

Bulletin

TO: Freddie Mac Servicers

May 29, 2024 | 2024-E

SUBJECT: ENHANCEMENTS TO THE FREDDIE MAC FLEX MODIFICATION®

At Freddie Mac, we recognize that some Borrowers may experience financial hardships that result in a permanent or long-term decrease in income or increase in expenses that may impact their ability to make their Mortgage payments. We are pleased to announce updates to the Freddie Mac Flex Modification. We are implementing updates to this solution jointly with Fannie Mae and at the direction of FHFA with a goal of expanding the eligible population while achieving more equitable payment relief outcomes. The steps to determining the terms of the Freddie Mac Flex Modification have been reordered and will be incrementally applied until a 20% Principal and Interest Payment reduction target has been achieved or the steps have been exhausted.

This Bulletin describes the updated requirements for the Freddie Mac Flex Modification, primarily as they relate to determining the terms of a Freddie Mac Flex Modification. All other Freddie Mac Flex Modification requirements not addressed by this Bulletin remain unchanged. In our next scheduled Servicing Bulletin, we will publish the corresponding Guide updates to reflect the changes announced today.

Determining the terms for the Freddie Mac Flex Modification

The steps to determine the terms of the Freddie Mac Flex Modification are described in the table below:

Determining the terms of a Freddie Mac Flex Modification	
<p>Payment reduction target</p> <ul style="list-style-type: none"> The payment reduction target is considered satisfied once an incremental application of the steps to determine the terms of a Freddie Mac Flex Modification (i.e., interest rate application, term extension, principal forbearance) achieves a post-modified Principal and Interest Payment reduction amount that just surpasses but is as close to 20% as possible (e.g., 20.01%) The payment reduction target is not considered satisfied if the payment reduction amount is less than or precisely equal to 20% 	
<p>The Servicer must apply the steps to determine the terms for the Freddie Mac Flex Modification incrementally until the payment reduction target is achieved or until the steps are exhausted. The Servicer must offer the Freddie Mac Flex Modification if the modification will result in a post-modified Principal and Interest Payment amount that is less than or equal to the pre-modified payment amount. Based on the information provided by the Servicer, Resolve® will determine the terms of the Freddie Mac Flex Modification according to the following steps:</p>	
Step 1	<p>Capitalize arrearages</p> <p>Capitalize arrearages in accordance with the requirements of Guide Section 9206.15.</p>



Step 2	Establish the preliminary modification interest rate	
	Set the preliminary modification interest rate to a fixed rate based on the following requirements using the interest rate in effect for the periodic payment due in the month of the evaluation date.	
	Note: This step is solely to set the preliminary modification interest rate. Refer to step 3 for instructions on how to apply interest rate relief pursuant to Freddie Mac's revised Flex Modification waterfall requirements.	
	If the existing Mortgage is:	...then
A fixed-rate Mortgage (including ARMs and Step-Rate Mortgages with no additional interest rate adjustments or steps scheduled)	The Servicer must use the existing interest rate.	
An ARM or Step-Rate Mortgage that has not reached its final interest rate	<p>The Servicer must set the preliminary modification interest rate to the greater of:</p> <ul style="list-style-type: none"> • The Freddie Mac modification interest rate in effect and posted as of the date the Servicer evaluates and determines the Borrower is eligible for a Trial Period Plan, or • The current interest rate <p>Note: If the Freddie Mac modification interest rate is greater than the maximum step-rate/lifetime cap Note Rate, then the Servicer must set the modification rate to the maximum step-rate/lifetime cap Note Rate.</p>	
Step 3	Determining the Freddie Mac Flex Modification interest rate	
	If the post-modification mark-to-market loan-to-value (MTMLTV) is greater than or equal to 50% and	
	The preliminary modification interest rate is:	...then
	Greater than Freddie Mac's modification interest rate in effect	<p>The Servicer must incrementally reduce the interest rate in 0.125% increments until the earlier of achieving:</p> <ul style="list-style-type: none"> • The payment reduction target, or • The Freddie Mac modification interest rate <p>Note: If the incremental reduction rate of 0.125% would cause the modification interest rate to fall below the posted modification interest rate, the Servicer must stop at the Freddie Mac modification interest rate.</p>
	Less than or equal to Freddie Mac's modification interest rate in effect	The Mortgage will retain the preliminary modification interest rate as the post-modification contractual interest rate.
<p>If the post-modification MTMLTV is less than 50%, then the Borrower will retain the preliminary modification interest rate as the post-modification contractual interest rate.</p> <p>Note: The Freddie Mac Flex Modification must result in a fixed-rate Mortgage.</p>		
Step 4	Term extension	



	<p>If the payment reduction target has not been met after step 3, extend the term in monthly increments until the earlier of:</p> <ul style="list-style-type: none"> • A term in which the payment reduction target is reached, or • A term of 480 months from the modification effective date
<p>Step 5</p>	<p>Forbear principal</p> <p>If the payment reduction target has not been met after step 4 and the post-modification MTMLTV ratio (which includes capitalized amounts) is greater than 50%, forbear principal until the earlier of achieving:</p> <ul style="list-style-type: none"> • The payment reduction target, • A result of 30% of the post-capitalized UPB (“the Forbearance Cap”), or • An amount that would create a post-modification MTMLTV ratio of 50% using the interest-bearing UPB <p>Note: Interest must not accrue on any principal forbearance. Principal forbearance is payable upon the earliest of the maturity of the Mortgage loan modification, sale or transfer of the property, refinance of the Mortgage loan or payoff of the interest-bearing UPB.</p>

Other requirement updates

We are also making the following updates:

- Housing expense to income requirement: We are eliminating the Freddie Mac Flex Modification waterfall calculation requirement to target a 40% post-modification housing expense to income ratio for Mortgages that are less than 90 days delinquent, as described in Section 9206.10(a)(i)(A)
- Processing month: For consistency with similar processing requirements in the Guide in relation to the Payment Deferral (as described in Section 9203.18), we are replacing remaining references to an “interim month” with the term “processing month”. Requirements related to use of an interim/processing month will not be impacted by this adjustment.
- Letter templates: In accordance with these updated requirements, Guide Exhibit 93, *Evaluation Notices*, will be revised for implementation as of the effective date below

Effective date

Servicers must begin evaluating eligible Borrowers for the updated Freddie Mac Flex Modification on or after December 1, 2024. Servicers are encouraged to begin implementation as early as November 1, 2024.

Guide updates

The Guide will be updated with our next regularly scheduled Servicing Bulletin.

CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

Sincerely,

Mike Reynolds

Vice President, Head of Servicing