

# Bulletin

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NUMBER: 2008-2

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TO: All Freddie Mac Sellers and Servicers

April 17, 2008

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## SUBJECTS

Both selling and Servicing requirements are being amended with this *Single-Family Seller/Servicer Guide* (Guide) Bulletin.

With this Bulletin, we are making the following changes to our [selling requirements](#):

- [Updating Form 1077, Uniform Underwriting and Transmittal Summary](#), to include the revised Condominium Project classification system announced in our special December 21, 2007 Bulletin and revising the delivery requirements for Condominium Unit Mortgages to correspond to the classification system used in Form 1077
- [Moving special characteristics codes \(SCCs\) to a new exhibit](#) in Form 11, Mortgage Submission Schedule, and Form 13SF, Mortgage Submission Voucher. The exhibit organizes the SCCs numerically and by topic.
- [Adding guidance regarding completing the Monthly Housing Expense and Monthly Debt Payment](#) fields on Form 11 and Form 13SF

We are making the following changes to our [Servicing requirements](#):

- Revising our requirements for counsel eligibility to:
  - [Require Servicers to retain more than one law firm or trustee when making foreclosure and bankruptcy referrals](#) in any State in which the Servicer has 250 or more Freddie Mac foreclosure and bankruptcy referrals in a calendar year
  - [Require Servicers to develop a contingency plan for redirecting foreclosure and bankruptcy referrals](#) in the event a law firm or trustee with whom they currently conduct business is unable to accept new referrals
  - [Require Servicers to consider additional factors, such as firm reputation, when selecting a law firm to handle foreclosures and bankruptcies](#)
  - [Provide additional guidance regarding selection of bankruptcy counsel](#)
- [Reinforcing the requirement that Servicers notify the property insurer of certain actions](#) affecting insured property and take any other necessary actions in accordance with the conditions of the standard mortgage clause
- [Converting Form 59, Custodial Account P&I Reconciliation Worksheet, and Form 59E, Escrow Custodial Account Reconciliation Worksheet, into interactive Microsoft Excel<sup>®</sup> spreadsheets](#)
- [Adding two new expense codes to Exhibit 74, Expense and Income Codes to 104SE](#): one for the expenses related to the Torrens system of titling in Minnesota and another for pest control expenses

- Regarding our designated counsel/trustee program:
  - [Announcing two new designated counsel firms in New Jersey](#)
  - [Reminding Servicers that we recently announced via e-mail changes to the designated counsel/trustee list, reflecting a new trustee in California](#)
- [Adding new notification methods Freddie Mac may utilize for issuing Balloon/Reset Mortgage notices](#) to Servicers that are not licensed holders of MIDANET<sup>®</sup> for the PC
- [Updating contact information](#) in Form 104SF, Statement of Loan, Workout and REO Expenses and Income; Directories 3 and 5; and Exhibit 85, Special Reset Mortgage Title Insurance Information

### **Effective Dates**

All of these changes are effective immediately except:

- **April 1, 2008** – The new designated trustee in California – Routh Crabtree Olsen, P.S. – began accepting new program referrals on this date
- **May 1, 2008** – The two new designated counsel firms in New Jersey – Powers Kirn, L.L.C. and Phelan, Hallinan, Schmieg & Diamond, P.C. – will begin accepting new program referrals on this date
- **June 1, 2008**
  - Although Sellers may deliver Condominium Unit Mortgages using the revised Form 11 and Form 13SF requirements immediately, use of the revised codes will be required on and after this date
  - Servicers must comply with counsel diversification requirements in States where they have 250 or more Freddie Mac foreclosure and bankruptcy referrals in a calendar year, on or after this date
  - Servicers must have a contingency plan in place that addresses redirecting new foreclosure and bankruptcy referrals if a law firm they currently do business with is unable to accept new referrals, by this date
- **October 17, 2008** – Although Sellers may begin to use the revised Form 1077 immediately, use of the revised form will be required only on and after this date

### **Revisions to the Single-Family Seller/Servicer Guide**

The revisions include:

- [Chapters 17, 32, 37, 42, 53, 56, 66, 67, 70, 71, 76, 79](#) and [83](#)
- [Exhibits 74](#) and [85](#)
- [Forms 11, 13SF, 59, 59E, 104SF](#) and [1077](#)
- [Directories 3](#) and [5](#)

## Conclusion

The changes announced in this Bulletin support our commitment to making the mortgage finance process simpler and more efficient for you, our Seller/Servicers. If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely,



Patricia J. McClung  
Vice President  
Customer Outreach and Offerings Deployment

## SELLING CHANGES

### Including revised Condominium Project classification on Form 1077 and revising the corresponding codes for Condominium Projects required on Form 11 and Form 13SF

In our special [December 21, 2007 Bulletin](#), we revised the Condominium Project classification system used for Condominium Project representations and warranties. With this Bulletin, we are revising [Form 1077, Uniform Underwriting and Transmittal Summary](#), to include the following six categories for Freddie Mac Condominium Projects:

- Streamlined review
- Established project
- New project
- Detached project
- 2- to 4-unit project
- Reciprocal review

In connection with the [Form 1077](#) changes, we are also revising our [Form 11](#) and [Form 13SF](#), delivery requirements to require delivery of Condo/PUD Type code “3” for any Condominium Unit Mortgage being sold with reciprocal review (code “3” also applies to Mortgages being sold with streamlined review and for Detached Condominium Projects).

We are revising [Guide Section 17.22](#) and adding new [Section 42.11.1](#) to describe the new Condominium Project classification system and the revised delivery codes.

Sellers may begin using the revised coding system on [Form 11](#) and [Form 13SF](#) immediately; however, use of the revised coding system will not be required until **June 1, 2008**. Sellers may begin using the revised [Form 1077](#) immediately; however, use of the revised [Form 1077](#) will not be required until **October 17, 2008**.

### New special characteristics codes exhibit added to Form 11 and Form 13SF

To help Sellers find and deliver the appropriate SCCs for the Mortgages they sell to us, we are introducing a new SCC exhibit in [Form 11](#) and [Form 13SF](#). The new Exhibit A, Special Characteristics Codes, organizes SCCs numerically and by topic (e.g., standard SCCs, affordable housing initiatives, refinance Mortgages), which will enable Sellers to find SCCs more quickly and easily.

As part of this change, we are relocating the list of SCCs in the forms to the new exhibit.

## Monthly Housing Expense and Monthly Debt Payment fields on Form 11 and Form 13SF

We are adding guidance regarding completion of the Monthly Housing Expense and Monthly Debt Payment fields on [Form 11](#) and [Form 13SF](#). We are specifying that Sellers should deliver the monthly housing expense calculated using the Mortgage payment the Borrower is making at the time the loan is delivered to Freddie Mac, and should deliver the monthly debt payment calculated using the monthly housing expense determined using that Mortgage payment.

[Sections 17.20, 17.41 and 37.15](#), and [Form 11](#) and [Form 13SF](#) are being updated to reflect this guidance.

## SERVICING CHANGES

### Counsel eligibility

We are making changes to our eligibility criteria for foreclosure and bankruptcy counsel. We are also announcing a requirement that Servicers diversify their foreclosure/bankruptcy counsel or trustees in higher-volume States and a related requirement that all Servicers develop a contingency plan for redirecting foreclosure/bankruptcy referrals.

#### *Eligibility criteria*

We are expanding our eligibility criteria for foreclosure and bankruptcy counsel to require that a Servicer consider a law firm's reputation as well as whether the firm or its attorneys, principals or managers are, or have been, subject to disciplinary action, court-imposed sanctions, or other legal action related to single-family loan level foreclosure, bankruptcy, eviction, or property closing activities.

[Section 53.1.1](#) is being revised to reflect this change.

#### *Bankruptcy counsel*

We are revising [Section 67.15](#) to provide additional guidance for the selection of bankruptcy counsel.

#### *Diversification of foreclosure/bankruptcy counsel or trustee*

In an effort to mitigate operational risks to both Servicers and Freddie Mac, we are taking steps to ensure that both Servicers and Freddie Mac will be better situated should a law firm or trustee no longer be able to accept referrals.

Therefore, effective **June 1, 2008**, we will require that Servicers retain more than one law firm or trustee in any State in which they have 250 or more Freddie Mac foreclosure and bankruptcy referrals in a calendar year. Servicers may accomplish counsel diversification in these higher-volume States by either:

- Retaining two or more firms for Freddie Mac foreclosure and bankruptcy referrals, or
- Retaining at least two firms with respect to foreclosure and bankruptcy referrals for their entire servicing portfolio.

[Sections 66.15](#) and [67.15](#) are being updated to reflect this change.

#### *Contingency plan*

In a further effort to mitigate operational risks, all Servicers will be required to develop a contingency plan for redirecting new foreclosures and bankruptcy referrals in the event a law firm or trustee with whom they presently conduct business is unable to accept new referrals.

[Sections 66.15](#) and [67.15](#) are being updated to reflect this change.

## **Mortgagee's responsibilities regarding property insurance**

The Guide requires Servicers to ensure that property insurance coverage is maintained on properties that are distressed, abandoned or the subject of foreclosure proceedings. With this Bulletin, we are reinforcing that, in order for such coverage to be "maintained" under the standard mortgage clause (required in the Guide and the security instrument) in property insurance policies, the Servicer must take all actions required in the mortgage clause. These actions include, but are not limited to, providing all notices to the property insurer as required under the policy of certain actions affecting the insured property. Servicers should already be familiar with such conditions in the standard mortgage clause.

[Sections 66.34](#), [67.27](#), [67.28](#) and [70.16](#) are being revised to reinforce this requirement.

## **Converting Form 59 and Form 59E into interactive spreadsheets**

In response to Servicer requests, we are converting [Form 59, Custodial Account P&I Reconciliation Worksheet](#), and [Form 59E, Escrow Custodial Account Reconciliation Worksheet](#), into interactive Microsoft Excel spreadsheets. This reformatting will simplify completion of the forms with built-in calculations, which will also ensure accuracy. In addition, we are adding worksheets with supporting logs to each form. These logs are tools to assist you in identifying the current cycle and cumulative variances.

[Sections 79.18](#) and [79.21](#) are being updated to reflect that Servicers may use either the on-line spreadsheets or a copy of the forms to perform the reconciliations.

## **Two new expense codes in Exhibit 74**

We are updating [Exhibit 74, Expense and Income Codes to 104SE](#), to reflect two new expense codes, which will make it easier for Servicers to request reimbursement for certain expense items that may be incurred during the foreclosure process.

### *Trustee/Attorney Fees – Torrens Act (MN only)*

New expense code 010002, Trustee/Attorney Fees – Torrens Act (MN only), has been added to facilitate reimbursement requests for legal fees associated with the transfer of title on properties titled under the Torrens system.

Properties that are titled under the Torrens system have an additional attorney expense associated with the perfection of title. To eliminate most Servicer requests for prior approval for this expense and facilitate faster processing of the foreclosure deed transfer into our name, we are creating this new expense code for an allowable trustee/attorney fee up to a \$500 limit. At this time, this expense code is effective for properties in Minnesota only, as we have seen a substantial increase in the volume of properties titled under the Torrens system in this State.

### *Pest Removal*

New expense code 093003, Pest Removal, has been added to make it easier for Servicers to request reimbursement for pest extermination. Servicers must request prior approval for this expense.

## **Expansion of designated counsel/trustee program in New Jersey and California**

Over the past several months, we have continued to expand our designated counsel/trustee program.

With this Bulletin, we are announcing that, as part of our expansion of the designated counsel program, we are adding two new designated counsel firms in New Jersey: Powers Kirn, L.L.C. and Phelan, Hallinan, Schmieg & Diamond, P.C. These new firms will begin accepting new program referrals on **May 1, 2008**.

We are also reminding Servicers that on March 18, 2008, we announced via e-mail that we have added Routh Crabtree Olsen, P.S., as a designated trustee in California. This new designated trustee began accepting new program referrals on **April 1, 2008**.

Contact information for the new designated trustee in California and the new designated counsel firms in New Jersey have been added to the designated counsel/trustee list on FreddieMac.com, which is available at [http://www.freddiemac.com/service/msp/desig\\_counsel.html](http://www.freddiemac.com/service/msp/desig_counsel.html).

## **Adding notification methods for Balloon/Reset Mortgage notices**

[Section 83.25](#) is being updated to include e-mail and fax transmissions as additional notification methods Freddie Mac may utilize for issuing Balloon/Reset Mortgage notices to Servicers that are not licensed holders of MIDANET for the PC.

## **Updating contact information**

### *Submitting Form 104SF*

We are updating [Form 104SF, Statement of Loan, Workout and REO Expenses and Income](#), to revise the mailing addresses for submission of [Form 104SF](#) and any supporting documentation that may be required.

### *Directories 3 and 5*

We are updating various department names, e-mail addresses and fax numbers in [Directories 3](#) and [5](#). In [Directory 5](#) we have updated contact information related to requests for pre-approval of the payment of liens, emergency property preservation expenses and the initiation of a judicial foreclosure to preserve our right to pursue a deficiency judgment.

We are also updating [Directory 5](#) to reflect that when the application of credits on your [Form 104SF](#) results in a balance due to us, you must send the check payable to “Federal Home Loan Mortgage Corporation,” along with [Form 104SF](#) and related documentation, directly to J.P. Morgan Chase.

### *Title insurance*

Contact information for Lawyers Title Insurance Corporation is being updated on [Exhibit 85](#).