

Bulletin

NUMBER: 2011-13

TO: Freddie Mac Servicers

July 25, 2011

SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are pleased to announce the requirements for our new Freddie Mac Servicing Success Program, which redefines our expectations of quality and responsible Servicing. The program includes the Freddie Mac Servicer Success Scorecard and the Freddie Mac Servicer Success File Reviews, which work in tandem to strengthen Servicing performance across key focus areas.

As a result of implementing this new performance program and associated criteria, the Servicer Performance Profile tier ratings will be retired, as communicated in our March 2, 2011 Single-Family Advisory e-mail, and the May 18 Single-Family News Center article.

Other changes

In this Bulletin, we are also announcing:

- The elimination of all tier-based fee and penalty reductions and waivers
- Future enhancements to the Servicing Success Program
- Additional guidance on submitting a proxy credit score when performing the Treasury Net Present Value (NPV) Model evaluation under the Home Affordable Modification Program (HAMP) where no Borrower has an available credit score
- Updates to the Home Affordable Modification Agreement authorized changes in Guide Exhibit 5, *Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application*
- Changes to Exhibit 57A, *Approved Attorney Fees and Title Expenses*
- Updates to Directory 6

Finally, we are also updating the Guide to instruct Servicers of Mortgages reported through the Freddie Mac Alternative Collateral Deal (ACD) system and Mortgages subject to Long-Term Standby Commitments (collectively, “Alternative Collateral Mortgages”) that, at this time, and until further notice, the Servicing Alignment Initiative requirements announced in Bulletin 2011-11 do not apply to such Mortgages.

EFFECTIVE DATES

All of the changes announced in this Bulletin are effective **August 1, 2011**, unless otherwise noted.

SERVICER SUCCESS SCORECARD

Servicers will be held accountable to the requirements for performance announced in this Bulletin beginning **August 1, 2011**. A Servicer's August performance results will be visible on the Servicer Performance Profile web site on **October 7, 2011**. The July Servicer Performance Profile report will be the last report to provide tier ratings, and will be published on September 8, 2011.

Overview

In 1996, Freddie Mac introduced the Servicer Performance Profile to define our expectations regarding Servicer performance. The Servicer Performance Profile provided an effective way to measure performance and align performance results with our mutual goal of quality Servicing. However, as Servicing volumes increased and Servicing became more complex, we found that we needed to redefine our expectations of quality and responsible Servicing. The Servicer Success Scorecard builds on our years of experience in measuring Servicing performance and includes criteria to better measure Servicer performance in the current Servicing environment.

While the Servicer Performance Profile tier ratings are being retired, the loan-level detail reports, and other data that Servicers access daily to assist with understanding and managing their Freddie Mac portfolios, will continue to be available at <http://www.freddiemac.com/singlefamily/service/tools.html>.

Performance requirements and monitoring

Effective **August 1, 2011**, Freddie Mac will regularly monitor each Servicer's performance against the criteria in the Servicer Success Scorecard. A Servicer's performance criteria and performance results are published monthly in a Servicer Success Scorecard at <http://www.freddiemac.com/singlefamily/service/tools.html>.

The Servicer Success Scorecard is a confidential monthly performance review for all Servicers which measures a Servicer's performance based on key criteria in two categories, investor reporting and remitting, and default management. Certain Servicers received their Servicer Success Scorecards earlier in the year with individual performance requirements, together with negotiated terms of business, and such Servicers may not be included in the rankings described below.

Each Servicer Success Scorecard is considered to be "confidential information" for purposes of Guide Sections 2.16, and 53.14, both titled *Receipt and Treatment of Confidential Information*.

The Servicer Success Scorecard provides a Servicer with a ranking compared to other ranked Servicers in the following categories (see the "Rankings" section below in this Bulletin for additional information):

- Investor reporting and remitting
- Default management

A Servicer will receive a rank in the default management category only if it is Servicing a minimum number of Mortgages that are 90 or more days delinquent.

For each category, a Servicer will be presumed to have an unacceptable Servicer Success Scorecard result if the Servicer's ranking is in the bottom 25% of ranked Servicers. For such Servicer, and other Servicers identified by Freddie Mac, Freddie Mac will consider the Servicer Success Scorecard results along with other factors, including, but not limited to, portfolio composition, concentration of high-risk Mortgages, trends in performance, adequacy of staffing, audit results, and/or compliance with the Purchase Documents before making a final assessment of the Servicer's overall performance and determining an appropriate remedy, if applicable.

Rankings

Servicers earn points based on their performance in each measurement criteria in investor reporting and remitting, as well as default management. Servicers can earn a maximum number of points for each measurement criterion equal to the weight Freddie Mac has applied to each criterion.

For example, cash management is worth a maximum total of 45 points, which includes:

- Shortage Percentage (30 points)
- Custodial Account Review (15 points)

A Servicer is given a rank for each measurement criterion, which is derived from ranking the Servicer's performance for that criterion against other Servicers' performance. To derive the overall rank for investor reporting and remitting, or default management, the points are added among all measurement criteria, and those total points are ranked against other Servicers' total points.

The performance criteria, weightings, and rankings for each Servicer are published monthly in the Servicer Success Scorecard at <http://www.freddiemac.com/singlefamily/service/tools.html>

Default management criteria

The following default management criteria, announced to Servicers in the March 2, 2011 Single-Family Advisory e-mail, are effective on **August 1, 2011**:

- The **Early Collections Roll Rate** criterion is the difference between the Servicer's share of its 30-day delinquent Mortgage population that transitions to a further state of Delinquency in the next month, over a rolling three-month time period and the Servicers normalized benchmark share that transitions to a further state of Delinquency over the same time period. (Normalization creates a synthetic portfolio that matches the composition of the target Servicer, based on key Mortgage characteristics.) HAMP Trial Period Plans are excluded. This criterion is weighted at 10%.
- The **Late Collections Roll Rate** criterion is the share of Mortgages 90 or more days delinquent that transition to a further state of Delinquency in the next month, over a rolling three-month time period. HAMP Trial Period Plans and Mortgages in foreclosure are excluded. This criterion is weighted at 20%.
- The **Workout Ratio** criterion is the ratio of workouts on Mortgages that are 60 or more days delinquent (i.e., non-HAMP and HAMP official/Trial Period Plan, short sale, deed-in-lieu or repayment plan) completed in a given month, to the 60 or more days delinquent Mortgage inventory from the prior month, over a rolling three-month time period. This criterion is weighted at 30%.
- The **Seriously Delinquent Mortgages Past Foreclosure Referral Standard** criterion is the percentage of Mortgages in a Servicer's portfolio that are 90 or more days delinquent with no delays that have exceeded the foreclosure referral standard identified in the Guide over a rolling three-month time period. This criterion is weighted at 10%.
- The **Seriously Delinquent or Foreclosure Mortgage Inventory Past Standard** criterion measures, for Mortgages in a Servicer's portfolio that are over standard, how far over standard those Mortgages are on average, over a rolling three-month time period. This criterion is weighted at 10%.

The default management category will be composed of the five new criteria listed above, and the following four current and unchanged data integrity criteria:

- Initial Electronic Default Reporting (EDR) Edits, weighted at 5%
- Sixth Business Day EDR Edits, weighted at 5%
- Accuracy of Due Date of Last Paid Installment (DDLPI) Reporting, weighted at 5%
- Average Number of Days to Report Foreclosure Sales, weighted at 5%

Investor reporting and remitting criteria

At this time, the criteria for investor reporting and remitting will remain the same. These criteria and weights are as follows:

- Cash management
 - Shortage Percentage (rolling three-month time period), weighted at 30%

- ❑ Custodial Account Review Score, weighted at 15%
- Data integrity management
 - ❑ Percentage of Aged Applied Transactions in Error Greater than 60 Days (rolling three-month time period), weighted at 15%
- Operational management
 - ❑ Percentage of Transactions in Error (rolling three-month time period), weighted at 25%
 - ❑ Average Days to Report Payoffs, weighted at 15%

Removal of Servicing restrictions for certain products

We are removing from the Guide the requirement that the following Mortgage products be serviced by Tier 1 and Tier 2 Servicers:

- Affordable Gold[®] 97 Mortgages
- Home Possible[®] Mortgages
- Texas Equity Section 50(a)(6) Mortgages
- A-minus Mortgages
- Freddie Mac 100 Mortgages
- Mortgages secured by Manufactured Homes

Provisions in negotiated terms of business that require a certain tier rating to service these Mortgage products are not applicable as of **August 1, 2011**.

SERVICER SUCCESS FILE REVIEWS

We are updating the Guide to include information about our new “Servicer Success File Reviews.” These reviews, which are a component of the Servicing Success Program, are an important tool to help identify issues that may be preventing a Servicer from achieving the highest quality Servicing.

We will contact a Servicer selected for a Servicer Success File Review with detailed written instructions on the documentation to be included in the file and the manner and required time frame for submission of the documentation to us.

The Servicer Success File Reviews will be a review of delinquent Mortgage files and will focus on, but will not be limited to: collections, loss mitigation processes, property preservation, foreclosure time line management and compliance with Freddie Mac’s requirements related to alternatives to foreclosure. Because the Servicer Success File Reviews will include a compliance review, they will replace Freddie Mac’s Second Level Review process. Servicer Success File Reviews are not intended to replace a Servicer’s internal quality control review of default management activities. We will provide detailed written results of the review to the Servicer and will work with the Servicer to identify strategies to improve their Servicing of Mortgages serviced for Freddie Mac. In the future, the Servicer Success Scorecard for certain Servicers will include the Servicer Success File Review results, and these results may be a factor in Freddie Mac’s assessment of the Servicer’s overall performance.

TIER-BASED FEE REDUCTIONS AND WAIVERS

Effective **August 1, 2011**, with the retirement of tier ratings, we are also eliminating any fee and penalty waivers and reductions provided to Tier One, Tier One Platinum and Tier One Gold Servicers, which include:

- For Tier One Servicers:
 - ❑ Waivers for Transfer of Servicing and database change fees
 - ❑ Waivers of penalties related to non-compliance with reporting requirements
 - ❑ Reduction of penalties for cash remittance non-compliance

- ❑ Waivers of fees for research and record reconstruction
- For Tier One Platinum Servicers:
 - ❑ EarlyIndicator[®] renewal fees or fees to acquire the tool
 - ❑ Fees for Freddie Mac training classes and events
- For Tier One Gold Servicers:
 - ❑ Fees for Freddie Mac training classes and events

FUTURE ENHANCEMENTS TO THE SERVICING SUCCESS PROGRAM

In upcoming Bulletins, we will announce the following:

- Freddie Mac Servicer Success Rewards and Remedies
- Integration of the components of the Servicing Alignment Initiative into the Servicing Success Program and the Servicer Success Scorecard
- Enhancements to the Servicer Performance Profile web site, which will include:
 - ❑ Refining how the portfolio rankings are determined to include portfolio characteristics of a specific Servicer
 - ❑ Providing additional tools to improve the loan-level detail reports and other data that Servicers access daily to assist with understanding and managing their Freddie Mac portfolios

PROXY CREDIT SCORE FOR HAMP NPV EVALUATIONS

In HAMP Supplemental Directive 11-02, *Making Home Affordable Program – Administrative Clarifications*, issued earlier this year, Treasury provided guidance to non-Government Sponsored Enterprise (GSE) servicers regarding the use of a proxy credit score when performing the Treasury NPV Model evaluation in cases where no borrower has an available credit score. With this Bulletin, we are updating Section C65.6, *Underwriting the Borrower*, to provide similar guidance to Freddie Mac Servicers.

Effective immediately, for HAMP-eligible Mortgages where no Borrower has an available credit score, the Servicer must use 557 as a proxy credit score when performing the Treasury NPV Model evaluation. Furthermore, if a Borrower has a credit score, but it is below 250, the Servicer should input 250 as the credit score into the Treasury NPV Model. Documentation of an unavailable credit score, or a credit score below 250, must be retained in the Mortgage file and provided to Freddie Mac upon request. The proxy credit score and the minimum credit score of 250 rules may not be used as an input into Imminent Default Indicator[®].

UPDATES TO EXHIBIT 5

We have updated Exhibit 5 to reflect revisions to the authorized changes for the Home Affordable Modification Agreement (Form 3157, dated 3/09 (Rev. 10/10)).

UPDATES TO EXHIBIT 57A

Effective with all new referrals to foreclosure on or after July 1, 2011

We recently completed a review of our allowable reimbursable expenses for attorney fees and title expenses. As a result of our review, we have increased the reimbursable attorney fees for bankruptcy. We also have increased the reimbursable attorney fees for foreclosure and deed-in-lieu of foreclosure and for title expense amounts in several States. The new attorney fees and title expense amounts are effective with all new referrals to foreclosure on or after **July 1, 2011**.

DIRECTORY 6

Effective immediately

We have made revisions to Directory 6 to reflect changes to contact information for certain matters related to 1- to 4-unit Real Estate Owned (REO) properties.

SERVICERS OF ALTERNATIVE COLLATERAL MORTGAGES

We have updated Guide Chapter 64, *Delinquencies*, to advise Servicers that service Alternative Collateral Mortgages that, at this time, the Servicing Alignment Initiative requirements announced in Bulletin 2011-11 do not apply to such Mortgages.

Until Freddie Mac notifies such Servicers in writing, the Servicers must continue to service Alternative Collateral Mortgages in accordance with their governing documents, existing delegations of authority and the Guide as it existed on June 29, 2011; provided, however, such Servicers must follow the requirements in the section of Bulletin 2011-11 titled "Hawaii Legislative Changes Affecting Non-Judicial Foreclosures."

Section 64.1, *Overview*, has been updated to reflect these instructions.

REMINDER – FREDDIE MAC SERVICE LOANS APPLICATION IS REPLACING MIDANET® FOR THE PC ("MIDANET")

As announced in Bulletin 2011-1, the Freddie Mac Service Loans application is replacing MIDANET for Mortgage Servicing activities. Beginning in April 2011, Servicers have migrated from MIDANET to Service Loans in a phased approach, which we expect to be completed by September 30, 2011. In a future Bulletin, references to MIDANET will be removed from Volume 2 of the Guide.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 5, 24, C33, E33, H33, L33, A34, 51, 52, 56, 64, 65, B65, C65, 66, 73, 76 and 78
- Form 981
- Exhibits 5, 57A and 88
- Glossary
- Directory 6

REFERENCE DOCUMENTS

At a future date, reference documents will be available on **The Learning Center** at www.freddiemac.com/learn to support the Servicer Success Scorecard changes announced in this Bulletin. We will notify you when these reference documents become available.

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 Hagen Mooney
Senior Vice President
Single-Family Servicing and REO