



# **Servicing for COVID-19 Related Hardships Reference Guide**

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**Freddie Mac**  
Single-Family

# Servicing for COVID-19 Related Hardships Reference Guide



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## Introduction

Freddie Mac is committed to providing payment relief and other assistance to borrowers when they encounter a financial hardship. This includes those that have been impacted by the outbreak and spread of the coronavirus disease (COVID-19).

This reference guide outlines temporary measures that will help you assist borrowers who have and have not contracted COVID-19, if their ability to make timely mortgage payments has been negatively affected as a result of COVID-19 ("COVID-19 related hardship").

Freddie Mac will continue to monitor the situation and may revise or revoke this temporary guidance at any time, as appropriate. If you have any questions after reviewing this quick reference, please contact the Customer Support Contact Center at 800-FREDDIE.

## COVID-19 Related Hardship

A COVID-19 related hardship could be any of the eligible hardships under [Guide Section 9202.2](#), provided the borrower's ability to make timely mortgage payments has been negatively affected by COVID-19. A COVID-19 related hardship may include long-term or permanent disability, serious illness of a borrower, co-borrower or dependent family member, reduction in income, death or other eligible hardship reasons. You will determine what constitutes a COVID-19 related hardship and must treat all borrowers equally when making this determination. No documentation is required from the borrower in order to verify the hardship.

## Reporting to Credit Repositories

For any borrower impacted by COVID-19, you must report activity to the credit bureaus in accordance with applicable law, including the Fair Credit Reporting Act and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

## Late Charges

You must not assess late charges while the borrower is on a forbearance plan or paying as agreed on a repayment plan. Late charges may accrue during a trial period subject to the requirements in [Guide Section 9102.2](#). However, all accrued and unpaid late charges must be waived if the mortgage is modified.

## Foreclosure Moratorium

You must suspend all foreclosure actions, including foreclosure sales, through May 17, 2020. This includes initiation of any judicial or non-judicial foreclosure process, move for foreclosure judgment or order of sale. This foreclosure suspension does not apply to mortgages on properties that are vacant or abandoned.

## Bankruptcy: Filing Motions for Relief from Automatic Stay

Guide Sections 9401.6 and 9401.7 require you to file a motion for relief from automatic stay upon certain milestones based on the length of delinquency or post-petition payments. Due to the CARES Act and other impacts resulting from the COVID-19 National Emergency, we are temporarily relieving you of your responsibility to meet these timelines. You must continue to work with your bankruptcy counsel to determine the appropriate time to file such a motion.

## Outreach and Collection Efforts

As a reminder, servicing of a delinquent mortgage must be based upon personal contact via the methods listed below. Form letters and notices, while having a place in any servicing program, generally are not as effective as personal contact and must not be used exclusively.



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Collection techniques must include the use of:

- Telephone contacts or face-to-face interviews.
- Written communications such as email, notices and letters.
- Other responsible collection techniques as permitted under applicable law including, but not limited to, e-mail, text messaging, voice response unit (VRU) technology or a Servicer's web portal.

If you discover that the borrower's contact information (phone number or mailing address) is invalid, then you should initiate skip trace activities to obtain alternate phone numbers or mailing addresses.

## Quality Right Party Contact

Per [Guide Section 9102.3\(b\)](#), quality right party contact (QRPC) occurs when you establish contact with the borrower and discuss with the borrower, co-borrower or trusted advisor, such as a housing counselor, the most appropriate options for delinquency resolution. QRPC is still applicable when working with borrowers impacted by COVID-19 to ensure that you understand their circumstances and determine the best possible outcome for resolving the borrower's delinquency. However, if you are unable to achieve full QRPC and offer a forbearance plan to a COVID-19 impacted borrower in compliance with applicable law, you are considered to be in compliance with the Guide.

## Forbearance

When a borrower is impacted by a COVID-19 related hardship, you must make good faith efforts to establish QRPC with the borrower in order to evaluate him or her for a forbearance plan. However, if you not able to establish full QRPC, you may place the borrower into a forbearance plan, in compliance with applicable law, and be considered to be in compliance with the Guide.

You are not required to obtain a complete Borrower Response Package, and may offer the borrower:

- Forbearance for a period of one to six months, and, if necessary,
- One or more successive forbearance plan periods of one to six months, provided the total forbearance term does not exceed 12 months.

The length of each forbearance plan term must be for an appropriate length of time, based on the borrower's individual circumstances and nature of the hardship and must be agreed upon with or requested by the borrower. If you and the borrower cannot agree on an appropriate forbearance length, or further communication with the borrower is not possible under the circumstances, you must provide the term requested by the borrower, not to exceed 180 days.

**Note:** We are temporarily waiving the requirement that the forbearance plan may not be extended beyond a date that would cause the delinquency to exceed a cumulative total of 12 months of the borrower's contractual monthly mortgage payment, including taxes and insurance (if you are collecting escrow for those expenses) as outlined in Guide Sections [9203.12](#) and [9203.13\(a\)](#).

After you determine the terms of the forbearance plan, you must send the borrower the forbearance plan agreement, in accordance with [Guide Section 9203.13\(c\)](#). You may use the template provided in [Guide Exhibit 93](#), appropriately modified to reflect the terms of the COVID-19 forbearance.

You must reassess each borrower on a regular basis during the forbearance period to determine if you should extend the forbearance or if the hardship has been resolved.

**Note:** When offering a forbearance plan due to a COVID-19 related hardship, the mortgage may be secured by a primary residence, second home or investment property.

For additional information about Freddie Mac's forbearance requirements, refer to Guide Sections 9203.12 through 9203.21.

## Transitioning after Forbearance for a COVID-19 Related Hardship

No less than 30 days prior to the conclusion of the forbearance period for a COVID-19 related hardship, you must make good faith efforts to establish limited QRPC, in lieu of the full requirements of [Guide Section 9102.3\(b\)](#). Limited QRPC includes the following:

- Determining the reason for the delinquency and whether the reason is temporary or permanent in nature
- Determining the borrower's ability to repay the debt
- Setting payment expectations and educating the borrower on the availability of alternatives to foreclosure, as appropriate
- Obtaining a commitment from the borrower to resolve the delinquency through traditional methods (paying the total delinquent amount) or engaging in an alternative to foreclosure solution

You must attempt to contact the borrower until QRPC has been established or until the forbearance plan has expired. If the hardship has been resolved and the borrower is ready to transition to a permanent solution, you must evaluate the borrower for the most appropriate workout option to cure the delinquency. If the hardship has not been resolved, then you must evaluate the borrower's eligibility for extended forbearance.

### **When You are Able to Establish Quality Right Party Contact**

Refer to the following table to determine how to proceed when you are able to establish QRPC.

If the borrower was:	Then:	
Current or less than 31 days delinquent (had not missed more than one monthly mortgage payment) just prior to the National Emergency declaration	Determine if the borrower is able to resolve the delinquency through a reinstatement or repayment plan.	
	If:	Then:
	The borrower is able to resolve the delinquency through a reinstatement or repayment plan	Accept a reinstatement and/or enter into a repayment plan with the borrower in accordance with <a href="#">Guide Chapter 9203</a> .
The borrower is not able to resolve the delinquency through a reinstatement or repayment plan	Evaluate the borrower in accordance with the following COVID-19 related evaluation hierarchy: <ol style="list-style-type: none"> <li>1. Extend Modification</li> <li>2. Cap and Extend Modification</li> <li>3. Freddie Mac Flex Modification® Refer to Guide Chapter 9206 and the <a href="#">Freddie Mac Flex Modification Reference Guide</a> for additional information.</li> <li>4. Freddie Mac Standard Short Sale Refer to <a href="#">Guide Chapter 9208</a> for additional information.</li> <li>5. Freddie Mac Standard Deed-in-Lieu of Foreclosure Refer to <a href="#">Guide Chapter 9209</a> for additional information.</li> </ol>	

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If the borrower was:	Then:
31 days or more delinquent (had missed more than one monthly mortgage payment) just prior to the National Emergency declaration	The borrower is not eligible for an Extend or Cap and Extend Modification. You must evaluate the borrower in accordance with the loss mitigation evaluation hierarchy in <a href="#">Guide Section 9201.2</a> .
Performing in accordance with the terms of a Trial Period Plan at the time he or she was placed on forbearance as a result the National Emergency declaration	Determine if the borrower is eligible for a new Flex Modification Trial Period Plan under streamlined terms.

### **When You are Not Able to Establish Quality Right Party Contact**

If you are not able to establish QRPC at the end of the forbearance period, determine if the borrower is eligible for a streamlined offer for a Flex Modification in accordance with [Guide Section 9206.5\(e\)](#).

The borrower must have:

- Been current or less than 31 days delinquent (i.e., must not have missed more than one monthly payment) as of the date of the National Emergency declaration related to COVID-19 (i.e., March 13, 2020).
- A COVID-19 related hardship. Note: You are not required to obtain documentation to verify the borrower's hardship.

If the borrower is eligible for a streamlined offer for a Flex Modification in accordance with the requirements of Section 9206.5(e), you must send the borrower the Flex Modification Solicitation Offer – Not Based on an Evaluation of a BRP, amended as set forth in Guide Exhibit 93 for Eligible Disasters, and Exhibit 1191A, *Freddie Mac Flex Modification® Post-Disaster Forbearance Solicitation Cover Letter*. You must amend the Trial Period Plan Notice and Exhibit 1191A to conform to the Flex Modification program terms.

**Freddie Mac Extend Modification for Disaster Relief**

The Freddie Mac Extend Modification for Disaster Relief (“Extend Modification”) is a temporary offering available to assist borrowers who were current or less than 31 days delinquent (i.e., have not missed more than one monthly mortgage payment) as of the date of the National Emergency declaration related to COVID-19, March 13, 2020. The Extend Modification is similar to the Capitalization and Extension Modification for Disaster Relief (“Cap and Extend Modification”); however, it does not permit capitalization of arrearages and instead extends the term of the mortgage by the number of missed monthly mortgage payments.

You must obtain mortgage insurance (MI) approval before offering a Trial Period Plan or ensure that the applicable MI has provided you with a delegation of authority allowing you to offer a Trial Period Plan and associated modification.

For additional information, refer to [Guide Bulletin 2017-25](#).

**Eligibility Requirements for Extend Modifications**

The following table highlights the borrower, property and mortgage eligibility requirements for an Extend Modification.

Extend Modification Eligibility Requirements	
<b>Borrower</b>	<ul style="list-style-type: none"> <li>▪ The Borrower must have a COVID-19 related hardship (e.g., unemployment or reduction in regular work hours). <b>Note:</b> You are not required to obtain documentation to verify the borrower’s hardship.</li> <li>▪ The borrower must have been current or less than 31 days delinquent (i.e., must not have missed more than one monthly payment) as of the date of the National Emergency declaration related to COVID-19, March 13, 2020.</li> <li>▪ The borrower must have been more than 31 days/one payment delinquent and less than 360 days/12 payments delinquent at the time you evaluated the borrower for the mortgage modification.</li> <li>▪ The borrower indicates that he or she can resume making the existing contractual monthly payment on the mortgage (with escrow adjustments, if necessary).</li> </ul>
<b>Property</b>	<ul style="list-style-type: none"> <li>▪ The existing mortgaged property must be a primary residence, second home or investment property, and may be vacant or condemned.</li> </ul>
<b>Mortgage</b>	<ul style="list-style-type: none"> <li>▪ The mortgage must be a conventional first-lien mortgage currently owned, in whole or part, or guaranteed by Freddie Mac.</li> <li>▪ 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.</li> </ul>



Extend Modification Eligibility Requirements	
<b>Mortgage, continued</b>	<ul style="list-style-type: none"><li>▪ If the mortgage is subject to an indemnification agreement, and is otherwise eligible under the requirements of Guide Chapter 9206, you have discretion to approve the mortgage modification provided the following conditions are met:<ul style="list-style-type: none"><li>– The modified mortgage retains its credit enhancement.</li><li>– 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 <a href="#">Guide Chapter 9206</a>; and</li><li>– 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 in accordance with 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 Bulletins <a href="#">2016-5</a> and <a href="#">2017-1</a>.</li></ul></li></ul> <p><b>Note:</b> 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>

### ***Escrow Shortages and Advances***

If an escrow shortage exists and the borrower is unable to pay the amount in a lump sum payment, the borrower must pay the shortage as part of the monthly payment, spread equally over a period of at least 12 months, not to exceed 60 months. You must also take into account any remaining unpaid amount of the escrow shortage in any subsequent escrow analysis to ensure that the borrower is able to continue to pay all escrow shortage amounts over the remaining portion of either the current remaining escrow shortage repayment period or a period up to 60 months. You may not accelerate or compress the remaining escrow shortage amount into a new escrow payment or shorter repayment period as a result of a future escrow analysis.

If you advanced funds, or there are funds to be advanced and paid to a third party for the payment of real estate taxes and insurance premiums prior to the date the borrower executes the modification agreement, you must recoup the funds from the borrower via lump sum payment or spread the amount equally over a period of at least 12 months, not to exceed 60 months.

For additional information, refer to [Guide Bulletin 2017-25](#).

## Mortgages that are Ineligible for an Extend Modification

Mortgages ineligible for an Extend Modification include:

- Mortgages that were 31 days/one payment or more delinquent as of the date of the National Emergency declaration related to COVID-19, March 13, 2020.
- FHA/VA and Guaranteed Rural Housing loans.
- Mortgages subject to recourse.
- Mortgages subject to an approved short sale or deed-in-lieu of foreclosure.
- Borrowers who are currently performing under another Trial Period Plan, forbearance plan or repayment plan, including:
  - With the exception of a streamlined offer, mortgages that are currently subject to an unexpired offer to the borrower for another modification or other alternative to foreclosure, such as a forbearance or repayment plan.
  - With the exception of a COVID-19 related forbearance plan, mortgages that are currently performing under another forbearance plan or repayment plan.

**Note:** The number of prior modifications of a mortgage does not impact eligibility for the Extend Modification. You may ignore warnings on this point that appear in Workout Prospector®.

## Documentation Requirements for Extend Modifications

The borrower is not required to provide a Borrower Response Package to be considered for and offered an Extend Modification.

## How to Determine Trial Period and Final Modification Terms for Extend Modifications

Complete the steps outlined below to determine eligibility for an Extend Modification Trial Period Plan. Perform these steps during your evaluation of a borrower for a Trial Period Plan and, then again, to determine the final modification terms. If the existing mortgage includes a non-interest bearing UPB as a result of a prior modification, the non-interest bearing UPB will remain deferred under the Extend Modification.

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

If the existing mortgage is:	Then:
A fixed-rate mortgage (This excludes step-rate mortgages.)	You must use the existing interest rate on the mortgage to calculate the Trial Period Plan payment.
An ARM or step-rate mortgage with no additional interest rate steps scheduled	You must use the existing interest rate to calculate the Trial Period Plan payment.
An ARM or step-rate mortgage with additional interest rate steps scheduled	You must use the lesser of: <ul style="list-style-type: none"> <li>▪ Freddie Mac’s modification interest rate in effect and posted on <a href="https://sf.freddie.mac.com/general/freddie-mac-modification-interest-rate">https://sf.freddie.mac.com/general/freddie-mac-modification-interest-rate</a> as of the date you evaluate and determine the borrower is eligible for a Trial Period Plan, or</li> <li>▪ The maximum step-rate/lifetime cap note rate to calculate the Trial Period Plan payment.</li> </ul>

\*You must use this same interest rate when establishing the terms of the permanent modification.

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2. Extend the term of the mortgage by the same number of payments missed during the forbearance period.
3. Advance the due date of the last paid installment (DDLPI) to bring the mortgage to current status.

Sometimes, the Extend Modification will result in an increase in the borrower's monthly mortgage payment, including when the following occurs:

- An adjustable-rate mortgage or step-rate mortgage changes to a fixed-rate mortgage.
- You must recover funds you advanced for delinquent taxes and insurance premiums and the borrower is unable to pay the amount in a lump sum payment. Refer to [Escrow Shortage and Advances](#) in this reference guide or [Guide Bulletin 2017-25](#) for additional information.
- You have identified an escrow shortage and the borrower is unable to pay the escrow shortage as a lump sum payment.

In these instances, the borrower may decide to decline the offer for an Extend Modification, in which case you must then evaluate the borrower for a Cap and Extend Modification, which is the next option in the COVID-19 related evaluation hierarchy.

Refer to [Escrow Shortage and Advances](#) in this reference guide or [Guide Bulletin 2017-25](#) for additional information.

## Calculation Example for an Extend Modification

Below is an example of how to calculate the Trial Period Plan and final modification terms for an Extend Modification. The steps identified in the example below correspond to the specific steps outlined in the procedure on pages 7 and 8 in this reference guide.

- Interest-bearing: \$300,000
- Non-interest bearing UPB: \$5,000
- Current P&I Payment: \$1,732.86
- Taxes: \$100.00
- Insurance: \$50.00
- Homeowner Association Fees: \$25.00
- Escrow Shortage: \$1,600.00
- Primary Residence
- Interest Arrearage: \$4,000
- Estimated Escrow Advance: \$800
- Fixed-rate Mortgage
- Current Interest Rate: 4.5 percent
- Remaining Term prior to modification: 240
- Number of payments missed during forbearance period: 6
- Remaining Term as of the effective date of the modification: 246
- DDLPI prior to modification: 08/01/2017

If there is an existing non-interest bearing UPB, do not add that amount to the interest-bearing UPB when calculating the P&I payment for the Extend Modification.

### Step 1: Determine the interest rate you will use to calculate the Trial Period Plan payment.

The mortgage is a fixed-rate mortgage. Therefore, you must use the existing interest rate on the mortgage, which is 4.5 percent, to calculate the Trial Period Plan payment and establish the terms of the permanent modification.

### Step 2: Extend the term of the mortgage by the same number of payments missed during the forbearance period.

In this example, the borrower missed six monthly payments during the forbearance period. Therefore, we will adjust the remaining term of the mortgage from 240 to 246 months.

### Step 3: Advance the DDLPI to bring the mortgage current.

In this example, the total number of payments missed during the forbearance period is six and the DDLPI prior to modification is 08/01/2017. Therefore, we will advance the DDLPI six months, to 02/01/2018, to bring the mortgage to a current status, as of the start of the trial period.

You may proceed to offering the Trial Period Plan.

Estimated P&I	\$1,732.86
+ Taxes	\$ 100.00
+ Insurance	\$ 50.00
+ Escrow Shortage (spread over 60 months)	\$ 26.67
+ Estimated Escrow Advance (spread over 60 months)	\$ 13.33
<b>Trial Period Plan Payment:</b>	<b>\$1,922.86</b>

In this example, the monthly payment increased due to the escrow shortage of \$1,600 and estimated escrow advance of \$800 being spread over a 60-month period.

In this instance, the borrower may decide to decline the offer for an Extend Modification, in which case you must then evaluate the borrower for a Cap and Extend Modification, which is the next option in the COVID-19 related evaluation hierarchy.

The Trial Period Plan payment is \$1,922.86, which includes \$150 for escrowed taxes and insurance, \$26.67 to pay the escrow shortage over a period of 60 months, and \$13.33 to pay the estimated escrow advance over a period of 60 months. The amortization term is 246 months. **Note:** Homeowner association fees are not escrowed. The trial period begin date is 03/01/2018, and the trial period end date is 5/31/2018.

## Capitalization and Extension Modification for Disaster Relief

The Capitalization and Extension Modification for Disaster Relief (“Cap and Extend Modification”) is a modification that provides borrowers who have been impacted by a COVID-19 related hardship the ability to resolve the delinquency by capitalizing arrearages and extending the amortization term, if applicable, in accordance with the requirements outlined in Guide Section 9206.4.

You must obtain mortgage insurance (MI) approval before offering a Trial Period Plan or ensure that the applicable MI has provided you with a delegation of authority allowing you to offer a Trial Period Plan and associated modification.

### Eligibility Requirements for Cap and Extend Modifications

The following table highlights the borrower, mortgage, and property eligibility requirements for a Cap and Extend Modification. For more information on these eligibility requirements refer to [Guide Section 9206.4](#).

**Note:** The number of prior modifications on a loan does not affect eligibility or delegated approval authority for Cap and Extend Modifications, despite warnings you may encounter in Workout Prospector.

Cap and Extend Modification Eligibility Requirements	
<b>Borrower</b>	<ul style="list-style-type: none"> <li>▪ The Borrower must have a COVID-19 related hardship (e.g., unemployment or reduction in regular work hours). <b>Note:</b> You are not required to obtain documentation to verify the borrower’s hardship.</li> <li>▪ The borrower must have been current or less than 31 days delinquent (i.e., must not have missed more than one monthly payment) as of the date of the National Emergency declaration related to COVID-19, March 13, 2020.</li> <li>▪ The borrower must be at least 31 days/one month but less than 360 days/12 months delinquent at the time of evaluation for the modification.</li> <li>▪ You have achieved quality right party contact with the borrower and the borrower indicates that he or she can resume making the existing contractual monthly payment on the mortgage.</li> </ul>
<b>Mortgage</b>	<ul style="list-style-type: none"> <li>▪ The mortgage must be a conventional first-lien mortgage currently owned, in whole or part, or guaranteed by Freddie Mac.</li> <li>▪ If the mortgage is subject to an indemnification agreement, and is otherwise eligible under the requirements of Guide Chapter 9206, you have discretion to approve the mortgage modification provided the following conditions are met:                             <ul style="list-style-type: none"> <li>– The modified mortgage retains its credit enhancement.</li> <li>– 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</li> <li>– 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 in accordance with 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 Bulletins <a href="#">2016-5</a> and <a href="#">2017-1</a>.</li> </ul> </li> </ul>



Cap and Extend Modification Eligibility Requirements	
<b>Mortgage, continued</b>	<p><b>Note:</b> 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"> <li>▪ 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.</li> </ul>
<b>Property</b>	<ul style="list-style-type: none"> <li>▪ The existing mortgaged property must be a primary residence, second home, or investment property, and may be vacant or condemned.</li> </ul>

### **Mortgages that are Ineligible for a Cap and Extend Modification**

Mortgages ineligible for a Cap and Extend Modification include the following:

- FHA/VA and Guaranteed Rural Housing loans
- Mortgages subject to recourse
- Mortgages subject to an approved short sale or deed-in-lieu of foreclosure
- With the exception of a COVID-19 related forbearance plan, mortgages where the borrower is currently performing under another forbearance or repayment plan
- With the exception of an existing offer for a Freddie Mac Flex Modification<sup>®</sup>, mortgages currently subject to an unexpired offer to the borrower for another modification or other foreclosure prevention alternative, such as a forbearance or repayment plan

**Note:** The number of prior modifications of a mortgage does not impact eligibility for the Cap and Extend Modification. You may ignore warnings on this point that appear in Workout Prospector.

### **Documentation Requirements for Cap and Extend Modifications**

The borrower is not required to provide a Borrower Response Package to be considered for and offered a Cap and Extend Modification.

**Soliciting Borrowers for a Cap and Extend Modification**

At the end of the forbearance period, you must reassess the borrower’s circumstances based on updated property inspections and borrower financial information, if required by the relief or workout options, to determine if forbearance should continue to be extended, whether the borrower is eligible for another relief or workout option, or whether you should initiate or resume collection or foreclosure proceedings. If, as part of this assessment, you determine a loan modification is necessary and the borrower is eligible, you must send a solicitation letter and a Capitalization and Extension Modification for Disaster Relief Trial Period Plan Notice within 15 days of your eligibility determination. You may use Guide Exhibit 1191A, *Freddie Mac Flex Modification® Post-Disaster Forbearance Solicitation Letter*, and the Capitalization and Extension Modification for Disaster Relief Trial Period Plan Notice in Guide Exhibit 93, *Evaluation Model Clauses*. You must modify these documents as necessary to conform to the Flex Modification program terms, comply with applicable law, and address specific situations such as the inclusion or exclusion of certain escrow language. See [Trial Periods for Extend Modifications and Cap and Extend Modifications](#) in this reference guide for more information.

**How to Determine Trial Period and Final Modification Terms for Cap and Extend Modifications**

Complete the steps outlined below to determine eligibility for a Cap and Extend Modification Trial Period Plan. 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 post-modification interest-bearing UPB.  
**Note:** Actual capitalization of these amounts into the UPB may only occur in connection with the final modification; however, the calculation of the estimated post-modification interest-bearing UPB is necessary to determine the Trial Period Plan payment.

**Important:**  
 If the existing mortgage includes a non-interest bearing UPB as a result of a prior modification, the non-interest bearing UPB will remain deferred under the Cap and Extend Modification.

2. Determine the interest rate you will use to calculate the Trial Period Plan payment:

If the existing mortgage is:	Then:
A fixed-rate mortgage (This excludes step-rate mortgages.)	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.
An ARM or step-rate mortgage with no additional interest rate steps scheduled	You must use the existing interest rate to calculate the Trial Period Plan payment and use that same rate to establish the terms of the permanent modification.
An ARM or step-rate mortgage with additional interest rate steps scheduled	You must use the lesser of: <ul style="list-style-type: none"> <li>▪ Freddie Mac’s modification interest rate in effect and posted on <a href="https://sf.freddiemac.com/general/freddie-mac-modification-interest-rate">https://sf.freddiemac.com/general/freddie-mac-modification-interest-rate</a> as of the date you evaluate and determine the borrower is eligible for a Trial Period Plan, or</li> <li>▪ The maximum step-rate/lifetime cap note rate to calculate the Trial Period Plan payment</li> </ul> You must use the same rate to establish the terms of the permanent modification.

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### 3. Determine if you must extend the amortization term:

If, after you have capitalized arrearages and set the new interest rate:	Then:
The resulting principal and interest payment is lower than the existing contractual principal and interest payment <b>Note:</b> This situation may occur if the borrower made a principal curtailment prior to the National Emergency declaration related to COVID-19 or has an ARM or step-rate mortgage that results in a modified interest rate that is lower than the existing interest rate.	Do not proceed to Step 4. You must offer the modification with the reduced payment to the borrower without a term extension.
The resulting principal and interest payment is <b>not</b> lower than the existing contractual principal and interest payment	Proceed to Step 4.

4. Extend the term in monthly increments, not to exceed an amortization term of 480 months from the modification effective date, to the point that the modified principal and interest payment equals the existing contractual principal and interest payment on the mortgage. The modified principal and interest payment cannot be greater than the existing contractual principal and interest payment. If necessary, you must extend the term one additional month to cause the principal and interest payment to fall just below the existing contractual principal and interest payment on the mortgage.

If you are not able to achieve the existing contractual principal and interest payment by extending the term to a maximum of 480 months, you must consider the borrower for a Flex Modification in accordance with the evaluation hierarchy in [Guide Section 9201.2](#).

## Calculation Example for a Cap and Extend Modification

Below is an example of how to calculate the Trial Period Plan and final modification terms for a Cap and Extend Modification. The steps identified in the example below correspond to the specific steps outlined in the procedure on pages 12 and 13 in this reference guide.

- Interest-bearing UPB before capitalization: \$350,000
- Non-interest bearing UPB before capitalization: \$0.00
- Property value: \$180,000
- Current P&I Payment: \$1,900.07
- 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: \$9,000
- Tax Advance: \$3,000
- Fixed-rate Mortgage
- Current Interest Rate: 4.5 percent
- Remaining Term: 240

If there is an existing non-interest bearing UPB, do not add that amount to the interest-bearing UPB when calculating the P&I payment for the Cap and Extend Modification.

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

\$ 9,000 (Interest)	\$350,000 (Interest-bearing UPB before Capitalization)
\$ 3,000 (Tax Advance)	+ \$ 12,000 (Total Capitalization)
\$12,000 Total Capitalization	\$362,000 Estimated Post-modification Interest-bearing UPB

### Step 2: Determine the interest rate you will use to calculate the Trial Period Plan payment.

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.

### Step 3: Determine if you must extend the amortization term.

In this example, the estimated post-modification interest bearing UPB is \$362,000, the remaining term is 240 months, and the existing interest rate on the mortgage is 4.5 percent, which results in a modified principal and interest monthly payment of 2,290.19, which is greater than the existing contractual principal and interest payment. Therefore, proceed to Step 4 and extend the amortization term.

### Step 4: Extend the term in monthly increments, not to exceed an amortization term of 480 months from the modification effective date, to the point that the modified principal and interest payment equals the existing contractual principal and interest payment on the mortgage.

**Note:** The modified principal and interest payment cannot be greater than the existing contractual principal and interest payment. If necessary, you must extend the term one additional month to cause the principal and interest payment to fall just below the existing contractual principal and interest payment on the mortgage.

In this example, we had to extend the term to 335 months from the modification effective date to achieve a monthly principal and interest payment of \$1,899.52, just less than the existing contractual principal and interest payment of \$1,900.07. A term of 334 months resulted in a principal and interest payment of \$1,902.60, which was greater than the existing contractual principal and interest payment. Therefore, an additional month was added to cause the principal and interest payment to fall just below the existing contractual principal and interest payment on the mortgage.

You may proceed to offering the Trial Period Plan. The Trial Period Plan payment is \$2,049.52, which includes \$150 for escrowed taxes and insurance provided applicable law permits establishment of an escrow account.

Note: Homeowner association fees are not escrowed. The amortization term is 335 months.

## **Trial Periods for Extend Modifications and Cap and Extend Modifications**

Eligible borrowers are required to successfully complete a three-month trial period prior to closing an Extend Modification or Cap and Extend Modification to demonstrate their ability and willingness to sustain the modified payment amount. If a borrower defaults during the trial period, 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 trial period.

Once the trial period has completed successfully, ensure the modified mortgage complies with the conditions set forth in [Guide Section 9206.12](#). Loan settlement guidelines for expenses, delinquent amounts and capitalization rules, as applicable, are in [Guide Sections 9206.15](#) and [9206.16](#).

### ***Processing the Trial Period Plan Offer***

If the borrower is approved for an Extend Modification or Cap and Extend Modification, you must send a Capitalization and Extension Modification for Disaster Relief Trial Period Plan Notice. 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.

You are authorized to make the following changes, as necessary, to the Capitalization and Extension Modification for Disaster Relief Trial Period Plan Notice:

- Require borrower cash contributions be used to pay for expenses and delinquent amounts that may not be capitalized.
- Changes necessary to be in compliance with applicable laws and regulations.
- Waive any debt related to a previously discharged Chapter 7 bankruptcy.
- Delete language to prevent an escrow account from being established, if applicable.
- Condition the approval of the final modification on obtaining any necessary court and/or trustee approvals for borrowers who might file bankruptcy during the trial period.

### **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 the 15 <sup>th</sup> of the month	First day of the next month	First day of the next month
After the 15 <sup>th</sup> 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 the 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.

## **Workout Prospector®**

You must use Workout Prospector to process Extend Modifications and Cap and Extend Modifications unless otherwise directed by Freddie Mac.

### ***Processing Extend Modifications in Workout Prospector***

All Extend Modifications must be submitted to Freddie Mac via the “Other Modification” path. When processing Extend Modifications in Workout Prospector, ensure that you take the following actions as you enter data:

- Select “Other Modification” from the Modification Type pick list.
- Complete the Mortgage Attributes, Modeling Attributes, and Modification Solution screens, as applicable.
- Click the **Comments** link on the To Do List to access the Comments screen for modifications.

Document the following information on the Comments screen:

- Request for Extend Modification for COVID-19
  - The number of months the mortgage is delinquent
  - The pre-modification P&I amount
  - The Trial Period Plan payment dates and the date the first modified payment is due after trial period completion
  - A contact name, contact phone number, and contact email address in your comments, as well as escalation contact information, in the event we are unable to reach the primary contact
- After you have entered all applicable data and documented the Extend Modification on the Comments screen, click the **Send to FM** button located in the upper right corner of the Modification Solution screen to transmit the model to Freddie Mac.

**Note:** After you transmit the model to Freddie Mac, it is in a “Pending Review” status. After we complete our review, and the model is in an approved status, the new P&I payment displayed in Workout Prospector will not align with the existing P&I amount. This issue will be resolved via the settlement process.

Review the [Workout Prospector Users’ Guide](#) for detailed information about how to enter and transmit data via the “Other Modification” path.

### ***Processing Cap and Extend Modifications in Workout Prospector***

All Cap and Extend Modifications must be submitted to Freddie Mac via the negotiated (exception) path. When processing Cap and Extend Modifications in Workout Prospector, ensure that you take the following actions as you enter data:

- Select “Flex Modification” from the Modification Type pick list.
- Complete the Mortgage Attributes, Modeling Attributes, and Modification Solution screens, as applicable.
- Click the **Comments** link on the To Do List to access the Comments screen for modifications. Document the terms of the Cap and Extend Modification. Ensure that you provide a contact name, contact phone number, and contact email address in your comments, as well as escalation contact information, in the event we are unable to reach the primary contact. Ensure you note that the request is for a Cap and Extend Modification for COVID-19.
- After you have entered all applicable data and documented the terms of the Cap and Extend Modification on the Comments screen, click the **Send to FM** button located in the upper right corner of the Modification Solution screen to submit the modification to Freddie Mac via the negotiated (exception) path.

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Review the [Workout Prospector Users' Guide](#) for detailed information about how to enter and transmit data via the negotiated (exception) path.

## **How to Determine the Final Modification Terms and Settle the Modification**

Once the borrower successfully completes the trial period, you must determine the final terms and prepare to settle the modification.

### **Extend Modifications**

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

1. Determine 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.
2. Extend the term of the mortgage by the same number of payments missed during the forbearance period.
3. Advance the DDLPI to bring the mortgage to a current status.
4. Prepare a modification agreement to reflect the terms calculated in the steps above and the requirements of Guide Section 9206.16. The modification agreement must also include a detailed description of the modified terms including:
  - Updated maturity date and term length
  - DDLPI advanced to bring the mortgage current
  - Revised payment schedule with the new PITIAS payment and due dates, as applicable
5. Complete Form 1128, *Loss Mitigation Transmittal*, and send it to [NPL\\_Settlement@FreddieMac.com](mailto:NPL_Settlement@FreddieMac.com) to initiate the settlement process.

You must include the following in the Servicer comments section of the form:

- "Extend Modification for COVID-19"
- The pre-modification P&I amount

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

### **Cap and Extend Modifications**

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 Cap and Extend 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.

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 interest-bearing UPB.  
**Reminder:** If the existing mortgage includes a non-interest bearing UPB as a result of a prior modification, the non-interest bearing UPB will remain deferred under the Cap and Extend Modification.
2. Adjust 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 from the modification effective date.
4. Calculate the modified P&I payment.

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5. Prepare a modification agreement to reflect the terms calculated in the steps above and the requirements of Guide Section 9206.16.
6. Submit the modification for settlement via the Loan Modification Settlement screen in Workout Prospector once the workout is complete.

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

## Subsequent Modifications

If the borrower is evaluated for a subsequent mortgage modification, such as a Flex Modification, the Extend Modification and Cap and Extend Modification will not count toward the eligibility cap on previous modifications (i.e., mortgages previously modified three or more times are not eligible for a Flex Modification).

## Electronic Default Reporting (EDR)

It is important that you report your default activity accurately and timely via EDR. Accurate and timely reporting in accordance with the requirements outlined in the Guide is essential 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.

For additional information, refer to the [EDR Quick Reference Guide](#).

## Mortgages Affected by a COVID-19 Related Hardship

You must report all mortgages affected by a COVID-19 related hardship that are 31 days or more delinquent via EDR within the first three business days of the month following the month you learned of the hardship. To do this, report default reason code 032 (National Emergency Declaration). Although a COVID-19 related hardship must be the result of one of Freddie Mac's eligible hardship reasons described in Guide Section 9202.2 (e.g., illness, unemployment, curtailment of income, etc.), you must report all COVID-19 related hardships using default reason code 032 instead of reporting the code of the more specific hardship reason.

## Quality Right Party Contact

EDR Code	Name	Report when:	Report the code and the following date:
AW	Date of First Quality Right Party Contact with Delinquent Borrower	You achieve quality right party contact for the first time.	Date you entered into the forbearance plan, within the first three business days of the month following the month the event took place. Report the code one time, in the month following the month in which you first achieved QRPC.
AX	Date of Last Quality Right Party Contact with Delinquent Borrower	You last achieved quality right party contact with the borrower.	Report the code one time, in the month following the month in which you last achieved quality right party contact. <b>Note:</b> If you work with the borrower for several months to attempt to resolve the delinquency, you will report code AX with the date of last quality right party contact for each month you speak with the borrower.

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### **Forbearance and Repayment Plans**

You must report all mortgages that are subject to a repayment plan or a forbearance plan resulting from a COVID-19 related hardship via EDR. 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.

EDR Code	Name	Report when:	Report the code and the following date:
09	Forbearance	You entered into a forbearance plan with the borrower.	Date you entered into the forbearance plan, within the first three business days of the month following the month the event took place. Report the code each month until the mortgage is fully reinstated or the forbearance period ends. <b>Note:</b> Proper servicing and default management reporting is critical to ensure that you receive the representation and warranty framework relief for which you are eligible with respect to delinquencies related to a forbearance plan.
12	Repayment Plan	You entered into a repayment plan with the borrower.	Date you entered into the repayment plan, within the first three business days of the month following the month the event took place. Report the code each month until the mortgage is fully reinstated or the repayment plan ends.

### **Trial Period Plans**

Use the table below to identify what default action codes you are required to report, as applicable, by the third business day of each month for the previous month's activity.

EDR Code	Name	Report when the borrower:	Report the code and the following date:
H4	Solicitation Letter Sent	Was sent a solicitation letter.	Date you sent the letter, one time, in the month following the month the event took place
HD	Modification in Review	Is being evaluated for an Extend or Cap and Extend Modification.	Date you begin reviewing the loan, one time, in the month following the month the event took place
HE	Ineligible/Cancel Modification	Is ineligible for a modification.	Date you made the decision, one time, in the month following the month the event took place
BF	Standard Modification Trial Period	Has entered into a trial period for an Extend or Cap and Extend Modification.	Trial period start date each month during the trial period and any interim month <b>Note:</b> 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.



## Servicer Incentive Payment for Extend Modifications and Cap and Extend Modifications

You will receive incentives for successfully settled Extend Modifications and Cap and Extend Modifications based on the borrower's delinquency at the time of the Trial Period Plan effective date.

Servicer Incentive Payments for Extend Modifications and Cap and Extend Modifications		
Days Delinquent – OR – Days from DDLPI		Each settled modification receives...
Less than or equal to 120	150	\$1,600.00
121-210	151-240	\$1,200.00
Greater than 210	Greater than 240	\$400.00

To receive compensation, you must successfully settle an Extend or Cap and Extend 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 Extend Modification and Cap and Extend 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 Extend Modification and Cap and Extend 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 months 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: 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: The date agreement received (when mod is settled) is greater than two months after the workout approved date.

## Property Inspections: Temporary Requirement Relief

As announced in [Guide Bulletin 2020-7](#), Freddie Mac is temporarily relieving you of your responsibility to:

- Complete final property inspections related to the insurance loss settlement process outlined in [Guide Section 8202.11](#)
- Complete property inspections for delinquent mortgages as described in [Guide Section 9202.12](#)
- Adhere to the property preservation requirements for abandoned properties in [Guide Section 8403.1](#)

Please note that we are not changing or permanently eliminating the requirements associated with these processes. Instead, if you are unable to complete these activities due to COVID-19 related concerns, you must document the reason in the mortgage file and we will consider you to be in compliance with our requirements. We will notify you when this temporary requirement relief will be discontinued.

## Additional Resources

In addition to this reference guide, the following COVID-19 related resources are also available:

- [COVID-19 Relief: Eligibility, Forbearance and Payment Deferral](#)
- [Forbearance Plan: COVID-19 Relief](#)
- [Single-Family Seller/Service Guide \(Guide\) Bulletin 2020-4: Temporary Servicing Requirements Related to COVID-19](#)
- [Guide Bulletin 2020-5: Selling Guidance Related to COVID-19](#)
- [Guide Bulletin 2020-7: Servicing Requirements and Relief Related to COVID-19](#)
- [Guide Bulletin 2020-10: Temporary Servicing Guidance Related to COVID-19](#)
- [Single-Family web page on COVID-19](#)

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