Freddie Mac
SINGLE-FAMILY

# Mortgage Relief Education and Options

## A Proactive Guide for Servicers

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# INTRODUCTION

Freddie Mac's top priority is to fulfill **our mission:**

**Serving America's homebuyers, homeowners and renters by equitably providing liquidity, stability and affordability to the housing market. We strive to provide access to sustainable and affordable financing that makes home possible for borrowers across the country.**

We're here to provide homeowners with the information they need—throughout their entire mortgage lifecycle. We also help families facing financial hardship from life events including illness, death, divorce, natural disaster and unemployment by developing solutions for borrowers who are experiencing a lapse in income or can't maintain regular payments.

Since we have an ongoing commitment to industry collaboration, we continue to work with Servicers and the entire housing ecosystem to educate homeowners, provide loss mitigation solutions to distressed borrowers and help those borrowers who can't stay in their homes make a graceful exit so they can transition to a more sustainable housing option.

This eBook is designed to equip you with the tools and resources you need to help your borrowers—now and in the future.

**Share resources with your borrowers**

**Visit the Freddie Mac My Home® website**

**CreditSmart® Homebuyer U**

**CreditSmart® Essentials**

# THE IMPORTANCE OF POST-PURCHASE, ONGOING EDUCATION

Every borrower wants to believe their homeownership journey will be smooth sailing, without financial hardships or missed mortgage payments. But as the last few years have taught us, unforeseen events like COVID-19, natural disasters, inflation and low affordable inventory make mortgage relief awareness critical.

Because homeowners weren’t thinking about unexpected events or hardship when they bought their homes, they likely don’t consider relief options when they’re faced with a delinquency. They may think it’s impossible to get current with their payments or worry that they’re in danger of imminent foreclosure. Continuous, ongoing education and intervention can help borrowers understand their options and advance sustainable ownership. The entire housing ecosystem can play a part in this.

Homeowners who are anxious about making payments or lack understanding of the mortgage process often ignore correspondence from their Servicer for fear that it’s bad news—when it could be something as important as a notice for a change of Servicer.

**Early engagement is crucial.**
The longer the loan is delinquent, the less likely borrowers will be able to take advantage of loss mitigation solutions.

Here are some tips and best practices for providing ongoing education to borrowers throughout their homeownership journey—not just when they're facing a hardship:

## For new homeowners

- Determine their preferred method of communication (phone, email, text, portal) and consistently reach out to them this way.
- Help them understand what to expect over the life of their mortgage.
- Lay the foundation for potential interactions they may have with you during life events, which can lead to fewer interruptions with their payments and help maintain their credit profile.
- Leverage proactive and automatic payment options such as Automated Clearing House (ACH) or auto bill payments.
- Offer self-service tools to your borrowers, which should be available 24/7.
- Integrate housing counselors into our operations. They can be another resource for education on budgeting, home maintenance advice, scams to avoid, disaster-related and unemployment responses, expectations from Servicer conversations and options for mortgage relief.
- Encourage homeowners to shop around to get the best rate on homeowners insurance, keeping in mind that the price may increase each year.

## For homeowners current on payments

- Take creative approaches to provide guidance tailored to their needs and situation, including customized communication, to build trust.
- Use text messaging to warn them ahead of severe weather, making sure they have the information for their single point of contact.
- Allow for the use of eSignatures on standard processes.
- Send a quick video clip explanation as a fast follow to explain changes and updates like escrow adjustments or servicing transfers.
- Provide access to tools to inform them about the equity they may have in their homes.
- Encourage borrowers to review their homeowners policy annually to ensure coverage is accurate and up to date.

## For distressed/delinquent homeowners

Use data to strategically identify and assist with early intervention.

If a they stop using auto draft for monthly payments, for example, provide automated outreach about the process for applying for mortgage relief.

Ideally, offer loss mitigation options during the first contact.

Send text message links to informational clips that outline eligibility requirements and the application process for a payment deferral or loan modification.

Integrate debt management companies into servicing, which can assist with budgeting, debt payoff and managing creditors on a homeowner's behalf, helping drive down recidivism.

If home retention isn't an option, provide resources about enhancements to yield the property's maximum value so they can use their equity as a tool for a clear exit strategy, and move into a more affordable property.

# LOSS MITIGATION OPTIONS

If a borrower becomes distressed, one or several relevant solutions may exist to provide mortgage relief and keep them in their home—depending on a borrower's individual situation. This section provides loss mitigation solutions, potential messaging to use in homeowner conversations and links to helpful resources including the *Single-Family Seller/Servicer Guide* (Guide) and pages on the Freddie Mac Single-Family website.

**Guided Steps to Loss Mitigation Options**

**Chapter 9203: Reinstatement and Relief Options**

# Reinstatement

If the borrower overcomes a financial hardship and can resume their regular payments, they may have the option of reinstating their loan. This simply means catching up on all the missed payments in a single lump-sum payment. After the loan is reinstated, the borrower can continue to pay their mortgage under the original agreed-upon terms. The Servicer isn't required to verify the ability to reinstate the loan.

**Messaging for borrower conversations:**

- If you're not able to immediately repay all the payments and other amounts you missed, there are other potential options, including a repayment plan, which lets you spread out your repayments.
- If you had a forbearance plan, you're not required to make a lump sum payment to reinstate the loan; you may also do a combination of partial reinstatement paired with a repayment plan.
- If you're able to resume making your monthly payment and repay the payments you missed right away, a reinstatement can be a good option for you.
- This option will bring the status of your mortgage to current, and you can basically pick up where you left off before the hardship and forbearance, if applicable.
- You'll be responsible for any missed mortgage payments as well as other delinquent payments, including escrow, if applicable.

# Forbearance

Forbearance is a relief option for borrowers who are experiencing a short-term or long-term hardship. There are different types of forbearance plans available depending on the borrower's hardship.

All forbearance plans consist of a written agreement that allows the borrower to skip or reduce their monthly mortgage payment for a specified period of time. **Note: this document doesn't have to be signed by the borrower or returned to the Servicer as a condition of the forbearance plan.**

**Messaging for borrower conversations:**

- Forbearance is a mortgage solution in which we allow you to temporarily reduce, suspend or pause your mortgage payments for a specified period of time. You'll still be required to pay back the missed payments eventually, but there won't be any additional fees or penalties added to your account during the forbearance period.
- Forbearance can help you deal with a temporary hardship. For example, you can pause payments for a three- or six-month period while you regain your financial footing.
- When your forbearance ends, you don't necessarily have to pay back the amount all at once—you have options. However, if you're able to do so, it can help you pay off the loan faster and save interest in the long run.
- Forbearance doesn't mean your payments are forgiven. You'll still be required to eventually pay back the missed payments.
- You have several options to bring your loan current after the forbearance, including a reinstatement, repayment plan, payment deferral or loan modification.
- Once forbearance ends, you'll owe any missed payments, as well as any applicable escrow and delinquency-related amounts.
- During the forbearance plan, you won't be charged any penalties or late fees.

# Repayment Plan

The borrower may have the option to spread out the past due amount on their mortgage over a set timeframe that's added to their existing mortgage payments. Generally, the plan lasts from one to 12 months, unless a longer repayment plan is approved by Freddie Mac in writing. Upon completion of their repayment plan, the borrower can continue to pay their mortgage under the original agreed-upon terms prior to the delinquency. The Servicer must make Quality Right Party Contact (QRPC) with the borrower to establish the ability to pay on a repayment loan.

**Messaging for borrower conversations:**

- If your financial situation has improved, but you aren't yet in a place to be able to pay back all your missed payments, a payment plan might be the right solution for you.
- If your financial situation doesn't allow you to repay the missed payments and other amounts, even if they're spread out over time, there are other potential solutions.
- Because this solution allows you to spread the repayments over a specified period of time, it's more manageable for your budget.
- With a payment plan, you'll be responsible for gradually repaying the payments you missed, as well as any other delinquent payments, including escrow, along with your regular monthly payments.

# Payment Deferral

A payment deferral is another affordable relief option for a borrower who has resolved their hardship—if a reinstatement or repayment plan isn't a viable option. A payment deferral allows a borrower to defer the delinquent amounts of their mortgage to create a non-interest-bearing balance that will become due at the the earlier of the mortgage maturity date or payoff date, or upon transfer or sale of the mortgaged premises.

Freddie Mac offers payment deferrals and disaster payment deferrals. Each solution shares the same requirements: The homeowner's hardship has been resolved, a repayment plan or full reinstatement isn't a viable option and the homeowner can continue to make the existing contractual monthly mortgage payment and doesn't need a payment reduction.

**Messaging for borrower conversations:**

- A payment deferral can be an option if you're able to make your regular monthly mortgage payments, but you can't afford to repay the amount that's owed after your forbearance ends.
- If you've overcome a hardship related to your health, natural disaster, unemployment or other extenuating circumstances, and can now return to making your mortgage payments, a payment deferral might be the right solution for you.
- The interest that's due for the remainder of your loan is the same under the remaining amortization schedule, whether you reinstated your mortgage or took a payment deferral.
- If you're already between 60 and 180 days delinquent on your mortgage, you may be eligible for a payment deferral.
- If your hardship has caused a permanent or long-term decrease in income or increase in expenses and a payment deferral won't work for your situation, another potential option is a Flex Modification®.
- Since the mortgage term isn't extended beyond the original maturity date/term, you can still pay it off within the same time schedule.

# Flex Modification®

A Freddie Mac Flex Modification is a loss mitigation solution that's designed for a borrower who's experiencing a hardship, including a natural disaster, that's resulted in a permanent or long-term decrease in income or increase in expenses. A Flex Modification is a written agreement between the Servicer and borrower that permanently changes one or more of the original terms of the mortgage, including:

- Increase in the unpaid principal balance (UPB) caused by capitalization of interest on non-interest arrearages, escrow amounts and/or other advances.
- Change in the note rate.
- Change in the monthly payment.
- Change in the maturity date.
- Forbearance of a portion of the principal balance. (Note: no write-off or permanent reduction of the UPB, delinquent interest or other non-interest arrearages of the mortgage is allowed.)
- Change in the product type (e.g., an adjustable-rate mortgage (ARM) to a fixed-rate mortgage).

**Messaging for borrower conversations:**

Since the past-due balances remaining from your forbearance period are added to your total unpaid loan balance, and your mortgage is extended to a 40-year term, your monthly payments become more manageable.

Also, since your interest rate is lowered to market level, and some of your principal balance may be converted to non-interest-bearing, your overall payment will be more affordable.

- If your financial situation improves, you can pay extra each month, which means you'll be able to pay off your loan quicker.
- A Flex Modification requires a three-month Trial Period Plan to make sure that you'll be able to make the new monthly payment.
- One thing to keep in mind, however, is that while your monthly payment will be reduced, you'll ultimately pay more interest on the mortgage as the term is extended to 40 years, unless you refinance or pay off the loan sooner.

**Chapter 9206: Modifications**

**Bulletin 2024-E: Enhancements to the Freddie Mac Flex Modification**

# LIQUIDATION OPTIONS

If it's not possible for a borrower to remain in their home, there are solutions to help them exit homeownership gracefully and avoid foreclosure. Struggling borrowers, who have equity in their home, may want to consider selling the home to pay off their loan and recover the value of any existing equity, especially if the proceeds would be useful in acquiring other, more sustainable housing. For borrowers without equity in their homes, see **Chapter 9208** for an overview of Freddie Mac's liquidation options.


## Short Sale

A short sale is the sale of a property for less than the balance remaining on the loan. Relevant for homeowners who may not qualify for a loan modification but are struggling to keep their home, a short sale may help them avoid foreclosure while eliminating their mortgage debt.

**Chapter 9208: Freddie Mac Standard Short Sale**

# Deed in Lieu of Foreclosure

A deed in lieu of foreclosure, or deed-in-lieu (DIL), allows borrowers to voluntarily transfer clear and marketable title of their property (i.e., the house and land) to the owner of their mortgage in exchange for discharge of their mortgage debt. When a home retention option or short sale isn't a workable solution for an at-risk borrower, a DIL offers another opportunity to avoid foreclosure.

**Chapter 9209: Freddie Mac Standard Deed in Lieu of Foreclosure**

**Messaging for borrower conversations:**

- We know this is a very difficult time for you and your family. But if you're financially unable to make your mortgage payments, foreclosure isn't the only answer.
- Also, since your interest rate is lowered to market level, and some of your principal balance may be converted to non-interest bearing, your overall payment will be more affordable.

# DISASTER RELIEF OPTIONS

Freddie Mac is committed to providing assistance to borrowers—especially when their homes have been impacted by disaster-related events. We're prepared to quickly respond with effective relief measures to help borrowers and provide guidance for Sellers and Servicers in the aftermath of a disaster.

**When a borrower is impacted by a natural or man-made disaster, a Servicer's goals are to:**

- Identify and provide the best and most appropriate relief options to resolve any delinquency that results from the disaster.
- Assist the borrower in addressing the disaster and their situation.
- Understand the extent of the damage while remaining empathetic toward their individual circumstances.

An eligible disaster is natural or man-made and results in an area being designated as an Eligible Disaster Area. An eligible disaster results in a financial hardship that impacts the borrower's ability to pay his or her current contractual monthly payment.

The first step to determine eligibility is to check the **Federal Emergency Management Agency (FEMA) website** to determine if the borrower's home or place of employment is in a declared disaster area.

Helping a borrower find the right relief option based on their situation is a crucial aspect of managing disaster-related delinquencies. The same loss mitigation and liquidation options outlined above can be used for homeowners facing delinquencies during a disaster. For detail steps on the process to help your borrowers facing a disaster, consult our **Disaster Relief webpage.**

# CONCLUSION

From the excitement of a new homeowner signing the deed and getting the keys to their new house, to the stress of a borrower undergoing financial hardship who's trying to do everything they can to avoid foreclosure, the homeownership journey can be rife with all kinds of emotion. However, everyone in the housing ecosystem plays a role in helping homeowners navigate the mortgage lifecycle. Freddie Mac, Servicers, housing counselors and other mortgage professionals are here to remind borrowers that there are options and resources available, and that we're here to help.

**If you need more support in helping your borrowers, reach out to your servicing account director or call the Customer Support Contact Center (800-FREDDIE)**

# RESOURCES

- Servicing Guide Bulletins
- Loss Mitigation Options
- Loss Mitigation Management Training