Freddie Mac

Bulletin

TO: Freddie Mac Servicers November 2, 2017 | 2017-25

SUBJECT: SERVICING REQUIREMENTS TO ASSIST BORROWERS IMPACTED BY ELIGIBLE DISASTERS

We are expanding our requirements for Mortgages held by Borrowers whose Mortgaged Premises or places of employment are located in any Eligible Disaster Area designated on and after August 25, 2017 by announcing:

Modifications – Effective February 1, 2018

- The temporary Freddie Mac Extend Modification for Disaster Relief ("Extend Modification") **– New**
- A revision to our eligibility criteria for the Capitalization and Extension Modification for Disaster Relief ("Disaster Relief Modification")

Insurance

- Temporary revisions to certain requirements for:
  - The distribution of insurance loss settlements
  - Borrower-requested cancelation of Borrower-paid mortgage insurance

Servicers must refer to the Federal Emergency Management Agency's (FEMA) **web site** to determine if a Borrower's Mortgaged Premises or place of employment is located in an Eligible Disaster Area.

REVISIONS TO THE GUIDE FOR THE TEMPORARY EXTEND MODIFICATION FOR DISASTER RELIEF AND INSURANCE REQUIREMENTS

Unless otherwise stated below, the requirements described in this Bulletin are temporary and the Guide will not be updated to reflect them. Servicers must refer to this Guide Bulletin to ensure compliance with these temporary requirements and must follow the requirements until otherwise instructed by Freddie Mac. We will evaluate these requirements in the future and determine if they should be incorporated into the Guide.

MODIFICATIONS

Extend Modification for Disaster Relief

In response to customer and industry feedback, we are introducing the Freddie Mac Extend Modification for Disaster Relief ("Extend Modification"). This temporary offering was designed at the direction of the FHFA and in coordination with Fannie Mae. It is an addition to the suite of options already available to Servicers to assist impacted Borrowers who were current or less than 31 days delinquent (i.e., have not missed more than one monthly Mortgage payment) as of the date the Eligible Disaster occurred. Servicers must consider eligible Borrowers for this modification once the Borrower's hardship is resolved and the Borrower indicates the ability to resume making the contractual monthly payments on the Mortgage but reinstatement or a repayment plan is not a viable option.

The Extend Modification is similar to the existing Capitalization and Extension Modification for Disaster Relief ("Disaster Relief Modification"). The primary difference between these two modification options is that the Disaster Relief Modification requires the capitalization of arrearages in accordance with Guide Section 9206.15, while the Extend Modification does not permit the Servicer to capitalize arrearages, and instead extends the Mortgage term by a number of months equal to the number of missed monthly payments. As described in the Borrower contact requirements and disaster evaluation hierarchy section below, the Extend Modification is the first mortgage modification option available in Freddie Mac's evaluation hierarchy for Borrowers who were impacted by an Eligible Disaster ("disaster evaluation hierarchy").

In some cases, a Borrower's monthly payment obligation will increase as a result of the Extend Modification, including when:

- The Servicer changes the ARM and Step-Rate Mortgage interest rate to a fixed-rate following the instructions below
- The Servicer must recover funds that it advanced to cover delinquent taxes and insurance premiums that are typically capitalized in accordance with Section 9206.15; or
- An Escrow shortage has been identified and the Borrower is unable to pay the Escrow shortage as a lump sum, so the Borrower must pay the shortage as part of the monthly payment in accordance with Section 9206.15

In these instances, the Borrower may decline the Servicer's offer for an Extend Modification, in which case, the Servicer must evaluate the Borrower for a Disaster Relief Modification, which is the next available option in the disaster evaluation hierarchy.

Complete Extend Modification requirements and features are described below, including eligibility requirements, modification terms and details regarding the collection of funds to cover Escrow shortages and Escrow advances.

Servicer implementation

Servicers must implement the Extend Modification no later than **February 1, 2018**, and must utilize the requirements for this modification, which are provided in this Bulletin, until otherwise instructed by Freddie Mac. A Servicer may implement earlier than February 1, 2018 if it is operationally ready to do so. If a Servicer does not service any Mortgages for Borrowers who have been impacted by an Eligible Disaster that occurred on or after August 25, 2017, the Servicer is not required to implement the Extend Modification. However, if the Servicer subsequently identifies impacted Mortgages (e.g., due to a new Eligible Disaster or Transfer of Servicing), the Servicer must implement the Extend Modification as soon as is reasonably possible.

Borrower contact requirements and disaster evaluation hierarchy

Prior to the end of the Borrower's disaster-related forbearance, the Servicer must attempt to contact the Borrower and establish Quality Right Party Contact (QRPC).

If QRPC is established with a Borrower who was 31 days or more delinquent (i.e., had missed more than one monthly payment) prior to the Eligible Disaster, then the Borrower is not eligible for the Extend Modification (or Disaster Relief Modification), and the Servicer must evaluate the Borrower in accordance with the standard evaluation hierarchy.

If QRPC is established with a Borrower who was current or less than 31 days delinquent (i.e., the Borrower had not missed more than one monthly payment) prior to the Eligible Disaster, and the Borrower is unable to resolve the Delinquency through a reinstatement or repayment plan, the Servicer then must evaluate the Borrower for the loss mitigation options set forth in the following disaster evaluation hierarchy:

1. Extend Modification
2. Disaster Relief Modification
3. Freddie Mac Flex Modification®
4. Short sale
5. Deed-in-lieu of foreclosure

If QRPC is not established at the end of the disaster related forbearance, and the Borrower is eligible for a streamlined offer for a Flex Modification, the Servicer must send the Borrower an offer for a Flex Modification. The solicitation must include high level information about the alternative disaster modification options that may be available, as described in more detail in the Flex Modification section below.

Eligibility requirements and exclusions

The Extend Modification eligibility requirements and exclusions are similar to the requirements for the Disaster Relief Modification. The following table provides the Extend Modification eligibility requirements and exclusions:

Extend Modification Eligibility Requirements	
Borrower eligibility	A Borrower is eligible for an Extend Modification if: • The Borrower was current or less than 31 days delinquent (i.e., had not missed more than one monthly payment) at the time of the disaster and the Borrower's hardship was caused by an Eligible Disaster • The Borrower's Mortgaged Premises or place of employment is located in an Eligible Disaster Area designated as such on or after August 25, 2017 • The Borrower was at least 30 days/one payment delinquent and less than 360 days/12 payments delinquent at the time of evaluation for the mortgage modification • The Borrower indicates the ability to continue making contractual payments (including projected monthly payments for delinquent taxes and insurance premiums and/or for Escrow shortages, as applicable) The Borrower is not required to provide a Borrower Response Package to be considered for and offered the Extend Modification.
Mortgage and property eligibility	***General eligibility*** The Mortgage: • Must be a conventional First Lien Mortgage currently owned or guaranteed in whole or in part by Freddie Mac • May be secured by a Primary Residence, second home or Investment Property and may be vacant or condemned The Servicer is not required to obtain a property valuation to offer the Extend Modification.
	Mortgages subject to indemnification agreements If the Mortgage is subject to an indemnification agreement and is otherwise eligible under the requirements of Guide Chapter 9206, the Servicer has the discretion to approve the mortgage modification provided the following conditions are met: • The modified Mortgage retains its credit enhancement • If the Servicer is not the credit enhancement provider, the Servicer must first obtain in writing any required approval under the terms of the credit enhancement from the entity providing the enhancement to enter into a modification agreement that complies with the requirements of Chapter 9206; and • The Servicer remits to Freddie Mac an annual payment for the amount of all modification-related costs (e.g., interest rate shortfall) as calculated by Freddie Mac pursuant to Freddie Mac's "Modification Loss Amount" methodology. The Modification Loss Amounts due will be calculated on a monthly basis and billed on an annual basis for the life of the modified Mortgage. If the Mortgage is subject to a partial indemnification, each year the Servicer will be billed the appropriate percentage of the Modification Loss Amount that corresponds with the partial indemnification agreement. Modification Loss Amounts will be determined by Freddie Mac in accordance with a process described in Bulletin 2016-5. Note: Pursuant to Section 9204.6, the Servicer is not eligible to receive an incentive for completing a modification on a Mortgage that is subject to an indemnification agreement.

<table>
<tr><th colspan="2">Extend Modification Eligibility Requirements</th></tr>
<tr><td></td><td>

Mortgages secured by leasehold estates

If the Mortgage is secured by a leasehold estate, the term of the lease (or any exercised option to renew the lease, or any renewal options that are enforceable by the leasehold mortgagee, whichever is applicable) must not terminate earlier than five years after the maturity date of the proposed modified Mortgage.

In the event that the current term of the lease (or applicable renewal options) terminates earlier than five years after the maturity date of the proposed modified Mortgage, the term of the lease must be renegotiated in order to satisfy this requirement prior to offering the Borrower a Trial Period Plan.

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<tr><td>Eligibility exclusions</td><td>

The following Mortgages and Borrowers are ineligible for the Extend Modification:

- Mortgages that were more than 31 days delinquent (i.e., the Borrower had missed more than one monthly payment) at the time of the Eligible Disaster
- FHA, VA and Guaranteed Rural Housing Mortgages
- Mortgages subject to recourse
- Mortgages subject to an approved short sale or deed-in-lieu of foreclosure transaction
- Borrowers who are currently performing under another Trial Period Plan, forbearance plan or repayment plan, including:
  - With the exception of a streamlined offer, Mortgages that are currently subject to an unexpired offer to the Borrower for another modification or other alternative to foreclosure, such as a forbearance or repayment plan
  - With the exception of a disaster forbearance plan, the Mortgage is currently performing under another forbearance plan or repayment plan

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Determining the terms of the Extend Modification

The instructions for determining the terms of the Extend Modification are described below:

<table>
<tr><th colspan="2">Determining Extend Modification Terms</th></tr>
<tr><td>Modification terms</td><td>

The modified Mortgage must be a fully amortized, fixed-rate Mortgage. The modified Mortgage must not be: an interest-only Mortgage, a bi-weekly Mortgage or a daily simple interest Mortgage.

The Servicer must complete the steps below:

- **Step 1**: Set the interest rate as follows:

<table>
<tr><th>If the Existing Mortgage is:</th><th>Then…</th></tr>
<tr><td>A fixed-rate Mortgage (excluding Step-Rate Mortgages)</td><td>The Servicer must use the existing interest rate on the Mortgage to calculate the Trial Period Plan payment and use that same rate to establish the terms of the modification agreement.</td></tr>
<tr><td>An ARM or a Step-Rate Mortgage with no additional interest rate adjustments or steps scheduled</td><td>The Servicer must use the existing rate to calculate the Trial Period Plan payment and use that same rate to establish the terms of the modification agreement.</td></tr>
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<tr><th colspan="2">Determining Extend Modification Terms</th></tr>
<tr><td></td><td>
<table>
<tr><td></td><td>An ARM or a Step-Rate Mortgage with additional interest rate adjustments or steps scheduled</td><td>The Servicer must use the lesser of:

Freddie Mac's modification interest rate in effect and posted on http://www.freddiemac.com/singlefamily/service/modrate.html as of the date the Servicer evaluates and determines the Borrower is eligible for a Trial Period Plan; or
The maximum step-rate/lifetime cap note rate to calculate the Trial Period Plan payment

The same rate must be used to establish the terms of the modification agreement.</td></tr>
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Step 2: Extend the Mortgage term by the same number of payments missed during the disaster forbearance period
Step 3: Advance the DDLPI to bring the Mortgage to current status

If the Mortgage includes deferred principal, the Servicer must not capitalize this amount into the interest-bearing UPB. Deferred principal must continue to be deferred and be payable upon the earlier of the extended maturity date, sale or transfer of property, refinance, or payoff. Interest must not accrue on any deferred principal. The Servicer is required to extend the term in monthly increments to match the number of delinquent payments remaining after the Trial Period Plan, not to exceed 12 months.</td></tr>
<tr><td>Escrow shortages</td><td>Pursuant to existing requirements for the Flex Modification and the Disaster Relief Modification, and as described in Section 9206.15, in the case of an Escrow shortage in which the Borrower is unable to pay the Escrow shortage as a lump sum, the Borrower must pay the shortage as part of the monthly payment ("Projected Monthly Escrow Shortage Payments") on the modified Mortgage. If the Borrower must pay Projected Monthly Escrow Shortage Payments, then the Servicer must:

Spread the Escrow shortage amount equally over a 60-month period, and
Take into account the remaining unpaid Escrow shortage amount in any subsequent Escrow analysis to ensure that the Borrower may continue to pay those amounts over the remaining portion of the 60-month period. The Servicer may not accelerate or compress the remaining unpaid amount of the Escrow shortage into a new Escrow payment as a result of a future Escrow analysis. To facilitate this process, the Servicer may choose to spread any additional Escrow shortage that results from a subsequent Escrow analysis over the remaining months of the 60-month period.
</td></tr>
<tr><td>Escrow advances</td><td>Funds advanced by the Servicer, or to be advanced and paid to a third party, prior to the date the Borrower executes the mortgage modification agreement for the payment of real estate taxes and insurance premiums ("Escrow Advances") are permitted to be capitalized under existing mortgage modification options such as the Flex Modification and the Disaster Relief Modification, in accordance with Section 9206.15. However, the Extend Modification does not allow for the capitalization of arrearages and, therefore, the Servicer must recoup from the Borrower Escrow payments it advanced either via a lump sum payment, or as part of the Borrower's Projected Monthly Escrow Shortage Payments, as described in the Escrow shortages section, directly above.</td></tr>
</table>

Trial Period Plan and permanent modification documents

A Borrower who is evaluated and determined to be eligible for an Extend Modification must complete a Trial Period Plan in accordance with the requirements in Section 9206.11, during which the Borrower must remit three monthly payments at an estimated modified payment amount. The Servicer must send the Borrower a Trial Period

Plan notice and may update the Disaster Relief Modification Trial Period Plan Notice as necessary to reflect the terms of the modification and to comply with applicable law.

Once the Borrower has made the required Trial Period Plan payments on time, the Servicer must modify the Mortgage and send the Borrower a loan modification agreement following the requirements in Section 9206.16. The loan modification agreement must also include a detailed description of the modified terms including:

- Updated maturity date and term length
- DDLPI advanced to bring the Mortgage to current status
- Revised payment schedule with the new PITIAS Payment and due dates, as applicable

Processing and reporting

Once the Trial Period Plan is complete and the Borrower has signed and returned the modification agreement to the Servicer, the Servicer must submit the modification terms to Freddie Mac for settlement via Workout Prospector® following the process below:

1. Model the Mortgage using the “Other Modification” path in Workout Prospector
2. Complete all fields denoted with a red asterisk (*) on all of the model screens
3. Update the model comments section with the following information:
    - The request is for the Extend Modification
    - The number of months the Mortgage is delinquent
    - The pre-modification principal and interest (P&I) amount
    - The Trial Period Payment plan dates and the date the first modified payment is due after trial completion
4. Transmit the model to Freddie Mac pending exception decision. (Note: if the modification is in approved status in Workout Prospector, the new P&I payment displayed in the Workout Prospector model will not align with the existing P&I amount. This issue will be resolved via the Workout Prospector settlement process.)
5. To settle the approved Extend Modification, the Servicer must complete Guide Form 1128, *Loss Mitigation Transmittal Worksheet*. The following must be included in the “Servicer comments” section of the form:
    - “Extend Modification for Disaster Relief”
    - The pre-modification P&I amount

    The completed form must be sent to **NPL_Settlement@FreddieMac.com** to initiate the settlement process

Subsequent modifications

If the Borrower is being evaluated for a subsequent mortgage modification, such as a Flex Modification, the Extend Modification and the Disaster Relief Modification will not count toward the eligibility cap on previous mortgage modifications described in Section 9206.6 (i.e., the requirement that Mortgages previously modified three or more times are ineligible for a Flex Modification). The Servicer must abide by all other modification requirements as described in the Guide.

Flex Modification

Freddie Mac’s special Flex Modification requirements for Borrowers impacted by an Eligible Disaster, as described in Section 9206.5(e) continue to apply, except that we are updating the below requirements to include the Extend Modification.

The Servicer must evaluate the Borrower for a streamlined offer for a Flex Modification if the Borrower is 90 days/three months or more delinquent, or the Borrower has a Step-Rate Mortgage and is at least 60 days/two months delinquent within 12 months following the first payment due date resulting from an interest rate adjustment, provided a Borrower Response Package has not been submitted and one of the following conditions is met:

- The Borrower is not eligible for an Extend Modification or a Disaster Relief Modification
- The Borrower declines the Extend Modification and the Disaster Relief Modification

- The Servicer is unable to achieve QRPC with the Borrower at the end of the disaster-related forbearance period to determine financial status and eligibility for an Extend Modification and a Disaster Relief Modification

In addition, we are renaming Exhibit 1191A from *Streamlined Modification Post-Disaster Forbearance Solicitation Letter* to *Flex Modification Post-Disaster Forbearance Solicitation Letter*, and updating it to provide high level information about additional modification options that may be available. The Servicer may amend the letter to more fully describe the other modification options available, including information about the consequences of:

- Capitalizing delinquent interest and Servicer advances of taxes and insurance under the Disaster Relief Modification
- Tax and insurance payments that were advanced while the Borrower was delinquent (i.e., the Borrower may have an increased monthly mortgage payment during the 60-month repayment period) under the Extend Modification

Other requirements

Other requirements for the Extend Modification include:

- **Mortgage insurance**: If the Mortgage is subject to mortgage insurance, the Servicer must obtain approval from the MI for the Extend Modification prior to offering the modification to the Borrower
- **Incentives**: The Servicer will be eligible to receive an incentive payment in accordance with the tiered payment structure described in Exhibit 96, *Servicing Incentives and Compensatory Fees*. The incentive payment structure is the same for Extend Modifications as it is for the Disaster Relief Modification.
- **Processing:** Except as otherwise provided in this Bulletin, Servicers must process an Extend Modification in accordance with, and subject to, the requirements in Sections 9206.11 through 9206.18

Additional resources

Servicers should visit the **Freddie Mac Learning Center** for additional resources on the Extend Modification, which will be available soon.

Disaster Relief Modification

Previously, we required that the Borrower be at least 60 days delinquent/two monthly payments past due to qualify for the Disaster Relief Modification. To align with the eligibility requirements for the Extend Modification, we are updating the requirements for the Disaster Relief Modification to state that the Borrower must be at least 30 days/one monthly payment and less than 360 days/12 months delinquent at the time of evaluation for the modification. Servicers must implement this change no later than **February 1, 2018**. Servicers may implement earlier than February 1, 2018 if they are operationally ready to do so.

Guide impact: Section 9206.4

TEMPORARY INSURANCE REQUIREMENTS

Effective date

Servicers must implement these temporary insurance requirements for Borrowers whose Mortgaged Premises are impacted by an Eligible Disaster and are located in an Eligible Disaster Area designated as such on or after **August 25, 2017**, and must utilize these requirements until otherwise instructed by Freddie Mac. Unless otherwise noted, the insurance requirement changes announced in this Bulletin are effective immediately.

Insurance loss settlements

For Borrowers who require up front insurance proceeds to repair or rebuild their homes, Freddie Mac is temporarily revising certain requirements in Section 8202.11 to expedite the release of these funds.

Additionally, we are clarifying that the “Mortgage status at the time of notification of loss” means the date the Mortgaged Premises suffered the damage that the insurance claim is based upon (i.e., the date the disaster occurred).

The table below provides instructions to Servicers on how they may release insurance proceeds to Borrowers who need to advance funds to contractors for the repair of their Mortgaged Premises (the changes to the Guide are shown in **bold**):

Disbursement of insurance proceeds		
	Mortgage is current or less than 31 days/one payment delinquent at the time of notification of loss	**Mortgage is 31 days/one payment or more delinquent at the time of notification of loss**
Initial insurance loss draft distribution	The Servicer may release insurance proceeds up to the greater of: • $40,000 • **33% of the insurance proceeds**; or • The amount by which the release funds exceed the sum of the UPB, accrued interest and advances on the Mortgage	The Servicer may make an initial disbursement of 25% of the insurance proceeds up to the greater of: • $10,000; or • The amount by which the release funds exceed the sum of the UPB, accrued interest and advances on the Mortgage If proceeds are less than or equal to **$5,000**, the Servicer may disburse in one payment.
Additional loss draft distributions	• Remaining funds may be distributed based on the repair plan reviewed and approved by the Servicer • The Servicer must inspect repairs prior to releasing any additional funds	• Remaining funds may be distributed in increments not to exceed 25% of the insurance loss proceeds • The Servicer must inspect repairs prior to releasing any additional funds
Final inspection	• Final inspection is required to ensure all repairs are completed • Inspections and a repair plan are not required if total insurance proceeds are less than or equal to **$20,000** • **If cosmetic/non-structural work items totaling less than $5,000 are outstanding at the time of final inspection, the inspection can be considered final and the inspector must note any unfinished items with estimated completion dates**	Final inspection is required to ensure all repairs are completed.
Loss payee: Directly to the Borrower or jointly to the Borrower and a contractor	• The Servicer may release proceeds received less than or equal to **$40,000** directly to the Borrower • The Servicer must release proceeds greater than **$40,000** payable jointly to the Borrower and contractor • If the Borrower advanced payments to the contractor, then the check may be made to the Borrower provided the Servicer obtains documentation of the materials and services paid by the Borrower	• All checks must be made payable jointly to the Borrower and a licensed contractor • If the Borrower advanced payments to the contractor, then the check may be made to the Borrower provided the Servicer obtains documentation of the materials and services paid by the Borrower

Disbursement of insurance proceeds		
	Mortgage is current or less than 31 days/one payment delinquent at the time of notification of loss	**Mortgage is 31 days/one payment or more delinquent at the time of notification of loss**
Licensed contractor	• For proceeds less than $40,000, the Servicer must have policies and procedures to determine when a licensed contractor is required to repair or reconstruct the residences • For proceeds greater than or equal to $40,000, the Servicer must ensure a licensed contractor is used to repair or reconstruct the residences • **In the event that a State or jurisdiction does not require licensing of contractors, the Servicer may satisfy this requirement by ensuring the contractor is bonded and insured for an amount higher than the insurance proceeds**	A licensed contractor is required to repair or reconstruct the residences. **However, in the event that a State or jurisdiction does not require licensing of contractors, the Servicer may satisfy this requirement by ensuring the contractor is bonded and insured for an amount higher than the insurance proceeds.**

Borrower-requested cancelation of Borrower-paid mortgage insurance

For a Borrower impacted by an Eligible Disaster that resulted in the Mortgage being subject to a disaster-related forbearance plan pursuant to Chapter 8404, we are temporarily revising certain requirements related to Borrower-requested cancelation of Borrower-paid mortgage insurance.

Whether such request is based on original value or current value (for purposes of Sections 8203.2(c) and 8203.3(c)), when the Servicer is in receipt of the Borrower's request to cancel Borrower-paid mortgage insurance post-forbearance and after the Mortgage has been restored to a current status, the Borrower's payment history must meet the following requirements (the changes to the Guide are shown in **bold**):

- No payment 30 days or more past due in the preceding 12 months **(except when the Delinquency is a direct result of the Mortgage being subject to a disaster-related forbearance plan, and, following the disaster-related forbearance, transition to a relief or workout option to cure the Delinquency (e.g., repayment plan or Trial Period Plan) in accordance with Section 8404.6)**; and
- No payment 60 days or more past due in the preceding 24 months **(except when the Delinquency is a direct result of the Mortgage being subject to a disaster-related forbearance plan, and, following the disaster-related forbearance, transition to a relief or workout option to cure the Delinquency (e.g., repayment plan or Trial Period Plan) in accordance with Section 8404.6)**

CONCLUSION

Freddie Mac is committed to ensuring that Borrowers receive the Mortgage assistance they need to mitigate the devastating impacts of natural disasters. As part of these efforts, we are continuing to update our **Natural Disaster Relief** web page to provide additional disaster relief resources and management tools, including answers to frequently asked questions in the new **Natural Disaster Relief FAQs**. We appreciate the understanding and consideration that Freddie Mac Servicers have extended to Borrowers coping with hardships as a result of the disasters that have devastated so many different geographic areas this year.

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at (800) FREDDIE.

Sincerely,

Yvette W. Gilmore
Vice President
Servicer Performance Management