

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 *Single-Family Seller/Service Guide* (Guide) Sections 8403.1, 8403.2, and Guide Chapter 8404 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 may pose a risk of property ownership to us. A distressed property is one that:

- Requires substantial repairs, or
- Has sustained significant physical deterioration, or
- Has been condemned by a local authority

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. If the problem identified is contaminated drywall report default reason code 032 (Contaminated Drywall) rather than default reason code 011 (Property Problem). Refer to the *EDR Quick Reference Guide* for additional information.

If the mortgage has been identified with a risk of property ownership, you must contact and report the mortgage to us, even if it is not delinquent. To do this, submit Form 1013, *1-4 Unit Property Inspection Report*, and any other relevant information regarding the risk of property ownership to us within three business days of identifying the risk. We may request additional documentation, if necessary. Additionally, 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 to Freddie Mac within three business days of identifying the violation. Document when each condition was discovered and attach a copy of each code violation. Further, you must submit all required information and documentation in your initial submission to Freddie Mac.

E-mail the documentation to us at Distressed_Property@FreddieMac.com.

You may also mail or fax the documentation to us:

Regular or Overnight Mail

Freddie Mac
Attn: Special Asset Unit
8100 Jones Branch Drive
McLean, VA 22102

Fax

(571) 382-4933
Attn: Special Asset Unit

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, submit a detailed description of the situation and your recommendation 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 Guide Section 9301.8.

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 Guide Exhibit 57, *1-4 Unit Approved Expense Amounts*, you must obtain Freddie Mac's written pre-approval for the expense before incurring it. If unusual or emergency circumstances do not allow you to request our prior written approval, then you must notify us via the Reimbursement System by the next business day after you incurred the expense. If we determine that your decision to incur the expense was reasonable, we will reimburse 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.