



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, 2009, 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 housing 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 forbearance.
- A Trial Period is required during which the borrower must remit 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

<p>Eligible Property Types</p>	<ul style="list-style-type: none"> • 1-4 unit single-family, primary residences, including condominiums, cooperatives, Guide-eligible 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).
<p>Eligible Mortgages</p>	<ul style="list-style-type: none"> • Mortgages originated prior to January 1, 2009, that are owned, securitized, or guaranteed by Freddie Mac with current, unpaid principal balances up to: <ul style="list-style-type: none"> ▪ 1 Unit - \$729,750 ▪ 2 Units - \$934,200 ▪ 3 Units - \$1,129,250 ▪ 4 Units - \$1,403,400 • 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.
<p>Loan and Property Value</p>	<ul style="list-style-type: none"> • 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.
<p>Borrower Eligibility Requirements</p>	<ul style="list-style-type: none"> • 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. • Borrowers who may be in foreclosure. Servicers will not 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 are 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.
<p>Solicitation of Borrowers</p>	<ul style="list-style-type: none"> • 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, 2009, must be solicited no later than the 50th day of delinquency. • Servicers cannot solicit borrowers who are current or less than 31 days delinquent. • At a current borrower's request to be considered for 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.
<p>Underwriting Method</p>	<ul style="list-style-type: none"> • For Stated Income Process: <ul style="list-style-type: none"> ▪ If the Servicer already has required, but 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, SIGTARP Fraud Notice, Request for Transcript of Tax Return, and Borrower Financial Information documents. Servicers must also include the Counseling Referral Letter if the borrower's total monthly debt payment-to-income ratio is equal to or greater than 55 percent. • For Verified Income Process: <ul style="list-style-type: none"> ▪ The Servicer must send the borrower a Document Request Letter requesting PITIAS documentation, Hardship Affidavit, SIGTARP Fraud Notice, Request for Transcript of Tax Return, and Borrower Financial Information documents. Servicers must also include the Counseling Referral Letter if the borrower's total monthly debt payment-to-income ratio is equal to or greater than 55 percent. Once qualified, the Servicer must send the borrower a Cover Letter (Verified) 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 SIGTARP Fraud Notice; however, Servicers are not required, but strongly encouraged, to use the cover and solicitation letters that are made available under the program.

DOCUMENTATION

<p>Income and Debt</p>	<p>For all borrowers obligated on the loan:</p> <ul style="list-style-type: none"> • Completed Form Form 4506-T, <i>Request for Transcript of Tax Return</i>. (Available at the IRS Web site: http://www.irs.gov/.) • 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 4506-T. • Completed page two of Form 1126, <i>Borrower Financial Information</i>, if the borrower is current or less than 31 days delinquent. (Available on our Guide Forms Web page: http://www.freddiemac.com/sell/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.
<p>Credit Bureau Report</p>	<ul style="list-style-type: none"> • 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.
<p>Timing for Modification of Documents</p>	<ul style="list-style-type: none"> • 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.
<p>MODIFICATION STRUCTURE</p>	
<p>Definition of PITIAS</p>	<ul style="list-style-type: none"> • 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
<p>Escrows</p>	<ul style="list-style-type: none"> • 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.
<p>Escrow Capitalization Requirements</p>	<ul style="list-style-type: none"> • 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.

<p>Modification Process</p>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ▪ 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 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 relied 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: <ol style="list-style-type: none"> 1. Capitalize arrearages. 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 mortgages, 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 NPV positive 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 enter a free HUD-approved credit-counseling program.
<p>Additional Terms</p>	<ul style="list-style-type: none"> • 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 UPB 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	<ul style="list-style-type: none"> 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 "09 - Forbearance 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 also use default reason code "HMP" in conjunction with default action code "09-Forbearance Plan" and begin reporting where they are in the Home Affordable Modification process using new EDR default action codes. Report a "full-file" status report to the four major credit repositories during the Trial Period as follows: <ul style="list-style-type: none"> Borrowers who are current when they enter into the Trial Period and make payments by the 30th day 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Notary, recordation, and other required fees. May request reimbursement for certain modification costs that would otherwise be paid by the borrower.
Servicer Incentives	<ul style="list-style-type: none"> \$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 this three-year period. Incentives accrue each month during which the borrower is less than 90 days delinquent and are awarded yearly. An additional \$500 incentive payment for each modification for an eligible borrower who was current (less than 31 days delinquent) and in imminent default and remained current during the Trial Period Plan.
Borrower Incentives	<ul style="list-style-type: none"> 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 this five-year period. Servicers are expected to report borrower incentive accrual on a monthly basis.
Incentives	<ul style="list-style-type: none"> To qualify for Servicer "Pay for Success" payments and borrower "Pay for Performance" incentive payments, the modification must reduce the modified monthly PITIAS payment by a minimum of 6 percent from monthly mortgage payment used to determine eligibility (<i>De minimis constraint</i>). 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 not report a borrower past due to a credit reporting agency if a borrower does not submit funds in an amount 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/mha_modification.html
- Additional information about the federal Making Home Affordable program can be found at <http://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.