



# **Servicing Alignment Initiative:**

## *Freddie Mac Requirements Overview for Housing Counselors*

**Cleveland, October 7, 2011**



## Requirements Launched

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- On June 30, 2011, Freddie Mac issued requirements for this comprehensive set of changes to our mortgage loan servicing and delinquency management requirements.
- Effective October 1, 2011, these new requirements must be implemented by Servicers of Freddie Mac-owned mortgages.
- Full requirements for our new modification solution, the Freddie Mac Standard Modification, were announced on September 12, 2011. Freddie Mac Servicers may begin evaluating borrowers as soon as possible, but no later than January 1, 2012.
- Freddie Mac will continue to work with you to understand our requirements so you can work with Freddie Mac Servicers.

# Components

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- Freddie Mac's new delinquent loan servicing requirements promote greater consistency and efficiency in several areas:
  - » Borrower Contact;
  - » Delinquency Management Practices;
  - » Loan Modifications and Workouts;
  - » Servicer Incentives and Compensatory Fees; and
  - » State Foreclosure Time Lines.

## Borrower Contact

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### Result:

- Brings greater consistency, clarity, and empathy to Servicer communication with borrowers.
- Simplifies the application process for borrowers seeking an alternative to foreclosure.
- Increases the likelihood that Servicers will contact borrowers *earlier*, and *more frequently*, during the delinquency process.

### Benefit:

- Increases the likelihood of a positive outcome by encouraging distressed homeowners to take advantage of assistance sooner following the delinquency.

# Delinquency Management Practices

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## Result:

- Servicers consistently acknowledge certain events to borrowers at specified time periods, including receipt of a borrower's Borrower Response Package.
- Consistent content and timing for late notices and reminder letters; notifying borrowers of receipt of incomplete or missing information; evaluation notices (which provide the decision or next steps to the borrower); breach letters; and solicitations during the foreclosure process.
- Unified structure and development/implementation process for reviewing and responding to borrower complaints, and escalating those disputes that rise to the level of an escalated case.

## Benefit:

- Earlier, more frequent, and clearer communication with borrowers improves understanding so you can help your clients assess their options.

## Loan Modifications and Workouts

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### Result:

- Freddie Mac is implementing the new Freddie Mac Standard Modification, a non-HAMP modification solution with new evaluation, trial period, and permanent modification requirements (Freddie Mac Servicers must begin evaluating borrowers no later than January 1, 2012).
- Offers a sustainable modification solution for borrowers who are not eligible for HAMP, or who have defaulted on a HAMP Trial Period Plan HAMP modification, or other modification under certain circumstances.

### Benefit:

- New evaluation standards and other components promote a strongly sustainable modification option for your clients.

# Servicer Incentives and Compensatory Fees

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## Result:

- Servicers receive incentives for activities based on significantly higher quality benchmarks, and will be assessed compensatory fees should they fail to meet these benchmarks.

## Benefit:

- Servicers are incented to improve performance, which should translate into quicker resolution for your client.

## State Foreclosure Time Lines

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### Result:

- Continue to require that Servicers engage in single-track for loss mitigation and workout activities up to the 120<sup>th</sup> day of delinquency.
- Servicers must continue to work with homeowners on foreclosure alternatives even after the foreclosure process has begun.

### Benefit:

- Greater consistency with, and a common understanding of, the foreclosure process and time lines, establishing accountability and reducing borrower confusion.

# Servicing Alignment Initiative

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## Result:

- Freddie Mac's requirements should help:
  - » Servicers engage more frequently and efficiently with homeowners, resolving their cases more quickly and consistently;
  - » Promote greater transparency and a quicker decision-making process for distressed homeowners; and
  - » Improve Servicer performance.

## Benefit:

- Help you work with Servicers of Freddie Mac-owned mortgages more effectively to assess your clients' workout options.

# Borrower Contact

## Overview:

- The Borrower Solicitation Package is used for **all** alternatives to foreclosure, including HAMP modification, Freddie Mac-specific modification, short sale, or other solution.
- There are standard requirements for documentation that must be sent to a borrower, including:
  - » Form 710, *Uniform Borrower Assistance Form*
  - » Form 710A, *Government Monitoring Data Form* (for HAMP-eligible borrowers only)
  - » Borrower checklist
  - » Solicitation letter
  - » FAQ document
  - » Important notices
  - » IRS Form 4506T-EZ or 4506-T

**BORROWER ASSISTANCE FORM (PAGE 1)**

If you are experiencing a temporary or long-term hardship and need help, you must complete and submit this form along with other required documentation to be considered for available solutions. On this page, you must disclose information about (1) you and your intentions to either keep or transition out of your home; (2) information on the property's status; (3) real estate taxes; (4) homeowner's insurance premiums; (5) bankruptcy; (6) your credit counseling agency, and (7) information concerning other liens, if any, on your property.

On Page 2 you must disclose information about all of your income, expenses and assets. Page 2 also lists the required income documentation that you must submit in support of your request for assistance. Then on Page 3, you must complete the Hardship Affidavit in which you disclose the nature of your hardship. The Hardship Affidavit informs you of the required documentation that you must submit in support of your hardship claim.

**NOTICE:** In addition, when you sign and date this form, you will make important certifications, representations and agreements, including certifying that all of the information in this Borrower Assistance Form is accurate and truthful and any identified hardship has contributed to your submission of this request for mortgage relief.

**REMINDER:** the Borrower Assistance Package you need to return consists of: (1) this completed, signed and dated form; (2) the required documentation; (3) the completed Hardship Affidavit; (4) the completed Government Monitoring Data Form (Form 710A).

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Form **4506T-EZ** Short Form Request for Individual Tax Return Transcript OMB No. 1545-0046  
 (Rev. January 2011)  
 Department of the Treasury Internal Revenue Service

Request may not be processed if the form is incomplete or illegible.

Tip: Use Form 4506T-EZ to order a 1041 return transcript free of charge, or you can quickly request transcripts by using our automated self-help service tools. Please visit us at [irs.gov](http://irs.gov) and click on "Order a Transcript" or call 1.800.828.8046.

1. Name of donor or tax return. If a joint return, enter the name of both.

2. If joint return, enter spouse's name of donor or tax return.

3. First social security number or individual taxpayer identification number on tax return.

4. Second social security number or individual taxpayer identification number if joint tax return.

5. Current name, address (including apt., room, or suite nos.), city, state, and ZIP code (See instructions).

6. Previous address shown on the last return filed if different from line 5 (See instructions).

7. If the transcript is to be mailed to a third party (such as a mortgage company), enter the third party's name, address, and telephone number. The IRS has no control over what the third party does with the tax information.

Third party name Telephone number

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**HARDSHIP AFFIDAVIT page 1** COMPLETE ALL TWO PAGES OF THIS FORM

Loan ID Number  Servicer

BORROWER		CO-BORROWER	
Borrower's name <input type="text"/>		Co-borrower's name <input type="text"/>	
Social Security number <input type="text"/>	Date of birth <input type="text"/>	Social Security number <input type="text"/>	Date of birth <input type="text"/>

Property address (include city, state and zip):

I want to:  Keep the Property  Sell the Property

The property is my:  Primary Residence  Second Home  Investment Property

The property is:  Owner Occupied  Renter Occupied  Vacant

**HARDSHIP AFFIDAVIT**

I (We) am/are requesting review under the Making Home Affordable program.  
 I am having difficulty making my monthly payment because of financial difficulties created by (check all that apply):

## Borrower Contact

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- Adhere to standards and time lines for:
  - » Contacting delinquent borrowers on certain activities, including collection calls and call center standards;
  - » Establishing quality right party contact;
  - » Sending Borrower Solicitation Packages;
  - » Written communication notices; and
  - » Receipt of Borrower Response Packages.

**Emphasis is on early intervention,  
requiring borrower contact *earlier* and more *frequently*.**

# Delinquency Management Practices

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## Overview:

Freddie Mac requires Servicers to:

- Have consistent written borrower notification and response communication time lines;
- Have a process for reviewing and escalating borrower disputes; and
- Implement revised borrower income and hardship requirements.

# Loan Modifications and Workouts

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## Overview:

Freddie Mac requirements bring consistency and best practices to the loan modification process by:

- Requiring a single set of homeowner evaluation standards; and
  - Creating a new modification solution with new evaluation, trial period, and permanent modification requirements.
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- ❖ Freddie Mac Servicers must begin evaluating borrowers for the new modification solution – called the Freddie Mac Standard Modification -- no later than January 1, 2012.

## Freddie Mac Standard Modification

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- This new, non-HAMP Freddie Mac modification solution:
  - » Requires a three-month trial period to ensure that borrowers are able to meet the modified terms before being placed into a permanent modification;
  - » Provides forbearance to certain borrowers whose property value is significantly less than their mortgage debt; and
  - » Provides a 480-month (40-year) modified term with a 5 percent fixed interest rate, which will be fixed for the life of the modified mortgage.
- Targets borrowers ineligible for HAMP, or borrowers who have defaulted on a HAMP Trial Period Plan, HAMP modification, or other modifications.
- Replaces our current “classic” mortgage modification requirements in the Freddie Mac *Single-Family Seller/Service Guide*.

## Borrower Eligibility

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- Your clients may be able to obtain a Standard Modification if:
  - » Their mortgage is owned by Freddie Mac;
  - » They are behind on their mortgage payments by at least 60 days;
  - » They are current, but unable to make their monthly payments going forward due to an eligible hardship that can be documented (unemployment and other temporary hardships are not eligible);
  - » They are ineligible for, or previously defaulted on, a HAMP loan modification or other loan modification solution;
  - » They have verifiable income available to make a new, modified payment (unemployment benefits are not eligible);
  - » They have had their existing mortgage for at least 12 months; and
  - » The property is their primary residence, a second home, or an investment property.

## Modification Process

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- Your client will first be considered for a Freddie Mac reinstatement, repayment, or forbearance plan, and then a HAMP modification, before being considered for a Standard Modification.
- Modified mortgage must be a fixed-rate, fully amortizing mortgage.
- If the mark-to-market loan-to-value (MTMLTV) ratio is greater than or equal to 80 percent, Servicers are delegated the authority to determine the proposed modification terms and final eligibility based on the following:
  - » Capitalize accrued interest and other eligible amounts (capitalize arrearages).
  - » Adjust the interest rate to a 5 percent fixed rate.

## Modification Process (continued)

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- » Extend the amortization term to 480 months (40 years) from the modification effective date.
- » Provide forbearance to certain borrowers whose current mortgage debt is more than 115 percent of their mark-to-market property value.
- Servicers may submit recommendations to Freddie Mac for borrowers who do not meet these eligibility requirements, including when the MTMLTV ratio is less than 80 percent.

## Permanent Modification Eligibility Requirements

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- The modified principal and interest payment must be at least 10 percent less than the borrower's pre-modification principal and interest payment to be eligible.
- The modification must result in a housing expense-to-income ratio [monthly PITIAS, including borrower-paid mortgage insurance (monthly housing expense), divided by monthly gross income], that is greater than or equal to 10 percent and less than or equal to 55 percent to be eligible.
  - » Nonowner-occupied properties have different debt-to-income requirements.

## Trial Period

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- Borrowers must complete a three-month trial period. (Trial periods may be up to two months longer if the borrower is in bankruptcy.)
- Borrowers must make timely monthly payments for each month of the trial period at the estimated modified payment amount and otherwise comply with the trial period plan before the Servicer finalizes the permanent modification agreement.

## Documentation

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- A Uniform Borrower Assistance Form and associated documentation must be used to solicit and evaluate borrowers for all available modifications.
- All borrowers must provide a signed and completed IRS Form 4506T-EZ or Form 4506-T and required income and hardship documentation as part of the Borrower Response Package they return to their Servicer. In certain instances, Form 4506-T may need to be returned by the borrower to the Servicer via standard mail.
- New borrower solicitation documentation replaces the current documentation used for HAMP.
- Forms are available on FreddieMac.com:  
[http://www.freddiemac.com/singlefamily/service/solicitation\\_docs.html](http://www.freddiemac.com/singlefamily/service/solicitation_docs.html)

## Where to Find More Information

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- Housing Professionals Resource Center @ FreddieMac.com:
  - » Servicing Alignment Initiative Fact Sheet; and
  - » Training Opportunities (“Live” Webinars):
    - ✓ Freddie Mac Standard Modification Overview (October)

<http://www.freddiemac.com/corporate/housingpros/>

- Borrower Solicitation Documents:

[http://www.freddiemac.com/singlefamily/service/solicitation\\_docs.html](http://www.freddiemac.com/singlefamily/service/solicitation_docs.html)

- Single-Family Seller/Servicer Guide:

<http://www.freddiemac.com/sell/guide/>

# Servicer Incentives and Compensatory Fees



## Overview:

- Eligible Servicers will receive incentives for activities based on significantly higher quality benchmarks.
- Likewise, Freddie Mac will assess compensatory fees if Servicers fail to meet these benchmarks.
- Freddie Mac will be providing eligible Servicers a \$500 incentive for receiving a completed Borrower Response Package if they meet certain volume benchmarks.
  - » Freddie Mac strongly encourages Servicers to engage and adequately compensate qualified housing counselors to assist Servicers in obtaining quality right party contact, educate borrowers, and deliver completed Borrower Response Packages that can be evaluated by the Servicer for all available workout options. This incentive structure reinforces a much higher expectation of engagement and performance for Servicers.

## Borrower Response Packages

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- Looking at the population of borrowers who become 60 days delinquent as of the beginning of a month, Freddie Mac measures Servicers at the end of a six-month period to determine how many of these borrowers:
  - » deliver complete Borrower Response Packages,
  - » become current or pay off, or
  - » become less than 60 days delinquent.

## Incentives and Compensatory Fees\*

	Incentives	Compensatory Fees
Example	<ul style="list-style-type: none"><li>Population of 60+ day delinquent borrower population = 100</li><li>Receive 60 completed packages</li><li>Incentive = \$30,000 (\$500 x 60)</li></ul>	<ul style="list-style-type: none"><li>Population of 60+ day delinquent borrower population = 100</li><li>Receive 40 completed packages</li><li>Compensatory Fee = \$5,000 (\$500 x 10)</li></ul>

Note: There are no incentives or assessed compensatory fees if the percentage for complete packages falls between the 50 and 60 percent benchmarks.

\*For illustrative purposes only. Complete details and requirements are in *Single-Family Seller/Service Guide Bulletin 2011-11*.

# Settled Workout Incentives and Compensatory Fees



- Modification incentives for the new Freddie Mac Standard Modification\* will be paid provided that the modification settles within 60 days of a completed Trial Period Plan.
- Incentives are unchanged for settled:
  - » Existing Freddie Mac workout solutions
  - » HAMP modifications
  - » HAFA and non-HAFA short sales
  - » HAFA deeds-in-lieu and non-HAFA deeds-in-lieu
  - » Repayment Plans
  - » Make-whole pre-foreclosure sales
- Incentives will be paid and compensatory fees will be assessed Monthly.

\* Freddie Mac Servicers must begin evaluating borrowers for the Standard Modification no later than January 1, 2012.

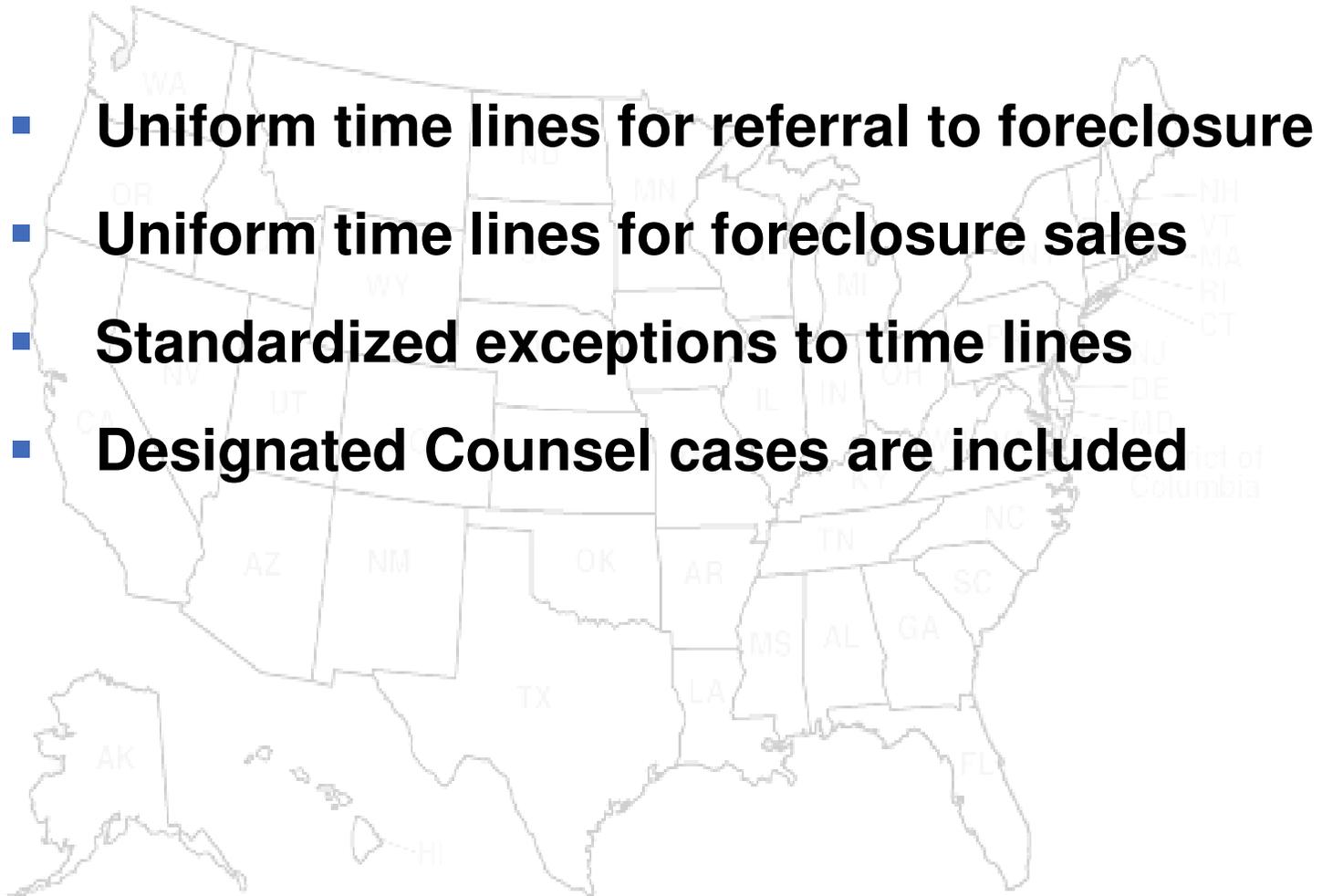
# State Foreclosure Time Lines

## Overview:

Freddie Mac's requirements result in:

- Uniform state foreclosure process time lines to consistently measure Servicer foreclosure time line performance; and
- Assessment of related compensatory fees for not meeting time line and process requirements.
  - » This includes alignment on state standard time lines plus exceptions for allowable delays that are consistent with allowances we currently permit (i.e., bankruptcy, military indulgence, HAMP).
- Additional 10 days to postpone referral to foreclosure if the Borrower Response Package is received but missing hardship documentation.
- Additional 14 days, wherever possible, to suspend foreclosure sale where permitted, under applicable law, for borrower response to alternative to foreclosure when foreclosure sale date is scheduled on or before the expiration of the borrower response period.

# State Foreclosure Time Lines

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- A light gray map of the United States with state abbreviations overlaid. The map is used as a background for the list of bullet points.
- **Uniform time lines for referral to foreclosure**
  - **Uniform time lines for foreclosure sales**
  - **Standardized exceptions to time lines**
  - **Designated Counsel cases are included**

## Servicing Alignment and HAMP

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- Does not impact ongoing efforts for your clients to work with their Freddie Mac Servicer on a Home Affordable Modification Program (HAMP) modification or other foreclosure alternative.
  - » If your clients receive a solicitation from their Servicer, or they are already in the process of working on a workout option, they should continue with this process.
- New Borrower Solicitation Package will be applicable for all workout solutions, including HAMP.
  - » Freddie Mac encourages Servicers to implement the new Uniform Borrower Solicitation Package forms as soon as possible. You can access these forms at:  
[www.FreddieMac.com/singlefamily/service/solicitation\\_docs.html](http://www.FreddieMac.com/singlefamily/service/solicitation_docs.html).

## **Servicing Alignment and HAMP (cont'd)**

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- Quality right party contact and borrower solicitation/engagement requirement will be applied to HAMP.
- Assessment process remains the same – assess for HAMP or other loss mitigation alternatives (reinstatement, repayment plan, forbearance, etc.).

**Questions?**

## Contact Information

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### Freddie Mac.com:

- **Fact Sheet and Live Webinar Trainings (October):**  
<http://www.freddiemac.com/corporate/housingpros/>
- **Single-Family Seller/Servicer Guide:**  
<http://www.freddiemac.com/sell/guide>
- **Borrower Solicitation Documents:**  
[www.FreddieMac.com/singlefamily/service/solicitation\\_docs.html](http://www.FreddieMac.com/singlefamily/service/solicitation_docs.html)