

Bulletin

NUMBER: 2011-9

TO: Freddie Mac Servicers

May 17, 2011

SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are making the following changes to our **Servicing requirements**:

- Eliminating our requirement that the standard mortgage clause in property insurance policies provide for notice to the mortgagee of any reduction in coverage
- Requiring that all Servicers use the District of Columbia and West Virginia designated counsel for all foreclosure and bankruptcy referrals on Mortgages secured by 2- to 4-unit properties and Manufactured Homes located in those States

We are also clarifying the following requirements related to:

- Short payoff remittances
- The use of data related to Mortgages owned or guaranteed by Freddie Mac

Additionally, we are reminding Servicers that, as part of their Servicing responsibilities under the Guide, they must stay abreast of changes to, and comply with, all applicable laws.

Finally, we are updating the following:

- Guide Form 981, *Agreement for Subsequent Transfer of Servicing of Single-Family Mortgages* and Guide Section 56.3, *Submitting Requests for Transfers of Servicing*, and Section 56.6, *Reporting to Freddie Mac*
- Guide Form 1128, *Loss Mitigation Transmittal Worksheet*
- Directory 5

EFFECTIVE DATES

All of the changes announced in this Bulletin are effective immediately, except:

June 1, 2011 – Use of designated counsel is mandatory for new foreclosure and bankruptcy referrals initiated on and after this date on Mortgages secured by 2- to 4-unit properties and Manufactured Homes located in the District of Columbia and West Virginia.

MORTGAGE CLAUSE NOTICE

Currently, all property insurance policies documenting insurance coverage(s) obtained in accordance with Freddie Mac's requirements for 1- to 4-unit properties must have the insurance industry's standard mortgage clause. Freddie Mac requires that such clause provide that the insurer will notify the named mortgagee at least 10 days before any reduction in coverage or cancellation of the policy. Effective immediately, we will only require notice of cancellation.

Sections 58.6, *Mortgage Clause*, and 58.7, *Evidence of Insurance*, have been revised to reflect this change.

DESIGNATED COUNSEL FOR DISTRICT OF COLUMBIA AND WEST VIRGINIA

As announced in the March 24, 2011 Single Family Advisory e-mail, we have expanded our Designated Counsel Program to include the District of Columbia and West Virginia.

All Servicers must use the District of Columbia and West Virginia designated counsel for new foreclosure and bankruptcy referrals initiated on or after **June 1, 2011**, on Mortgages secured by 2- to 4-unit properties and Manufactured Homes. Although the requirement goes into effect on June 1, 2011, Servicers may refer new foreclosures and bankruptcies to our District of Columbia and West Virginia designated counsel immediately.

We have revised Sections 66.15, *How to Select Foreclosure Counsel or Trustee*, and 67.15, *Selecting Bankruptcy Counsel*, and Exhibit 57A, *Approved Attorney Fees and Title Expenses*, to reflect this change. Exhibit 79, *Designated Counsel/Trustee*, was updated on March 24, 2011 when we announced the expansion of the Designated Counsel Program.

SHORT PAYOFF REMITTANCE REQUIREMENTS

We are updating Sections B65.41, *Closing, Reporting and Remittance Requirements*, and 78.17, *Short Payoff*, to clarify that Servicers must remit the net proceeds for short payoffs as listed on the HUD-1 Settlement Statement. These proceeds may include cash contributions and the mortgage insurance claim payment if funded at settlement. For any Mortgage in which Freddie Mac has a Percentage of Participation, the remittance must equal Freddie Mac's Percentage of Participation applied to the net proceeds as listed on the HUD-1 Settlement Statement. Servicers may not remit gross proceeds.

In addition, we have updated Sections 78.17 and 78.19, *Charge Off*, to reflect our revised charge-off reconciliation process as announced in Bulletin 2011-5. The revised sections direct Servicers to review the Detail Adjustment Report (DAR) with respect to charge-offs and report any discrepancies to Freddie Mac by submitting Form 1205, *Charge-off Reconciliation*, within 30 calendar days following Freddie Mac's posting of the amount to the DAR. The DAR may be accessed through Investor Accounting ManagerSM at <http://www.freddie.com/singlefamily/service/tools.html>.

MORTGAGE DATA OWNERSHIP AND USAGE

Servicers are reminded that all documents in the Mortgage file (including any data in the file) are the property of Freddie Mac. All of the records and Mortgage data in the possession of the Servicer are retained by the Servicer in a custodial capacity only.

With this Bulletin, Freddie Mac is clarifying that, except as expressly authorized by Freddie Mac in writing, Servicers may not use or disclose, or authorize or permit third parties to use or disclose, the records or Mortgage data for any other purpose than those listed in Section 52.5, *The Mortgage File, Mortgage Data and Related Records*.

Section 52.5 has been updated to reflect these requirements.

Servicers should also review Section 53.3, *Confidential Information; Privacy; Conflicts of Interest, Misuse of Material Information; Security of Information* for information regarding confidentiality.

SERVICING IN ACCORDANCE WITH APPLICABLE LAW

Servicers are reminded that they must comply with all applicable federal, State and local laws, ordinances, regulations and orders as described in Section 53.8, *Compliance with Applicable Law*. Various states have recently enacted laws affecting loss mitigation activities including, but not limited to, Cal. Code Civ. Proc. § 580e, restricting the ability of a first lien mortgage holder to request contributions in connection with the approval of short payoffs conducted in that state. Servicers must remain informed as new laws come into effect and adjust their Servicing activities accordingly.

GUIDE UPDATES

Form 981, Agreement for Subsequent Transfer of Servicing of Single-Family Mortgages and Section 56.3, Submitting Requests for Transfers of Servicing, and Section 56.6, Reporting to Freddie Mac

In Bulletin 2011-1, Freddie Mac introduced the Freddie Mac Service Loans application, a web-based interface that will enable Servicers to more easily and efficiently service Freddie Mac-owned Mortgages. In April 2011, Freddie Mac began migrating Servicers to Service Loans.

We have updated Sections 56.3 and 56.6 and Form 981 to delete all references to MIDANET[®] and to reflect Servicers' use of the Service Loans application to process Subsequent Transfers of Servicing.

Effective immediately, Servicers requesting approval of a Subsequent Transfer of Servicing must use the revised Form 981 whether using MIDANET or the Service Loans application.

We have also updated Chapter 56, *Transfers of Servicing*, with the Glossary terms of "Transferee Servicer" and "Transferor Servicer," where appropriate.

Form 1128, Loss Mitigation Transmittal Worksheet

The instructions for completing Form 1128 have been updated to address interest calculations for adjustable-rate Mortgages and principal payments posted to the Borrower's account during the delinquency period. We also have provided examples for calculating interest, and added language to clarify that data entry for line 4 ("Escrow Payment") is optional for settlement purposes.

Directory 5

We have revised Directory 5 to reflect updated contact information. Chapters 66, *Foreclosure*, and 67, *Adverse Matters*, also have been revised to reflect the updated Directory references.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 52, 56, 58, B65, 66, 67 and 78
- Forms 981 and 1128
- Exhibits 57A and 79
- Directory 5

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,



Tracy Mooney
Senior Vice President
Servicer Relationship & Performance Management