



TO: Freddie Mac Sellers and Servicers

April 24, 2014

2014-6

SUBJECTS

Selling and Servicing

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

- Requiring Seller/Servicers to notify Freddie Mac immediately when they are notified of a guilty plea indicating lack of integrity or when they are notified that law enforcement or another governmental authority is investigating or prosecuting a Seller/Servicer's board member, officer, employee or contractor for fraud
- Updating Guide Exhibit 13, *Standard Flood Hazard Determination Form*, to incorporate the latest version of Federal Emergency Management Agency (FEMA) Form 81-93, *Standard Flood Hazard Determination Form*, and updating our flood insurance requirements
- Adding specificity about Document Custodian functions and duties and Servicer requests for constructive possession of Notes
- Removing the requirement that the Borrower maintain rent loss insurance for a 2- to 4-unit Primary Residence
- Revising Exhibits 4, *Single-Family Uniform Instruments*, and 5, *Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application*, to incorporate recent Uniform Instrument updates
- Announcing new Guide-related enhancements and reminding Seller/Servicers of existing resources for Freddie Mac news

Selling

This Bulletin clarifies our **selling** requirements related to:

- Unemployment compensation as an eligible source of income for Freddie Mac Relief Refinance MortgagesSM
- The applicability of certain resale restrictions

EFFECTIVE DATE

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

SELLING AND SERVICING

Immediate reporting of fraud or possible fraud

We are modifying Guide Sections 7.3 and 57.3, each titled *Reporting Requirements*, to require Seller/Servicers to notify Freddie Mac immediately when they are notified of the entry of a guilty plea indicating lack of integrity and relating to a participant in a Mortgage or related real estate transaction, or relating to a board member, officer, employee or contractor of the Seller/Servicer. Prior to this Bulletin, Seller/Servicers were required to notify Freddie Mac only when they were notified of a civil judgment or criminal conviction. We are adding "guilty plea" to cover the period between a defendant's guilty plea and the date on which the defendant is convicted.

We also are modifying these sections to require Seller/Servicers to notify Freddie Mac immediately when they are notified by law enforcement or another governmental authority that such authority is conducting an investigation or prosecution of fraud relating to a Seller/Servicer's board member, officer, employee or contractor.

Flood insurance

FEMA revised the Standard Flood Hazard Determination Form (SFHDF), which changed FEMA Form 81-93 to FEMA Form 086-0-032. We are updating Exhibit 13 to reflect FEMA Form 086-0-032, which requires parcel number in addition to the property address to identify real estate collateral.

To allow time to transition to Form 086-0-032, FEMA allowed users a three-year transition period so user systems can be changed before final adoption of the form is required on May 30, 2015. The prior FEMA Form 81-93 may be used for flood zone determinations made on or before May 30, 2015.

The Freddie Mac Implementation Guide for Loan Delivery Data will reflect in the next quarterly update of *Appendix A, Freddie Mac XML Data Requirements V.3.1.0*, the change to the FEMA Standard Flood Hazard Determination Form.

We are also revising Section 58.3, *Flood Insurance*, to clarify that when the SFHDF identifies the insurable improvements on the Mortgaged Premises as being located in an area that has been identified as a Special Flood Hazard Area (SFHA), the designated zone *contains* the letter “A” or “V” rather than being *designated* as Zone “A” or “V” as the Guide previously stated.

We will also allow the date in the “Date of Determination” field on the SFHDF to be more than 120 days before the Note Date of the Mortgage or, if applicable, the Note Date of the refinance Mortgage, when certain requirements are met. This will allow a Seller/Servicer to use the same SFHDF more than 120 days from the time of the initial request for a Flood Zone Determination (FZD) if the third party providing the FZD provides a “life of loan” certificate that assures ongoing monitoring.

Obtaining constructive or physical possession of the Note

Servicers may be required to be in physical or constructive possession of the Note when taking legal action, such as a Freddie Mac Default Legal Matter, when Servicing a Freddie Mac Mortgage. To enhance Seller/Servicers’ ability to assert their authority to undertake such legal action, we are updating Sections 18.4, *Seller/Servicer Responsibilities*, and 18.6, *Document Custodian’s Functions and Duties*, to include requirements outlining:

- When a Servicer is deemed by Freddie Mac to be in constructive possession of the Note
- How the Servicer is to notify the Document Custodian of the commencement and cessation of such possession
- The obligations of the Document Custodian to the Servicer and Freddie Mac during such possession, and
- How the Servicer is to request physical possession of the Note from the Document Custodian when the Servicer determines physical possession to be the more appropriate form of possession for a specific legal action

As a part of this update we are also:

- Revising Guide Form 1036, *Request for Release of Documents*, to allow for its use in requesting physical possession of the Note from the Document Custodian or notifying the Document Custodian of the commencement and/or cessation of the Servicer’s constructive possession of the Note. To reflect its new content and purpose, Form 1036 has been renamed *Request for Physical or Constructive Possession of Documents* and all applicable Guide references to the form name have been updated. Also, Form 1036 is now a fillable form for Seller/Servicer convenience.
- Clarifying the functions of the Document Custodian to state that the Document Custodian maintains physical custody of the Note, in trust, for the benefit of the Seller/Servicer when the Seller/Servicer determines it is in need of constructive possession and, in trust, for the benefit of Freddie Mac at all other times. Prior to this update, the Document Custodian was described as holding the Note for the sole benefit of Freddie Mac.

We are making additional clarifications to the requirements in Sections 18.4 and 18.6 and to the Glossary terms “Document Custodian” and “Note.” Seller/Servicers are encouraged to review the updated sections for more detailed information.

The Document Custody Procedures Handbook has also been updated to reflect these changes.

Rent loss insurance for 2- to 4-unit Primary Residences

Prior to this Bulletin, the Guide required that the Borrower maintain six months' rent loss insurance for a 2- to 4-unit Primary Residence when rental income is used in qualifying. We are removing the requirement for rent loss insurance when the property is a 2- to 4-unit Primary Residence. Sections 22.19, *General Property Insurance Requirements*, and 58.3.2, *Rent Loss Insurance*, have been updated to reflect this change.

As a result of this change, we are adding a permitted change to the 1-4 Family Rider, Form 3170. If the Mortgaged Premises is a 2- to 4-unit Primary Residence, originators must delete Paragraph D (Rent Loss Coverage) from the 1-4 Family Rider.

As a reminder, the Borrower must maintain six months' rent loss insurance for an Investment Property when rental income is used in qualifying, as required in Section 22.22.1, *Investment Property Mortgages*.

Uniform Instrument updates

Effective October 15, 2014

Updates to Exhibit 4

Freddie Mac and Fannie Mae have created a new joint MERS[®] Rider (Form 3158), available as a Uniform Instrument. Due to recent legal developments in the States of Montana, Oregon and Washington, we are requiring MERS Rider (Form 3158) be attached to the Security Instruments in these States for newly originated Mortgages that will be registered with MERS. The new MERS Rider must be used in the three States no later than October 15, 2014, but may be used immediately.

Note: In Montana, Oregon and Washington, subsequent assignment into MERS is prohibited.

Exhibit 4 has been revised to incorporate Form 3158. In addition, MERS Rider (Form 3158) has been posted on our Uniform Instruments web page at <http://www.freddie.mac.com/singlefamily/guide/>.

Updates to Exhibit 5

Exhibit 5 has been updated to include authorized changes to Security Instruments related to use of the MERS Rider (Form 3158). In addition we are removing the previous MERS as Original Mortgagee of Record (OMR) authorized change for Montana, Oregon and Washington because the MERS Rider (Form 3158) replaces it. The new MERS Rider must be used in the three States no later than October 15, 2014, but may be used immediately. However, until originators begin to use the MERS Rider (Form 3158), they must continue to follow the requirements set forth in paragraphs V.(F) and (W) of Exhibit 5.

We are also updating Exhibit 5 as it relates to Mortgage Loan Originators and Mortgage Licensing System and Registry Identification Numbers for consistency with our Uniform Instrument web page at <http://www.freddie.mac.com/singlefamily/guide/>.

Enhancements and resources

Guide table of contents on AllRegs[®]

A document listing the full table of contents for the Guide is now posted on AllRegs. This document features links directly to each chapter, section, form and exhibit (each a "provision"). Effective with this Bulletin, once a provision is updated with a Bulletin, the provision's title in the table of contents will be highlighted for 60 days. This separate table of contents document allows users to see all provision titles and determine which provisions have been recently updated in one view.

Historical Guide Snapshots

Freddie Mac recently published the [March 28, 2014 Historical Guide Snapshot](#), which reflects Guide requirements as of that date in a Portable Document Format (PDF) file. The snapshot includes two comprehensive files:

- A PDF file of the entire Guide, including a table of contents, easy-to-use navigational bookmarks and highlighting designating updates made to the Guide since the date of the last Guide snapshot

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- A PDF file containing all of the Bulletins and Industry Letters issued since the date of the last Guide snapshot

All Guide snapshots are available at <http://www.freddiemac.com/singlefamily/guide/bulletins/snapshot.html>. Freddie Mac provides these snapshots as a convenience to our Seller/Servicers; they are not official versions of the Guide.

Single-Family Business News Subscription Center

Seller/Servicers are encouraged to visit our [Single-Family Business News Subscription Center](#) to ensure they are receiving the latest e-mails on single-family selling and Servicing news, alerts and new training and education opportunities. Seller/Servicers can subscribe to specific categories based on individual responsibilities and interests, or update their current subscription.

SELLING

Income source eligibility for Relief Refinance Mortgages

In response to customer inquiries, we are clarifying that unemployment compensation is an eligible source of income for Relief Refinance Mortgages. For these Mortgages, Sellers are not required to make a determination that income, including public assistance, is expected to continue for at least three years. Therefore, unemployment compensation, which is a type of public assistance, is an eligible income source under Sections A24.3, *Requirements for Freddie Mac Relief Refinance MortgagesSM – Same Servicer*, and B24.3, *Requirements for Freddie Mac Relief Refinance MortgagesSM – Open Access*.

Clarification on resale restrictions

We have updated the language in Section 22.23, *Purchase Requirements for Mortgages Secured by Properties with Resale Restrictions*, to clarify the applicability of resale restrictions.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 7, 18, 22, 57, 58, A65 and 66
- Exhibits 4, 5 and 13
- Form 1036
- Glossary

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2014-6 (Selling and Servicing) Guide Updates Spreadsheet available at http://www.freddiemac.com/singlefamily/guide/docs/bl1406_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.

Sincerely,



Laurie Redmond
Vice President
Offerings Effectiveness