



TO: Freddie Mac Servicers

January 24, 2014 | 2014-1

SUBJECTS

This *Single-Family Seller/Servicer Guide* ("Guide") Bulletin updates and revises our **Servicing** requirements, including, but not limited to, the following:

Step-Rate Mortgages

- Adding communication time line requirements for notifying Borrowers of interest rate adjustments for Step-Rate Mortgages

Foreclosure

- Extending our State foreclosure time lines when certain allowable delays occur
- Updating the requirements for reimbursement of costs associated with the posting and publication of foreclosure notices or other legal proceedings
- Providing additional requirements and guidance related to expediting Freddie Mac Default Legal Matters

Third Party Use of Workout Prospector® and BPOdirect®

- Permitting access to Workout Prospector and BPOdirect for authorized third-party service providers

Electronic Default Reporting (EDR) requirements

- Revising our reporting requirements for full reinstatements
- Updating the Guide to reflect new EDR transmission codes

STEP-RATE MORTGAGES

Effective April 1, 2014

In anticipation of interest rate adjustments for modified Mortgages with interest rates scheduled to step up over time ("Step-Rate Mortgages"), we are implementing new Servicer requirements related to communicating rate changes with Borrowers. Effective April 1, 2014, the Servicer must provide notification of an initial interest rate adjustment for a Step-Rate Mortgage to the Borrower as early as 150 days, but no less than 90 days, prior to the first payment due date at the adjusted interest rate. A second notification of the initial interest rate adjustment must be provided as early as 75 days, but no less than 60 days, prior to the first scheduled payment at the new rate. If feasible, Servicers are encouraged to implement these changes prior to the mandatory effective date of April 1, 2014.

For Mortgages requiring two or more interest rate adjustments in order to reach the corresponding interest rate cap, Servicers must provide Borrowers written notification of the upcoming interest rate change for each subsequent rate adjustment as early as 120 days, but no less than 60 days, prior to the first payment due date at the re-adjusted rate.

In addition, Servicers must ensure their staff is adequately trained to discuss interest rate adjustments with Borrowers. Servicer staff answering incoming calls from Borrowers must be able to identify potential default situations and ensure prompt referral to a default management unit as applicable.

Refer to new Guide Chapter 62, *Special Requirements for Servicing Step-Rate Mortgages*, and updated Guide Sections 64.2, *General Requirements*, C65.6, *Underwriting the Borrower*, C65.8, *Other General Requirements*, C65.12, *Disclosures and Communications with Borrowers*, and C65.14, *Responsiveness to Borrower Inquiries*, for full requirements.

Additionally, the Glossary has been updated to include a definition for the term "Step-Rate Mortgage."

FORECLOSURE

State foreclosure time lines

Allowable delays in completing a foreclosure

Effective for all foreclosure sales completed on or after January 10, 2014

We have revised Section 66.32, *Allowable Delays in Completing a Foreclosure*, to extend the State foreclosure time line for a Mortgage in which delays were caused when:

- The Borrower entered a Freddie Mac Streamlined Modification Trial Period Plan, but failed to comply with the terms of the plan
- The Borrower has exercised his or her one-time right to appeal a modification denial
- The Borrower's approval for a Freddie Mac Standard Short Sale or Freddie Mac Standard Deed-in-Lieu of Foreclosure is based on the review of a First Complete Borrower Response Package

Extended time line credits

Effective for all foreclosure sales completed on or after May 1, 2014

We have revised Guide Exhibit 83A, *Determining State Foreclosure Time Line Performance Compensatory Fees*, to reflect that, as long as the appropriate EDR codes are reported to us, we will automatically add a maximum of:

- A 120-day credit to the State foreclosure time line for Mortgages with a failed Streamlined Modification Trial Period Plan
- A 60-day credit to the State foreclosure time line for an appeal of a loan modification denial

Additionally, we are updating the current 450-day credit to the State foreclosure time line for military indulgence to reflect a 455-day credit, which is a five-day increase.

Prior to May 1, 2014, a Servicer may receive credit for these delay types by submitting loan-level appeals in accordance with Section 66.33(c).

Reimbursement of costs associated with posting and publication of legal notices

Effective February 8, 2014

We are updating the requirements for reimbursement of costs associated with the posting and publication of foreclosure notices or other legal proceedings, as required by applicable law.

Posting and publication in California

We are removing expense limits for advertising fees in California. Law firms handling Freddie Mac Default Legal Matters are permitted to bill Servicers for certain variable, additional reimbursable costs, including, but not limited to, service, posting or publication of legal notices, pursuant to Section 71.19, *Reimbursement of Fees and Costs Incurred during Legal Proceedings*.

Exhibit 57, *1- to 4-Unit Property Approved Expense Amounts*, has been updated to remove the expense limits in California of \$60 for expense code 020000 (Advertising Fees – Posting) and \$210 for expense code 021000 (Advertising Fees – Publication).

Other service charges or publication fees

Reimbursable costs incurred for the publication of legal notices, as required by State or local laws, are only for actual charges by the newspaper. Section 71.24, *Non-Reimbursable Expenses*, has been updated to state that additional fees or service charges, incurred by either a law firm, or a posting and publication vendor engaged by a law firm, must not be passed through as an allowable cost. The foreclosure attorney fees in Exhibit 57A, *Approved Attorney Fees and Title Expenses*, cover fees for acquiring the publication, including the cost of preparing, submitting and verifying the legal notices.

As a reminder, publication service providers or vendors can potentially influence the actual costs based on such things as knowledge about different newspaper publishing specifications. Use of service providers owned or affiliated with the law firm may result in noncompetitively priced or poor quality services. To ensure that publication services are competitively priced and of high quality, Servicers must require foreclosure counsel to disclose the identity of, and relationship with, any companies the firm relies upon to provide third-party support functions related to the publication of legal notices. Servicers must also require foreclosure counsel to review, monitor and compare the performance of such service providers or vendors to other vendors operating in the market to ensure high quality and competitive pricing (see Sections 69.3, *Firm Minimum Requirements*, and 69.8, *Prohibitions Related to Freddie Mac Default Legal Matters*).

Provisions to expedite Freddie Mac Default Legal Matters

Effective February 8, 2014

We are updating Chapter A66, *Provisions for Expediting Freddie Mac Default Legal Matters*, to include additional requirements when providing a relocation incentive to Borrowers willing to enter into consent judgments for Mortgaged Premises located in Illinois, as well as adding new Section A66.9, *Foreclosure Sale Date Extensions*, as a means for expediting Freddie Mac Default Legal Matters.

Relocation incentive reimbursement process

In Bulletin 2013-15, Freddie Mac authorized Servicers to expedite Freddie Mac Default Legal Matters using various legal procedures, including obtaining a consent judgment with Borrowers in Illinois. Section A66.8, *Expedited Foreclosures – Illinois*, provides requirements for when a Servicer opts to pay a relocation incentive to a Borrower in Illinois who consents to judgment. We have updated Section A66.8 to provide that, in the event relocation assistance funds have been distributed by the Servicer following the entry of judgment, the Servicer may now request reimbursement of up to \$3,000 for the relocation assistance from Freddie Mac via the Freddie Mac Reimbursement System. The Servicer must use expense code 013006 (Borrower Relocation Assistance) when submitting a claim request in the Reimbursement System for the relocation assistance funds paid to the Borrower.

Exhibits 57 and 74, *Expense and Income Codes for Expense Reimbursement Claims*, have been updated to reflect this new expense code.

Foreclosure sale date extensions

We have added new Section A66.9 to provide that in some instances, it may be in Freddie Mac's best interest to extend the foreclosure sale date, including, but not limited to, cases where an extension of the sale date will expeditiously resolve litigation and/or obtain a Borrower's consent to the final judgment of foreclosure on an expedited basis.

If the Servicer determines that extending the foreclosure sale date is in Freddie Mac's best interest, then the Servicer may use its discretion without obtaining Freddie Mac's prior approval to extend the sale.

However, foreclosure time line requirements set forth in Section 66.30, *State Foreclosure Time Lines*, will not be waived in consideration of extending the foreclosure sale date. Servicers and their counsel must use their discretion to determine whether extending the foreclosure sale date is in Freddie Mac's best interest based on the jurisdiction, the Mortgage and the Mortgaged Premises that is the subject of the foreclosure.

Additional foreclosure updates

Foreclosure sale bidding

Effective March 17, 2014

We have updated the Guide to require that Servicers bid an amount at foreclosure sale that would minimize or avoid the imposition of a redemption, confirmation or ratification period if State law would impose such additional periods. Also, in the event Freddie Mac's right to pursue a deficiency action was preserved, or the Servicer filed a judicial foreclosure to preserve Freddie Mac's right to pursue a deficiency judgment, the Servicer should bid an amount at foreclosure sale that preserves the right to pursue deficiencies after the foreclosure sale on a case-by-case basis.

Sections 66.43, *First-Lien Mortgages Not Covered by Mortgage Insurance*, and 66.44, *Mortgages Covered by Mortgage Insurance*, have been updated to reflect these requirements.

Choosing a foreclosure process

Effective immediately

We have updated Section 66.18.1, *Choosing a Judicial or Nonjudicial Foreclosure Process*, to describe how Servicers should determine whether to file a judicial foreclosure in a State where the option of pursuing a judicial or nonjudicial foreclosure process is available.

THIRD PARTY USE OF WORKOUT PROSPECTOR AND BPODIRECT

Effective immediately

In response to Servicer feedback and to improve management of loss mitigation processes, we are permitting Servicers to allow authorized third-party service providers that are conducting Servicing activities in connection with Freddie Mac-owned Mortgages to access Workout Prospector and BPOdirect. Further, we are providing additional requirements relating to managing access to Imminent Default Indicator[®] and the Reimbursement System, including, but not limited to, ensuring the security of user IDs and passwords.

We are also introducing Exhibit 86A, *Workout Prospector User Agreement – Authorized Third Party*, which both the Servicer and service provider must complete when requesting access to Workout Prospector for a third-party service provider. Servicers are required to retain this form in the Mortgage file and provide it to Freddie Mac for review upon request.

Servicers must have written policies and procedures in place for monitoring their employees and/or their authorized third-party service providers' access to Freddie Mac applications and to ensure compliance with the terms of the Guide, any other Purchase Document and applicable federal, State and local laws. Servicers must also ensure that access to Freddie Mac applications is immediately terminated when personnel no longer require access.

Sections 51.13, *Workout Prospector User Agreement*, 65.39, *Obtaining a Property Value*, B65.15, *Determining Imminent Default for a Freddie Mac Standard Modification*, C65.5.2, *Determining Imminent Default*, and 71.5, *System Security*, and Exhibit 86, *Workout Prospector User Agreement*, have been updated to reflect these changes.

ELECTRONIC DEFAULT REPORTING (EDR) REQUIREMENTS

Effective May 1, 2014

Full reinstatements

We have updated Section A65.10, *Reporting and Processing the Reinstatement*, which outlines the requirements for reporting and processing of reinstatements. Servicers are not currently required to notify Freddie Mac of a reinstatement of a Mortgage that is less than 90 days delinquent. Effective May 1, 2014, Servicers must notify Freddie Mac when accepting a reinstatement of a Mortgage that has been reported to Freddie Mac as 31 days or more delinquent, or a Mortgage in foreclosure in the prior month.

New EDR transmission codes

Exhibit 82, *EDR Transmission Code List*, has been updated to reflect new default action codes, default reason codes, a new real estate property condition code and a new occupancy status code. Effective May 1, 2014, Servicers must report the following codes, as applicable, by the third Business Day of each month for the previous month's activity:

Default action codes:

- **38 (Appeal of Loan Modification)** to notify Freddie Mac that the Borrower has exercised his or her one-time right to appeal a modification denial

-
- **35 (Bankruptcy Cramdown Scheduled)** to notify Freddie Mac that the Mortgage is potentially subject to a court-ordered bankruptcy cramdown. Sections 66.26, *Responding to and Reporting Borrower Defenses*, 67.9, *Notifying Freddie Mac of Bankruptcy Proceedings*, and 67.13, *Bankruptcy Cramdowns*, have been updated to reflect the Servicer's requirements for notifying Freddie Mac of a scheduled bankruptcy cramdown and reporting the bankruptcy cramdown via an EDR transmission.

Default reason codes:

- **032 (Contaminated Drywall)** to notify Freddie Mac that the reason for default is due to contaminated drywall. Section 67.27, *Servicing Mortgages on Distressed Properties*, has been updated to reflect this new default reason code.
- **034 (Eligible Disaster Area)** to notify Freddie Mac that the reason for default is due to an Eligible Disaster Area. Section 68.5, *Disaster Reporting Requirements*, has been updated to reflect the requirement to report this new default reason code when a Mortgage (e.g., the Mortgaged Premises or the Borrower's place of employment) is affected by a disaster and is 31 or more days delinquent.

Real estate property condition code:

- **20 (Condemned)** to notify Freddie Mac that the Mortgaged Premises is deemed by a government jurisdiction to be uninhabitable in accordance with applicable law

Occupancy status code:

- **07 (Abandoned)** to notify Freddie Mac that the Mortgaged Premises has been abandoned by the Borrower or otherwise deemed abandoned in accordance with applicable law. Section 67.28, *Servicing Mortgages on Abandoned Properties*, has been updated to reflect this new occupancy status code.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 51, 62, 64, 65, A65, B65, C65, 66, A66, 67, 68 and 71
- Exhibits 57, 74, 82, 83A, 86 and 86A
- 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 2014-1 (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