

Bulletin

NUMBER: 2011-1

TO: Freddie Mac Servicers

January 14, 2011

INTRODUCTION

As discussed at our 2010 Servicing Conference, and highlighted in several articles on our *Single-Family News Center* during 2010, Freddie Mac continues to work on finalizing and implementing Servicing technology improvements that strengthen the Servicing of Freddie Mac-owned Mortgages. A primary focus of our Servicing technology strategy in the coming year is full implementation of the new Freddie Mac Service Loans application and the Freddie Mac Reimbursement System.

SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are:

- Introducing the Freddie Mac Service Loans application, an easy to navigate web-based interface that will enable Servicers to more easily and efficiently service Freddie Mac-owned Mortgages. Once the application is fully implemented by all Servicers, we will completely retire MIDANET® for the PC (“MIDANET”) for Servicing functions.
- Incorporating into the Guide the requirements for using the new Reimbursement System, which were previously announced in Bulletin 2010-10. As part of this update, we are:
 - Replacing former Guide Chapter 71, *Reimbursement of Expenses*, with the requirements for requesting reimbursement through the new Reimbursement System. In addition, we are moving the requirements of former Chapter 71 regarding the Online Reimbursement System to new Chapter A71, *Reimbursement of Expenses – Online Reimbursement System*, which will eventually be retired from the Guide.
 - Introducing new Guide forms and exhibits related to the use of the Reimbursement System
 - Changing some expense reimbursement processes and requirements
 - Providing additional guidance regarding certain expense reimbursement requirements

We are also making the following additional changes to our Servicing requirements:

- Updating the Guide to extend protections for service members originally provided under the Housing and Economic Recovery Act (HERA) amendment of the Servicemember’s Civil Relief Act (SCRA)
- Updating Guide Section 59.1, *Escrow for Taxes, Ground Rents, Assessments and Other Charges*, to provide additional guidance with respect to the collection of Escrow and the payment of tax liens
- Revising a financial rating agency institution name in Section 77.10, *Insured Depository Tier Ratings*
- Updating Guide Exhibit 79, *Designated Counsel/Trustee*, to include the addition of the 11 new designated counsel for the State of Florida, which we announced on December 17, 2010 in a *Single-Family News Center* article.
- Updating Guide Directories 5 and 6

SERVICE LOANS APPLICATION

With this Bulletin, we are announcing the implementation of the Service Loans application that will serve as the primary gateway into Freddie Mac for investor, including default, reporting functions.

This new web-based application offers a more intuitive Servicing technology with:

- An easy to navigate web interface that no longer requires use of a modem for connectivity
- Easy access to the application and data from the convenience of any desktop
- A user-friendly interface and drop-down menus to facilitate data entry and reduce redundancy

Effective date

Servicers will be migrated to the Service Loans application in a phased approach beginning in **April 2011**. We expect the final migration of all Servicers from MIDANET to the Service Loans application to be completed by **September 30, 2011**. See *Adoption Plan* later in this Bulletin for more information on our transition plans.

Functionality and benefits

In the Service Loans application, drop-down menus make data entry easier to allow Servicers to report:

- Monthly loan-level exception (e.g., payoff, third party foreclosure sales, etc.) and non-exception (e.g., principal and interest payments, etc.) activity – Servicers will report the same activity currently being reported through MIDANET
- Default reporting activity – Servicers will report the same Electronic Default Reporting (EDR) activity currently being reported through MIDANET
- Foreclosure sale/deed-in-lieu activity

Using the Service Loans application, Servicers also have the ability to:

- Customize the import file mapping
- View or browse activity on existing Mortgages
- Process Subsequent Transfer of Servicing requests
- Export data
- Obtain confirmations and notifications
- Access other Freddie Mac Technology tools, such as Investor Accounting ManagerSM (IAM), Default Reporting ManagerSM (DRM), and Servicer Performance Profiles through links provided in the application

Adoption plan

To ensure a smooth transition, Freddie Mac is using a phased approach to bring Servicers onto the Service Loans application. Migration will begin in **April 2011**, and Freddie Mac will contact Servicers 45-60 days in advance of their scheduled migration date to provide information on the transition process. As previously mentioned, we expect to complete the final migration of all Servicers from MIDANET to the Service Loans application by **September 30, 2011**.

Servicers that utilize subservicers for reporting must ensure that subservicers convert to the Service Loans application in accordance with the Servicer's scheduled migration date. Freddie Mac will provide necessary support to Servicers to assist them with the conversion of their subservicers to the new application.

Application requirements

Following are the minimum recommended browser and settings configuration when using the Service Loans application:

Configuration Details	Minimum Configuration	Recommended
System Configuration	Pentium III [®] 450MHz, AMD Athlon [™] 600MHz	Pentium III 450MHz, AMD Athlon 600MHz and above
Operating System	Microsoft Windows [®] XP	Microsoft Windows XP SP3
System Memory	1 GB	2 GB
Browser	Microsoft Internet Explorer [®] 6, Firefox [®] 3.0	Microsoft Internet Explorer 6 or 7, Firefox 3.5
Flash Player	Adobe [®] Flash [®] Player 10	Adobe Flash Player 10
Screen Resolution	1024 x 768	1024 x 768

User role assignments

Freddie Mac will e-mail Servicers information about their scheduled migration. The e-mail will include a link to our Service Loans application resource area on FreddieMac.com where Servicers can download a Service Loans Application User ID and Roles Form (“Form”) and review other resources about the migration process. Each Servicer must complete the Form and assign employees to the specified user roles (authorized tasks), below.

User roles are identified as follows:

Role	Activity
Loan Activity Analyst	Enter and submit performing, single loan activity (Loan Level/Investor Reporting)
Default Loan Activity Analyst	Enter and submit default loan activity (Electronic Default Reporting)
Foreclosure/Deed-in-Lieu Analyst	Enter and submit foreclosure sales results or deed-in-lieu activity (Foreclosure Sale/DIL reporting)
Portfolio Transfer Analyst	Manage portfolio transfer requests/Transfer of Servicing (Subsequent Transfer of Servicing/981)
Map Bulk File Analyst	Map bulk file (Import and create custom file)
Import Bulk File Analyst	Import bulk file (Import performing or EDR activity)
Customer Administrator	Submit requests to add, delete, or modify users Submit requests for role(s) assignments

Available resources

Freddie Mac will provide Servicers with details on training, fact sheets, the Service Loans User Guide, and other resources, including information about testing import mapping and exploring the application functionality in a customer test environment prior to migration. Look for more information in upcoming communications.

Servicers may also call (800) FREDDIE with questions.

Guide changes

In a future Guide Bulletin, we will update the Guide with requirements for using the Service Loans application, including requirements relating to terms and conditions for use.

REIMBURSEMENT SYSTEM

Effective date

Chapter 71 is effective **immediately** for all Servicers currently using the Reimbursement System. However, for Servicers who are in the process of transitioning to the Reimbursement System, the chapter will be effective as of the date they first access the Reimbursement System. The Online Reimbursement System will be retired on **March 31, 2011**.

Transitioning to the new Reimbursement System

In Bulletin 2010-10, we announced that the new Reimbursement System is replacing the Online Reimbursement System. We continue to work with Servicers who currently use the Online Reimbursement System to transition them to the new Reimbursement System. During the transition process, Freddie Mac is working with each Servicer to help train its staff and to complete all outstanding claims being processed in the Online Reimbursement System prior to the Servicer's transition to the new system.

We are scheduling the final migration of Servicers from the Online Reimbursement System to the new Reimbursement System in January and February of 2011.

Once Servicers are transitioned to the Reimbursement System, they may no longer submit requests for reimbursement through the Online Reimbursement System.

Chapters 71 and A71

Requirements for requesting reimbursement through the new Reimbursement System have been incorporated into Chapter 71, which has been rewritten in its entirety. Servicers using the new Reimbursement System must comply with the provisions of this chapter.

Requirements for requesting reimbursement through the Online Reimbursement System have been moved to new Chapter A71, which is applicable only to Servicers awaiting transition to the new Reimbursement System. This chapter will be retired from the Guide at a later date.

Forms and exhibits

We have created the following new forms and exhibits related to the use of the Reimbursement System:

- Exhibit 91, *Reimbursement System User Agreement – Servicer*. This User Agreement supersedes any other Reimbursement System terms of use document signed by the Servicer. Servicers using the Reimbursement System are deemed to be bound by all of the provisions of the *Reimbursement System User Agreement – Servicer*, set forth as Exhibit 91, to the same degree as if they had signed such agreement as a “User.”
- Exhibit 92, *Reimbursement System User Agreement – Permitted Vendor*
- Guide Form 1200, *Reimbursement System User Setup Form*

We are retiring the following forms and exhibit when we retire the Online Reimbursement System:

- Paper Form 104SF, *Statement of Loan, Workout and REO Expenses and Income*, and paper Form 104DC, *Designated Counsel/Trustee*, will be retired because all Servicers will now be able to submit all expense reimbursement requests via the Reimbursement System
- Exhibit 75, *Adjustment Codes for Forms 104SF and 104DC*, will be retired because all Servicers will be informed of errors by accessing the Reimbursement System

Processes and requirements

Several reimbursement processes and requirements are changing as a result of a Servicer's implementation of the new Reimbursement System, including the following:

- Servicers must authorize an employee to be the system administrator who will govern access to the Reimbursement System by obtaining the signature of a vice president or more senior officer on new Form 1200. The system administrator must create user IDs and passwords, as applicable, to permit secure access to the new Reimbursement System by authorized users. Freddie Mac will provide further details about the completion of this new form during the transition process.
- Servicers must submit requests for reimbursement of expenses associated with modifications under the Home Affordable Modification Program (HAMP) via the Reimbursement System rather than the Spreadsheet for HAMP Reimbursement. Servicers either may have the option of manually inputting HAMP expenses into the Reimbursement System or may submit a batch file for processing in the Reimbursement System. Information on the Billing Batch Upload functionality is available in the Reimbursement System User Guide.
- The Customer Expense Payment Advice enclosed with a Servicer's reimbursement check will continue to include the Freddie Mac and Servicer loan numbers, as well as the amount reimbursed but will no longer include such details as dollar amount requested or error received. Instead, the details of all requested expense reimbursements will be available in the Reimbursement System as soon as the request is processed.
- Servicers will no longer need to access a separate system (i.e., Expense Manager) to determine the status of reimbursement requests. The Reimbursement System will include a reimbursement history from the prior two years, including reimbursements that were processed through the retired Online Reimbursement System.
- Requests to exceed our expense limits will no longer be submitted via e-mail, but will be submitted directly through the Reimbursement System's request for pre-approval (RPA) functionality
- Servicers will be informed of an expense reimbursement audit via the Reimbursement System. We have updated the Guide with the list of standard expense reimbursement documentation that Servicers must provide for an audit; this list also will be provided in the audit request notification. We will require the Servicer to provide audit documentation to us no later than seven Business Days after the date of the request or the Servicer may be denied reimbursement for the entire claim.

Access to Reimbursement System by Permitted Vendors

Servicers are permitted to grant access to the Reimbursement System to property preservation vendors, referred to as "Permitted Vendors" solely for the purpose of the Permitted Vendors requesting pre-approvals (RPAs) to exceed Freddie Mac's expense limits listed in Exhibit 57, *1- to 4- Unit Property Approved Expense Amounts*. Servicers must obtain an original signed Exhibit 92 from each Permitted Vendor, and must ensure that Permitted Vendors comply with the provisions of Exhibit 92. Chapter 71 of the Guide has been updated to include the requirements that Servicers must follow relating to Permitted Vendors.

Additional guidance applicable to Chapters 71 and A71

Chapters 71 and A71 have been updated to include the following:

- Freddie Mac reserves the right to require the Servicer to obtain competitive bids from multiple vendors for property preservation work
- Freddie Mac does not reimburse the Servicer for expenses incurred on Mortgages subject to full recourse or indemnification
- Expenses incurred on a Mortgage after the Mortgage has been repurchased by the Servicer are not eligible for reimbursement. However, if the Mortgage repurchase is pending, the Servicer must submit a request for reimbursement of expenses.

- The cost of credit reports for rejected workouts are considered a Servicer's cost of doing business and, therefore, Freddie Mac has removed this item from the list of reimbursable expenses in Chapters 71 and A71, and Section B65.58, *Reimbursement of Expenses for Rejected Workouts*.
- Servicers must now contact and obtain Freddie Mac's written approval before paying the taxing authority when federal, State, or local income tax liens would take priority over Freddie Mac's First Lien, as specified in Chapter 59, *Escrow and Prepayments*.

OTHER SERVICING CHANGES

Protections for service members

Effective January 1, 2011

In Bulletin 2010-32, Freddie Mac announced that we were extending the expiration date of the stay of foreclosure protections for service members under the HERA amendment to the SCRA from December 31, 2010 through December 31, 2011. The HERA amendment temporarily extended the stay of foreclosure proceedings from 90 days to a period of nine months after the service member's release from active duty. Subsequent to our announcement, Congress enacted the "Helping Heroes Keep Their Homes Act of 2010," which extended the expiration date of the HERA protection for service members to **December 31, 2012**. Therefore, with this Bulletin, Freddie Mac is updating the Guide to reflect the extension of this protection through **December 31, 2012**.

Servicers must not initiate or resume foreclosure for at least nine months after a service member is released from active duty, when the service member is released from active duty on or before December 31, 2012.

Collection of Escrow

Effective immediately

Section 59.1 has been updated to provide that the amount of Escrow a Servicer collects may include any "cushion" permitted by applicable law. In addition, we updated this section to state that a Servicer must discontinue collecting Escrow if required to do so by applicable law.

Financial rating agency name change

Effective immediately

We have revised the name of LACE Financial Corporation in Section 77.10 to reflect its acquisition by Kroll Bond Rating Agency, Inc. The requirements in this section remain the same.

Expansion of designated counsel/trustee program in Florida

As announced previously in the **December 17, 2010** *Single Family News Center* posting, Freddie Mac has added 11 new firms to our Designated Counsel Program in Florida. Servicers will receive Designated Counsel credit towards their foreclosure time line performance for any new foreclosure referrals to these new Designated Counsel on or after December 1, 2010.

Exhibit 79, available at http://www.freddiemac.com/service/msp/desig_counsel.html, has been updated to reflect these changes.

Guide Directory 5 and 6 changes

Directory 5 has been updated to remove a number of references rendered obsolete by the Reimbursement System process. Directory 6 has been updated to provide new contact information.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 54, 59, A65, B65, C65, D65, 66, 67, 70, 71, A71, 77, 78, and 82
- Form 1200
- Exhibits 57, 57A, 74, 75, 88, 91, and 92
- Directories 5 and 6

CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE and select Servicing.

Sincerely,

A handwritten signature in cursive script that reads "Tracy Hagen Mooney".

Tracy Mooney
Senior Vice President
Servicer Relationship & Performance Management