Non-Performing Loan Sales Seminar

April 29, 2015
Loan Servicing Criteria, Pooling, and Legacy Servicer Interface
Legacy Servicer Interactions During NPL Sale Life Cycle

- **Deal development**: Loan selection, legal documentation, data scrubbing, order BPOs and prepare data tape for potential bidders

- **Offering period**: Help address any bidder questions regarding data and collateral

- **Post-award due diligence**: Freddie Mac works closely with the legacy servicer and the winning bidder(s) throughout the due diligence period to resolve any identified issues

- **Post-closing**: Freddie Mac works with the legacy servicer on all post-closing loan issues, including resolution of R&W breaches
Loan Selection

- Freddie Mac owns the loans and controls the loan selection criteria and process.

- Freddie Mac determines which loans are included in sale and works closely with the legacy servicer to prepare loan pool for sale.

- Standard loan selection criteria include:
  - Loans that are approximately one year or more delinquent.
  - No loans with remaining MI, Indemnification, or Recourse value.
  - No FHA/VA loans.
  - No contested litigation loans.
  - No REO.
Loan Scrubbing, BPOs and Custodial Report

- Loans are scrubbed to facilitate preparation of a detailed loan tape for the data room
  - Loan type, 1-4 family, key loan characteristics, modification status & terms, etc.

- Order BPOs on pre-scrubbed loan population
  - Takes 1- to 2-weeks

- Custodial reports
  - When the population is initially identified, the Legacy Servicer and their custodian undertakes detailed custodial document review to ensure files meet Freddie guide requirements
  - Legacy Servicer and custodian continue to work until final closing to remedy any deficiencies
  - Any loans with material deficiencies may be removed by Purchaser up to closing
Freddie Mac provides strong R&Ws to buyers of its NPLs. These include:

- Priority of liens (first lien)
- No contested litigation
- No high cost loans
- Taxes paid

Freddie Mac receives R&Ws from the Legacy Servicer

- Back-to-back with R&Ws provided to investors
- Aligns interests of Freddie Mac, the NPL buyer, and the Legacy Servicer
Once aggregate pool is identified, population may be split into separate pools for offering based on:

- Size
- Geography
- Loan characteristics

Pooling decisions are made by Freddie Mac’s transaction team.
Legacy Servicer Interactions Post Bid Award

- Following bid award (trade date), Legacy Servicer will transfer all files and data to the NPL buyer (or designated custodian) for diligence
  - Freddie Mac coordinates with the legacy servicer to address all legacy servicer related items pre-settlement, including fall-out and R&W breaches

- 6-8 week period for purchaser to screen loans for final purchase at closing

- Upon closing, Legacy Servicer will be the Interim Servicer to the Purchaser until the Servicing Transfer Date
  - This is governed by a separate agreement between the Legacy Servicer and Purchaser

- Post settlement breaches of R&Ws are addressed by Freddie Mac working with the legacy servicer