Bulletin

NUMBER: 2013-22

TO: Freddie Mac Servicers October 18, 2013

SUBJECTS

This *Single-Family Seller/Servicer Guide* ("Guide") Bulletin updates and revises our **Servicing** requirements, including:

Foreclosure

- Updating our requirements for conducting foreclosures in Freddie Mac's name involving Freddie Mac-owned or guaranteed Mortgages
- Revising our requirements for vesting the title after a foreclosure sale when the property is not purchased by a third party

Property preservation and reimbursement for abandoned properties

- Adding new expense codes and limits
- Introducing new per unit pricing requirements
- Updating our yard maintenance and winterization requirements
- Updating our requirements for the reimbursement of vacant property registration fees

Additional Guide updates

In addition to the changes listed above, we are making further updates and revisions, as described in the "Additional Guide Updates" section of this Bulletin.

EFFECTIVE DATE

The changes announced in this Bulletin are effective immediately unless otherwise noted.

FORECLOSURE

Foreclosing in Freddie Mac's name

We have updated Guide Section 66.17, *Foreclosing in the Servicer's Name*, to provide guidance on when the Servicer may instruct foreclosure counsel to conduct the foreclosure in Freddie Mac's name.

Foreclosures must normally be processed or litigated in the Servicer's name. If applicable law precludes the Servicer from conducting the foreclosure in its own name because the Servicer owns or services a subordinate Mortgage on the Mortgaged Premises, then the Servicer may, without obtaining prior written approval, instruct the foreclosure counsel to conduct the foreclosure in Freddie Mac's name. In such circumstances, the Servicer must notify Freddie Mac within two Business Days of the Servicer's determination to foreclose in Freddie Mac's name, and record the basis of the decision in the Mortgage file. When a Servicer conducts the foreclosure in Freddie Mac's name, the Servicer is not permitted to have the same foreclosure counsel represent the Servicer or another lien holder in the same proceeding.

Directory 5 has been updated to reflect this change.

Vesting the title after a foreclosure sale

We have updated Section 66.54, *Vesting the Title and Avoiding Transfer Taxes*, to provide guidance on when a Servicer may vest the title in the Servicer's name after the foreclosure sale.

For conventional Mortgages, the Servicer must ensure that the title to the property is vested in Freddie Mac's name (if the property is not purchased by a third party), unless it is in Freddie Mac's best interest to have the title to the property vested in the Servicer's name after the foreclosure sale, and then have the title to the property transferred to Freddie Mac via quitclaim deed.

The Servicer must record in the Mortgage file the decision to vest the title in the Servicer's name and the basis for its decision.

Additional foreclosure updates

Executing documents

We have updated Section 66.60, *Executing Documents*, to state how Servicers should request Freddie Mac's execution of a document for the Servicer to process the foreclosure, or execute a document related to a foreclosure sale. Servicers are reminded that when submitting these requests, they must include all supporting documentation in addition to the document Freddie Mac needs to execute, which may include, but is not limited to, the last recorded document in the chain of title.

We have additionally updated Directory 5 to reflect that documents requested for Freddie Mac to execute (which must be sent along with Guide Form 105, *Multipurpose Loan Servicing Transmittal*) must be submitted to us via e-mail at Foreclosures@Freddiemac.com.

Foreclosure sale bidding

We have updated Section 66.46, *Failure to Bid Appropriately*, to state that Freddie Mac may require a Servicer to indemnify Freddie Mac for any loss Freddie Mac incurs related to incorrect bidding at the foreclosure sale.

PROPERTY PRESERVATION

Effective March 15, 2014, unless otherwise noted

We have made extensive updates to our property preservation requirements and reimbursement limits for abandoned properties securing Freddie Mac Mortgages. Guide Exhibit 57, *1-to 4-Unit Property Approved Expense Amounts*, and, as applicable, Exhibit 74, *Expense and Income Codes for Expense Reimbursement Claims*, have been updated to reflect the changes described below.

New expense codes and expense limits

In recognition of the varied types of preservation work that our Servicers and their vendors may undertake at abandoned properties, we are adding 36 new property preservation expense codes, 28 of which will be available in the Freddie Mac Reimbursement System ("Reimbursement System") starting **October 22, 2013**. The remaining eight expense codes will be added to the system in a future enhancement, prior to the March 15, 2014 effective date. Servicers are encouraged to begin implementing the revised property preservation requirements in this Bulletin on October 22, 2013, if they are able to do so. To facilitate the early adoption of the new requirements, we have provided Servicers with a list in Exhibit 57 of eight current expense codes that Servicers may use as equivalent substitutes for the eight expense codes that are not included in the October 22, 2013 Reimbursement System enhancement.

The new expense codes:

- Replace expense codes that were previously broadly defined, such as expense code 090001 (Securing), with more specific expense codes, including 090028 (Securing (Knob Locks)) and 090019 (Securing (Padlocks))
- Include expense items for preservation work generally approved by Freddie Mac through the request for pre-approval (RPA) process that had not previously been listed in Exhibits 57 or 74

The added expense codes and associated expense limits listed in Exhibit 57 should provide Servicers with greater specificity in the types of preservation efforts expected of Servicers on abandoned properties securing Freddie Mac Mortgages, and, consistent with Freddie Mac's commitment to fighting neighborhood blight, should also provide Servicers the ability to more proactively address property preservation issues as they arise.

Expense item unit pricing

We are introducing new pricing requirements for property preservation expense items listed in Exhibit 57. The pricing requirements identify the per unit cost (unit price) that Freddie Mac finds to be reasonable for each applicable property preservation work type. By adhering to these requirements Servicers should be able to make greater use of their reimbursement limits and thereby eliminate unnecessary requests to Freddie Mac for pre-approval. Freddie Mac recognizes, however, that there may be valid conditions, such as an increase in the cost of materials associated with disaster-affected areas, under which Servicers (or their vendors) may be unable to complete needed preservation work within the new unit pricing requirements. In such instances, Servicers may proceed with completing needed preservation work without submitting an RPA if:

- Servicers obtain a comparable second estimate for the needed preservation work; and
- The lower of the two estimates is within the applicable expense limit

The needed preservation work must then be completed for the lesser of the two bids and both estimates must be retained in the Mortgage file.

Cost Estimator-generated bids as second estimates

Effective immediately

We will accept bids generated by industry-accepted Cost Estimator applications as second estimates as long as those estimates are comparable to the applicable contractor-generated first estimate. Where consistent with guidelines outlined in the preceding section of this Bulletin and as the expense item unit pricing and expense codes are available, Servicers may use Cost Estimator-generated bids when determining whether to exceed the unit pricing requirement for a property preservation expense item.

Yard maintenance and winterization requirements

We have revised our yard maintenance and winterization requirements to more accurately reflect the respective seasons in each State.

Vacant property registration fees

We are no longer requiring Servicers to submit an RPA for reimbursement of vacant property registration (VPR) fees for Mortgaged Premises that are not subject to Sections 13-12-125, 126, 127 and 135 of the Municipal Code of the City of Chicago ("Chicago Vacant Property Ordinance"). Servicers can instead request VPR fee reimbursement approval for these Mortgaged Premises directly through the Reimbursement System's claims process. For Mortgaged Premises subject to the Chicago Vacant Property Ordinance, Servicers should follow the VPR fee reimbursement requirements set forth in Bulletin 2012-5 and Exhibit 59, *City of Chicago, Illinois Vacant Property Ordinance Expense Codes*.

ADDITIONAL GUIDE UPDATES

Condominium, homeowners association (HOA) and Planned Unit Development (PUD) assessments in super lien States

Effective October 22, 2013

In Bulletin 2013-15, we announced that we would no longer limit the reimbursement of condominium, HOA and PUD assessments advanced in super lien States, in accordance with the requirements set forth in Section 66.29, *Expenses that May Become First Liens on the Property*, to six months; we would instead limit the reimbursable amount to the lowest of:

- The actual amount in regular assessments advanced by the Servicer
- The maximum amount in regular assessments that, per the project declaration or bylaws, would take priority over the Mortgage
- The maximum amount in regular assessments that, per applicable State statute, would take priority over the Mortgage

As a reminder, in accordance with the requirements set forth in Section 71.18, *Reimbursement of Condominium, HOA and PUD Fees, Assessments and Ground Rent*, this amount must not include any late fees, interest, collection expenses or attorney fees, regardless of whether such amounts may be included under the lien pursuant to applicable law.

In Bulletin 2013-15, we further advised that when a Servicer has advanced more than six months of applicable assessments, in order to receive reimbursement, the Servicer must submit an RPA for assessments covering the seventh month or later of regular assessments. However, as a result of enhancements to the Reimbursement System, beginning October 22, 2013, the submission of an RPA for such requests will no longer be necessary. Servicers may instead submit requests for the reimbursement of any applicable assessments directly through the Reimbursement System's claims process.

Second tax penalty incurred on a non-escrowed Mortgage in the State of California

Effective November 1, 2013

We currently reimburse the Servicer for the first tax penalty incurred on a non-escrowed Mortgage that goes to foreclosure on the condition that the Servicer has complied with the requirements of Guide Chapter 59, *Escrow and Prepayments*.

In certain circumstances, Servicers may not be notified of unpaid property taxes on a non-escrowed Mortgage in the State of California until the second tax penalty was assessed. As a result, Servicers may end up incurring the cost of the second tax penalty for which they are not reimbursed.

This Bulletin updates Sections 71.14, *Reimbursement of Taxes*, and 71.24, *Non-Reimbursable Expenses*, to provide that we will reimburse the Servicer for a second tax penalty incurred on a delinquent non-escrowed Mortgage in the State of California only in cases in which the Servicer was not notified of the delinquent taxes until the second penalty was assessed and the Servicer has complied with the requirements of Chapter 59.

Exhibit 74 has been updated to provide new expense code 074006 (Second Tax Penalty (CA only)), which Servicers must use when submitting a reimbursement claim request for a second tax penalty on a non-escrowed Mortgage in the State of California.

Real Estate Owned (REO) rollback requests

We have created Form 106, *REO Rollback Request Form*, for Servicers to complete and submit to us when facilitating REO rollback transactions. Form 105 may no longer be submitted for these requests.

Updates to Form 105

We have updated Part E of Form 105 to allow for additional text to be entered into this section. Servicers should utilize this updated form when submitting applicable requests to Freddie Mac.

Reporting requirements

Reporting requirements for full reinstatements

We have updated Section A65.10, *Reporting and Processing the Reinstatement*, to align our reporting requirements for full reinstatements with our Electronic Default Reporting (EDR) quick reference guide.

Reporting repayment plans entered into as a result of an Eligible Disaster

We are updating our requirements for reporting repayment plans when a Borrower has been impacted by an Eligible Disaster. Servicers must report, via an EDR transmission, default action code 12 for repayment plans entered into as a result of an Eligible Disaster. Section 68.5, *Disaster Reporting Requirements*, has been updated to reflect this requirement.

Contract noncompliance and contract change compensatory fees

We have revised Section 78.51, *Contract Noncompliance and Contract Change Compensatory Fees*, to reflect that the compensatory fees we will assess when we must perform database corrections for non-performing loan data will appear on the Servicer's Non-Performing Loans Invoice. Compensatory fees for all other database corrections will continue to appear on the Servicer's Performing Loans monthly Servicer Billing Statement.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters A65, 66, 68, 71 and 78
- Forms 105 and 106
- Exhibits 57 and 74
- 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,

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