



TO: Freddie Mac Servicers

March 17, 2014 |

2014-3

SUBJECTS

This *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin updates and revises our **Servicing** requirements as follows:

Lender-Placed Insurance (LPI)

- Requiring Servicers to provide a certification that they are currently or will be in compliance with the LPI requirements announced in Bulletin 2013-27

Alternatives to foreclosure

- Announcing that the requirements related to the processing of Freddie Mac Standard Modifications and Freddie Mac Streamlined Modifications for Mortgages with pre-modification mark-to-market loan-to-value (MTMLTV) ratios less than 80% announced in Bulletin 2013-27 are now optional and that we will be publishing revisions to some of those requirements in an upcoming Bulletin
- Requiring Servicers to provide notices on behalf of Freddie Mac in certain circumstances when Freddie Mac participated in evaluating a Borrower for a workout or relief option and declined to approve the workout or relief request
- Reorganizing our property valuation requirements for modifications by providing a user-friendly chart with additional guidance; and reinstating publication of the Automated Valuation Model (AVM) report
- Providing additional guidance related to our paystub requirements for income documentation submitted with a Borrower Response Package

Transfer taxes

- Updating our requirements for the reimbursement of transfer taxes
- Permitting Servicers to instruct foreclosure counsel to conduct the foreclosure in Freddie Mac’s name, without obtaining prior written approval, if doing so would avoid any obligation to pay a transfer tax

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

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

LENDER-PLACED INSURANCE (LPI)

We are requiring Servicers to provide a certification that they are currently or will be in compliance with the LPI requirements announced in Bulletin 2013-27 by completing the *Lender-Placed Insurance Compliance Certification* form. The form is posted on our web page at

http://www.freddiemac.com/singlefamily/service/servicing_alignment.html. The completed form must be returned to Freddie Mac via e-mail at Lender_Placed_Insurance@freddiemac.com by **April 30, 2014**.

ALTERNATIVES TO FORECLOSURE

Standard and Streamlined Modifications

Based on Servicer feedback, we will be revising certain requirements announced in Bulletin 2013-27 related to the processing of Standard and Streamlined Modifications for Mortgages with pre-modification MTMLTV ratios less than 80%. Until the revised requirements become effective, Servicers may continue to rely on the requirements announced in Bulletin 2013-27 pertaining to Mortgages with a pre-modified MTMLTV ratio less than 80%, but they are no longer required to implement those changes by April 1, 2014. Alternatively, Servicers may continue to submit exceptions via Workout Prospector[®] for Borrowers who otherwise qualify for a Standard Modification in accordance with Guide Section B65.13, *Eligibility Requirements for a Freddie Mac Standard Modification*. Details of the revised requirements will be provided in an upcoming Bulletin and at that time we will update the Guide. We also will inform Servicers in a future Bulletin when Workout Prospector will be available to process the terms of Standard and Streamlined Modifications for Mortgages with pre-modification MTMLTV ratios less than 80%.

Adverse action notices

Effective June 1, 2014

We are updating the Guide to provide Servicers with requirements in circumstances where Freddie Mac participated in evaluating a Borrower for a workout or relief option and Freddie Mac declined to approve the workout or relief request. In those cases, Freddie Mac will provide the reasons why it did not approve the request to the Servicer.

In the event a denial of a request gives rise to an obligation to provide the Borrower with a notice or notices under applicable law including, but not limited to, adverse action notices required by the Equal Credit Opportunity Act or the Fair Credit Reporting Act, the Servicer must:

- Provide the notice(s) to the Borrower on behalf of Freddie Mac under certain limited circumstances and
- Identify in the notice(s) that both the Servicer and Freddie Mac participated in the evaluation of the workout or relief option request and the decision to deny the request

Sections 53.8, *Compliance with Applicable Law*, A65.21 and A65.25 each titled, *Approval Authority*, A65.26, *Unemployment Forbearance*, B65.13, *Eligibility Requirements for a Freddie Mac Standard Modification*, and 68.4, *Delinquency Management Activities*, have been updated to reflect these changes.

Property valuations

We are reorganizing our property valuation requirements for Home Affordable Modification Program (HAMP[®]) modifications, Freddie Mac Standard Modifications and Freddie Mac Streamlined Modifications into a user-friendly chart with additional guidance.

Additionally, in response to Servicer requests, we will not discontinue use of the AVM special report provided on Freddie Mac's web site, as announced in Bulletin 2013-20. We have updated the Guide to reinstate use of the AVM report as an option for obtaining the value of the Mortgaged Premises for HAMP modifications, Standard Modifications and Streamlined Modifications. Servicers can access the AVM report at http://www.freddiemac.com/singlefamily/service/mha_modification.html.

Sections 65.39, *Obtaining a Property Value*, B65.16, *Property Valuation Requirements*, and C65.6, *Underwriting the Borrower*, have been updated to reflect these changes.

Borrower income documentation

In response to Servicer questions, we are providing additional guidance related to our paystub requirements for income documentation submitted with a Borrower Response Package. For each Borrower who is employed, the Servicer must obtain paystub(s) reflecting the most recent 30 days or four weeks of earnings. More than one paystub may be required depending on the payment frequency. Refer to updated Section 65.18, *Borrower Income Documentation*, for guidance on the number of paystubs required when the Borrower is paid monthly, semi-monthly, bi-weekly or weekly.

TRANSFER TAXES

Reimbursement of transfer taxes

As stated in Section 71.24, *Non-Reimbursable Expenses*, Freddie Mac does not reimburse Servicers if they paid transfer taxes in connection with the recording of deeds conveying real estate to Freddie Mac after a foreclosure or deed-in-lieu of foreclosure. Freddie Mac does not reimburse such payments because it is exempt from such taxes pursuant to its federal charter (Title 12 of the United States Code, Section 1452(e)) and other applicable law. However, several localities still demand that the transfer taxes be paid. In most of these jurisdictions, pending litigation has been initiated in order to resolve the dispute, but in limited circumstances it may be advisable to pay the transfer taxes under protest until the litigation is completed.

We have therefore updated the Guide to provide that a Servicer Servicing a Mortgage owned or guaranteed by Freddie Mac will be reimbursed for transfer taxes if:

- Local authorities require the Servicer to pay the transfer tax in order to record a deed and ensure that title vests appropriately
- The transfer tax is paid under protest
- The Servicer submits the request for written pre-approval (RPA) for reimbursement of the transfer tax via the Freddie Mac Reimbursement System, and
- Foreclosure counsel could not process the foreclosure in a manner that would successfully avoid the imposition of the transfer tax obligation

Servicers must use expense code 074003 (Transfer Tax) when submitting an RPA or subsequent claim in the Reimbursement System. RPAs may be submitted prior to the foreclosure sale or after the foreclosure sale if the property is not purchased by a third party and must be accompanied by supporting documentation including, but not limited to, proof that the transfer tax was paid under protest.

Servicers will not be reimbursed for transfer taxes if any of the above conditions and requirements do not exist or are not met.

Sections 66.54, *Vesting the Title and Avoiding Transfer Taxes*, and 71.24 have been updated to reflect these requirements.

Foreclosing in Freddie Mac's name

Foreclosures must normally be processed or litigated in the Servicer's name. However foreclosures must also be processed in a manner that would avoid any obligation to pay a transfer tax. We have therefore updated Section 66.17, *Foreclosing in the Servicer's Name*, to allow the Servicer to instruct foreclosure counsel to conduct the foreclosure in Freddie Mac's name without obtaining prior written approval if:

- Applicable law would require the foreclosure to be processed in Freddie Mac's name to avoid any obligation to pay a transfer tax, and
- Foreclosure counsel could not otherwise process the foreclosure in a manner that would successfully avoid the imposition of the transfer tax obligation

In such circumstances, the Servicer must notify Freddie Mac via e-mail at

Nonroutine_litigation@freddiemac.com 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.

Executing documents

As a reminder, if Freddie Mac needs to execute a document for the Servicer to conduct the foreclosure, the Servicer must submit the document (which must be sent along with Guide Form 105, *Multipurpose Loan Servicing Transmittal*) to us via e-mail at **Foreclosures@freddiemac.com**.

ADDITIONAL GUIDE UPDATES

Bankruptcy cramdowns

Effective May 1, 2014

Pursuant to Section 67.13, *Bankruptcy Cramdowns*, Servicers are required to notify Freddie Mac in the event a bankruptcy plan has been confirmed.

We have updated Section 67.13 to provide that confirmed bankruptcy cramdown plans must be transmitted to Freddie Mac via Workout Prospector for the purposes of settling the confirmed bankruptcy cramdown in our systems.

Servicers are also reminded that in the event they receive a proposed reorganization plan that includes a bankruptcy cramdown that is not in compliance with Guide Chapters B65, *Workout Options*, and C65, *Home Affordable Modification Program*, they must advise counsel to file an objection to the reorganization plan asserting that the plan may not modify the original Security Instrument and Note by means of a bankruptcy cramdown.

Foreclosure sale bidding

We have updated Section 66.43, *First-Lien Mortgages Not Covered by Mortgage Insurance*, to provide that for First-Lien Mortgages not covered by mortgage insurance, the Servicer does not need to bid an amount at foreclosure sale more than the minimum bid required by State law if the minimum bid required by State law exceeds the credit bid, but is less than the total indebtedness or such other amount as may be required by State law. However, if the minimum bid required by State law exceeds the credit bid, total indebtedness, and such other amount as may be required by State law, then the Servicer must follow the instructions in Section 66.42, *Delegated Bidding*.

Electronic Default Reporting (EDR)

Effective May 1, 2014

In Bulletin 2014-1, we updated Section A65.10, *Reporting and Processing the Reinstatement*, to provide that, 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 in foreclosure in the prior month.

We are correcting Section A65.10 to state that Servicers must notify Freddie Mac when accepting a reinstatement of a Mortgage that has been reported to Freddie Mac as **30** days or more delinquent or in foreclosure in the prior month.

Additionally, we are updating the *Delinquencies/Foreclosures Not Reported* report that is detailed in Section 64.10(b), to reflect any Mortgage that was reported as being 30 or more days delinquent or in foreclosure during the prior month but was omitted from the current month's EDR transmission.

Section 64.10, *Monthly Electronic Default Reporting (EDR)*, has been updated to reflect this change.

Property preservation

Effective April 15, 2014

In Bulletin 2013-22, we announced extensive updates to our property preservation requirements. Included in those updates were 36 new property preservation expense codes, 28 of which were available for immediate use at the time of the Bulletin, with the remaining eight to be added to the Reimbursement System prior to the March 15, 2014 effective date.

To facilitate the early adoption of the updated requirements, we provided eight previously existing expense codes for Servicers to use as temporary substitutes for the eight new expense codes not available for use in the Reimbursement System. Those eight expense codes have since been added to the Reimbursement System and we have accordingly updated Guide Exhibit 57, *1-to 4-Unit Property Approved Expense Amounts*, to remove the temporary expense code guidance. Servicers may still access this guidance and previous property preservation requirements in earlier effective date versions of the exhibit.

Additionally, we have made the following updates to our property preservation requirements:

- Adjusted the unit price to up to \$80 and expense limit to up to \$100 for expense code 094016 (Yard Maintenance) (Lots of up to 10,000 square feet))
- Re-categorized the yard maintenance season for the State of Kansas from year round (semi-monthly) to March 1 – October 31 (semi-monthly)

Exhibits 57 and 74, *Expense and Income Codes for Expense Reimbursement Claims*, have been updated to reflect these changes.

Notice of Office of Foreign Assets Control (OFAC) violation

Section 53.8 requires Servicers to screen Mortgages for OFAC compliance and notify Freddie Mac if they identify a match against OFAC's list of Specially Designated Nationals and Blocked Persons ("OFAC SDN List"). We have updated our contact information for Servicers to notify Freddie Mac when they identify a valid match. Servicers must now notify Freddie Mac of such valid OFAC SDN List match via e-mail at mortgage_fraud_reporting@freddiemac.com. As a reminder, such notification must be e-mailed within 24 hours of blocking or rejecting the Mortgage or Mortgage transaction based on the valid OFAC SDN List match.

Section 53.8 and Directory 1 have been updated to reflect this change.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 53, 64, 65, A65, B65, C65, 66, 67, 68 and 71
- Exhibits 57 and 74
- Directory 1

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2014-3 (Servicing) Guide Updates Spreadsheet available at http://www.freddiemac.com/singlefamily/guide/docs/bl1403_spreadsheet.xls.

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