and insurance

Excludes mortgage loans insured or guaranteed by a federal government agency and loans subject to full lender recourse

Program closes to new participants December 31, 2012

Servicer Requirements

Required participation for all eligible Fannie Mae portfolio mortgages and MBS pool mortgages.

Servicers are prohibited from soliciting borrowers who are less than two payments past due, including borrowers in imminent default. However, if a borrower in this situation contacts a servicer, the servicer may consider the HAMP as a loss mitigation option.

Must use a two-step workout process that first provides a three-month “trial period” (four months for
loans facing imminent default). If the trial period is successfully completed, the loan will be modified. Separate agreements are required—a Trial Period Plan for the trial period and a Modification Agreement for the permanent loan modification.

Servicers are strongly encouraged to use HAMP borrower solicitation materials and documents found on eFannieMae.com. Servicers may revise materials and documents within specified parameters. Other changes must have prior written approval of Fannie Mae.

Incentive Fees

$1,000 servicing incentive fee paid to servicer for each borrower who successfully completes the trial period and executes a Modification Agreement.

Additional $500 servicing incentive fee if borrower was current but facing imminent default at the time of the modification.

Up to $1,000 annual “pay for success” servicer incentive fee for up to three years for each borrower who remains in the program for that year.

Under certain conditions, borrowers can receive an annual principal reduction of up to $1,000 for up to five years.

Costs

No cost to the borrower.

All late charges that accrued prior to modification must be waived if the borrower successfully completes the trial period. Accrued interest and out-of-pocket escrow and other advances to third parties made by servicer in the ordinary course of business (and not retained by the servicer) before or during the trial period can be capitalized.

Servicer must advance any actual out-of-pocket expenses such as notary fees, recordation fees, property valuation fees, borrower counseling fees, or other allowable and documented expenses and be reimbursed later for allowable out-of-pocket expenses.

Resources

Visit the Home Affordable Modification page on eFannieMae.com (www.efanniemae.com/mha/mhamod/) and HMPadmin.com, the Treasury’s administrative site for servicers, for more information and resources. Information about the Home Affordable Modification Program for non-GSE loans is also available at HMPadmin.com.
Home Affordable Modification Program

A proactive and efficient workout solution to help borrowers avoid foreclosure whenever possible.

Freddie Mac is pleased to play a key role in sustaining homeownership and supporting the U.S. Department of the Treasury’s Making Home Affordable program. A Home Affordable Modification offers a strong foreclosure prevention solution by expanding eligibility to borrowers who are delinquent as well as borrowers whose default is imminent. The program provides federal incentives to encourage all parties to engage in loan modifications and avoid home foreclosure.

Program Eligibility

- The program is effective immediately for mortgages originated on or before January 1, 2003, and will expire December 31, 2012.
- Properties are single-family 1-4 unit primary residences, including condos, cooperatives, Single-Family Seller/Servicer Guide (Guide)-eligible manufactured homes, and conforming jumbos.
- Servicers must verify that the borrower is occupying the property as a primary residence.
- First-lien mortgages owned, securitized, or guaranteed by Freddie Mac are eligible with current unpaid principal balances up to:
  - 1 Unit - $729,750
  - 2 Units - $934,200
  - 3 Units - $1,129,250
  - 4 Units - $1,403,400
- FHA, VA, and RHS guaranteed mortgages are eligible, subject to the relevant agency’s guidelines.
- Borrowers may be current or less than 31 days delinquent and in imminent default, or 31 days or more delinquent.
- There must be affirmation of financial hardship.
- Borrowers who may be in foreclosure, in pending litigation involving the mortgage, or who are in active bankruptcy are eligible for this program.
- Mortgages can be previously modified, but borrowers may not have previously entered into a Trial Period Plan under the Home Affordable Modification program.
- Borrowers must currently have a monthly housing expense-to-income ratio greater than 31 percent.

Key Features

- The program strives to create a more affordable first lien payment of principal, interest, taxes, insurance, homeowner/condo association fees, and escrow shortages that is as close as possible, but no less than 31 percent of the borrower’s gross monthly income.
- Borrowers with a monthly total debt payment-to-income ratio equal to or greater than 55 percent must agree to enter free HUD-approved credit counseling.
- Servicers must proactively solicit delinquent borrowers, and may leverage program documents and tools. Servicers cannot solicit borrowers who are current or less than 31 days delinquent.
- Servicers should reduce the monthly mortgage payment using a sequential process that includes capitalization of arrearages, rate reduction, term extension, and principal forgiveness.
- A Trial Period is required during which the borrower must meet the estimated new monthly payments. Servicers enter into a Trial Period Plan with the borrower during the Trial Period, followed by a Modification Agreement upon successful completion of the Trial Period.
- Borrowers and Servicers may receive incentives for timely payments, subject to certain requirements.
### HOME AFFORDABLE MODIFICATION PROGRAM QUALIFICATION

**Eligible Property Types**
- 1-4 unit single-family, primary residences, including condominiums, cooperatives, or other manufactured homes, and conforming jumbos.
- The property cannot be abandoned, vacant, or condemned.
- Servicers must verify that the borrower is occupying the property as a primary residence with a tax return or tax transcript, credit report, and one other document that would prove the property is the borrower's primary residence (e.g., utility bills for the subject property in the borrower's name).

**Eligible Mortgages**
- Mortgages originated prior to January 1, 2009, that are owned, securitized, or guaranteed by Freddie Mac with current, unpaid principal balances up to:
  - 1 Unit: $729,750
  - 2 Units: $564,200
  - 3 Units: $416,250
  - 4 Units: $344,400
- Delinquent mortgages, or mortgages on which the borrower is current and in imminent default.
- Mortgages may be previously modified, but can only be modified once under the Home Affordable Modification program.
- FHA, VA, and RHS guaranteed mortgages provided Servicers comply with guidance issued by the respective agency.

**Loan and Property Value**
- Use Freddie Mac AVMs, and if not available, either a BPO or an appraisal that is no more than 90 days old from the date the Servicer first determines borrower eligibility.

**Borrower Eligibility Requirements**
- Borrowers who are current or less than 31 days delinquent on their mortgage payments and in imminent default.
- Borrowers who are 31 days or more delinquent.
- Affirmation of financial hardship for all borrowers.
- Borrowers must currently have a monthly housing expense-to-income ratio greater than 31 percent.
- Servicers will complete foreclosure sales for mortgages eligible for the Home Affordable Modification program unless the Servicer has completed efforts to contact a borrower and have determined either that (1) the borrower has not responded to the Servicer, (2) the borrower does not have the capacity or willingness to participate in the Home Affordable Modification program or any other Freddie Mac workout program, or (3) some other eligibility factor is not met.
- Borrowers who may be in pending litigation involving the mortgage or who are in active bankruptcy or who are in default are also eligible for this program.
- If the borrower is currently performing under another workout arrangement, but requests to be considered for a modification under the Home Affordable Modification program, the Servicer must consider the borrower for such a modification.
- Servicers are required to consider a borrower for refinancing into the HOPE for Homeowners program. Borrowers who are current or less than 31 days delinquent must be first considered for the Freddie Mac Relief Refinance MortgageSM.

**Solicitation of Borrowers**
- Servicers must solicit borrowers who are 31 days or more delinquent on their mortgages. Eligible borrowers who become 31 days or more delinquent on or after July 1, 2000, must be solicited no later than the 90th day of delinquency.
- Servicers cannot solicit borrowers who are current or less than 31 days delinquent.
- At a current borrower's request to consider a Home Affordable Modification, Servicers must first evaluate the borrower for eligibility for a Freddie Mac Relief Refinance Mortgage. If the borrower is not eligible, the Servicer must then determine whether the borrower is in imminent default.

**Underwriting Method**
- For Stated Income Process:
  - If the Servicer already has required, and undocumented, PITIAS information or chooses to first collect that information verbally, the Servicer may send the borrower a Cover Letter (Stated) and Trial Period Plan, in addition to the Hardship Affidavit, 30 DAY, and 30 DAY NOTICE, Request for Transcript of Tax Return, and Borrower Information documents. Servicer's must also include the Counseling Referral Letter if the borrower's monthly debt-to-income ratio is equal to or greater than 55 percent.
  - For Stated Income Process:
    - The Servicer must send the borrower a Document Request Letter requesting PITIAS documentation, Hardship Affidavit, 30 DAY, and 30 DAY NOTICE, Request for Transcript of Tax Return, and Borrower Information documents. Servicer's must also include the Counseling Referral Letter if the borrower's monthly debt-to-income ratio is equal to or greater than 55 percent. Once qualified, the Servicer must send the borrower a Cover Letter (Stated) and Trial Period Plan.
  - For borrowers who have successfully completed the Trial Period, Servicers must send the Modification Cover Letter and Modification Agreement.
  - Servicers may include an interim month following the third Trial Period month resulting in a one-month delay in the first modified payment due date, only if the borrower does not make the third Trial Period payment by its due date. The effective date of the borrower's modified interest rate and modified principal balance is also delayed by one month to the first day of the first month following the final Trial Period month.
  - The Trial Period Plan and Modification Agreement are uniform instruments that must be used as well as the Counseling Letter, Hardship Affidavit, and 30 DAY, however, Servicers are not required, but strongly encouraged, to use the cover and solicitation letters that are made available under the program.
## DOCUMENTATION

### Income and Debt
- For all borrowers obligated on the loan:
  - The most recently signed and dated tax return, complete with all schedules. If the previous year’s return is not available, the previous year’s Form W-2 for salaried borrowers 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 4566-T.
  - Completed page two of Form 1126, Borrower Financial Information, if the borrower is current or less than 31 days delinquent. (Available on our Guide Forms Web page: [http://www.freddiemac.com/sets/forms/](http://www.freddiemac.com/sets/forms/))
  - The two most recent pay stubs or salary vouchers, along with most recent complete signed federal tax returns and other acceptable income verification documents.
  - For a self-employed borrower, complete signed and dated federal income tax return for the previous year, year-to-date profit and loss statement that at a minimum reflects the last full quarter’s information, and other reliable third-party documentation the borrower voluntarily provides.
  - Documentation must not be more than 90 days old as of the date the Servicer first determines borrower eligibility.
  - Verified monthly gross income and determination of continued eligibility is required for all borrowers prior to the Servicer’s signing and return of the Trial Period Plan.
  - If only net income is available, multiply the net income by 1.25 to obtain an estimated gross income for qualification of the borrower for the trial payment period.

### Credit Bureau Report
- A credit report no more than 90 days old from the time the Servicer first determines the borrower’s eligibility is required for each borrower, or a joint report for a married couple who are co-borrowers.

### Timing for Modification of Documents
- No required timeframe for borrower response to solicitation letter; however, foreclosure proceedings are not put on hold until the borrower responds.
- The borrower has 30 days (or up to 60 days, if Servicer permits) from mailing (or next business day thereafter) of the Trial Period package to complete, sign, and return both Trial Period Plans, hardship affidavit, income documentation, first payment due under the Trial Period terms and any applicable executed disclosures. However, if the borrower’s first Trial Period payment is not received by the end of the month in which the Trial Period Effective date occurs (i.e., Trial Period Plan Offer Deadline), Servicers must consider the Trial Period Plan offer expired.
- The borrower has 14 days from mailing (or next business day thereafter) of the modification package to complete, sign, and return for the modification to become effective.

## MODIFICATION STRUCTURE

### Definition of PITIA
- Principal
- Interest
- Taxes
- All property-related insurance premiums (property insurance, flood insurance). Mortgage insurance is not included.
- Association fees (HOA/condominium fees)
- 1/60th of the escrow shortage, if applicable

### Escrows
- Escrows are required, unless prohibited by state law.
- Association fees are not included in escrow.
- The borrower may remit any escrow shortage as a lump sum payment or over a 60-month period. The shortage may not be capitalized in the UPB.

### Escrow Capitalization Requirements
- Previous advances paid to third parties by the Servicer to pay property taxes and/or insurance premiums.
- Advances that will be paid to third parties before modification for taxes and/or insurance premiums due during the Trial Period.
- A Servicer may not capitalize amounts that it "advances" into a short or deficient escrow account, unless those amounts are also paid to a third party prior to the end of the Trial Period.
## Modification Process

- Use the borrower's monthly gross income or net income x 125 percent if gross income is not available.
- Calculate the maximum affordable payment (Target Payment) of as close as possible to, but no less than, 31 percent of monthly gross income.
- 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 1/8 percent 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 shortfall 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 perform a Net Present Value (NPV) test for all eligible mortgages to compare the modification terms under the program to the estimated loss if the property were to go into foreclosure on at least two occasions: (1) when they are qualifying the borrower for a Trial Period and (2) when the final terms of the modification are known. However, if a Servicer relies on stated income to prepare and send the Trial Period Plan and verified income is less than the stated income, then the Servicer must run the NPV test again before signing and sending the Trial Period Plan to the borrower.
- Servicers may use the Borrower Qualification Worksheet to calculate the Trial Period payment, determine the loan modification terms available for all eligible borrowers, and assess whether or not a borrower, who is current or less than 31 days delinquent, is in imminent default under the Debt Coverage Ratio and Cash Reserves test. However, in the event the Servicer chooses to include an interim month following the third Trial Period month resulting in a one-month delay of the borrower's first modified payment due date, Freddie Mac Servicers must not use the Worksheet to assist them in determining the borrower's final modification terms.
- Servicers will follow the sequential process in the order specified below only to the extent necessary to achieve the Target Payment:
  1. Capitalize arrears.
  2. Reduce the interest rate in decrements of 0.125 percent to no lower than 2.0 percent (using the remaining term to maturity). If the modified interest rate is below the interest rate cap, the modified interest rate will remain fixed for five years. Beginning in the sixth year, the modified interest rate will be subject to annual increases of no more than 1 percent per year until it reaches the interest rate cap. The interest rate cap is the Freddie Mac Weekly Primary Mortgage Market Survey Rate for a 30-year fixed-rate conforming mortgage, rounded to the nearest one-eighth of a percent (0.125%), as of the date that the Modification Agreement is prepared.
  3. Extend the amortization term month-by-month up to 480 months from the modification date.
  4. Forebear principal in 100 amounts. Deferred principal will not be subject to interest and requires an additional balloon payment due upon sale, payoff or maturity. Deferred principal will be non-interest bearing and non-amortizing.
  5. Run the proposed modification terms through the NPV Calculator. If the Servicer obtains an NPV negative result and the modification terms include deferral of principal; the borrower is eligible for a modification provided the interest-bearing principal is not less than 100 percent MTM LTV, including capitalized amounts. If the Servicer obtains a positive NPV result, the borrower is eligible for a modification regardless of the MTM LTV ratio.
  6. If the Target Payment cannot be achieved, then the borrower does not qualify for this program. If the Servicer is unable to offer the borrower a different alternative to foreclosure, the Servicer must then refer the mortgage to Freddie Mac for further review.
- Calculate the total monthly debt payment-to-income ratio (include non-housing debt, payments on junior liens, or mortgage insurance premium payments). Borrowers with ratios equal to or greater than 55 percent must agree to enroll in a free HUD-approved credit-counseling program.

## Additional Terms

- May capitalize accrued interest, amounts advanced and paid to third parties for past due real estate taxes and or insurance premiums (and payments of taxes and or insurance premiums that fall due during the Trial Period), and delinquency charges.
- Unpaid late fees waived.
- No negative amortization.
- Principal write-down not permitted.
- A modified loan cannot be assumed.
- The UPG may exceed Freddie Mac's conforming loan limit as a result of the modification.
- Any prepayment fee associated with the original mortgage is null and void by the modification.
TRIAL PERIOD

Servicer Reporting and Remitting
- Temporarily suspend foreclosure activities during pendency of modification offer, during ongoing negotiations with a potential candidate, and during the Trial Period. Cease foreclosure activities upon successful completion of the trial payment period.
- Place borrower payments in suspense until total payments comprise one full payment under the original mortgage terms.
- Continue to report and remit to Freddie Mac per the investor reporting and remitting requirements in the Guide.
- Monthly Electronic Default Reporting (EDR) - When reporting the Trial Period Effective Date, Servicers must report default action code "06 - Forebearance Plan" in the EDR reporting cycle for the month in which the Trial Period Plan Effective Date occurs, provided the Servicer receives the first Trial Period Payment on or before the Trial Period Plan Offer Deadline. Beginning October 1, 2009, Servicers must use default reason code "HMP" in conjunction with default action code "06-Forebearance Plan" and begin reporting where they are in the Home Affordable Modification process using new EDR default action codes.
- Report a "full-line" status report to the four major credit repositories during the Trial Period as follows:
  - Borrowers who are current when they enter into the Trial Period and make payments by the 30th of each month, report as current, but on a modified payment.
  - Borrowers who are delinquent when they enter into the Trial Period or do not make payments by the 30th of each month, report according to borrower's delinquency and workout status.
  - Notify when borrowers have completed the modification.

Borrower Payments
- Borrowers must make three monthly payments at the modified payment amount during the Trial Period and be current on day 90 (end of the third month of the Trial Period) in order for the modification of the mortgage to take effect.
- Borrowers may include their first payment due under the Trial Period with the return of a signed Trial Period Plan, but must send the first Trial Period payment by the Trial Period Plan Offer Deadline.

FEES AND INCENTIVES

Fees Paid by Borrower
- No modification-related fees charged to the borrower.
- No cash contribution required, unless borrower elects to fund the escrow shortage in a lump sum.

Fees Paid by Servicer
- Notary, recording, and all other required fees.
- May request reimbursement for certain modification costs that would otherwise be paid by the borrower.

Servicer Incentives
- $1,000 paid upon successful completion of the borrower's Trial Period and modification process.
- Up to $1,000 each year for three years, accrues monthly and considered earned as of each anniversary of the effective date of the Trial Period Plan as long as the borrower continues in the program.
- The payment of this incentive will be forfeited should the borrower become 90-days or more delinquent at any time during the three-year period. Incentives accrue each month during which the borrower is less than 90 days delinquent and are awarded annually.
- An additional $500 incentive payment for each modification for an eligible borrower who was current (less than 31 days delinquent) and in minimum default and remained current during the Trial Period Plan.

Borrower Incentives
- Borrowers who remain current on their modification receive a "Pay for Performance" incentive in the form of a principal reduction of up to $1,000 per year for five years. This incentive accrues monthly and is considered earned as of each anniversary of the effective date of the Trial Period Plan.
- The payment of this incentive will be forfeited and the borrower will no longer be eligible for this incentive thereafter should the borrower become 90-days or more delinquent at any time during the five-year period.
- Servicers are expected to report borrower incentive accrual on a monthly basis.

Incentives
- To qualify for Servicer "Pay for Success" payments and borrower "Pay for Performance" incentive payments, the modification must reduce the modified monthly PITI payment by a minimum of 6 percent from monthly mortgage payment used to determine eligibility (the minimum constraint).
- When paid, Servicer annual "Pay for Success" payments and borrower "Pay for Performance" will be the lesser of (i) $1,000 or (ii) half the reduction in the borrower's annualized monthly payment.
- If a borrower does not make a Trial Period payment during the Trial Period interim month, both the Servicer and borrower will not accrue incentive compensation for that month.
- Servicers may report a borrower past due to a credit reporting agency if a borrower does not submit funds in an amount of at least equivalent to a Trial Period payment during the interim month or for purposes of accruing incentives for a timely first modified payment.

Call (800) FREDDIE.
- Contact your Freddie Mac representative.
- Visit Freddie Mac's Home Affordable Modification Web page at www.FreddieMac.com/singlefamily/service/info_modification.html
- Additional information about the Federal Making Home Affordable program can be found at www.makinghomeaffordable.gov.

Servicer understands that this document may not incorporate every requirement under, and is not to be relied on as a replacement or substitute for, the information contained in the Single-Family Seller/Servicer Guide (Guide) or Guide Bulletin. Servicer is responsible for complying with the requirements of the Guide and relevant Guide Bulletin(s), notwithstanding the extent to which they may be inconsistent with this document. Refer to Chapter C65 of the Single-Family Seller/Servicer Guide.