FREQUENTLY ASKED QUESTIONS: PRINCIPAL REDUCTION MODIFICATION

1. What is the new Principal Reduction Modification program offered by Fannie Mae and Freddie Mac (the Enterprises)?

The Enterprises, at the direction of the Federal Housing Finance Agency (FHFA), are implementing a principal reduction modification program for some seriously delinquent, underwater borrowers whose loans are owned or guaranteed by Fannie Mae or Freddie Mac. This program will allow eligible borrowers to obtain a loan modification that permanently forgives a portion of their mortgage debt. This final crisis-era modification program is a last chance for seriously delinquent, underwater homeowners to avoid foreclosure and a targeted effort to help improve the stability of neighborhoods that have not yet recovered from the financial crisis. The Enterprises are implementing a range of program features and eligibility criteria to ensure that this program benefits both underwater borrowers and the Enterprises.

2. Who is eligible for a Principal Reduction Modification?

The Principal Reduction Modification option is available to Enterprise borrowers who owe $250,000 or less on the unpaid principal balance of their mortgage and were at least 90 days delinquent on their mortgage as of March 1, 2016. Only owner-occupied properties (primary residences or second homes) are eligible; the mortgage may not have been originated to purchase an investment property. The amount owed on the first lien mortgage, including any unpaid principal, interest, taxes, insurance or other arrearages, must be greater than or equal to 115% of the home's value at the time the borrower is evaluated for the modification. Borrowers currently performing under a loan modification trial period plan with a first payment due date before May 1, 2016 are not eligible for the principal reduction program. All other eligibility criteria generally track those of the Enterprises' Streamlined Modification program.

3. If I am eligible for a Principal Reduction Modification, when will I hear? What will I need to do to accept the modification?

After the date of program announcement but beginning no later than October 15, 2016, your mortgage servicer (the company to which you send your mortgage payments and that offers you loan modification options) is required to solicit you for a Principal Reduction Modification if you are eligible. Servicers may continue to solicit borrowers for Principal Reduction Modifications until December 31, 2016.

Due to different capacities to implement the program at different mortgage servicers, some eligible borrowers may hear from their servicers earlier than others.

Generally, in order to get a Principal Reduction Modification, eligible borrowers must make their first trial payment within the month following their month of solicitation. Like the Enterprises' successful Streamlined Modification program, this solicitation will not require borrowers to submit complex documentation regarding their income or assets. After making three timely trial payments, fulfilling all requirements of the trial period plan, and executing and returning the final modification documents, these borrowers will have earned a principal reduction modification. Borrowers who do not want their principal reduced will have an opportunity to opt out of the forgiveness component of the program.

4. What should I do if I think I am eligible for the Principal Reduction Modification and do not want to wait until my servicer implements the program?

Borrowers can act soon to get help and avoid foreclosure. Servicers will solicit all borrowers who are potentially eligible for the Principal Reduction Modification for a Streamlined Modification no later than July 15, 2016. This solicitation will allow borrowers to start the process toward earning a principal reduction modification before servicers have fully implemented the program. Borrowers who believe they may be eligible for a Principal Reduction Modification and wish to pursue one before their servicer can implement the program should accept this Streamlined Modification offer and complete the trial period plan (all trial modifications with first payment due dates on or between May 1 and December 1, 2016 may be eligible). While accepting a loan modification will halt foreclosure proceedings, it will not guarantee that you are eligible for principal reduction. If after accepting the Streamlined Modification offer and completing the trial period plan a servicer later determines a borrower is eligible, the servicer will convert the permanent modification's principal forbearance to principal forgiveness. All borrowers who are eligible for principal reduction will receive a solicitation for a Streamlined Modification that includes principal forbearance. Borrowers who are determined to be ineligible for principal reduction will remain in their original modifications.

Servicers are required to notify eligible borrowers who have a Streamlined Modification trial period plan first payment due date on or between May 1 and December 1, 2016 no later than December 31, 2016 of the opportunity to opt out of principal reduction. If an eligible borrower does not opt out, his or her servicer will automatically reduce a portion of the outstanding loan balance.

Borrowers struggling to pay their mortgages or who have additional questions about the program should contact their servicers. Servicers need time to implement the program and determine whether individual borrowers are eligible. Borrowers who are current on their mortgages or who are making trial period payments on an existing Enterprise modification offering should continue to make payments on their mortgages, as no borrower who becomes delinquent after March 1, 2016 will be eligible for the program.

5. What are the terms of a Principal Reduction Modification? How will my servicer determine the amount of principal it will reduce?

The Principal Reduction Modification is very similar to the Enterprises' current Streamlined Modifications and offers the same amount of monthly mortgage payment reduction as these modifications. In order to offer Streamlined Modifications, servicers capitalize (add) outstanding arrearages (missed mortgage payments and other delinquent mortgage expenses) to the loan's principal balance, reduce the loan's interest rate to the current market rate, extend the loan's term to 40 years, and, if a borrower is underwater, forbear principal to either 115 percent of the mark-to-market loan-to-value ratio (MTMLTV) or 30 percent of the unpaid principal balance (UPB), whichever amount is less. Forbearance defers payments on a portion of outstanding principal until the end of the loan term and makes it non-interest bearing. While it reduces a borrower's monthly payment in the same way that forgiveness does, forbearance does not reduce a borrower's overall indebtedness. Under the Principal Reduction Modification, eligible borrowers will have the amount of principal forbearance *forgiven* instead of deferred until the end of the loan term as required under a Streamlined Modification.

For example, if a property is valued at $150,000 but an eligible borrower owes $200,000, a servicer would forbear principal down to 115 percent of the value of the property ($172,500). The $27,500 in principal forbearance would later be forgiven following the closing of a permanent loan modification, provided the borrower does not opt out of forgiveness.

6. If I determine principal reduction is not in my best financial interests, can I refuse it?

Yes, you can. If you accept a permanent Principal Reduction Modification or are eligible to have your modification's principal forbearance converted to principal forgiveness, you will receive an opt-out letter from your servicer with instructions for refusing the principal reduction. If you opt out, the terms of the modification will remain unchanged and you will remain obligated to repay the deferred principal balance at the earlier of the sale of your home, payoff or refinance of the mortgage, or the final maturity date. Opting out of principal reduction will not impact the amount of your modified monthly mortgage payment.

7. How long will it take for the principal reduction to occur once I'm approved for the modification?

The principal reduction will occur after the modification becomes permanent provided you sign and return the loan modification agreement to your servicer and do not opt out of the program. Prior to the loan modification becoming permanent, you must fulfill the requirements of the trial period plan, which include making all three trial period payments on time.

For borrowers in an active Streamlined or other modification trial period plan with a first payment due date on or between May 1 and December 1, 2016, that are eligible to have the principal forbearance converted to principal forgiveness, servicers will send them an opt-out letter no later than December 31, 2016.

8. Will a reduction in principal affect my taxes? revised 12/5/2016

It may. Borrowers whose homes are their primary residence and who otherwise meet the terms of the Mortgage Forgiveness Debt Relief Act *may* be able to benefit from the exclusion of forgiven mortgage debt from taxable income. The Internal Revenue Service has issued guidance regarding the tax treatment of Principal Reduction Modifications (Notice 2016-72). All borrowers should consult with a tax advisor regarding the tax consequences of accepting a Principal Reduction Modification.

9. I have been pursuing a short sale or deed-in-lieu of foreclosure. Am I eligible for the Principal Reduction Modification?

Loans subject to an approved short sale or deed-in-lieu of foreclosure transaction are not eligible for Principal Reduction Modifications. If you meet the criteria for the Principal Reduction Modification and do not have an approved agreement or sale, you should contact your servicer to see if you may be eligible.

10. I'm in a foreclosure process. Am I eligible?

You should contact your servicer to see if you are eligible. Servicers may continue to solicit borrowers for a modification throughout the foreclosure process and up until 60 days prior to a foreclosure sale date in a judicial foreclosure state or 30 days prior to a foreclosure sale date in a non-judicial foreclosure state. Accepting an Enterprise loan modification (Streamlined, Principal Reduction, or otherwise) will halt foreclosure proceedings. Once a foreclosure sale has been completed, the mortgage loan no longer exists and cannot be modified.

11. Although my home was originally purchased as an investment property, I have moved in permanently and it is now my primary residence. How does this affect my eligibility for a Principal Reduction Modification?

Check with your servicer to see if you may be eligible as a result of your current occupancy status. Servicers will use loan purpose data as of origination to exclude investor loans, although borrowers can request that their servicer evaluate them for a Principal Reduction Modification if they have subsequently moved into a property that was previously held for investment purposes.

12. Why is eligibility limited to owner-occupant borrowers whose loans have MTMLTVs greater than 115 percent and who had an Unpaid Principal Balance of $250,000 or less and were 90 days or more delinquent as of March 1, 2016?

FHFA and the Enterprises sought to design a program that balanced FHFA's obligations to assist struggling borrowers and to preserve and conserve the assets of Fannie Mae and Freddie Mac. FHFA considered a range of eligibility criteria in an effort to design a program that could meet both objectives. The eligibility restrictions strike an appropriate balance between these two obligations.

13. I already received a loan modification; why do I have principal forbearance instead of principal reduction?

This program is designed to provide a last chance to avoid foreclosure for at-risk underwater borrowers who have not taken up existing loss mitigation opportunities provided by the Enterprises and to provide a more economically promising outcome for the Enterprises on loans that otherwise appear to be headed toward a costly foreclosure. The exclusion of borrowers who have already accepted loan modifications is necessary to avoid adverse economic consequences for the Enterprises and taxpayers.