Managing Distressed Properties

Throughout the foreclosure process, you must monitor and protect the condition of the property. When you determine that a property is distressed, you must act promptly and in a responsible manner to protect both your interests and ours. This quick reference outlines the activities you must perform when you become aware of a distressed property.

Please ensure that your foreclosure and bankruptcy representatives and other staff who work with distressed properties have a copy of this quick reference and that they refer to it for all Freddie Mac mortgages. Refer to Sections 67.27, 67.28, and Chapter 68 of the Single-Family Seller/Servicer Guide (Guide) for additional information on distressed properties. If you have any questions about managing distressed properties, please contact (800) FREDDIE.

What Is a Distressed Property?

A distressed property is real property that has sustained significant physical deterioration or whose value has been significantly affected by physical deterioration. A property may also become distressed due to abandonment or a natural or man-made disaster. A distressed property is one that:

- Requires substantial repairs, or
- Has been condemned by a local authority, or
- Poses a risk of property ownership to us

Examples of distressed properties include, but are not limited to properties that have been:

- Damaged from natural or man-made disasters
- Abandoned and are deteriorating due to vacancy, waste and/or lack of utilities
- Affected by environmental hazards such as oil or chemical spills, toxic waste or other poisons

Reporting a Distressed Property to Us

Report all mortgages on distressed properties that are 30 or more days delinquent to us via Electronic Default Reporting (EDR) within the first three business days of the month following the month in which you identified the problem. Use default reason code 011 (property problem) and the appropriate occupancy code. Refer to the EDR Quick Reference Guide for additional information.

If the property has a risk of ownership, you must report the mortgage to us, even if it is not delinquent. To do this, submit the following documentation to us within three business days of identifying the risk:

- Form 105, Multipurpose Loan Servicing Transmittal
- Form 1013, 1-4 Unit Property Inspection Report
- Any other documentation regarding the risk of property ownership

We may request additional documentation, if necessary.

You must also conduct a search of the records of the local code authority to determine if there are any outstanding health or safety violations filed against either the borrower or the property. Report any code violations that you discover by submitting Form 105, Multipurpose Loan Servicing Transmittal, to Freddie Mac within three business days of identifying the violation. Document when each condition was discovered.
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Send or fax the documentation to Freddie Mac:

Regular or Overnight Mail
Freddie Mac
Attn: Distressed Property
MS B3G
8100 Jones Branch Drive
McLean, VA 22102

Fax
(571) 382-4933
Attn: Distressed Property

You may also contact us via email at Distressed_Property@FreddieMac.com.

Initiating Foreclosure on a Distressed Property

You must obtain Freddie Mac’s approval to initiate foreclosure if the property is distressed. To request our approval, complete and submit Form 105 within five business days of discovering the condition. We will approve or deny your request and provide you with further instructions. For additional information, refer to Sections 66.12 and 66.13 of the Guide.

Evaluating the Situation

Once you determine that a property is distressed, it’s important that you evaluate the situation thoroughly. When evaluating the situation, you should determine:

- The borrower’s intentions
- If the borrower has filed an insurance claim and is requesting any assistance
- The extent of damage and the cost to repair the property
- If there is a lawsuit pending that may jeopardize our lien position

After you evaluate the situation, determine if a relief or workout option is appropriate.

Monitoring a Distressed Property

Perform the following activities to monitor and protect distressed properties:

- Maintain a record of when the condition was discovered. If the property is abandoned and you are allowed under the security instrument, take all necessary actions to protect the property from waste, damage and vandalism and to prevent any additional loss.
  Note: If any expenses to protect the property will exceed the limits in Exhibit 57, 1-4 Unit Approved Expense Amounts, of the Guide, you must obtain Freddie Mac’s written approval for the expense before incurring it. If the resulting delay to obtain our approval may cause further damage to the property, you must call us at (800) FREDDIE for immediate approval. If unusual or emergency circumstances do not allow you to request our prior approval, then notify us by the next business day after you incurred the expense.
- Inspect the property monthly until the condition is resolved.
- File a claim with the appropriate property insurer on our behalf if the property is damaged and the borrower has not filed a claim.

Always make certain that you comply with any VA, RHS, FHA, or MI requirements, if applicable.

This document is not a replacement or substitute for the information found in the Single-Family Seller/Servicer Guide, and/or terms of your Master Agreement and/or Master Commitment.

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