[Lender/Servicer Name]
[Address]
[City, State, Zip Code]
[Phone Number]

[Date]

[Borrower Name]
[Co-Borrower Name]
[Property Address]
[City, State, Zip Code]

Subject: Notice of Principal Reduction Alternative (PRA)

Dear [Borrower Name],

This letter is to inform you that you may be eligible for a Principal Reduction Alternative (PRA) as part of your mortgage loan modification. Based on our recent evaluation of your financial situation and your current loan-to-value ratio, we are offering an alternative that includes the potential to forgive a portion of your principal balance.

Offer Details:

- **Original Principal Balance:** $[Amount]
- **Proposed Principal Reduction Amount:** $[Amount]
- **Estimated New Principal Balance:** $[Amount]

How the Reduction Works:

The principal reduction amount listed above is typically treated as a non-interest-bearing "deferred" amount initially. If you remain current on your monthly mortgage payments, a portion of this principal will be permanently forgiven each year over a three-year period. If the loan is paid off or refinanced before the end of this period, any remaining deferred principal may still be due.

Important Considerations:

- **Tax Consequences:** Forgiven debt may be considered taxable income by the IRS. We strongly recommend you consult with a tax professional.
- **Credit Impact:** Participation in a modification program may be reported to credit bureaus and could impact your credit score.

Next Steps:

To accept this offer or to discuss the specific terms of this modification, please sign the enclosed documents and return them to us by [Deadline Date]. If you have any questions, please contact our Homeownership Preservation Department at [Phone Number].

Sincerely,

[Name of Authorized Representative]
[Title]
[Lender/Servicer Name]