



Freddie Mac Flex Modification Reference Guide

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Table of Contents



Contents

Introduction.....	3
Evaluating a Borrower for a Flex Modification	4
Alternatives to Foreclosure Hierarchy	5
Eligibility Requirements for Flex Modifications.....	6
Exclusions	8
Exceptions	9
Soliciting the Borrower for a Flex Modification.....	10
Streamlined Offer for Flex Modifications.....	11
Applicable Only to Borrowers with Step-Rate Mortgages:.....	11
Documentation Requirements for Flex Modifications	12
Property Valuation Requirements for Flex Modifications.....	12
Trial Period	12
Flex Modification Trial Period Plan Notice	13
Flex Modification Trial Period Plan Notice for Streamlined Eligibility	13
Determining the Effective Date and Due Date of the Trial Period Plan.....	13
Completing the Trial Period	14
Final Modification Terms	14
Determining imminent default for a Flex Modification®	14
Imminent default evaluation business rules.....	14
Income and asset documentation and verification	16
Cash Reserves test.....	16
Calculating Cash Reserves	16
Imminent default credit score.....	17
Determining the Imminent Default Credit Score	18
Calculating pre-modification housing expense-to-income ratio	18
Imminent default evaluation results	19
Bankruptcy	19
Chapter 13	19
Chapter 7	20
Servicing Technology and Reporting	20
Servicer Incentives	22
Ineligible Incentive Payment Warnings	22

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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 (the Servicer) 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.

You must request a Trial Period approval, workout approval and settlement for all Flex Modification products through Resolve®.

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
- Reporting loan activity through Electronic Default Reporting (EDR)
- How to determine estimated and final modification terms
- Trial Period guidelines and Servicer incentive payments

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



Evaluating a 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)

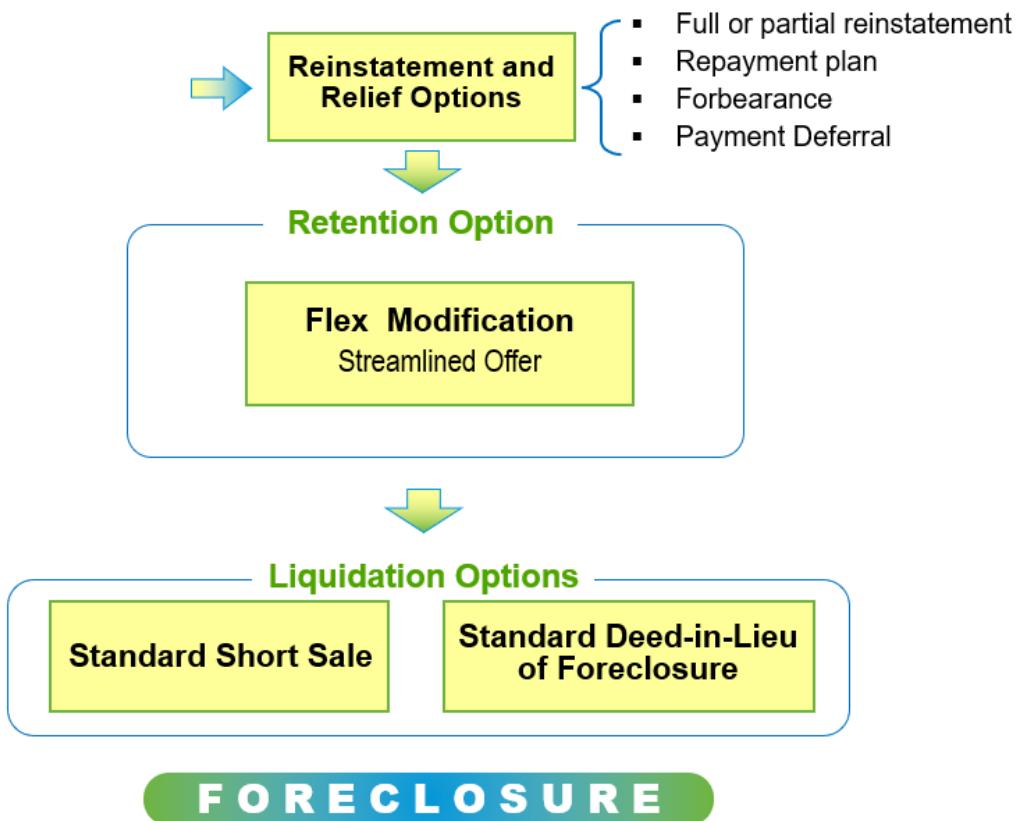
You should consider a borrower for a Flex Modification if the borrower:

- 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.



Alternatives to Foreclosure Hierarchy



Refer to [Guide Section 9201.2](#)

Flex Modifications fall within the evaluation hierarchy as a retention option considered prior to any liquidation options. When a full reinstatement, repayment plan, or payment deferral is not a viable option for the borrower to cure the delinquency, the Servicer must evaluate the borrower for a flex modification workout option.



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](#).

Flex Modification Eligibility Requirements	
Borrower Eligibility	<p>The borrower must be:</p> <ul style="list-style-type: none">▪ 60 days or more delinquent, or▪ Current or less than 60 days delinquent (i.e., less than three monthly payments past due). At least one borrower occupies the property as a Primary Residence is also eligible, provided the borrower is first determined to be in imminent default in accordance with Guide Section 9206.7. <p>Note: Use a credit report to verify that the borrower is occupying the property.</p> <p>Refer to page 32 of this reference guide or Guide Section 9206.7 for the imminent default evaluation process and requirements.</p> <p>The borrower must submit a complete Borrower Response Package and have the following:</p> <ul style="list-style-type: none">▪ An eligible hardship, per Guide Section 9202.2, that is currently causing or expected to cause a long-term or permanent decrease in the borrower's income and/or increase in expenses▪ Verified income <p>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.</p> <p>Streamlined Eligibility for Certain Borrowers</p> <p>Certain eligibility exceptions apply for a borrower who:</p> <ul style="list-style-type: none">▪ Is 90 days delinquent or greater, or▪ Has a step-rate mortgage and the borrower:<ul style="list-style-type: none">– Becomes 60 days delinquent within the 12 months following the first payment due date resulting from an interest rate adjustment, and– Has not submitted a complete Borrower Response Package <p>For additional information, refer to Streamlined Offer for Flex Modifications in this reference guide and Guide Section 9102.5 for solicitation of delinquent borrowers.</p>



Flex Modification Eligibility Requirements	
Property	<p>The existing mortgaged property must be:</p> <ul style="list-style-type: none">▪ Owner-occupied (primary residence) Note: The property must be a primary residence if the borrower is current or less than 60 days delinquent.▪ Second home or non-owner occupied* (investment property)
Mortgage Eligibility	<p>The mortgage must:</p> <ul style="list-style-type: none">▪ Have been originated at least 12 months prior to the evaluation date▪ Be a conventional first-lien mortgage currently owned or guaranteed in whole or in part by Freddie Mac▪ The Flex Modification must result in an estimated post-modification principal and interest (P&I) payment that is less than or equal to the pre-modification P&I payment. (Refer to Section 9206.10 for additional payment reduction requirements that may apply.) <p>When determining whether the modification results in a P&I payment that is less than or equal to the pre-modification P&I payment, you must consider the following:</p> <ul style="list-style-type: none">○ If the borrower has been granted interest rate relief under the Servicemembers Civil Relief Act (SCRA), you must consider the P&I payment in effect prior to the date the SCRA relief was granted rather than the temporarily reduced monthly payment based on the SCRA interest rate cap○ If the mortgage being modified is an adjustable rate mortgage (ARM) or an interest-only mortgage, you must consider the P&I payment, or interest only payment, as applicable, in effect at the time you determine eligibility for a Flex Modification Trial Period Plan▪ If the mortgage is subject to an indemnification agreement, and is otherwise eligible under the requirements in Guide Chapter 9206, you have discretion to approve the mortgage modification provided the following conditions are met:<ul style="list-style-type: none">○ The modified mortgage retains its credit enhancement.○ 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○ 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



Flex Modification Eligibility Requirements	
	<p>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 Bulletins 2016-5 and 2021-14.</p> <p>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.</p> <ul style="list-style-type: none">▪ 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. <p>Refer to the special requirements in Guide Section 9206.5(e) for borrowers who experience a hardship as a result of an Eligible Disaster and who were current or less than 31 days delinquent as of the date of the disaster.</p>
Flex Modification Eligibility Requirements, continued	
Housing Expense-to-Income Ratio	<p>The estimated post-modification housing expense-to-income ratio* must be equal to or less than 40 percent.</p> <p>For primary residences, calculate by taking the monthly PITIAS payment divided by monthly gross income as defined in Guide Section 9206.10.</p> <p>Refer to Guide Section 9206.5 for requirements for second homes and investment properties.</p> <p>*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.</p>

Exclusions

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

The following mortgages are ineligible for a Freddie Mac Flex Modification:

- 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, if you believe, based on the borrower's individual circumstances, that the borrower should be considered for a Flex Modification, you should submit an exception review request to Freddie Mac via Resolve's user interface (UI) or application programming interface (API) submission paths. Refer to [Resolve Online Help](#) for additional information on submitting a request for an exception review.

For additional information, refer to "Exceptions" section below.

- Mortgages that have been previously modified three or more times
- Mortgages previously modified with the Flex Modification terms in Guide Section 9206.10 where:
 - 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)
- The Mortgage subject to an approved short sale or deed-in-lieu of foreclosure transaction
- The Borrower is currently performing under another Trial Period Plan, forbearance plan, or repayment plan
- The Mortgage is currently subject to an unexpired offer to the borrower for another modification or other alternative to foreclosure, such as a forbearance, repayment plan, or a payment deferral

Any borrower who is ineligible for a Flex Modification must provide a complete Borrower Response Package (BRP) in order to be evaluated for the most appropriate workout solution in accordance with the evaluation hierarchy in [Guide Section 9201.2](#).

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 submit a request for an exception review to Freddie Mac via Resolve's user interface (UI) or application programming interface (API). For additional information, refer to [Guide Section 9206.10\(c\)](#) and [Resolve Online Help](#) or the [Resolve API Retention Reference Guide](#), located on the [Developer Portal](#).

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
- Mortgages with a mark-to-market-loan-to-value (MTMLTV) ratio of less than 80% that require an interest rate reduction (only applicable for borrowers with a COVID-19 related hardship)

Soliciting the Borrower for a Flex Modification

Borrower solicitation must follow the requirements in [Guide Section 9102.5](#). In addition to the minimum collection efforts set forth in [Guide Section 9102.4](#), 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.

You must send at least one Borrower Solicitation Package or solicitation letter to the borrower with information, including but not limited to, the availability of alternatives to foreclosure as set forth in [Section 9102.5\(b\)](#).

If you previously determined that a borrower who was less than 60 days delinquent did not qualify for any alternative to foreclosure and the borrower subsequently becomes 60 days delinquent, then you must continue your solicitation and collection efforts with the borrower in accordance with the requirements in [Guide Section 9102.5](#). Continued solicitation may be needed and may include sending another Borrower Solicitation Package especially if the documentation needs to be refreshed in order to perform the subsequent evaluation of the borrower for alternatives to foreclosure.

If you have not achieved Quality Right Party Contact (QRPC) 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 an unpaid monthly installment.

You may send either:

- A Borrower Solicitation Package, which includes a Borrower Solicitation Letter (see [Exhibit 1145](#)), [Form 710, Mortgage Assistance Application](#), frequently asked questions (FAQs) and foreclosure rescue scam information;
- OR
- A Borrower Solicitation Letter (see [Exhibit 1145](#)) and elect to send [Form 710](#), FAQs and foreclosure rescue scam information upon establishing QRPC. You may also provide the FAQs and foreclosure rescue scam information on your website and provide a link to that information in the Borrower Solicitation Letter.

If you have achieved QRPC and have obtained from the borrower a resolution to the delinquency, you are not required to send a Borrower Solicitation Package. However, in this instance, 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

You must offer an eligible borrower who (i) becomes 90 days delinquent, or (ii) 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, an offer for a Flex Modification Trial Period Plan in accordance with the solicitation requirements in [Section 9102.5](#). Before offering such Borrower a Flex Modification Trial Period Plan, you must 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 that applies to the requested modification. See [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](#).

Prior to soliciting a borrower for a streamlined offer for a Flex Modification, submit a draft request (DRAFTReq) through Resolve for decisioning based on preliminary loan data to determine the likelihood of a successful workout approval.

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.

If you determine the borrower is eligible, solicit the borrower for a Flex Modification. 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.

For additional information, refer to [Flex Modification Trial Period Plan Notice for Streamlined Eligibility](#) in this reference guide or [Guide Section 9102.5](#).

Applicable Only to Borrowers with Step-Rate Mortgages:

If the borrower submits a complete Borrower Response Package prior to the borrower becoming 90 days delinquent, you must acknowledge receipt of the package and review it in accordance with the evaluation hierarchy found in [Section 9201.2](#).

You must send an eligible borrower an offer for a Flex Modification in accordance with the requirements of [Section 9206.5\(c\)](#) once the borrower reaches the applicable delinquency threshold if:

- The Servicer has not received a complete Borrower Response Package, or
- The Servicer previously conducted an evaluation of a complete Borrower Response Package and determined that the borrower was not eligible for any alternative to foreclosure, or
- The borrower has rejected all other alternatives to foreclosure offered by the Servicer



In addition, if a borrower with a Step-Rate Mortgage submits a complete Borrower Response Package prior to becoming 90 days delinquent, and the borrower has not yet accepted the offer for a Flex Modification, you must complete a review of the package for all alternatives to foreclosure in accordance with the Guide. However, if the borrower has accepted the existing Trial Period Plan offer, you must determine if the borrower is eligible for additional payment relief as a result of the post modification housing expense to income ratio (PMHTI) component of the Flex Modification terms described in [Section 9206.10](#). If the borrower is eligible for additional payment relief, then you must permit the borrower to continue making the existing Trial Period payments, but must update the modification agreement to reflect the lower payment amount. The post modification P&I must reflect the lower payment amount in these instances.

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.

Property Valuation Requirements for Flex Modifications

Based on the information you submitted, Resolve® will determine the property value of each mortgage under consideration for a Flex Modification®. In addition, the property value obtained from Resolve will be used to determine the mark-to-market loan-to-value (MTMLTV) ratio provided on the Workout Details page.

If the mortgage is covered by mortgage insurance, you must ensure that the property value is based on a property valuation type that is consistent with the MI's requirements.

Trial Period

A borrower who is evaluated and determined eligible for a Flex Modification® must enter into a Trial Period Plan under which the borrower will be required to remit three monthly payments at an estimated modified payment amount.

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.



You may utilize an interim month following the end of the Trial Period to facilitate processing of the modification agreement in accordance with [Section 9206.16\(b\)](#). A payment is not required during the interim month. Refer to [Resolve Online Help](#) (Deferred Payment Count) for conditions when a borrower's payment may be required.

For borrowers in bankruptcy, you may extend the Trial Period 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.

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 15 th of the month	First day of the next month	First day of the next month
After the 15 th 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.

Completing the Trial Period

When the Trial Period has been successfully completed, ensure the modified mortgage complies with the conditions outlined in [Guide Section 9206.12](#). You must submit the modification for workout approval via Resolve's UI or API submission paths. Once a workout approval request is in an Approved status, the workout can proceed to settlement. Refer to Resolve Online Help or the Retention API Guide, located on the Developer Portal, for more information about submitting Flex Modification workout requests for approval.

Loan settlement guidelines for expenses, delinquent amounts and capitalization rules are outlined in [Guide Sections 9206.15](#) and [9206.16](#).

Final Modification Terms

Upon settlement approval, Resolve provides the final workout terms for the settled modification via the Workout Details page. 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 payment. Review the post modification terms in Resolve to prepare the final modification agreement for the borrower. Refer to [Guide Section 9206.15](#) through [9206.17](#) for additional guidance on closing the loan modification.

Follow the requirements in Guide Section [9206.18](#) to complete the processing of the modification.

Determining imminent default for a Flex Modification®

In order to be eligible for a Flex Modification, borrowers who are current or less than 60 days delinquent must be determined to be in imminent default and must be occupying the property as a Primary Residence. You must verify that at least one borrower is occupying the property as a Primary Residence based on a review of a credit report. If the credit report does not indicate that the property securing the mortgage is the Primary Residence for a borrower, then you must use good business judgment in reconciling the inconsistency. This additional due diligence on the part of the Servicer must be documented in the mortgage file/servicing system.

An imminent default evaluation is necessary when the status of the mortgage is current or less than 60 days delinquent as of the date the Servicer commences the initial evaluation of the borrower's financial condition using the imminent default evaluation business rules as described in [Section 9206.7\(b\)](#).

You must rely on the same mortgage status used to initiate the imminent default evaluation to complete the imminent default determination process, regardless of whether the borrower becomes 60 days or more delinquent during the imminent default evaluation.

Imminent default evaluation business rules

Resolve will evaluate the information you provide against the imminent default business rules. Any borrower who is current or less than 60 days delinquent at the time the Servicer commences the initial evaluation is in imminent default if the borrower meets the requirements of the following business rules:



Imminent Default Evaluation Business Rules	
To be considered in imminent default, the borrower must meet all requirements under Business Rule 1, and must meet the requirements for either:	
<ul style="list-style-type: none">• Business Rule 2, or• Business Rule 3	
Business Rule 1	Each borrower must: <ul style="list-style-type: none">▪ Submit a complete Borrower Response Package▪ Be current or less than 60 days delinquent as of the evaluation date▪ Occupy the property as a Primary Residence; or at least one borrower on the Mortgage must occupy the property as his or her Primary Residence▪ Have cash reserves less than \$25,000▪ Have an eligible hardship as described in Section 9202.2
Business Rule 2	<p>The borrower is considered in imminent default if the borrower meets the requirements of Business Rule 1, and</p> <ul style="list-style-type: none">▪ The borrower's FICO® score is less than or equal to 620 determined in accordance with Section 9206.7(e); AND EITHER<ul style="list-style-type: none">▪ The mortgage has had two or more 30-day delinquencies in the most recent 6-month period; OR▪ The borrower's pre-modification housing expense-to-income ratio is greater than 40% <p>If the borrower has one of the Imminent Default Hardships described below in Business Rule 3, the borrower may be determined to be in imminent default even if these Business Rule 2 requirements are not met.</p>
Business Rule 3	<p>The borrower is considered in imminent default if the borrower meets the requirements of Business Rule 1, and the borrower provided the documentation required in Section 9202.2 supporting one of the Imminent Default Hardships listed below:</p> <ul style="list-style-type: none">▪ Death of a borrower or death of either the primary or secondary wage earner in the household▪ Long-term or permanent disability; or serious illness of a borrower/co-borrower or dependent family member▪ Divorce or legal separation; separation of borrower unrelated by marriage, civil union or similar domestic partnership under applicable law; or▪ Principal and interest payment increase as a result of an interest adjustment applied to a Step-Rate Mortgage no more than 12 months prior to the evaluation date <p>The Imminent Default Hardship must currently cause and be expected to continue to cause a long-term or permanent decrease in income or increase in expenses.</p>



You must enter all information in Resolve for Business Rule 1 and Business Rule 2 in all instances, even if the borrower does not meet the requirements under Business Rule 2 and instead is approved based on the Imminent Default Hardship under Business Rule 3.

Income and asset documentation and verification

Documentation and verification

To be evaluated for imminent default, a borrower must, at a minimum, provide a complete Borrower Response Package as defined in [Section 9102.5\(c\)](#). In addition to the income documentation required under [Section 9202.3](#), the Servicer must obtain the borrower's FICO score in accordance with [Section 9206.7\(e\)](#).

Verification of income and assets; resolution of material inconsistencies

You must review all documentation submitted by the borrower to identify any material inconsistencies, including material inconsistencies with a tax return or tax transcript if one was obtained under [Section 9202.3](#). If, based on your good business judgment, there are material inconsistencies with respect to the income or asset information disclosed by the borrower or with other documentation relevant to the imminent default decision, you must obtain other documentation to reasonably reconcile such material inconsistencies. You must also document such material differences in their servicing system. If you cannot reconcile such material differences, the borrower cannot be considered in imminent default.

Cash Reserves test

You must complete an evaluation of the borrower's cash reserves. The borrower **must** have cash reserves of less than \$25,000 to be further evaluated for imminent default. If the borrower either discloses or provides documentation indicating the borrower has cash reserves equal to or greater than \$25,000, then the borrower is not in imminent default.

Definition of Cash Reserves

For purposes of determining imminent default, Cash Reserves are defined as follows:

Cash Reserves: Any non-retirement liquid asset the borrower has available for withdrawal from any financial institution or brokerage, including funds on deposit in the borrower's checking, savings, money market or certificate of deposit account or other depository account, stocks, bonds, mutual funds, U.S. Government Securities and other securities that are traded on an exchange or marketplace generally available to the public (e.g., New York Stock Exchange, National Association of Securities Dealers Automated Quotations, Midwest SE, Chicago Board of Trade or Over the Counter) for which the price can be readily verified through financial publications.

Assets are only considered retirement assets if they are held in a qualified retirement account such as a 401k, 403b, 457, Individual Retirement Account (IRA) or pension fund. If the assets are not held in a retirement account, the assets must be considered cash reserves.

Calculating Cash Reserves

You must calculate the borrower's cash reserves in accordance with the following requirements:

1. You must determine that, for every borrower on the mortgage, all the borrower's cash reserves have been accounted for on [Form 710](#), Mortgage Assistance Application
2. In making the determination that all cash reserves have been accounted for, you must review all information provided by the borrower to determine if the asset information stated on [Form 710](#) is reasonably consistent with information available from all other information provided by the borrower, including verbal information shared by the borrower. If there are inconsistencies



between the borrower's disclosure of assets and the information provided by the borrower, then you must obtain the borrower's tax return or tax transcript in order to reconcile the inconsistencies.

If, upon reviewing the borrower's tax return or tax transcript, if applicable, the Servicer observes interest, dividend income or gains/losses that, in total, that could not be reasonably produced by the borrower's disclosed cash reserves, and such income indicates deposits, securities holdings or other assets that could be in excess of the amounts disclosed by the borrower on [Form 710](#), you must reconcile the inconsistency with the borrower. You must require the borrower to produce a signed federal tax return and all relevant schedules, in the event you used a tax transcript in lieu of a tax return, along with any other relevant documentation that verifies the disposition and/or current status of those assets, which produced the income or gains/losses to resolve the inconsistency.

You must ensure that the borrower's disclosure of assets is reasonably accurate despite the inconsistency between the disclosed assets and the income or gain/loss from assets reported on the tax return or tax transcript. In determining what documentation is needed to reconcile an inconsistency, the Servicer must review the detailed tax return schedules and forms, and request from the borrower copies of recent and past statements from those asset holdings or transactions indicated on the schedules and forms that produced the income or gain/loss (e.g., checking, savings, brokerage account statements, asset sale statements or records, etc.).

3. If there are inconsistencies between the borrower's disclosure of assets and the tax return information that cannot be reconciled, the borrower cannot be considered in imminent default

If you determine that the borrower has cash reserves of less than \$25,000 and meets all other requirements of [Section 9206.7\(b\)](#) then the borrower is considered to be in imminent default.

Imminent default credit score

You must choose one FICO score that is adequately indicative of the credit reputation of all borrowers currently on the mortgage. You must use a credit score based on the FICO credit-scoring model. This score must be obtained and determined in accordance with the requirements below.

Obtaining FICO scores for each Borrower

You must request a FICO score for each borrower on the mortgage from any one of the following three credit repositories:

- Equifax Credit Information Services
- Experian Information Systems and Services
- TransUnion Credit Information Company

The borrower's FICO score must be less than 90 days old on the date you perform the imminent default evaluation.

Borrowers with no available FICO score

It is unusual for any borrower who has obtained a mortgage not to have a FICO score. If no single FICO score can be identified for a borrower, you must recheck the information provided when ordering the



FICO scores and resubmit a request. If you are still unable to obtain a FICO score for that borrower, it may rely on the FICO scores of all other borrowers as determined in accordance with this section.

Absent a FICO score for any borrower on the mortgage, the borrower may not be determined to be in imminent default under the requirements of Business Rule 2, and you must proceed to evaluate the borrower under the requirements of Business Rule 3 in [Section 9206.7\(b\)](#). In such instances when a FICO score is not available for any borrower on the mortgage, you must:

1. Maintain documentation in the mortgage file that demonstrates the Servicer's attempts to obtain FICO scores from all three credit repositories on all borrowers
2. Enter the result that a FICO score is not available for any borrower on the mortgage into Resolve
3. Proceed to the Imminent Default Hardship test in Business Rule 3 to determine if an Imminent Default Hardship exists

Determining the Imminent Default Credit Score

You must identify the Imminent Default Credit Score in accordance with the following:

- You must first select a single FICO score for each borrower on the mortgage. If you obtain multiple FICO scores for a single borrower, you must use the middle/lower method to select the single FICO score for that borrower. This method is the most predictive when determining a single borrower's overall credit reputation. If three FICO scores are obtained for a borrower, the single score for that borrower is the one with the middle value.
 - For example, if the FICO scores were 660, 656 and 640, the single FICO score selected by the Servicer should be 656. When there is a duplicate score, the Seller must select that score to be the single score. If the FICO scores for a borrower were 660, 660 and 640, the Servicer should select 660. If two FICO scores were obtained for a borrower, you must select the lower of the two FICO scores to be the single FICO score for that borrower.
- If there is only one borrower on the mortgage, the single FICO score, determined in accordance with the above requirements, is considered the Imminent Default Credit Score
- If there are multiple borrowers on the mortgage, you must determine the single FICO score for each borrower using the method described above. You must then select either the lowest FICO score across all borrowers on the mortgage or the average FICO score from all borrowers' single scores. (Note: Whichever method is used, you should choose the single FICO score using the same method and procedure for all borrowers and for all mortgages consistent with fair lending laws.)

Calculating pre-modification housing expense-to-income ratio

You must use verified income to determine that the borrower's pre-modification housing expense-to-income ratio is greater than 40%. For purposes of this determination, you must divide the borrower's current monthly housing expense by the borrower's monthly gross income (or the borrowers' combined monthly gross income in the case of co-borrowers) plus any allowable non-obligor household income. The borrower's current monthly housing expense consists of the following, as applicable:

- Monthly P&I payment
- Monthly pro rata amount for real estate taxes
- Monthly pro rata amount for property or flood insurance
- Monthly pro rata amount for homeowners association (HOA) dues, Condominium Unit or Cooperative Unit Maintenance Fees and ground rent
- Any escrow shortage currently included as part of the monthly contractual payment



If the borrower has been granted interest rate relief under the Servicemembers Civil Relief Act (SCRA), you must use the principal and interest payment and the contractual rate of interest in effect on the Note prior to the granting of the SCRA relief when calculating the borrower's current monthly housing expense-to-income ratio, rather than the temporarily SCRA reduced interest rate and related SCRA monthly payment.

If a borrower has indicated that there are condominium/HOA or Cooperative Corporation assessments (see Chapter 8801 for special Servicing requirements for Cooperative Share Loans), condominium unit maintenance fees or cooperative unit Maintenance fees, or ground rents, but has not been able to provide written documentation to verify these amounts, you must rely on the information provided by the borrower if you have made reasonable efforts to obtain the amounts in writing.

The current monthly housing expense does not include mortgage insurance premium payments, payments due to holders of subordinate liens, or projected escrow shortages.

For each imminent default evaluation under Business Rule 2, you must report the housing expense-to-income ratio and the FICO score as described below, to Freddie Mac via Resolve.

Imminent default evaluation results

If Resolve determines the borrower meets the requirements of Business Rule 1 and meets the requirements of either: (i) Business Rule 2, or (ii) Business Rule 3, the borrower is in imminent default. You must evaluate the borrower for a Flex Modification Trial Period Plan and no further analysis is required by you to determine imminent default.

If Resolve determines that a borrower is in imminent default, you must continue evaluating the borrower using the applicable underwriting requirements outlined in [Chapter 9206](#) to determine if the borrower qualifies for a Flex Modification.

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 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 Resolve's UI or API submission paths to process borrower evaluations to include trial period approval through settlement approval for all Flex Modifications. Resolve reports the BF (Freddie Mac Standard Modification Trial Period) default action code to EDR upon the approval of a trial period. Resolve will continue to report the default action code BF and the trial period start date until the default action code no longer applies, or once the mortgage is successfully modified. Do not report the BF code via EDR, this will cause duplicate reporting.

If the borrower fails the trial period, you must submit a cancellation request (CXLReq) via Resolve no later than the 3rd business day of the month, in the month following the failed trial period and initiate or resume foreclosure activity.

The table below identifies what default action codes are required by the third business day of each month for the previous month's activity when processing Flex Modifications (i.e., trial cancellations).

EDR Code:	Report when:	Reporting of the EDR code and the following:
H4: Solicitation Letter Sent	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.



EDR Codes reported by Resolve	When Resolve reports to EDR	What Resolve reports to EDR
BF: Standard Modification Trial Period	Once a trial period for a Flex Modification has been approved, Resolve reports the BF code to EDR, the 4 th business day in the month, following the month the event occurred. No action is required by the Servicer. If the Servicer submits a cancellation request via Resolve before the start of the trial period, then Resolve will not report the BF code to EDR.	Resolve reports the BF code and trial period start date each month during the trial period and any interim month. Do not report default action code 09 (Forbearance) as a trial is in process.
HE: Ineligible/Cancel Modification	You want to cancel a Flex Modification Trial Period, submit a cancellation request (CXLReq) via Resolve within the first three business days in the month, following the month the event occurred. Resolve reports cancellation code HE to EDR the day the cancellation request is submitted through Resolve by the Servicer.	Resolve will report the HE code to EDR cancelling the Flex Modification Trial Period and based on your timely cancellation request, Resolve will no longer report the BF code to EDR.

Accurate and timely 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.

Refer to the [Electronic Default Reporting \(EDR\) Quick Reference Guide](#) for more details and scenarios regarding EDR default action codes reported by Resolve. All other modifications related EDR reporting requirements, per the Guide, are required to be completed by the Servicer.



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 Effective for all Flex Modifications completed with a Trial Period Plan effective date on or after July 1, 2020.	\$1,000 As of July 1st, 2020, Servicer incentives will be capped at \$1,000 per mortgage in aggregate for all Flex Modifications that are completed. 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.