December 13, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to: director@fasb.org

Re: File Reference No. 1880-100: Proposed Accounting Standards Update: Receivables (Topic 310) – Clarifications to Accounting for Troubled Debt Restructurings by Creditors

Dear Technical Director:

Federal National Mortgage Association¹ (Fannie Mae) appreciates the opportunity to comment on the Proposed FASB Accounting Standards Update ("proposed ASU"), *Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. In general, we acknowledge and support the FASB’s efforts to respond to concerns regarding the diversity in practice related to identifying troubled debt restructurings ("TDRs"). While we applaud the Board for taking on this project, we have concerns with various aspects of the proposed ASU as discussed below.

**Executive Summary**

Fannie Mae supports development of a converged approach to reporting of financial instruments under U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRS"). Given that IFRS does not include the concept of a TDR, we propose that the Board seek convergence with IFRS by removing the TDR guidance from U.S. GAAP and adding a requirement for supplemental disclosures regarding loan modification activities.

While we support eliminating the diversity in practice related to identifying TDRs, we are concerned that the proposed ASU will not fully resolve all aspects of diversity in practice that currently exist in accounting for TDRs due to its limited scope.

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¹ Fannie Mae is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity, stability and affordability in the secondary mortgage market. Fannie Mae became a stockholder-owned and privately managed corporation by legislation enacted by Congress in 1968. Since September 6, 2008, Fannie Mae has been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator. At September 30, 2010, we had total assets of $3.2 trillion of which $2.9 trillion is made up of our loan portfolio and total liabilities of $3.3 trillion of which $3.0 trillion consist of long-term debt.
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We also do not support the apparent elimination of the scope exception for TDRs that result in an insignificant delay or shortfall in payment. We believe that programs that address short-term financial hardships, specifically repayment plans and forbearance arrangements, represent a different type of loss mitigation activity than permanent loan modifications provided for long-term financial hardships. As a result, we believe that these discrete populations should not be commingled for purposes of accounting and disclosures. Rather, we suggest that requiring separate disclosures of this activity would provide more meaningful information to financial statement users than would be obtained by including these activities in a broad TDR population.

We do not believe that the proposed effective date is operational due to the burden associated with recasting the allowance for loan losses in the prior-period disclosures for individually impaired loans. As a result, we recommend that the Board provide additional time between issuing the final ASU and its required adoption date to allow enterprises to implement the guidance in a controlled manner. We also believe that the modified retrospective application method proposed for transition needs additional clarification to ensure consistent application across all enterprises upon adoption.

Comments on the Proposed ASU

I. Convergence

Fannie Mae supports a converged approach to financial statement recognition and presentation of financial instruments under both U.S. GAAP and IFRS. Given that IFRS does not include the concept of a TDR, we encourage the Board to reconsider its approach to issuing the proposed ASU and seek convergence with IFRS. Specifically, we support eliminating the TDR concept from the U.S. GAAP guidance and replacing it with a requirement to measure individually the impairment of each modified loan that otherwise would have been delinquent, which will reduce the diversity in practice between U.S. and international reporting enterprises. As an additional step toward convergence, we also propose enhancing the U.S. GAAP disclosure requirements regarding loan modification activity, in particular for loans that would be past due or impaired if not for the loss mitigation activity. Further, we anticipate that the joint project on accounting for financial instruments will improve consistency in impairment measurement for loans receivable, regardless of whether loans have been subject to modification or other loss mitigation activities.

II. Continued Existence of Diversity in Practice

While the proposed ASU will eliminate some of the diversity in practice specific to identifying the population of TDR loans, we are concerned that the proposed ASU will not fully eliminate all aspects of diversity that currently exist with regard to measurement and the timing of loss recognition for TDRs.

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Measurement of Individual Impairment

It is our understanding that there is diversity in the interpretation of the measurement requirements under ASC 310-10-35 – Receivables – Subsequent Measurement (formerly SFAS 114, Accounting by Creditors for Impairment of a Loan). Specifically, some creditors have interpreted the guidance in ASC 310-10-35 narrowly, permitting only past events and current conditions to be used when estimating the expected cash flows for measurement of individual impairment. Others have interpreted the guidance of ASC 310-10-35 (specifically ASC 310-10-35-27 – formerly Question 16 of EITF D-80) broadly, incorporating all reasonable and supportable projections which are expected to impact a loan’s expected future cash flows when measuring impairment, thus using more of an expected loss methodology. Because the proposed ASU does not address this diversity in practice, we recommend that the Board clarify its intent with regard to entities’ use of reasonable forecasts and supportable assumptions as contemplated within ASC 310-10-35.

Timing of Loss Recognition

In addition, the proposed ASU does not address the diversity in practice which exists regarding timing of loss recognition for TDRs, in particular when the restructuring contains a contingency. Specifically, the government-sponsored entities (GSEs) and other financial institutions that participate in the United States Treasury’s Making Home Affordable program have a significant number of loans modified under the Home Affordable Modification Program (HAMP). Under HAMP, borrowers receive permanent modifications upon satisfying the terms of a trial modification that is typically a period of at least three months.

Fannie Mae has concluded that it should begin to account for a HAMP loan as a TDR at the inception of the trial period, because the modification will provide a concession to the borrower, and Fannie Mae is legally required to modify the loan permanently if the borrower satisfies the contingency of the trial period. However, it is our understanding that other creditors have interpreted the guidance to account for HAMP loans as TDRs only if the contingent conditions are satisfied and the terms are permanently modified (i.e., at the completion of the trial period). This view considers that the three to four month trial period represents only an insignificant delay or shortfall in payment, and that until the loan is permanently modified, no concession has been granted to the borrower. Additionally, other creditors focus on the high percentage of borrowers who fail to successfully complete the trial period. Accordingly, they have concluded that the loan does not meet the definition of a TDR until the point of permanent modification.

This diversity in interpretation results in enterprises which modify loans under HAMP having differing populations of TDR loans. Specifically, because Fannie Mae begins accounting for a HAMP loan as a TDR at the inception of the trial period, we account for such a loan as a TDR and measure impairment of the loan individually for the remainder of its life, even if the borrower fails to complete the trial period. In contrast, entities that recognize a HAMP loan as a TDR only after the trial period is completed continue to measure the loans that fail the trial period collectively under ASC 450 Contingencies (formerly SFAS 5, Accounting for Contingencies). Because we use an expected loss approach to measure impairment on loans within the scope of ASC 310-10-35, the valuation allowance that is established for failed trials is materially greater than the amount set aside under ASC 450. Given HAMP’s prevalence in the
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marketplace, we recommend that the FASB address the diversity in practice that exists. One way of achieving this objective is to include an example to clarify the timing of loss recognition for HAMP.

III. Removal of the Insignificant Delay or Shortfall Threshold

Many creditors have interpreted the guidance in ASC 310-40 – Receivables - Troubled Debt Restructurings by Creditors (formerly SFAS 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings) and ASC 310-10-35 in combination to provide a scope exception for TDRs that result in an insignificant delay in payment or shortfall in amount. However, the proposed guidance that an insignificant delay in contractual cash flows should be considered a factor in determining whether a troubled debt restructuring exists is vague and unclear. As a result, we have concluded that certain loss mitigation programs that provide relief to borrowers on a temporary basis will meet the revised definition of a TDR – specifically repayment plans and forbearance arrangements:

In a repayment plan, the borrower agrees to repay past-due amounts over a set timeframe, in addition to making the scheduled mortgage payments. We generally enter a repayment plan with a borrower who experienced a short-term financial hardship, but now has the ability to make the necessary payments to return the loan to performance under its original contractual terms. The average duration of our repayment plans is about two months.

In a forbearance arrangement, we temporarily suspend or reduce the borrower’s monthly mortgage payments for a specific period of time, during which the servicer assesses the borrower’s financial condition and determines the best loss mitigation alternative. Following forbearance, the borrower may cure their delinquency and return to the original contractual terms by paying the past-due amounts all at once or through a repayment plan. The servicer may also determine that modification of the original contractual terms, a short sale, a deed-in-lieu of foreclosure or foreclosure is the best course of action. The average duration of our forbearance arrangements is about five months.

Because these arrangements are provided to borrowers whose loans are past due or who expect to miss one or more payments in the near term, we determine that they are experiencing financial difficulty. In addition, because we do not require the borrower to pay interest on the past-due interest, a concession – although generally insignificant – has been granted, and therefore we have concluded that these arrangements would meet the revised definition of a TDR. However, forbearance arrangements and repayment plans are generally short-term solutions that respond to temporary financial hardships, in contrast to permanent loan modifications, which respond to longer-term financial difficulties. Because these activities serve different purposes, we believe that they should not be commingled for purposes of accounting and disclosure. Thus, we encourage the Board to clarify the scoping threshold so that such short-term relief measures are excluded from the scope of the TDR guidance.

In addition, our servicers generally have delegated authority under our servicing guide to unilaterally make decisions on loss mitigation, which includes the authority to execute forbearance and repayment plans on our behalf. However, while the servicers are required to
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communicate the status of loans that have received one of these forms of loss mitigation, they are not currently required to communicate the details of loss mitigation arrangements to Fannie Mae. In contrast, our servicers are required to communicate the terms of any modifications of legal terms that have been completed. As a result, we cannot measure the loss associated with the concession granted under either a forbearance arrangement or a repayment plan.

We acknowledge that disclosures regarding an entity’s use of forbearance arrangements and repayment plans provide useful information to stakeholders. As a result, we recommend revising the proposed ASU to enhance disclosure requirements for such loss mitigation activities.

If the Board does not allow for loans in forbearance and under repayment plans to be scoped out of the TDR guidance, then we believe the Board should consider permitting such loans to be removed from the scope of both the TDR accounting and disclosure guidance subsequent to cure. Specifically, we question the usefulness of continuing to disclose a loan as a TDR and continuing to measure its impairment individually for the remainder of its life when the borrower has cured a delinquency after either a forbearance arrangement or a repayment plan and the loan continues to perform in accordance with its original contractual terms.

IV. Effective Date and Transition

Although implementation of the proposed ASU will require incremental effort on the part of creditors, and we believe that the revised guidance of the proposed ASU itself is generally operational, we do not believe that the effective date and transition provisions are operational. Specifically, we are concerned that the proposed ASU does not provide sufficient time for implementation and that the transition provisions require clarification to ensure consistent application across all enterprises upon adoption.

Timing of Implementation

We believe that the transition provisions place an operational burden on enterprises that will be required to recast the disclosures for populations that include TDR loans. As discussed in Item III above, we believe the proposed ASU would significantly expand the population of TDRs. Given that all TDR loans are considered to be individually impaired, the modified retrospective transition provisions would require us to recast our footnote disclosures of the allowance for loan losses for individually impaired loans under ASC 310-10-50. Because we rely on our servicers to provide the data necessary to perform the accounting prescribed by the standard, we would need significant time to collect the historical data, revise our impairment calculation, and prepare the financial statement disclosures if the proposed ASU is adopted as proposed.

As a result, we recommend that the Board provide incremental time between issuance of the final ASU and its required transition date, because the necessary information to apply the proposed guidance may be difficult to obtain. Specifically, if the guidance is finalized in the first quarter of 2011 with transition required in the second quarter of 2011, we would not have sufficient time to implement the processes necessary to prepare the data and then to review, test, and, if necessary, remediate those processes as required by the Sarbanes-Oxley Act of 2002. Thus, we propose that the Board encourage compliance with the final guidance by the end of the interim reporting period in which the final ASU is issued, and defer mandatory compliance until the end
of the annual reporting period to provide sufficient time to ensure the necessary controls and procedures are in place for compliance with the new accounting and reporting requirements.

Clarification of Transition Provisions

We believe that the modified retrospective application method proposed for transition requires clarification in order to ensure consistent application across all enterprises upon adoption. Specifically, given that the transition would occur at an interim date, it is not clear how the Board intended for entities to retroactively restate the population, because the comparative financial statements provided at interim reporting dates differ from those presented in a set of annual financial statements. For Fannie Mae, the initial date of adoption as proposed would be June 30, 2011, and in the quarterly report on Form 10-Q, we would present one period of comparative data. However, at the end of the fiscal year in the annual report on Form 10-K, we would present two periods of comparative data. As currently written, one could interpret the transition provisions as requiring Fannie Mae to expand our population of TDRs once, based on the comparative financial statements at the end of the calendar year, or as requiring expansion of the TDR population over time between the initial date of adoption as compared to the end of the first year of adoption. As a result, we recommend that the Board clarify its intent with regard to this transition provision.

In addition, it is unclear how other related accounting standards should be considered in applying the transition provisions. In particular, creditors may have concluded in a prior period that a modified loan was not a TDR and thus accounted for that modified loan as a new loan in accordance with ASC 310-20-35-11 – Receivables - Nonrefundable Fees and Other Costs (formerly EITF 01-7) by recognizing any unamortized basis adjustments in income during the period of modification. If such modifications are redefined as TDRs under the proposed guidance, those unamortized basis adjustments previously recorded through interest income apparently would require reversal. However, it is not clear from the transition provisions whether the Board intended for such an adjustment to be treated as a cumulative effect of a change of accounting principal or as an adjustment to income during the current period. As a result, we believe incremental guidance is needed to understand how to apply the transition provisions in such a circumstance.
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Appendix 1 to this letter contains responses to certain questions asked by the Board.

Appendix 2 to this letter includes detailed descriptions of the loss mitigation activities that we believe are impacted by this aspect of the proposed ASU.

The opinions expressed in this letter are solely that of Fannie Mae and do not purport to represent the views of the Federal Housing Finance Agency as our conservator.

We would like to continue to participate in the public discussions of this issue, and would be pleased to discuss any aspect of our letter with you to provide further assistance in your deliberations on the proposed guidance. Thank you for considering our views.

Sincerely,

Kirk C. Silva
Vice President and Accounting Policy Head
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Appendix 1: Responses to specific questions raised in the proposed ASU

Question 1

Would precluding creditors from applying the guidance in paragraph 470-60-55-10, create any operational challenges for determining whether a troubled debt restructuring exists? If yes, please explain why.

Although removing this test would eliminate some of the efficiency under current practice and would require incremental effort in assessing whether a TDR has occurred, we believe precluding creditors from applying the effective interest rate test would not create significant operational challenges for the majority of our single-family and multifamily mortgage loan populations.

Substantially all of the single-family loan modifications we complete are accounted for as TDRs, because they are extended to borrowers experiencing financial difficulty and the terms of the modification include a payment concession. As a result, we generally are able to conclude that a concession has been granted based on a qualitative assessment related to the borrower’s reduced payment. Thus, removal of the effective interest rate test would not significantly impact our evaluation of single-family loan modifications.

With regard to our multifamily loans, we have insight into the market rate of compensation for senior, mezzanine, and equity financing for multifamily loans given our position in the market, and we have already implemented a similar concept in assessing whether restructurings of such loans are TDRs under the current guidance. Thus, removal of the effective interest rate test would not significantly impact our evaluation of multifamily loan modifications.

Question 2

Do you believe that the proposed changes to the guidance for determining whether a troubled debt restructuring exists would result in a more consistent application of troubled debt restructuring guidance? If not, please explain why.

If the Board continues with the current approach, we believe the proposed ASU could result in more consistent identification of the population of TDR loans. However, we are concerned that the proposed ASU would not eliminate the diversity that currently exists with regard to measurement and the timing of loss recognition for TDRs. Please refer to Item II in our comment letter for more information.

Question 3

The Board decided that a creditor may consider that a debtor is experiencing financial difficulty when payment default is considered to be “probable in the foreseeable future.” Do you believe that this is an appropriate threshold for such an assessment? If not, please explain why.

We agree with the Board’s conclusion that a creditor should consider a debtor to be experiencing financial difficulty when default is probable in the foreseeable future.
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Question 4

Are the proposed transition and effective date provisions operational? If not, please explain why.

We believe that transition and effective date provisions in the proposed ASU are not operational as currently written, and as a result, we recommend that the Board provide both incremental clarity and time to adopt the revised guidance. Please refer to Item IV in our comment letter for details of the clarifications we believe are needed and our concerns regarding the timing of implementation.

Question 6

Should early adoption of the proposed amendments in this Update be permitted? If so, please explain why.

We believe that entities subject to the standard should have the option to early adopt the standard. Specifically, we propose that the Board encourage compliance with the guidance by the end of the interim reporting period in which the final ASU is issued, while deferring mandatory compliance until the end of the annual reporting period.
Appendix 2: Loss Mitigation Alternatives within the Scope of the Proposed ASU

This Appendix provides background information on certain types of loss mitigation activities that are impacted by this proposed ASU — specifically, forbearance arrangements, repayment plans, and loan modifications — and the circumstances in which they are generally used.

Under forbearance arrangements and repayment plans, creditors typically enter into a temporary, informal agreement with the borrower to either allow the deferral of scheduled payments and/or forego the right to pursue foreclosure for a short period of time during which borrowers may improve their financial position and cure their delinquency. Generally, these arrangements result in an insignificant delay in collecting scheduled payments or an insignificant shortfall in the amount collected. On the other hand, loan modifications are legal agreements to change the original terms of the mortgage loan. Modification may include changes to payment amount, extension of maturity, or changes in interest rate, as well as forbearance or forgiveness of principal.

Forbearance Arrangements

A forbearance arrangement is an agreement with the borrower to suspend or reduce monthly mortgage payments temporarily, while avoiding foreclosure and limiting negative impact to the borrower’s credit history. Also, the creditor does not pursue contractual remedies for delinquency available under the terms of the mortgage loan, such as foreclosure, during the forbearance period. Such an arrangement provides delinquent borrowers experiencing short-term financial problems time to get back on their feet and either bring their loan current, modify their loan, or seek other alternatives. Forbearance may also be provided on a large scale to borrowers affected by natural disasters, terrorist attacks, or other catastrophes in which borrowers’ financial conditions are unknown and the ability to make payments may be delayed by circumstances beyond their control. Forbearance also allows a creditor time to assess the delinquent borrower's situation and determine the appropriate action to pursue in order to remedy the delinquency. Offering a borrower the option to participate in a forbearance plan is expected to help the borrower and creditor avoid a costly foreclosure.

Forbearance arrangements do not legally modify the original terms and conditions of the loan, and are generally informal short-term deferrals or reductions in payment (e.g., six consecutive months, unless a longer period is required by law) and are typically offered to borrowers who are ineligible for refinance. The average duration of our forbearance arrangements is about five months. Because a forbearance arrangement will not in and of itself cure a borrower’s delinquency, it is typically the starting point for assessing what additional activity will mitigate losses best:

(a) When the borrower is experiencing a short-term financial hardship, forbearance allows the borrower time to bring the loan current under the original contractual terms through making a single cash payment or entering a repayment plan and making multiple payments over a period of time (please see additional discussion of repayment plans below);

(b) When the borrower is experiencing a long-term financial hardship and thus unable to make sufficient payments bring the loan current in accordance with its original
contractual terms, he or she may enter into a formal agreement to legally modify the terms of the loan to reduce the monthly payments and allow the borrower to stay in his or her home; or

(c) When the borrower is experiencing a long-term financial hardship and is either unable or unwilling to make the payments under a modified loan agreement, the borrower may elect to complete a short sale or a deed-in-lieu of foreclosure to facilitate exiting the home. Alternatively, the creditor may determine that foreclosure is the only option.

Given the wide range of outcomes which may follow a forbearance arrangement, it is inherently difficult at the arrangement’s inception for the creditor to predict with any certainty which of these outcomes will occur. This is due, in part, to the intent of the arrangement, which is to provide time to gather more information to assess the appropriate outcome, and also due to the lack of detailed information from the servicer (i.e., when the loan is serviced by an entity other than the lender). Specifically, our servicers have the delegated authority to enter into such arrangements with the borrower on our behalf in accordance with general guidelines established in our servicing guide and are not required to report this information in detail. As a result, we generally do not have insight into the terms of the forbearance arrangements.

Under a forbearance arrangement, the past-due and deferred contractually due payments continue to be due under the terms of the original loan agreement. However, the creditor will not collect any incremental interest on the past-due and deferred-payment amounts. As a result, the forbearance arrangement represents a concession to the borrower, although generally the concession represents an insignificant delay or shortfall in payment.

**Repayment Plans**

A repayment plan is an agreement with the borrower to spread out the past-due amount over several months in order to bring their mortgage loan current. Under a repayment plan, the borrower agrees to add an extra amount onto their scheduled monthly payments until it is repaid in full in accordance with the original contractual terms of the mortgage. Borrowers who are eligible for repayment plans typically experienced a short-term financial hardship, are only a few months delinquent on their scheduled mortgage payments, and are subsequently able to make both the scheduled monthly payment plus the amount due under the repayment plan. The average duration of our repayment plans is about two months.

As with forbearance arrangements, repayment plans do not legally modify the original terms and conditions of the mortgage loan. Rather, the intent of a repayment plan is that the borrower will be able to bring their loan current by the end of the repayment period and return to performance under the original terms for the remaining life of the loan. Under repayment plans, the creditor receives all of the principal and interest payments originally due under the loan agreement, but does not collect incremental interest on the past-due interest. Also, the creditor does not pursue the contractual remedies for delinquency available under the terms of the mortgage loan, such as foreclosure, during the repayment period. As a result, the repayment plan represents a concession to the borrower, although generally this concession represents an insignificant delay or shortfall in payment. Repayment plans allow borrowers experiencing temporary financial hardship a way to avoid foreclosure and limit negative impact to their credit history.
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Loan Modifications

A loan modification is a legal agreement between the borrower and creditor to change the terms of an existing mortgage loan. Modifications are typically offered to borrowers who have experienced a long-term financial hardship (e.g., loss of income) and who are either in default under the terms of their existing mortgage or for whom default is considered imminent. In order to enter into a modification, a borrower typically would need to have the ability to make a reduced mortgage payment, but would not be expected to cure delinquency in accordance with the loan's original terms.

The purpose of a loan modification is to provide a borrower a permanent reduction in their scheduled monthly payments and allow them to avoid foreclosure. Loan modifications often include some or all of the following types of changes: interest-rate reduction; capitalization of past-due amounts; extension of the loan's maturity; forbearance of principal (i.e., in a non-interest-bearing balloon payment); and/or forgiveness of principal. Modifications may also include a trial performance period under the revised terms prior to the legal modification of the loan's terms, which helps ensure the borrower is able to afford the revised monthly payments. Given that modifications for single-family borrowers generally involve payment reductions (most frequently by reducing the effective interest rate), we generally are deemed to have granted a concession when making a permanent loan modification.

Borrowers are expected to be able to perform in accordance with the modified terms of the loan. However, if a borrower subsequently defaults on the modified loan, a creditor may seek alternative loss mitigation options, such as a short sale or deed-in-lieu of foreclosure. If such alternatives are not considered viable, the creditor may ultimately foreclose on the defaulted loan.

The following table provides a reference guide summarizing the programs described herein.
### Appendix 2: Loss Mitigation Alternatives within the Scope of the Proposed ASU – Reference Guide

<table>
<thead>
<tr>
<th>Program</th>
<th>Description</th>
<th>Targeted Borrower / Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forbearance</strong></td>
<td>• Terms of the existing mortgage are not legally modified</td>
<td>• Borrower experienced short-term hardship and fell behind in payments</td>
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<tr>
<td>(5 months average duration)</td>
<td>• Creditor does not pursue contractual remedies for delinquency during the</td>
<td>• Borrower needs time to get back on their feet</td>
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<td></td>
<td>forbearance period</td>
<td>• Borrower may be located in areas affected by unusual circumstances</td>
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<td></td>
<td>• May be provided on a “blanket” basis to borrowers affected by natural</td>
<td>• Program intended to provide time for servicer and borrower to assess best outcome, which</td>
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<td></td>
<td>disasters, terrorist attacks, or other catastrophes</td>
<td>could include cure of delinquency, repayment plan, modification, or execution of a short</td>
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<td></td>
<td></td>
<td>sale, deed-in-lieu of foreclosure, or foreclosure</td>
</tr>
<tr>
<td><strong>Repayment Plan</strong></td>
<td>• Terms of the existing mortgage are not legally modified</td>
<td>• Borrower experienced short-term hardship and fell behind in payments</td>
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<tr>
<td>(2 months average duration)</td>
<td>• Upon completion of the repayment plan, the borrower will perform under</td>
<td>• Borrower now has ability to pay the original contractual payments and to make up the</td>
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<td></td>
<td>original terms</td>
<td>amounts that are past due</td>
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<td></td>
<td>• Creditor will receive all contractually due principal and interest</td>
<td>• Program provides avenue to avoid foreclosure and limit negative impact to borrower’s credit</td>
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<td></td>
<td>amounts, but will not collect incremental interest on past due amounts</td>
<td>history</td>
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<td></td>
<td>• Creditor does not pursue contractual remedies for delinquency during the</td>
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<td></td>
<td>repayment period</td>
<td></td>
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<tr>
<td><strong>Loan Modification</strong></td>
<td>• Permanently modifies the legal terms of existing mortgage</td>
<td>• Borrower is experiencing a long-term financial hardship</td>
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<td></td>
<td>• May include reduction in interest rate, extension of maturity,</td>
<td>• Borrower is delinquent or is in a situation where default is imminent</td>
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<td>forbearance of payments, principal forgiveness or other term changes</td>
<td>• Borrower has the ability to make a reduced payment</td>
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<td></td>
<td>• Past due amounts are generally capitalized</td>
<td>• Program increases likelihood of avoiding foreclosure and limiting negative impact to</td>
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<td></td>
<td>• Modified terms are likely not at market for new origination with the</td>
<td>borrower’s credit history</td>
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<td>same or similar credit characteristics</td>
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<td></td>
<td>• May include a trial performance period prior to modification of the</td>
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<td></td>
<td>loan’s legal terms</td>
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