# Freddie Mac Flex Modification

## Reference Guide

**March 2021**

Freddie Mac
Single-Family

# Freddie Mac Flex Modification Reference Guide


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# Freddie Mac Flex Modification Reference Guide

Freddie Mac Single-Family

**Introduction**

The Freddie Mac Flex Modification (Flex Modification) provides eligible borrowers who are 60 days or more delinquent (and the property is a primary residence, second home, or investment property), or current or less than 60 days delinquent and in imminent default (and the property is a primary residence), an option to resolve any associated delinquency and sustain homeownership.

You must obtain mortgage insurance (MI) approval before offering a Trial Period Plan or ensure that the applicable MI has provided a delegation of authority that applies to the requested modification.

All Freddie Mac Servicers are delegated to approve a Freddie Mac Flex Modification in accordance with the requirements outlined in *Single-Family Seller/Servicer Guide* (Guide) Chapter 9206. Refer to Guide Chapter 9101 for additional information if the mortgage is secured by a primary residence and the borrower is denied a Flex Modification based upon the First Complete Borrower Response Package.

If you have any questions, contact your Freddie Mac servicing representative or Customer Support at 800-FREDDIE.

This reference guide provides information on the following:

- When you must implement the Flex Modification
- Eligibility requirements for Flex Modifications
- Mortgages that are ineligible for Flex Modifications
- How to evaluate and solicit a borrower for a Flex Modification
- How to determine estimated and final modification terms
- Trial period guidelines and Servicer incentive payments

## Eligibility Requirements for Flex Modifications

The following table highlights the borrower, property, mortgage, and housing expense-to-income ratio eligibility requirements for a Flex Modification. For more information on these eligibility requirements refer to Guide Section 9206.5.

<table>
<tr><th colspan="2">Flex Modification Eligibility Requirements</th></tr>
<tr><td>Borrower Eligibility</td><td>
The borrower must be:
<ul>
<li>60 days or more delinquent, or</li>
<li>Current or less than 60 days delinquent (i.e., less than three monthly payments past due), occupy the property as a primary residence, and determined to be in imminent default in accordance with Guide Section 9206.7
Note: Use a credit report to verify that the borrower is occupying the property. </li>
</ul>
Refer to Guide Section 9206.7 for the imminent default evaluation process and requirements.
The borrower must submit a Borrower Response Package and have the following:
<ul>
<li>An eligible hardship per Guide Section 9202.2 that is causing or expected to cause a long-term or permanent decrease in income and/or increase in expenses</li>
<li>Stable verified income to support a monthly payment
Note: Unemployment is considered a temporary hardship. You must consider unemployed borrowers for unemployment forbearance under Guide Sections 9203.22 through 9203.24. Unemployment benefits may not be considered a source of income for a modification. </li>
</ul>
Streamlined Eligibility for Certain Borrowers
Certain eligibility exceptions apply for a borrower who:
<ul>
<li>Is 90 days delinquent or greater, or</li>
<li>Has a step-rate mortgage and the borrower:
<ul>
<li>Becomes 60 days delinquent within the 12 months following the first payment due date resulting in an interest rate adjustment, and</li>
<li>Has not submitted a complete Borrower Response Package</li>
</ul></li>
</ul>
For additional information, refer to Streamlined Offer for Flex Modifications in this reference guide.
</td></tr>
<tr><td>Property</td><td>
The existing mortgaged property must be:
<ul>
<li>Owner-occupied (primary residence)<br>Note: The property must be a primary residence if the borrower is current or less than 60 days delinquent.</li>
<li>Second home or non-owner occupied* (investment property)</li>
</ul>
</td></tr>
</table>

| | Flex Modification Eligibility Requirements, continued |
|---|---|
| **Mortgage Eligibility** | ▪ The mortgage must:<br>– Be a conventional first-lien mortgage currently owned in whole or part by Freddie Mac<br>– Have been originated at least 12 months prior to the evaluation date<br>▪ The estimated post-modification P&I payment must be less than or equal to the pre-modification P&I payment. Refer to Guide Section 9206.10 for additional payment reduction requirements that may apply.<br>– For borrowers participating in the Servicemembers Civil Relief Act (SCRA) at the time of evaluation, you must consider the P&I payment in effect prior to granting the SCRA relief instead of the temporarily reduced monthly payment based on the SCRA interest rate cap when you determine if the modified mortgage results in a P&I payment that is less than or equal to the pre-modification P&I payment.<br>– If the mortgage being modified is an adjustable-rate mortgage or an interest only mortgage, you must consider the monthly payment due (whether that payment due is a P&I payment or an interest-only payment) in effect at the time you determine eligibility for a Flex Modification Trial Period Plan.<br>▪ If the mortgage is subject to an indemnification agreement, you have discretion to approve the mortgage modification provided the following conditions are met:<br>– The modified mortgage retains its credit enhancement.<br>– If you are not the credit enhancement provider, you 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 in Guide Chapter 9206; and<br>– You remit 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 you will be billed the appropriate percentage of the Modification Loss Amount that corresponds with the partial indemnification agreement. Freddie Mac will determine the Modification Loss Amounts in accordance with a process described in Guide Bulletin 2016-5, as amended, and Guide Bulletin 2017-1.<br>**Note**: You are not eligible to receive an incentive for completing a modification on a mortgage that is subject to an indemnification agreement. Refer to Guide Section 9204.6 for more information.<br>▪ 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. |

| Flex Modification Eligibility Requirements, continued | |
|---|---|
| **Housing Expense-to-Income Ratio** | The estimated post-modification housing expense-to-income ratio* must be equal to or less than 40 percent.<br><br>For primary residences, calculate by taking the monthly PITIAS payment divided by monthly gross income as defined in Guide Section 9206.10. Refer to page 11 for additional information about the PITIAS payment.<br><br>Refer to Guide Section 9206.5 for requirements for second homes and investment properties.<br><br>***Note:** The P&I portion of the estimated post-modification housing expense-to-income ratio is based on the estimated P&I payment determined at the time of evaluation and not at the time of final modification approval. The estimated P&I payment is based on the estimated interest-bearing UPB that you expect the borrower to have at the time of modification following the trial period. The estimated interest-bearing UPB is based on estimated capitalization amounts of interest and non-interest arrearages that accrue during the trial period plus amounts that have accrued prior to your evaluation. |

***Exclusions***

Any mortgage or borrower that does not meet the eligibility requirements is not eligible for you, the Servicer, to approve under delegated authority.

Mortgages that are ineligible for a Flex Modification include:

- FHA/VA and Guaranteed Rural Housing loans
- Mortgages subject to recourse
- Mortgages secured by second homes or non-owner occupied properties (i.e., investment properties) where the borrower is current or less than 60 days delinquent

The following mortgages and borrowers are also ineligible for a Flex Modification. However, you may seek Freddie Mac approval for an exception to any of the following exclusions if you believe the borrower should be considered for a Flex Modification. For additional information, refer to "Exceptions" below.

- Mortgages that have been previously modified three or more times
- Mortgages previously modified with the Flex Modification terms in Guide Section 9206.10 and the mortgage became 60 or more days delinquent within 12 months of the modification effective date (in this instance, the first modified payment due date) and the borrower has not brought the mortgage current following the delinquency
- Borrowers who, within 12 months of the evaluation date, failed a Flex Modification Trial Period Plan and the terms of the Trial Period Plan were determined in accordance with Guide Section 9206.10(a)
- Mortgages subject to an approved short sale or deed-in-lieu transaction
- Borrowers who are currently performing under another Trial Period Plan, forbearance plan, or repayment plan
- 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

***Exceptions***

If a borrower does not meet the eligibility requirements outlined in Guide Section 9206.5, he or she is ineligible for a Flex Modification under your delegated authority. However, if you believe, based on an evaluation of a complete Borrower Response Package, that the borrower should be considered for a Flex Modification, you must transmit the exception request via Workout Prospector®. Refer to the *Workout Prospector Users' Guide* for additional information.

You may send the following exceptions to Freddie Mac for consideration:

- Borrower's hardship is not covered under the definition of eligible hardship in Guide Section 9202.2
- Mortgages that have been previously modified three or more times
- Mortgages previously modified with the modification terms determined in accordance with Guide Section 9206.10 and the mortgage became 60 or more days delinquent within 12 months of the Modification Effective Date and the borrower has not brought the mortgage current following the delinquency
- Borrowers who, within 12 months of the evaluation date, failed a Trial Period Plan and the terms of that Trial Period Plan were determined in accordance with Guide Section 9206.10
- Mortgages subject to an approved short sale or deed-in-lieu transaction
- Borrowers who are currently performing under another Trial Period Plan, forbearance plan, or repayment plan
- 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

### Soliciting the Borrower for a Flex Modification

Borrower solicitation must follow the requirements in Guide Section 9102.5. Generally, you may begin soliciting borrowers who are 31 or more days delinquent in accordance with the processes and timelines set forth in Guide Section 9102.5 in order to determine the reason for delinquency and solicit them for possible alternatives to foreclosure.

If you have not achieved quality right party contact and a resolution to the delinquency, you are required to send at least one Borrower Solicitation Package or solicitation letter to the delinquent borrower no later than the 45th day after the due date of the oldest unpaid monthly installment.

You may send either:

- A Borrower Solicitation Package, which includes the following:
  - Guide Exhibit 1145, *Freddie Mac Borrower Solicitation Letter*, and
  - Form 710, *Uniform Borrower Assistance Form*, and
  - Frequently asked questions (FAQs) and foreclosure rescue scam information.

**OR**

- Guide Exhibit 1145 and elect to send Form 710, FAQs and foreclosure rescue scam information upon establishing quality right party contact.

You may also provide the FAQs and foreclosure rescue scam information on your web site and provide a link to that information in the Borrower Solicitation Letter.

In addition, in either situation above, you may elect to send IRS Form 4506-C, or you may obtain and process the form at a later date if any of the circumstances in Guide Section 9102.5(c) occur.

If you have achieved quality right party contact and have obtained from the borrower a resolution to the delinquency, you are not required to send the Borrower Solicitation Package. However, you must comply with any early intervention notice that may be required under applicable law. If the borrower fails to perform under the conditions of a relief or workout option, you must resume collection efforts, including sending the Borrower Solicitation Package.

***Streamlined Offer for Flex Modifications***

When a borrower becomes 90 days delinquent, or has a step-rate mortgage and becomes 60 days delinquent within the 12 months following the first payment due date resulting from an interest rate adjustment, you must determine if the borrower is eligible for a streamlined offer for a Flex Modification in accordance with Guide Section 9206.5(c). For these borrowers, a Borrower Response Package is not required, and you are not required to confirm the borrower's hardship or income. However, you must continue to comply with the requirements outlined in Guide Sections 9206.5(b) and 9206.6 to determine eligibility. If you determine the borrower is eligible, solicit the borrower for a Flex Modification. For additional information, refer to Flex Modification Trial Period Plan Notice for Streamlined Eligibility in this reference guide or Guide Section 9102.5.

If a mortgage originated after March 1, 2020 and otherwise meets the reduced criteria to receive a Flex Modification, you must evaluate the borrower for a Flex Modification and offer it if they are eligible.

Borrowers who reach the applicable delinquency threshold for a streamlined offer for a Flex Modification remain eligible for the Flex Modification even if one or more payments is subsequently received, resulting in the Borrower becoming less delinquent than the eligible delinquency threshold. In these instances, you must provide the eligible borrower a streamlined offer for a Flex Modification within the required timeframe, provided the borrower's payments have not resulted in the full reinstatement of the mortgage.

**Note:** Ensure that you either obtain the applicable MI's approval of the terms of each modification on a case-by-case basis, or ensure that the applicable MI has provided a delegation of authority to the Servicer that applies to the requested modification before you send a borrower a streamlined offer for a Flex Modification.

**Applicable Only to Borrowers with Step-Rate Mortgages:**

If the borrower submits a complete Borrower Response Package prior to becoming 90 days delinquent, and **has not yet** accepted the streamlined offer for a Flex Modification, you must complete your review of the package for each alternative to foreclosure in accordance with the evaluation hierarchy outlined in Guide Section 9201.2, and once a borrower is eligible for a particular alternative to foreclosure, you must offer that alternative to foreclosure and deny the borrower for any alternative to foreclosure lower on the evaluation hierarchy.

If the borrower submits a complete Borrower Response Package prior to becoming 90 days delinquent and **has** accepted the streamlined offer for a Flex Modification Trial Period Plan, you must determine if the borrower is eligible for additional payment relief as a result of the Post-Modification Housing Expense-to-Income (PMHTI) ratio component of the Flex Modification terms. If the borrower is eligible for additional payment relief, you must permit the borrower continue making the existing Trial Period Plan payments, but you must update the modification agreement to reflect the lower payment amount and additional forbearance relief.

## Evaluating the Borrower for a Flex Modification

Before evaluating a borrower for a Flex Modification, you must follow the evaluation hierarchy outlined in Guide Section 9201.2.

In general, in order to consider a borrower for a Flex Modification the following criteria must be met:

- For a current borrower, determination that a refinance or relief refinance is not available
- Determination that a reinstatement or relief option is not feasible (e.g., the borrower is unable to reinstate, partially reinstate, or enter into a repayment plan to cure the delinquency or has a long-term or permanent hardship)

You should consider a borrower for a Flex Modification if the borrower:

- Lacks sufficient monthly income to support current mortgage payments (including escrow amounts) and if the mortgage is not escrowed, any other amounts due related to the mortgage
- Suffers or suffered an eligible hardship

Refer to Guide Section 9202.2 for a description of eligible hardships and the associated documentation requirements that the borrower must provide to document it.

### Documentation Requirements for Flex Modifications

A complete Borrower Response Package per Guide Section 9102.5 is required for all borrowers. The information provided in the Borrower Response Package will assist you in determining modification eligibility and, if applicable, making a determination regarding imminent default.

A complete Borrower Response Package includes the following:

- Completed and signed Form 710, *Uniform Borrower Assistance Form*
- Hardship documentation per Guide Section 9202.2
- Income documentation per Guide Section 9202.3
- If applicable, imminent default hardship documentation per Guide Section 9206.7 for borrowers less than 60 days delinquent

If required under Guide Section 9202.3, you must obtain the borrower's tax transcript by processing the borrower's signed IRS Form 4506-C or obtain a copy of the borrower's most recent federal income tax return.

### Determine the Post-Modification MTMLTV Ratio

Calculate the post-modification (post-capitalization) MTMLTV ratio by dividing the sum of the interest-bearing UPB, any applicable non-interest bearing UPB, and/or arrearages that may be capitalized in accordance with the Guide, by the property valuation specified in Guide Section 9206.8.

Example: Interest-bearing and non-interest-bearing UPB = $200,000 Arrearages = $10,000
Property valuation = $100,000
($200,000 + $10,000) ÷ $100,000 = 210% post-modification MTMLTV ratio

### Determine Eligibility for a Flex Modification Trial Period Plan Based on Estimated Modification Terms: Post-Modification MTMLTV Ratio Greater than or Equal to 80 Percent

Complete the steps outlined below to determine eligibility for a Flex Modification Trial Period Plan based on estimated modification terms when the post-modification MTMLTV ratio is greater than or equal to 80 percent. Perform these steps during your evaluation of a borrower for a Trial Period Plan and, then again, to determine the final modification terms, when the final capitalized amounts are known.

**Note:** Reasonable changes in capitalization amounts between what was estimated at the time of evaluation for a Trial Period Plan and the final modification terms may not impact the previous eligibility determination.

1. Capitalize known and estimated arrearages per the requirements of Guide Section 9206.15 to arrive at the estimated post-modification gross UPB.
2. Verify that the post-modification (post-capitalization) MTMLTV ratio is **greater than or equal to 80 percent**.

3. Determine the interest rate you will use to calculate the Trial Period Plan payment and the terms of the modification agreement:

<table>
<tr><th>If the existing mortgage is:</th><th>Then:</th></tr>
<tr><td>A fixed-rate mortgage<br>(This includes step-rate mortgages or ARMs with no subsequent steps or adjustments.)</td><td>You must use the lesser of Freddie Mac’s posted interest rate for Flex Modifications or the pre-modification interest rate to calculate the Trial Period Plan payment and use that same rate to establish the terms of the permanent modification.</td></tr>
<tr><td>ARMs or step-rate mortgages with subsequent steps or adjustments scheduled</td><td>You must use the lesser of Freddie Mac’s posted interest rate for Flex Modifications or the maximum step-rate/lifetime cap note rate to calculate the Trial Period Plan payment and use that same rate to establish the terms of the permanent modification.</td></tr>
<tr><td colspan="2">The Flex Modification interest rate referenced above is the Flex Modification interest rate posted on https://sf.freddiemac.com/general/freddie-mac-modification-interest-rate as of the date you evaluate and determine the borrower’s eligibility for a Trial Period Plan. Freddie Mac reserves the right to adjust the interest rate based on market conditions.<br>Note: The interest rate used for the final modification must be the same interest rate used to evaluate the borrower for a Trial Period Plan.</td></tr>
</table>

4. Extend the amortization term to 480 months from the modification effective date.
5. Refer to the following table to determine your next step:

| If the post-modification MTMLTV is: | Then you must: |
|---|---|
| Greater than 100 percent | Forbear principal until the earlier point at which:<br>▪ A post-modification interest bearing MTMLTV ratio of 100 percent is achieved, or<br>▪ 30 percent of the post-capitalized UPB (the “forbearance cap”) is achieved.<br>**Note:** Interest may not accrue on the forborne (or deferred) principal. Deferred principal is payable upon maturity of the loan modification, sale or transfer of the property, refinance of the mortgage, or payoff of the interest-bearing UPB. |
| Equal to or greater than 80 percent, but less than or equal to 100 percent | Proceed to step 6. |

6. Calculate the estimated modified P&I payment.
7. Answer the following questions:
   - Is the estimated modified P&I payment at least 20 percent less than the current P&I payment?
   - Is the post-modification housing expense-to-income (PMHTI) ratio equal to or less than 40 percent? (Refer to page 11 in this reference guide for information on how to calculate this ratio.)

<table>
<tr><th>If:</th><th>And:</th><th>Then:</th></tr>
<tr><td rowspan="2">The mortgage is less than 90 days delinquent at the time of evaluation</td><td>The answers to both questions are “yes”, you did achieve a minimum 20 percent payment reduction and a PMHTI 40 percent</td><td>Offer the modification to the borrower.</td></tr>
<tr><td>The answer to one or both questions is “no” because you did not achieve a minimum 20 percent payment reduction and/or a PMHTI ratio equal to or less than 40 percent</td><td>You must continue to forbear principal, in $100 increments, until one of the following occurs first:<br>▪ A 20 percent P&I payment reduction and a PMHTI ratio equal to or just below 40 percent are both achieved, or<br>▪ A MTMLTV ratio as close as possible to, but not below 80 percent is achieved, or<br>▪ The aggregate forbearance amount equals or is no less than $100 below the forbearance cap.<br>If you reach the forbearance cap or 80 percent MTMLTV ratio first, you must offer the modification to the borrower with the maximum permitted forbearance amount provided that the modification still results in a P&I payment that is less than or equal to the borrower’s pre-modification P&I payment. In this case, neither the 20 percent payment reduction nor the 40 percent PMHTI ratio must be obtained.</td></tr>
<tr><td rowspan="2">The mortgage is 90 days or more delinquent at the time of evaluation</td><td>The answer to the first question is “yes”, you did achieve a minimum 20 percent payment reduction</td><td>Offer the modification to the borrower.</td></tr>
<tr><td>The answer to the first question is “no”, you did not achieve a minimum 20 percent payment reduction</td><td>You must continue to forbear principal, in $100 increments, until whichever of the following occurs first:<br>▪ A 20 percent P&I payment reduction is achieved, or<br>▪ An MTMLTV ratio as close as possible to, but not below 80 percent is achieved, or<br>▪ The aggregate forbearance amount equals or is no less than $100 below the forbearance cap.<br>If you reach the forbearance cap or 80 percent MTMLTV ratio first, you must offer the modification to the borrower with the maximum permitted forbearance amount provided that the modification still results in a P&I payment that is less than or equal to the borrower’s pre-modification P&I payment. In this case, you do not have to achieve a 20 percent payment reduction.</td></tr>
</table>

### Determine Eligibility for a Flex Modification Trial Period Plan Based on Estimated Modification Terms: Post-Modification MTMLTV Ratio Less than 80 Percent

Complete the steps outlined below to determine eligibility for a Flex Modification Trial Period Plan based on estimated modification terms when the post-modification MTMLTV ratio is less than 80 percent. Perform these steps during your evaluation of a borrower for a Trial Period Plan and, then again, when the final capitalized amounts are known to determine the final modification terms. **Note**: Reasonable changes in capitalization amounts between what was estimated at the time of evaluation for a Trial Period Plan and the final modification terms may not impact the previous eligibility determination.

1. Capitalize known and estimated arrearages per the requirements of Guide Section 9206.15 to arrive at the post-modification gross UPB.
2. Verify that the post-modification (post-capitalization) MTMLTV ratio is **less than 80 percent**.
3. Determine the interest rate you will use to calculate the Trial Period Plan payment and the terms of the modification agreement:

| If the existing mortgage is: | Then: |
|---|---|
| A fixed-rate mortgage<br>(This includes step-rate mortgages or ARMs with no subsequent steps or adjustments.) | You 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 permanent modification. |
| ARMs or step-rate mortgages with subsequent steps or adjustments still remaining | You must use the lesser of Freddie Mac's posted interest rate for Flex Modifications or the maximum step-rate/lifetime cap note rate to calculate the Trial Period Plan payment and use that same rate to establish the terms of the permanent modification. |
| The Flex Modification interest rate referenced above is the modification interest rate posted on https://sf.freddiemac.com/general/freddie-mac-modification-interest-rate as of the date you evaluate and determine the borrower's eligibility for a Trial Period Plan. Freddie Mac reserves the right to adjust the interest rate based on market conditions.<br>**Note**: The interest rate used for the final modification must be the same interest rate used to evaluate the borrower for a Trial Period Plan. | |

**Note**: The interest rate used for the final modification must be the same interest rate used to evaluate the borrower for a Trial Period Plan.

4. Extend the amortization term to 480 months from the modification effective date.
5. Calculate the estimated monthly P&I payment.

### Post-Modification Housing Expense-to-Income (PMHTI) Ratio Calculations

Follow the steps below to calculate the post-modification housing expense-to-income ratio. You will use this value in step 7 when determining eligibility for a Flex Modification for loans with an MTMLTV greater than 80 percent and less than 90 days delinquent.

**Step 1: Calculate the PITIAS payment.**

The PITIAS payment is the payment that reflects the monthly housing expense on a mortgage and is the sum of the following:

- A modified monthly P&I 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 dues, Condominium Unit or cooperative unit maintenance fees, and ground rent, as applicable, and
- If applicable, the projected monthly escrow shortage payment. See Guide Sections 9206.15 and 9205.8.

**Note:** The PITIAS payment must not include MI premiums.

**Step 2: Calculate the post-modification housing expense-to-income ratio as follows:**

| Property Type | Calculation |
|---|---|
| Primary Residence | PITIAS Payment ÷ Monthly Gross Income |
| Second Home | (PITIAS payment of the subject property + PITIAS payment of the borrower's primary residence) ÷ Monthly Gross Income |
| Investment Property with Positive or Zero Net Rental Income | PITIAS payment of primary residence ÷ (Monthly gross income + Net rental income) |
| Investment Property with Negative Net Rental Income | (PITIAS payment of primary residence + Negative net rental income) ÷ Monthly Gross Income |

### Property Valuation Requirements for Flex Modifications

You must obtain a property valuation for each mortgage you consider for a Flex Modification. The property valuation must not be more than 90 days old on the date you evaluate the borrower for the modification. Use the value you obtain to determine the MTMLTV ratio. If the mortgage is covered by mortgage insurance, you must ensure that the property value you obtain is based on a property valuation type that is consistent with the MI's requirements.

**Note:** If you previously obtained a Freddie Mac compliant property valuation (e.g., Freddie Mac-provided Broker's Price Opinion (BPO), Freddie Mac-provided appraisal, or an appraisal in compliance with Guide Chapter 5601), you are not required to obtain a new property valuation and may use the Freddie Mac-compliant property valuation provided it is no more than 90 days old on the date you evaluate the borrower for a loan modification.

| If the mortgage is secured by: | Then you must: |
|---|---|
| A 1- or 2-unit property (excluding manufactured housing, a dwelling subject to a leasehold estate or a cooperative unit) | Choose one of the following options if an acceptable property value is available under one or more of the options:<br>**Option One: Home Value Explorer® (HVE®)**<br>▪ The HVE point value estimate must be obtained through one of Freddie Mac's HVE distributors.<br>▪ You may use the HVE point value estimate provided it has a Forecast Standard Deviation that is no greater than 0.20, which corresponds to a Confidence Level of "H" (high) or "M" (medium).<br>▪ Detailed information about HVE and Freddie Mac's distributors is available at http://www.FreddieMac.com/hve/hve.html.<br>**Option Two: Freddie Mac's Automated Valuation Model (AVM)**<br>▪ Freddie Mac's BPOdirect® website<br>When an automated value is displayed in the BPOdirect "Auto Value" field, you may use that automated value in accordance with Guide Sections 2406.4 and 9202.17.<br>Detailed information about BPOdirect is available at https://www.bpodirect.com.<br>▪ Freddie Mac's AVM Report<br>The AVM report is limited to mortgages that are more than 30 days delinquent.<br>When an automated value is displayed in the "Current AVM Value" field on the report available via the Default Reporting tile of the Servicer Performance Profile, you may use that automated value. This report will be updated by the last Friday of each month. |
| A 3- or 4-unit property, a manufactured home, a dwelling subject to a leasehold estate or a cooperative unit<br>-OR-<br>A 1- or 2-unit property (excluding a manufactured home, a dwelling subject to a leasehold estate or a cooperative unit) and an HVE point value estimate or automated value is not available or does not meet the requirements in Option One or Option Two above | Order an exterior property valuation through Freddie Mac's BPOdirect website at https://www.bpodirect.com in accordance with Guide Sections 2406.4 and 9202.17. |
| **Note:** Consistent with the requirement in Guide Section 8101.1 to act in the most timely, efficient and responsible manner to protect Freddie Mac's interests, you must not order a new BPO through BPOdirect for a 1- or 2-unit property if you are permitted to use an available HVE point value estimate or automated value in accordance with the requirements of Option One or Option Two above. | |

## Examples of Calculations for Flex Modifications

This section outlines examples of calculations for Flex Modifications including examples with and without forbearance. The steps identified in the examples below correspond to the specific steps outlined in the procedures on pages 7 through 11 in this reference guide.

In all examples, assume the fixed rate published on the Freddie Mac Flex Modification Interest Rate Web page in effect on the date of the borrower's evaluation is 4.250 percent. As a reminder, you can obtain the current Freddie Mac Flex Modification Interest Rate at: https://sf.freddiemac.com/general/freddie-mac-modification-interest-rate.

***Example 1 – Post-Modification MTMLTV Ratio Equal to or Greater than 80 Percent and Mortgage is 90 Days or More Delinquent***

- Gross UPB (interest bearing + any applicable non-interest bearing) before capitalization: $160,000
- Property value: $180,000
- Current P&I Payment: $1,080.12
- Taxes: $100.00
- Insurance: $50.00
- Homeowner Association Fees: $25.00
- Escrow Shortage: $0.00
- Borrower's gross monthly income: $2,800.00
- Primary Residence
- Interest Arrearage: $8,200
- Tax Advance: $1,800
- Fixed-rate Mortgage
- Current Interest Rate: 4.5 percent

**Step 1: Capitalize known and estimated arrearages.**

| | |
|---|---|
| $ 8,200 (interest) | $160,000 (gross UPB before capitalization) |
| $ 1,800 (tax advance) | + $ 10,000 (Total Capitalization) |
| $10,000 Total Capitalization | $170,000 = Estimated Post-modification Gross UPB |

**Step 2: Calculate the post-modified (post-capitalized) MTMLTV ratio.**

($160,000 + $10,000) ÷ $180,000 = 94.4% Post-modified MTMLTV Ratio

**Step 3: Determine the interest rate you will use to calculate the Trial Period Plan payment and the terms of the modification agreement.**

The post-modification MTMLTV ratio is equal to or greater than 80 percent and the mortgage is a fixed-rate mortgage. Therefore, use the fixed-rate published on the Flex Modification Interest Rate Web page in effect on the date of the borrower's evaluation, as it is less than the pre-modification interest rate of 4.5 percent.

**Step 4: Extend the amortization term to 480 months from the modification effective date.**

**Step 5:** ***This step is not applicable. You cannot forbear principal under this step, as the post-modification MTMLTV ratio is equal to or less than 100 percent.***

**Step 6: Calculate the estimated modified P&I payment.**

Using the estimated post-modification gross UPB of $170,000, calculated in step 1, a 4.25 percent fixed interest rate, and a new amortization term of 480 months, the estimated modified P&I payment is **$737.15** – a payment savings of $342.97 or 31.8 percent. The pre- and post-modification P&I amounts used here do not include escrow amounts.

**Step 7: Answer the following questions:**

- **Is the estimated modified P&I payment at least 20 percent less than the current P&I payment?**
  Yes. The estimated modified P&I payment of $737.15 is at least 20 percent less than the current P&I payment of $1,080.12.
- **Is the post-modification housing expense-to-income (PMHTI) ratio equal to or less than 40 percent?**

  **This determination is not applicable, as the mortgage is 90 days or more delinquent.**

You may proceed to offering the Trial Period Plan. The Trial Period Plan payment is $887.15, which includes $150 for escrowed taxes and insurance provided applicable law permits establishment of an escrow account, and a $737.15 partial payment of P&I. The $737.15 should be placed in a suspense account until the second Trial Period Plan payment is made, at which time a full monthly P&I payment should be applied and any remaining amount placed in a suspense account pending receipt of the third Trial Period Plan payment. **Note:** Homeowner association fees are not escrowed.

***Example 2 – Post-Modification MTMLTV Ratio Equal to or Greater than 80 Percent and Mortgage is Less than 90 Days Delinquent***

- Gross UPB (interest bearing + any applicable non-interest bearing) before capitalization:  $190,000
- Property Value:  $220,000
- Current P&I Payment:  $1,147.84
- Taxes:  $100.00
- Insurance:  $50.00
- Homeowner Association Fees:  $25.00
- Escrow Shortage:  $0.00
- Borrower's Gross Monthly Income:  $2,800.00
- Primary Residence
- Interest Arrearage: $3,000
- Tax Advance: $2,000
- Fixed-rate Mortgage
- Current Interest Rate: 5.125 percent
- Remaining Term: 288 months

**Step 1:  Capitalize known and estimated arrearages.**

| | |
|---|---|
| $ 3,000 (interest) | $190,000 (gross UPB before capitalization) |
| $ 2,000 (tax advance) | + $ 5,000 (Total Capitalization) |
| $5,000 Total Capitalization | $195,000 = Estimated Post-modification Gross UPB |

**Step 2:  Calculate the post-modified (post-capitalized) MTMLTV ratio.**

($190,000 + $5,000) ÷ $220,000 = 88.63% Post-modified MTMLTV Ratio

**Step 3:  Determine the interest rate you will use to calculate the Trial Period Plan payment.**

The post-modification MTMLTV ratio is greater than 80 percent, and the mortgage is a fixed-rate mortgage. Therefore, use the fixed-rate published on the Flex Modification Interest Rate Web page in effect on the date of the borrower's evaluation, as it is less than the pre-modification interest rate of 5.125 percent.

**Step 4:  Extend the amortization term to 480 months.**

**Step 5:** ***This step is not applicable.  You cannot forbear principal under this step, as the post-modification MTMLTV ratio is equal to or less than 100 percent.***

**Step 6:  Calculate the estimated modified P&I payment.**

Using the estimated post-modification gross UPB of $195,000, calculated in step 1, a 4.25 percent fixed interest rate, and a new amortization term of 480 months, the estimated modified P&I payment is **$845.56** – a P&I payment savings of $302.28 or 26.33. percent.  The pre- and post-modification P&I amounts used here do not include escrow amounts.

**Step 7: Answer the following questions:**

- **Is the estimated modified P&I payment at least 20 percent less than the current P&I payment?**

  Yes. The estimated modified P&I payment of $845.56 is at least 20 percent less than the current P&I payment of $1,147.84.

- **Is the post-modification housing expense-to-income ratio equal to or less than 40 percent?**

  Post-modification housing expense-to-income ratio = PITIAS ÷ Borrower's gross monthly income

  Calculate the PITIAS:

  | | |
  |---|---|
  | Estimated P&I | $ 845.56 |
  | + Taxes | $ 100.00 |
  | + Insurance | $ 50.00 |
  | + Homeowner Association Fees | $ 25.00 |
  | + Escrow Shortage | $ 0.00 |
  | **Post-Modification PITIAS** | $1,020.56 |

  $1,020.56 (PITIAS) ÷ 2,800 (borrower's gross monthly income) = 36.44% Post-modification housing expense-to-income ratio

  Yes. The post-modification housing expense-to-income ratio is 36.44 percent which is less than or equal to 40 percent.

You may proceed to offering the Trial Period Plan. The Trial Period Plan payment is $995.56 which includes $150 for escrowed taxes and insurance provided applicable law permits establishment of an escrow account, and a $845.56 partial payment of P&I. The $845.56 should be placed in a suspense account until the second Trial Period Plan payment is made, at which time a full monthly P&I payment should be applied and any remaining amount placed in a suspense account pending receipt of the third Trial Period Plan payment. **Note:** Homeowner association fees are not escrowed.

***Example 3:***
***Post-Modification MTMLTV Ratio Greater than 100 Percent and Mortgage is Equal to or Greater than 90 Days Delinquent***

- Gross UPB (interest bearing + any applicable non-interest bearing) before capitalization: $190,000
- Taxes: $100.00
- Insurance: $ 50.00
- Homeowner Association Fees: $25.00
- Escrow Shortage: $0.00
- Primary Residence
- Fixed-rate Mortgage
- Interest Arrearage: $8,200
- Tax Advance: $1,800
- Current P&I Payment $1,169.86
- Current Interest Rate: 6.25 percent
- Property Value: = $150,000

**Step 1: Capitalize known and estimated arrearages.**

| | |
|---|---|
| $ 8,200 (interest) | $190,000 (gross UPB before capitalization) |
| $ 1,800 (tax advance) | + $ 10,000 (total capitalization) |
| $10,000 Total Capitalization | $200,000 = Estimated Post-modification Gross UPB |

**Step 2: Calculate the post-modified (post-capitalized) MTMLTV ratio.**

($190,000 + $10,000) ÷ $150,000 = 133.3% Post-modified MTMLTV Ratio

**Step 3: Determine the interest rate you will use to calculate the Trial Period Plan payment and the terms of the modification agreement.**

The post-modification MTMLTV ratio is greater than 80 percent, and the mortgage is a fixed-rate mortgage. Therefore, use the fixed-rate published on the Flex Modification Interest Rate Web page in effect on the date of the borrower's evaluation, as it is less than the pre-modification interest rate of 6.250 percent.

**Step 4: Extend the amortization term to 480 months from the modification effective date.**

**Step 5: The post-modified (post-capitalized) MTMLTV ratio is greater than 100 percent. Therefore, calculate the following two amounts:**

**A. Forbearance amount to achieve 100 percent post-modified MTMLTV ratio:**

100% x $150,000 (property valuation) = $150,000

$200,000 (post-modification gross UPB)
–150,000
$ 50,000 (forbearance amount A)

**B. Forbearance amount at 30 percent of estimated post-modification gross UPB:**

$200,000 (estimated post-modification gross UPB)
x 30%
$ 60,000 (forbearance amount B)

**Choose the lesser of the two amounts:**

In this example, $50,000 must be forborne, as it is the lesser of the two forbearance amount calculations.

$200,000 (estimated post-modification gross UPB)
– 50,000 (forbearance amount A)
$150,000 (estimated post-modification interest-bearing UPB)

100% = Post-modification MTMLTV ratio

**Step 6: Calculate the estimated modified P&I payment.**

Using the estimated post-modification interest-bearing UPB of $150,000, calculated in step 5, a 4.25 percent fixed interest rate, and a new amortization term of 480 months, the estimated modified P&I payment is **$650.43** – a P&I payment savings of $519.33 or 44.4 percent. The pre- and post-modification P&I amounts used here do not include escrow amounts.

**Step 7: Answer the following questions:**

- **Is the estimated modified P&I payment at least 20 percent less than the current P&I payment?**

  Yes, the estimated modified P&I payment of $650.43 at least 20 percent less than the current P&I payment of $1,169.86.

- **Is the post-modification housing expense-to-income (PMHTI) ratio equal to or less than 40 percent?**

  **This determination is not applicable, as the mortgage is 90 days or more delinquent.**

You may proceed to offering the Trial Period Plan. The Trial Period Plan payment is $800.43 which includes $150 for escrowed taxes and insurance provided applicable law permits establishment of an escrow account, and a $650.43 partial payment of P&I. The $650.43 should be placed in a suspense account until the second Trial Period Plan payment is made, at which time a full monthly P&I payment should be applied and any remaining amount placed in a suspense account pending receipt of the third Trial Period Plan payment. **Note:** Homeowner association fees are not escrowed.

***Example 4:***
***Post-Modification MTMLTV Ratio Greater than 100 Percent and Mortgage is Less than 90 Days Delinquent***

- Gross UPB (interest bearing + any applicable non-interest bearing) before capitalization: $190,000
- Taxes: $100.00
- Insurance: $ 50.00
- Homeowner Association Fees: $25.00
- Escrow Shortage: $0.00
- Borrower's Gross Monthly Income: $2,800.00
- Primary Residence
- Fixed-rate Mortgage
- Interest Arrearage: $3,500
- Tax Advance: $2,000
- Current P&I Payment $1,169.86
- Current Interest Rate: 6.25 percent
- Property Value: = $100,000

**Step 1: Capitalize known and estimated arrearages.**

| | |
|---|---|
| $ 3,500 (interest) | $190,000 (gross UPB before capitalization) |
| $ 2,000 (tax advance) | + $ 5,500 (total capitalization) |
| $ 5,500 Total Capitalization | $195,500 = Estimated Post-modification Gross UPB |

**Step 2: Calculate the post-modified (post-capitalized) MTMLTV ratio.**

($190,000 + $5,000) ÷ $100,000 = 195.5% Post-modified MTMLTV Ratio

**Step 3: Determine the interest rate you will use to calculate the Trial Period Plan payment and the terms of the modification agreement.**

The post-modification MTMLTV ratio is greater than 80 percent, and the mortgage is a fixed-rate mortgage. Therefore, use the fixed-rate published on the Flex Modification Interest Rate Web page in effect on the date of the borrower's evaluation, as it is less than the pre-modification interest rate of 6.250 percent.

**Step 4: Extend the amortization term to 480 months from the modification effective date.**

**Step 5: The post-modified (post-capitalized) MTMLTV ratio is greater than 100 percent. Therefore, calculate the following two amounts:**

C. **Forbearance amount to achieve 100 percent post-modified MTMLTV ratio:**

100% x $100,000 (property valuation) = $100,000

$195,500 (post-modification gross UPB)
–100,000
$95,500 (forbearance amount A)

D. **Forbearance amount at 30 percent of estimated post-modification gross UPB:**

$195,500 (estimated post-modification gross UPB)
x 30%
$ 58,650 (forbearance amount B)

**Choose the lesser of the two amounts:**

In this example, $58,650 must be forborne, as it is the lesser of the two forbearance amount calculations.

$195,500 (estimated post-modification gross UPB)
– 58,650 (forbearance amount A)
$136,850 (estimated post-modification interest-bearing UPB)

136.85% = Post-modification MTMLTV ratio

**Step 6: Calculate the estimated modified P&I payment.**

Using the estimated post-modification interest-bearing UPB of $136,850, calculated in step 5, a 4.25 percent fixed interest rate, and a new amortization term of 480 months, the estimated modified P&I payment is **$593.41** – a P&I payment savings of $576.45 or 49.8 percent. The pre- and post-modification P&I amounts used here do not include escrow amounts.

**Step 7: Answer the following questions:**

- **Is the estimated modified P&I payment at least 20 percent less than the current P&I payment?**

  Yes, the estimated modified P&I payment of $650.43 at least 20 percent less than the current P&I payment of $1,169.86.

- **Is the post-modification housing expense-to-income ratio equal to or less than 40 percent?**
  Post-modification housing expense-to-income ratio = PITIAS ÷ Borrower's gross monthly income

  Calculate the PITIAS payment:

| | |
|---|---|
| Estimated P&I | $593.41 |
| + Taxes | $100.00 |
| + Insurance | $ 50.00 |
| + HOA Fees | $ 25.00 |
| + Escrow Shortage | $ 0.00 |
| **Post-modification PITIAS** | **$768.41** |

  Post-modification housing expense-to-income ratio:

  $768.41 (PITIAS) ÷ 2,800 (borrower's gross monthly income) = 27.4432 percent

  The post-modification housing expense-to-income ratio of 27.4432 percent is equal to or less than 40 percent.

You may proceed to offering the Trial Period Plan. The Trial Period Plan payment is $743.41 which includes $150 for escrowed taxes and insurance provided applicable law permits establishment of an escrow account, and a $593.41 partial payment of P&I. The $593.41 should be placed in a suspense account until the second Trial Period Plan payment is made, at which time a full monthly P&I payment should be applied and any remaining amount placed in a suspense account pending receipt of the third Trial Period Plan payment. **Note:** Homeowner association fees are not escrowed.

***Example 5 – Post-Modification MTMLTV Ratio Less than 80 Percent***

- Gross UPB (interest bearing + any applicable non-interest bearing) before capitalization: $190,000
- Property Value: $270,000
- Current P&I Payment: $1,147.84
- Taxes: $100.00
- Insurance: $50.00
- Homeowner Association Fees: $25.00
- Escrow Shortage: $0.00
- Primary Residence
- Interest Arrearage: $8,200
- Tax Advance: $1,800
- Fixed-rate Mortgage
- Current Interest Rate: 5.125 percent
- Remaining Term: 288 months

**Step 1: Capitalize known and estimated arrearages.**

| | |
|---|---|
| $ 8,200 (interest) | $190,000 (gross UPB before capitalization) |
| $ 1,800 (tax advance) | + $ 10,000 (Total Capitalization) |
| $10,000 Total Capitalization | $200,000 = Estimated Post-modification Gross UPB |

**Step 2: Calculate the post-modified (post-capitalized) MTMLTV ratio.**

($190,000 + $10,000) ÷ $270,000 = 74.1% Post-modified MTMLTV Ratio

74.1 percent is less than 80 percent; therefore, the mortgage is not eligible for forbearance.

**Step 3: Determine the interest rate you will use to calculate the Trial Period Plan payment.**

The post-modification MTMLTV ratio is less than 80 percent, and the mortgage is a fixed-rate mortgage. Therefore, you must use the existing interest rate on the mortgage to calculate the Trial Period Plan payment and establish the terms of the permanent modification. For this example, we will use a 5.125 percent fixed rate.

**Step 4: Extend the amortization term to 480 months.**

**Step 5: Calculate the estimated modified P&I payment.**

Using the estimated post-modification gross UPB of $200,000, calculated in step 1, a 5.125 percent fixed interest rate, and a new amortization term of 480 months, the estimated modified P&I payment is **$981.01** – a P&I payment savings of $166.83 or 14.5 percent. The pre- and post-modification P&I amounts used here do not include escrow amounts.

You may proceed to offering the Trial Period Plan. The Trial Period Plan payment is $1,131.01 which includes $150 for escrowed taxes and insurance provided applicable law permits establishment of an escrow account, and a $981.01 partial payment of P&I. The $981.01 should be placed in a suspense account until the second Trial Period Plan payment is made, at which time a full monthly P&I payment should be applied and any remaining amount placed in a suspense account pending receipt of the third Trial Period Plan payment. **Note:** Homeowner association fees are not escrowed.

### Trial Period

Eligible borrowers are required to successfully complete a three-month trial period prior to closing the modification to demonstrate their ability and willingness to sustain the modified payment amount. If a borrower defaults during the trial period or fails to sign the required modification agreements, the borrower is no longer eligible to be modified.

For borrowers in bankruptcy, you may extend the Trial Period Plan as necessary to accommodate delays in obtaining court approvals or receiving a full remittance of the borrower's trial period payments when they are made to a trustee, but you must not extend the trial period beyond nine months, resulting in a total 12-month trial period.

You may use an interim month at the end of the Trial Period Plan for processing; however, no payment is required during the interim month.

Refer to Guide Section 9206.11 for requirements related to the Flex Modification trial period.

#### ***Flex Modification Trial Period Plan Notice***

You must send the borrower a borrower evaluation notice relaying your decision within five days of the evaluation decision but no later than 30 days of receipt of a complete Borrower Response Package. If the borrower is approved for a Flex Modification, you must send a Standard Modification Trial Period Plan Notice, after amending it, as necessary, to conform to the Flex Modification program terms. A model letter is available in Guide Exhibit 93, *Evaluation Model Clauses*, or you may use your own proprietary Trial Period Plan notice provided it reflects the same level of specificity.

#### ***Flex Modification Trial Period Plan Notice for Streamlined Eligibility***

If a borrower is approved for a streamlined offer for a Flex Modification, you must send the borrower a Streamlined Modification Trial Period Plan Notice with *Exhibit 1191, Streamlined Modification Solicitation Letter*, or Exhibit 1191B, *Streamlined Modification Solicitation Letter for Day 60 Rate Reset*, as applicable, in accordance with the requirements described in Guide Section 9102.5(a). You must amend the documents, as applicable, to conform to the Flex Modification program terms.

If the borrower is approved for a streamlined offer for a Flex Modification due to an Eligible Disaster in accordance with the requirements of Section 9206.5(e), the Servicer must send the Borrower the Streamlined Modification Trial Period Plan Notice, amended as set forth in Exhibit 93 for Eligible Disasters, and Exhibit 1191A, *Flex Modification Post-Disaster Forbearance Solicitation Letter*. You must amend the Streamlined Modification Trial Period Plan Notice for Eligible Disasters and Exhibit 1191A to conform to the Flex Modification program terms.

#### ***Determining the Effective Date and Due Date of the Trial Period Plan***

Determine the Trial Period Plan effective date and the due date of the first Trial Period Plan payment as follows:

| Borrower Trial Period Plan Evaluation Notice Send Date | Trial Plan Effective Date | Trial Plan Due Date of First Trial Payment |
|---|---|---|
| On or before 15th of the month | First day of the next month | First day of the next month |
| After the 15th of the month | First day of the month after the next month | First day of the month after the next month |

If after sending the Trial Period Plan notice the borrower agrees to begin the trial period earlier than the effective date requirements stated in the table above, you may begin the trial period on the first day of the next month.

***Bankruptcy***

Borrowers in a trial period plan who subsequently file for bankruptcy may not be denied a modification on the basis of the bankruptcy filing. You and your counsel must:

- Work with borrower and borrower's counsel to obtain court and/or trustee approvals required in accordance with local court rules and procedures.
- Extend the Trial Period Plan as necessary to accommodate delays in obtaining court approvals or receiving a full remittance of the borrower's trial period payments when they are made to a trustee, but you must not extend the trial period beyond nine months, resulting in a total 12-month trial period.
- Notify the borrower if a trial extension is permitted. The borrower must make trial period payments for each month of the trial period, including any extension month in order to remain eligible for a modification.

*Chapter 13*

If a borrower is in an active Chapter 13 bankruptcy and has made post-petition payments on the mortgage in the amount required by the Trial Period Plan, you should not:

- Object to confirmation of borrower's Chapter 13 plan, or
- Move for relief from automatic bankruptcy stay, or
- Move for dismissal of a Chapter 13 case

*Chapter 7*

Borrowers who have received a Chapter 7 bankruptcy discharge in a case involving the mortgage and who did not reaffirm the mortgage debt under applicable law are eligible for the Flex Modification.

Modification is contingent on the bankruptcy court's approval of the modification and release of the mortgage from the bankruptcy plan prior to the due date of the first modified mortgage payment. You should modify the Trial Period Plan notice accordingly to reflect the fact that a borrower's eligibility for a modification is conditioned on court and/or trustee approval to remove the mortgage from the bankruptcy prior to modification.

***Servicing Technology and Reporting***

You must use Workout Prospector to process borrower evaluations for Flex Modifications unless otherwise directed by Freddie Mac. Review the *Workout Prospector Users' Guide* for detailed information about how to enter and transmit data using Workout Prospector.

It is important that you report Trial Period Plan activity accurately and timely via. Accurate and timely Trial Period Plan reporting in accordance with the requirements outlined in the Guide is imperative to many servicing-related activities, including, but not limited to, eligibility for workout compensation and effective foreclosure timeline management. Exhibit 82, *EDR Transmission Code List*, includes default action codes. Use the table below to identify what default action codes you are required to report by the third business day of each month for the previous month's activity. For additional information, refer to the *EDR Quick Reference Guide*.

| EDR Code | When to Report | Report code and the following: |
|---|---|---|
| H4: Solicitation Letter Sent | When you have sent a solicitation letter to a borrower. | The date you sent the letter one time in the month following the month the event took place. |
| H5: Complete Borrower Response Package Received | You received a Complete Borrower Response Package. | The date you received the complete Borrower Response Package, one time, in the month following when the event took place. |
| HD: Modification in Review | You are evaluating a borrower for a Flex Modification. | The date you begin reviewing the loan, one time, in the month following the month the event took place. |
| HE: Ineligible/Cancel Modification | You have determined the borrower is ineligible for a Flex Modification. | The date you made the decision, one time, in the month following the month the event took place. |
| BF: Standard Modification Trial Period | The borrower has entered into a trial period for a Flex Modification. | The trial period start date each month during the trial period and any interim month.<br>**Note:** Do not report default action code 09 (Forbearance) with this code. |

If an interim month is used, report default action code **BF** and the trial period plan effective date as the default action date until the default action codes no longer apply once the mortgage is modified.

If the borrower fails the Trial Period Plan, report any initiated or resumed foreclosure activity via EDR.

***Completing the Trial Period***

Once the trial period has completed successfully, ensure the modified mortgage complies with the conditions outlined in Guide Section 9206.12. Loan settlement guidelines for expenses, delinquent amounts and capitalization rules are located in Guide Sections 9206.15 and 9206.16. Submit the modification for settlement via the Loan Modification Settlement screen in Workout Prospector once the workout is complete.

### Determining the Final Modification Terms

As you prepare the final modification agreement, you must adjust the terms of the mortgage by completing the steps outlined below. A borrower who successfully completes a Trial Period Plan may not be denied a modification due to changes in the amount of capitalization. Reasonable changes in capitalization amounts between what was estimated at the time of evaluation for a Trial Period Plan and the final modification terms are permitted.

The final terms of the modified mortgage must be a fixed interest rate, fully amortizing mortgage with the same interest rate used for calculating the Trial Period Plan payment.

Follow the requirements in Guide Section 9206.18 to complete the processing of the modification.

***Mortgages with a Post-Modification MTMLTV Ratio Equal to or Greater than 80 Percent***

Perform the following steps to determine the final terms of the modification:

1. Capitalize arrearages per the requirements of Guide Section 9206.15 to arrive at the post-modification gross UPB.
2. Verify the interest rate. The interest rate that is used for the final modification must be the same interest rate used for the Trial Period Plan.
3. Extend the amortization term to 480 months from the modification effective date.
4. Verify the forbearance amount:

| If the post-modification MTMLTV is: | Then you must: |
|---|---|
| Greater than 100 percent | Forbear principal until the earlier point at which:<br>▪ A post-modification interest bearing MTMLTV ratio of 100 percent is achieved, or<br>▪ 30 percent of the post-capitalized UPB (the "forbearance cap") is achieved.<br>**Note**: Interest may not accrue on the forborne (or deferred) principal. Deferred principal is payable upon maturity of the loan modification, sale or transfer of the property, refinance of the mortgage, or payoff of the interest-bearing UPB. |
| Equal to or greater than 80 percent, but less than or equal to 100 percent | Proceed to step 5. |

5. Calculate the modified P&I payment.
6. Answer the following questions:
   - Is the estimated modified P&I payment at least 20 percent less than the current P&I payment?
   - Is the post-modification housing expense-to-income (PMHTI) ratio equal to or less than 40 percent? (Refer to page 11 in this reference guide for information on how to calculate this ratio.)

| If: | And: | Then: |
|---|---|---|
| The mortgage is less than 90 days delinquent at the time of evaluation | The answers to both questions are "yes", you did achieve a minimum 20 percent payment reduction and a PMHTI 40 percent | Offer the modification to the borrower. |
| | The answer to one or both questions is "no" because you did not achieve a minimum 20 percent payment reduction and/or a PMHTI ratio equal to or less than 40 percent | You must continue to forbear principal, in $100 increments, until one of the following occurs first:<br>▪ A 20 percent P&I payment reduction and a PMHTI ratio equal to or just below 40 percent are both achieved, or<br>▪ A MTMLTV ratio as close as possible to, but not below 80 percent is achieved, or<br>▪ The aggregate forbearance amount equals or is no less than $100 below the forbearance cap.<br>If you reach the forbearance cap or 80 percent MTMLTV ratio first, you must offer the modification to the borrower with the maximum permitted forbearance amount provided that the modification still results in a P&I payment that is less than or equal to the borrower's pre-modification P&I payment. In this case, neither the 20 percent payment reduction nor the 40 percent PMHTI ratio must be obtained. |
| The mortgage is 90 days or more delinquent at the time of evaluation | The answer to the first question is "yes", you did achieve a minimum 20 percent payment reduction | Offer the modification to the borrower. |
| | The answer to the second question is "no", you did not achieve a minimum 20 percent payment reduction | You must continue to forbear principal, in $100 increments, until whichever of the following occurs first:<br>▪ A 20 percent P&I payment reduction is achieved, or<br>▪ An MTMLTV ratio as close as possible to, but not below 80 percent is achieved, or<br>▪ The aggregate forbearance amount equals or is no less than $100 below the forbearance cap.<br>If you reach the forbearance cap or 80 percent MTMLTV ratio first, you must offer the modification to the borrower with the maximum permitted forbearance amount provided that the modification still results in a P&I payment that is less than or equal to the borrower's pre-modification P&I payment. In this case, you do not have to achieve a 20 percent payment reduction. |

7. Prepare a modification agreement to reflect the terms calculated in the steps above and the requirements of Guide Section 9206.16.

***Mortgages with a Post-Modification MTMLTV Ratio Less than 80 Percent***

Perform the following steps to determine the final terms of the modification:

1. Capitalize arrearages per the requirements of Guide Section 9206.15 to arrive at the post-modification gross UPB.
2. Verify the interest rate. The interest rate that is used for the final modification must be the same interest rate used for the Trial Period Plan.
3. Extend the amortization term to 480 months from the modification effective date.
4. Calculate the estimated monthly P&I payment.
5. Prepare a modification agreement to reflect the terms calculated in the steps above and the requirements of Guide Section 9206.16.

### Servicer Incentives

As announced in Guide Bulletin 2020-21, the following table identifies the individual incentive and cap amounts that you will receive for successfully settling Flex Modifications.

| Incentive Payment Amount | Incentive Cap Amount |
|---|---|
| $1,000<br><br>Effective for all Flex Modifications completed with a Trial Period Plan effective date on or after July 1, 2020. | $1,000<br><br>As of July 1st, 2020, Servicer incentives will be capped at $1,000 per mortgage in aggregate for all Flex Modifications that are completed..<br><br>Flex Modifications already completed or started prior to July 1st, 2020 are not subject to the incentive cap. |

To receive compensation, you must successfully settle a Flex Modification by complying with all eligibility, underwriting, documentation, closing, and reporting requirements, including submitting accurate closing data to Freddie Mac, within two months after the trial period ends. Please note that the use of an interim month does not extend this two-month settlement requirement as an interim month is not part of the trial period.

### Ineligible Incentive Payment Warnings

It is important to report your Flex Modification data accurately, consistently and within specified time requirements. Failure to do so will cause your status to be ineligible for a compensation incentive.

This section highlights actions to avoid when reporting Flex Modification data through Workout Prospector and EDR. You will receive the error messages on the loan-level detail report available via the Incentives tile in the Manager Series Reports section of the Servicer Performance Profile.

| Message | Explanation |
|---|---|
| Mod not settled within 6 mos of Trial Start Date | The settlement date is more than six months later than the trial period start date. |
| Mod not settled within 15 mos of Trial Start Date | The settlement date is more than 15 later than the trial period start date for a loan in bankruptcy. |
| Closed Date is over 2.5 mos from Mod Approval | For Other mods only:<br>The archived date is greater than two months and 15 days after the workout approved date. |
| Trial Start Date is missing in Workout Prospector | The trial period start date is not in Workout Prospector. |
| Agreement Rec'd is over 2 mos from Mod Approval | For Other mods only:<br>The date agreement received (when mod is settled) is greater than two months after the workout approved date. |