Bulletin

NUMBER: 2012-29

TO: Freddie Mac Servicers December 18, 2012

SUBJECT: SPECIAL SERVICING REQUIREMENTS RELATED TO HURRICANE SANDY

To ensure that Borrowers receive the Mortgage assistance they need to overcome the devastating effects of Hurricane Sandy, with this *Single-Family Seller/Servicer Guide* ("Guide") Bulletin, we are:

- Temporarily revising our property inspection requirements for properties located in eligible Disaster Areas as a result of Hurricane Sandy and providing additional reimbursement for the costs associated with those property inspections
- Providing instructions to Servicers regarding forbearance plans granted to Borrowers who are or were in approved or active Trial Period Plans and whose Mortgaged Premises or places of employment are located in an eligible Disaster Area as a result of Hurricane Sandy

For the purpose of this Bulletin, "an eligible Disaster Area" is an area comprised of counties or municipalities that have been declared by the President of the United States to be Major Disaster Areas where federal aid in the form of individual assistance is being made available. These areas are published by the Federal Emergency Management Agency (FEMA) on its web site at **http://www.fema.gov/disasters**. Servicers must continue to monitor the FEMA web site because new eligible Disaster Areas may continue to be identified as damage assessments and processing of requests for federal assistance are completed.

EFFECTIVE DATE

All of the changes announced in this Bulletin are effective immediately.

PROPERTY INSPECTIONS FOR PROPERTIES LOCATED IN AN ELIGIBLE DISASTER AREA AS A RESULT OF HURRICANE SANDY

Currently, Freddie Mac requires that Servicers perform monthly property inspections in accordance with Guide Section 65.33, *When to Order a Property Inspection*. Freddie Mac also requires that Servicers determine the extent of damage to or losses suffered by properties securing the Mortgages, as set forth in Section 68.4, *Property Protection Activities*.

With this Bulletin, Freddie Mac is temporarily revising its requirements related to the type of property inspections that must be completed for properties located in eligible Disaster Areas as a result of Hurricane Sandy and providing additional reimbursement for costs associated with certain property inspections.

Servicers must perform one interior disaster-related property inspection for delinquent Mortgages secured by Mortgaged Premises that: (i) are located in eligible Disaster Areas, and (ii) were identified as abandoned as of, or prior to the date of the area being declared an eligible Disaster Area. This interior property inspection will be a substitute for the next regularly scheduled monthly exterior property inspection required in Section 65.33. Freddie Mac will reimburse the Servicer up to $20 per property for the additional costs associated with completing these interior inspections.

For Mortgages secured by properties located in eligible Disaster Areas, which were reported as current in the most recent reporting cycle just prior to the area being declared an eligible Disaster Area, Freddie Mac will reimburse the Servicer up to $10 per property for one exterior property inspection related to the disaster.

While Freddie Mac is requiring Servicers to complete disaster-related property inspections as described in this Bulletin, the method for reimbursing Servicers has not yet been finalized. In a future Bulletin, Freddie Mac plans to provide further guidance on the process in which Servicers will receive reimbursement for these additional expenses.

FORBEARANCE PLANS FOR BORROWERS IN TRIAL PERIOD PLANS

In Bulletin 2012-26, we indicated that we would provide further guidance regarding how to evaluate a Borrower, whose Mortgaged Premises or place of employment is located in an eligible Disaster Area, for a new Trial Period Plan once the forbearance plan ends. This Bulletin provides guidance on how to handle the different scenarios Servicers may encounter to restart a previous Trial Period Plan for Borrowers whose Mortgaged Premises or places of employment are located in an eligible Disaster Area as a result of Hurricane Sandy.

If a Borrower was previously performing in accordance with the terms of a Trial Period Plan prior to the federally declared disaster, within 30 days prior to the end of the forbearance plan, the Servicer must determine whether the Borrower's financial circumstances continue to be adversely impacted by the disaster based on verbal confirmation with the Borrower about his or her current financial condition and the most recent property inspection. The Servicer must then apply the following Trial Period Plan eligibility rules:

- If the Borrower's financial circumstances have not adversely changed (e.g., the Borrower's income is not less than it was at the time of the pre-forbearance Trial Period Plan evaluation), then:
  - For Home Affordable Modification Program (HAMP) Trial Period Plans, the Servicer must offer the Borrower a new Trial Period Plan which includes the same Trial Period payment as the pre-forbearance Trial Period Plan. The Servicer must not conduct a new net present value (NPV) or Forbearance Limit analysis. For reporting purposes, the Servicer should utilize the NPV determined for the pre-forbearance (or pre-disaster) Trial Period Plan analysis and may report anticipated forbearance amounts in excess of the Forbearance Limit, but only to the extent necessary to achieve the Target Payment. All other HAMP eligibility rules continue to apply.
  - For Non-HAMP (i.e., Standard Modification) Trial Period Plans, the Servicer must offer a new Trial Period Plan with a Trial Period payment based on the projected modified unpaid principal balance (i.e., after capitalization). Servicers must waive the housing expense-to-income ratio eligibility requirement set forth in Section B65.18(b). However, if the proposed modified principal and interest payment will be higher than the Borrower's pre-modified principal and interest payment, the Servicer must transmit this exception request via Workout Prospector® to Freddie Mac. All other eligibility rules continue to apply.

  Seasoning requirements for documentation do not apply to Borrowers whose financial circumstances have not adversely changed.

  Additionally, the Servicer must not cancel the previous Trial Period Plan in Workout Prospector but must instead keep the Borrower's previous Trial Period Plan in approved status in order to avoid re-underwriting the Borrower. When preparing the final modification agreement, the Servicer must calculate the modification terms using updated delinquent interest and non-interest arrearage amounts that must be capitalized (i.e., up through the day prior to the modified interest rate change date), as applicable, and offer a permanent modification to each Borrower who successfully completes the new Trial Period Plan. When preparing a HAMP modification agreement, the Servicer may forbear principal beyond the Forbearance Limit, but only to the extent necessary to achieve the Target Payment.

- If the Borrower's financial circumstances have adversely changed (e.g., the Borrower's income is less than it was at the time of the pre-forbearance Trial Period Plan evaluation), then the Servicer must re-evaluate the Borrower for a Standard Modification or HAMP Trial Period Plan using an updated Borrower Response Package in accordance with the Standard Modification or HAMP eligibility requirements set forth in Chapters B65, *Workout Options*, and C65, *Home Affordable Modification Program*, respectively, including, without limitation, housing expense-to-income ratio, Forbearance Limit and NPV requirements, as applicable. If the Borrower is unable to provide updated documentation, but has provided verbal information that confirms continued eligibility for a modification, the Servicer must transmit the Mortgage to Freddie Mac to review via Workout Prospector.

  If the Servicer determines that a Borrower whose financial circumstances have been adversely impacted is no longer eligible for either a HAMP or Standard Modification Trial Period Plan, or the Borrower was not performing in accordance with the terms of the Trial Period Plan prior to the disaster, then the Servicer must consider the Borrower for other alternatives to foreclosure. Servicers are reminded that exceptions can be submitted to Freddie Mac via Workout Prospector for Borrowers who are ineligible for a Standard Modification where the Servicer believes a modification is still appropriate based on the Borrower's individual circumstances.

Regardless of the Borrower's financial circumstances, the Borrower must complete a new three-month Trial Period Plan that begins immediately following the forbearance plan in order to be eligible for a permanent modification. Servicers may rely on the Guide provisions governing the extension of Trial Period Plans in the event of bankruptcy and use of an interim month prior to the month in which the first modified payment is due.

Electronic Default Reporting (EDR) requirements when entering the Borrower into a disaster-related forbearance plan

In Bulletin 2012-26, we advised Servicers to provide forbearance in accordance with Chapters A65, *Reinstatements and Relief Options*, and 68, *Servicing Mortgages Impacted by a Disaster*, for Borrowers with approved or active HAMP or Standard Modification Trial Period Plans who are having difficulty making payments and whose Mortgaged Premises or places of employment are located in eligible Disaster Areas. For those Borrowers who receive an approved forbearance plan, Servicers must report the forbearance via EDR in accordance with Chapters A65 and 68. If the forbearance default action code is reported through EDR in the same month as the reporting activity for a HAMP or Standard Modification Trial Period Plan, then the Servicer must only report the forbearance default action code in accordance with Chapters A65 or 68 for that month, and must not report the HAMP or Standard Modification default action/reason.

With this Bulletin, Freddie Mac is clarifying that prior to reporting the approved forbearance plan, the Servicer must first close out either the HAMP or Standard Modification through EDR by reporting the Mortgage as ineligible for a modification by using the "HE" code. This EDR code will close out the reporting of the modification and allow for the reporting of the forbearance plan.

REVISIONS TO THE GUIDE

The Guide will not be updated to include these temporary requirements. Servicers should refer to this Bulletin to ensure compliance with these requirements.

CONCLUSION

We appreciate the efforts of our Servicers in providing relief to Borrowers who have been affected by Hurricane Sandy and other disasters. The information provided by our Servicers and others in the industry is key to our efforts to provide the most effective solutions for Borrowers affected by disasters.

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

Tracy Hagen Mooney
Senior Vice President
Single-Family Servicing and REO