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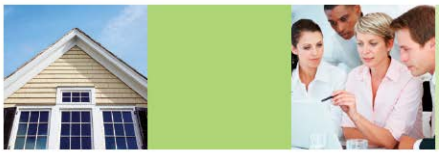

Bulletin

TO: Freddie Mac Servicers December 18, 2013 | 2013-27

SUBJECTS

This *Single-Family Seller/Servicer Guide* ("Guide") Bulletin includes the following updates and revisions to our **Servicing** requirements:

Foreclosure and Alternatives to Foreclosure

- Revising certain foreclosure requirements, including those related to foreclosure sale bidding
- Revising the eligibility requirements for Freddie Mac Standard Modifications ("Standard Modifications") and Freddie Mac Streamlined Modifications ("Streamlined Modifications") to include Mortgages with pre-modification mark-to-market loan-to-value (MTMLTV) ratios less than 80%
- Revising disaster-related forbearance requirements when quality right party contact (QRPC) has not been achieved
- Revising the requirements for the Capitalization and Extension Disaster Relief Modification ("Disaster Relief Modification") with respect to the determination of the modification terms
- Updating the Guide to indicate that there are two distinct evaluations for determining a Borrower contribution for a short sale or deed-in-lieu of foreclosure (DIL) for a Borrower who is 31 or more days delinquent
- Adding a new Freddie Mac Service Loans application ("Service Loans application") user role for obtaining valuations for short sales

Lender-Placed Insurance

- Revising our requirements for Lender-Placed Insurance (LPI) and adding a definition for this term to the Glossary

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

EFFECTIVE DATE

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

FORECLOSURE

Effective for all foreclosure sales occurring on or after March 17, 2014 unless otherwise noted

Bidding at foreclosure sale

Servicers will no longer be required to prepare a foreclosure sale bid, referred to as a credit bid, based upon valuations obtained from BPOdirect® for foreclosure sales on eligible Mortgages. Instead, Servicers will order credit bids using a new functionality in the Service Loans application.

Credit bids provided to Servicers through the Service Loans application are applicable for First-Lien Mortgages that are not covered by mortgage insurance, not insured by the Federal Housing Administration (FHA), not guaranteed by the Department of Veteran Affairs (VA) or the Rural Housing Service (RHS) or not otherwise subject to a credit enhancement. If the Mortgage is covered by mortgage insurance, insured by FHA, guaranteed by VA or RHS or otherwise is subject to a credit enhancement, then the Servicer must bid an amount approved by the responsible party, unless Freddie Mac has delegations of authority with the applicable party. If conditions exist that would require the Servicer to establish bids for foreclosure sales outside of the requirements provided in Guide Sections 66.43, *First-Lien Mortgages Not Covered by Mortgage Insurance*, through 66.45, *FHA, VA and Rural Housing Service (RHS) Mortgages*, then the Servicer must follow the directions outlined in Section 66.42, *Delegated Bidding*.

Obtaining credit bids for scheduled foreclosure sales through the Service Loans application

We have updated Guide Chapters 65, *Loss Mitigation*, and 66, *Foreclosure*, to reflect requirements for Servicers to obtain credit bids for scheduled foreclosure sales. Rather than obtaining property values directly from Freddie Mac through BPOdirect to prepare foreclosure bids in connection with foreclosure sales, Servicers must submit requests to Freddie Mac for credit bids using the "Obtain Credit Bid" functionality in the Service Loans application. A credit bid will be returned by the Service Loans application with a "good through date," indicating the length of time for which the credit bid will be valid, and an estimated sale date (e.g., 45 days from the submission date). To ensure the Servicer has a credit bid in time for the foreclosure sale, Freddie Mac recommends that the Servicer submit a request for the credit bid **no less than 30 and no more than 90 days** before the scheduled sale date. If the "good through date" returned with the credit bid will expire prior to the scheduled foreclosure sale date, the Servicer must request an updated credit bid in time for the scheduled foreclosure sale. Therefore, Servicers should begin submitting requests for credit bids using the "Obtain Credit Bid" functionality at least 30 days prior to March 17, 2014 for foreclosure sales scheduled on or after March 17, 2014.

Servicer access to the Service Loans application

Effective immediately

In order to use the "Obtain Credit Bid" functionality, Servicers must enroll in one of the new authorized user roles, "FCL – Specialist" or "FCL – Specialist (Read Only)," in the Service Loans application. The "FCL – Specialist" user role enables the user to submit a request for, view or search for credit bids. The "FCL – Specialist (Read Only)" user role enables the user to view and search for credit bids only. We have updated the following Guide forms to add these new user roles:

- Form 902, *Freddie Mac Service Loans Application Authorized User Roles Form – For Use by Servicers Only*
- Form 902A, *Addendum to Freddie Mac Service Loans Application Authorized User Roles Form – For Use by Servicers Only*
- Form 902SA, *Freddie Mac Service Loans Application Authorized User Roles Form – For Use by Servicing Agents Only*
- Form 902ASA, *Addendum to Freddie Mac Service Loans Application Authorized User Roles Form – For Use by Servicing Agents Only*

To designate an authorized employee(s) to these new user roles, Servicers or authorized Servicing Agents must complete and submit the updated Form 902 or Form 902SA, as applicable, together with Form 902A or Form 902ASA, if needed. Following receipt of the applicable completed form(s), Freddie Mac will e-mail User IDs for all authorized users to the Customer Administrator designated as the Servicer's Service Loans application Primary Contact.

Servicers are encouraged to register new users at this time, and may find directions on submitting the completed forms by visiting the **Service Loans Application Resource Center**. However, Servicers must be fully registered at least 30 days prior to the effective date in order to have the functionality available for scheduled foreclosure sales held on or after March 17, 2014.

Servicers must refer to Section A50.7, *Security and Servicer Responsibilities*, for the requirements related to the submission of Forms 902 and 902SA, including requirements for requesting approval to engage a Servicing Agent and authorization of such Servicing Agent to access the Service Loans application.

Obtaining a property value to prepare foreclosure sale bidding instructions

We have updated Section 65.38, *When to Obtain a Property Value*, to guide Servicers when State law requires an appraisal report to be used to set the bid for a scheduled foreclosure sale. When State law does not require an appraisal report to be used to set the bid, Servicers must comply with the credit bid requirements in Section 66.39, *When to Obtain a Credit Bid for Foreclosure Sale Bidding.*

Section 71.21, *Reimbursement of Broker's Price Opinion (BPO)/Appraisal Reports*, has also been updated to reflect this change.

Additional foreclosure updates

Obtaining judgment for less than total indebtedness

In Bulletin 2013-15, Freddie Mac authorized Servicers to proceed with various methods available to expedite Freddie Mac Default Legal Matters, including obtaining a default judgment for less than the full amount owed by the Borrower in order to obtain an expedited default judgment. We have updated Section A66.6, *Obtaining Judgment for Less than Total Indebtedness*, to advise Servicers that in accordance with Section 65.38, they must obtain the value of the Mortgaged Premises, as if the Servicer were obtaining an "estimated market value" of the Mortgaged Premises for a short sale and not the market value for foreclosure sale bidding. (See Section B65.38, *Property Valuation and Minimum Net Proceeds*, for instructions on obtaining a short sale property value.)

Reimbursement of expenses

Effective immediately

We have updated Guide Exhibit 74, *Expense and Income Codes for Expense Reimbursement Claims*, to provide guidance on when Servicers should submit a claim request in the Freddie Mac Reimbursement System for expense code 040002 (State Registration Fee). Where applicable law requires a fee when conducting a foreclosure, Freddie Mac will reimburse up to a maximum total of $500 for the initial property registration and the re-registration.

Collection of deficiencies

Effective immediately

We have updated Section 66.51, *Working with Vendors to Collect Deficiencies*, to state that upon request, Servicers must assist Freddie Mac, or vendors Freddie Mac uses to assist in the collection of deficiencies, in obtaining case file documentation. This includes data reporting or case file documentation that firms, selected and retained by the Servicer to handle Freddie Mac Default Legal Matters, may have obtained while handling a particular case.

ALTERNATIVES TO FORECLOSURE

Standard and Streamlined Modifications

Effective April 1, 2014

We are updating our eligibility requirements for Standard and Streamlined Modifications to include Mortgages with pre-modification MTMLTV ratios less than 80%. With this change, Servicers are delegated to approve Standard and Streamlined Modification Trial Period Plans for more Borrowers. Servicers will no longer be required to submit loan-level exception requests to Freddie Mac for approval when evaluating a Borrower for a Standard Modification solely because the MTMLTV ratio is less than 80%.

A Servicer must offer an eligible Borrower with a Mortgage that has a pre-modification MTMLTV ratio less than 80% a Trial Period Plan that includes the principal and interest (P&I) payment based on a 480-month amortization term and the P&I payment based on a 360-month term:

- The 480-month term must result in a P&I payment that is less than or equal to the current contractual P&I payment
- The 360-month term must result in a reduction to the current contractual P&I payment of at least 20%

In addition, if the Borrower requests a term less than 360 months, the Servicer must offer a term less than 360 months if certain requirements are met.

These changes also apply to Borrowers who are being evaluated for a Streamlined Modification as a result of an Eligible Disaster when the MTMLTV ratio of the Mortgage is less than 80%.

Servicers must comply with these requirements for new evaluations conducted on or after April 1, 2014; however, Servicers may begin to implement this change immediately.

We will inform Servicers in a future communication of the date Workout Prospector® will be available to process the terms of Standard and Streamlined Modifications for Mortgages with pre-modification MTMLTV ratios less than 80%. Until Workout Prospector is updated, Servicers must generate the terms of the Trial Period Plan using their proprietary systems, and must transmit an exception request via the Standard Modification exception path in Workout Prospector. Servicers should indicate in the comments section of Workout Prospector the terms of the modification and that the workout has been approved by the Servicer in accordance with the new eligibility requirements.

Sections B65.12.1, *Freddie Mac Streamlined Modification*, B65.13, *Eligibility Requirements for a Freddie Mac Standard Modification*, B65.18, *Determining the Terms of a Freddie Mac Standard Modification and Streamlined Modification,* and B65.19, *Trial Period Plan Requirements*, have been updated to reflect these changes.

Disaster-related forbearance requirements

Freddie Mac is revising its short-term forbearance requirements for Borrowers impacted by an Eligible Disaster, where QRPC has not been achieved. With this Bulletin, Servicers are permitted to utilize their discretion when determining whether short-term forbearance is appropriate and the length of the short-term forbearance plan by assessing the extent of the damage to the Mortgaged Premises and/or the financial impact the Eligible Disaster has had on the Borrower.

Section 68.4, *Delinquency Management Activities,* has been updated to reflect this change.

Disaster Relief Modification

Effective for evaluations conducted on and after February 1, 2014

Section B65.12.2, *Capitalization and Extension Modification for Disaster Relief*, currently provides that if the existing Mortgage is an ARM, the interest rate must be fixed when modified, but permits the Servicer to submit a request to Freddie Mac for processing a modification for a Borrower who prefers to retain the adjustable-rate terms.

We are updating the Guide to eliminate the option to retain the adjustable-rate terms with the modification.

Evaluation for Borrower contribution for a short sale or DIL

Effective February 1, 2014

A Borrower contribution towards a short sale or DIL can be in the form of a cash contribution and/or a promissory note contribution. We are revising the requirements for Borrower contributions for short sales and DILs to indicate that there are two distinct evaluations for determining a Borrower contribution from a Borrower who is 31 or more days delinquent. The first evaluation is for a cash contribution that is based upon the Borrower's Cash Reserves.

The second evaluation is for a promissory note contribution and utilizes the existing formula for determining the Borrower's promissory note payment capacity. The Servicer will determine if a Borrower has the capacity for one or both of the Borrower contribution types.

Servicers must comply with this change by February 1, 2014. However, Servicers are encouraged to implement sooner if they are operationally able to do so.

Sections B65.37.1 and B65.44.1, each titled *Borrower Contributions and Relocation Assistance*, have been updated to reflect this change.

Obtaining valuations for short sales

In Bulletin 2012-16, Freddie Mac introduced the valuation process, which is available through the Service Loans application, for Servicers to use to obtain a property value and minimum net proceeds in connection with a short sale. We are updating the Freddie Mac Service Loans application authorized user roles forms (Forms 902, 902A, 902SA and 902ASA) to allow Servicers to enroll in a new authorized user role, "Workout – Specialist (Read Only)," in the Service Loans application for the "Obtain Valuation" functionality.

LENDER-PLACED INSURANCE

Effective for all LPI policies issued on Mortgages on and after June 1, 2014

In connection with the Servicing Alignment Initiative, the Federal Housing Finance Agency (FHFA) has directed Freddie Mac and Fannie Mae to reduce expenditures related to LPI. As a result, Freddie Mac has added new Section 58.12, *Lender-Placed Insurance*.

If the Servicer obtains LPI, the following requirements apply:

- The Servicer, or agents, brokers or other entities affiliated with the Servicer, may not receive compensation in the form of commissions or similar incentive-based compensation regardless of its designation as commission, bonus, fee or other type of payment from LPI carriers; and
- The Servicer may not use its own affiliated entities to insure or reinsure LPI

The Servicer must comply with all applicable law governing the administration of LPI.

These changes are effective for all LPI policies issued on Mortgages on and after June 1, 2014. Servicers must take such steps as are necessary to revise their master agreements and/or master policies with LPI providers to comply with these requirements by that date. Individual LPI policies that were issued for Mortgaged Premises before June 1, 2014 may remain unchanged until they are renewed or cancelled.

Freddie Mac will be adding a new LPI Servicer certification to the annual eligibility certification report (Form 16SF, *Annual Eligibility Certification Report*) similar to the following:

> The Seller/Servicer is in compliance with the provisions and requirements set forth in the Guide, as they may be amended from time to time, including, but not limited to, Section 58.12. The Servicer must also, upon request from Freddie Mac, provide a copy of the insurance policy and agreements between the Servicer and LPI carrier demonstrating compliance with the above requirements.

The updated Form 16SF and required compliance dates will be announced in a future Bulletin.

A Servicer's failure to comply with the above requirements may result in any of the remedies available to Freddie Mac in Section 6.12*, Freddie Mac Remedies*.

Sections 58.9, *Special Insurance Requirements and Changes in Insurance Requirements*, 70.16, *Property Insurance,* and 71.15, *Reimbursement of Insurance Premiums*, Directory 5 and the Glossary have been updated to reflect these changes.

ADDITIONAL GUIDE UPDATES AND REMINDERS

Legal claims during modification process

Current Guide instructions for preparing modification agreements require Servicers to prepare and revise the modification agreement in accordance with federal, State and local law. We are updating those instructions to ensure that Servicers are aware that they must not include language in the agreement that requires Borrowers to waive any rights they may have under applicable law, including the Consumer Credit Protection Act, as a condition of the modification.

Sections B65.24, *Preparing to Close the Loan Modification*, and C65.7, *Modification Process*, have been updated to reflect this change.

Compliance with Office of Foreign Assets Control (OFAC) regulations

As a reminder, Section 53.8, *Compliance with Applicable Law*, sets forth Freddie Mac's expectations and requirements with respect to a Servicer's compliance with OFAC regulations. Servicers are expected to establish and maintain an effective OFAC compliance program that ensures compliance with OFAC regulations. A Servicer must periodically screen the Mortgages that it services for Freddie Mac against OFAC's list of Specially Designated Nationals and Blocked Persons. Additionally, pursuant to Section 51.4, *Servicer and Servicing Agents*, when a Servicer contracts with a Freddie Mac-approved Servicing Agent to service Mortgages purchased by Freddie Mac, the Servicer continues to be responsible and liable to Freddie Mac for all Servicing requirements and all representations and warranties, which include compliance with Section 53.8. Servicers should review their contracts with Servicing Agents to determine whether the obligations under Section 53.8, with regard to OFAC compliance, are addressed appropriately.

TRAINING

To help Servicers understand the revised foreclosure sale bidding requirements announced in this Bulletin, we encourage registration in the **Freddie Mac Obtain Credit Bid** webinar offered through **Freddie Mac's Learning Center**. Servicers are also encouraged to visit Freddie Mac's Learning Center to view updated training materials supporting the changes announced in this Bulletin.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 58, 65, B65, C65, 66, A66, 68, 70 and 71
- Forms 902, 902A, 902SA and 902ASA
- Exhibit 74
- Glossary
- Directory 5

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2013-27 (Servicing) Guide Updates Spreadsheet available at **http://www.freddiemac.com/sell/guide/spreadsheets.html**.

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