



TO: Freddie Mac Sellers and Servicers

May 12, 2014

| 2014-8

SUBJECT: SELLING REPRESENTATION AND WARRANTY FRAMEWORK UPDATES

Freddie Mac, jointly with Fannie Mae and at the direction of the Federal Housing Finance Agency, is pleased to announce that it is making a number of significant enhancements to the selling representation and warranty framework introduced in 2012. These changes, including revisions related to how a Mortgage becomes eligible for relief from certain specified selling representations and warranties as described in *Single-Family Seller/Servicer Guide* (“Guide”) Section 6.14(a), *Representations and Warranties*, include:

- Relaxing the acceptable payment history requirement for determining when a Mortgage is eligible for relief from the selling representations and warranties
- Introducing an additional path for eligible Mortgages to obtain relief from the selling representations and warranties. In addition to the payment history path, Sellers will also obtain relief from the selling representations and warranties if there is a satisfactory conclusion of a Freddie Mac quality control review of the Mortgage.
- Providing Sellers with written notice of Mortgages that have met the eligibility requirements for relief from the selling representations and warranties
- Implementing an alternative to repurchase that may allow a Seller to “stand-in” in lieu of repurchasing the Mortgage. We will not automatically require repurchase when notified that primary mortgage insurance has been rescinded on a Mortgage.

The selling representation and warranty framework that was announced in Guide Bulletin 2012-18 is referred to as Version 1 of the framework. The selling representation and warranty framework announced in Bulletin 2012-18 as modified by the changes described in this Bulletin is referred to as Version 2 of the framework.

EFFECTIVE DATES

Version 1 of the framework is effective for Mortgages with Freddie Mac Settlement Dates on and after January 1, 2013 and before July 1, 2014. Version 2 of the framework, as announced in this Bulletin, is effective for Mortgages with Freddie Mac Settlement Dates on and after July 1, 2014.

REQUIREMENTS UNDER VERSION 2 OF THE FRAMEWORK

Under Version 2 of the framework, there are two separate, independent paths through which a Seller/Servicer may obtain relief from the selling representations and warranties. Relief will either be based on:

- The Borrower’s acceptable payment history, or
- A satisfactory conclusion of a Freddie Mac quality control review

Details and timing of relief related to these paths are described below.

Relief based on acceptable payment history

Under Version 2 of the framework, we are relaxing our requirements for relief based on an acceptable payment history so that Mortgages that would previously have obtained relief upon the Borrower’s 60th monthly payment will now receive relief upon the Borrower’s 36th monthly payment.

If the relief is based on the Borrower's acceptable payment history, the relief will occur either:

- For Mortgages other than Freddie Mac Relief Refinance MortgagesSM ("Non-Relief Refinance Mortgage"), upon payment by the Borrower of the first 36 monthly payments due following the Freddie Mac Settlement Date, provided that the Borrower:
 - Had no more than two 30-day Delinquencies
 - Had no 60-day or greater Delinquencies, and
 - Is not 30 or more days delinquent with respect to the 36th monthly payment, or
- For a Relief Refinance Mortgage, the earlier of:
 - Upon payment by the Borrower of the first 12 monthly payments due following the Freddie Mac Settlement Date, provided the Borrower had no 30-day or greater Delinquencies, or
 - Upon payment by the Borrower of the first 36 monthly payments due following the Freddie Mac Settlement Date, provided the Borrower:
 - Had no more than two 30-day Delinquencies and no 60-day or greater Delinquencies, and
 - Is not 30 or more days delinquent with respect to the 36th monthly payment

Note: We are clarifying that the acceptable payment history begins on the date of the first monthly payment due from the Borrower after the Freddie Mac Settlement Date. This clarification applies to Version 1 and Version 2 of the framework.

Relief based on a Freddie Mac quality control review

Under Version 2 of the framework, we are adding an additional path through which Mortgages may qualify for relief of the selling representations and warranties: a satisfactory conclusion of a quality control review. These requirements for obtaining relief apply both to performing loans and non-performing loans. Relief will be obtained under the quality control review path regardless of whether the Mortgage met the acceptable payment history criteria.

Quality control reviews will be conducted in accordance with our current quality control review practices as described in our October 19, 2012 Industry Letter.

Each of the situations described in the bullets below is considered to be a satisfactory conclusion of a quality control review. If the relief is based on a Freddie Mac quality control review, the relief will occur when one of the following takes place:

- Freddie Mac completes the quality control review of the loan file, which includes a review of the credit underwriting and eligibility of the Borrower, the Mortgaged Premises (including its value), and the project in which the Mortgaged Premises is located, if applicable ("the quality control review"), and determines that the Mortgage is acceptable (that is, it is not subject to a repurchase request)
- Freddie Mac completes the quality control review and determines the Mortgage is not acceptable because of a loan deficiency that is curable, and the Seller/Servicer cures the deficiency to Freddie Mac's satisfaction. This process is more fully described in the October 19, 2012 Industry Letter and will be further clarified with future communications as needed. Relief will be effective upon the correction of the loan deficiency. For example, if the Mortgage file delivered to Freddie Mac did not contain the required verification of income, the loan deficiency would be deemed to be corrected if the Seller/Servicer provided the missing documentation within the time frame specified. Another example of an action taken to correct a loan deficiency is rectifying a prior lien by producing evidence of a recorded satisfaction or release of such prior lien within the time frame specified.
- Freddie Mac completes the quality control review and determines the Mortgage is not acceptable, but may be eligible for a repurchase alternative that expires or terminates by its terms. In this case, relief will be provided on the date of expiration or termination of the repurchase alternative. For example, if Freddie Mac determined a Mortgage was not acceptable and, as a repurchase alternative, Freddie Mac and the Seller/Servicer agreed that the Mortgage would be subject to recourse for five years, then the Seller/Servicer would be relieved of the selling representations and warranties at the end of the five-year period. Other possible repurchase alternatives include indemnification, make-whole arrangements, and certain split-loss agreements; in each case, the repurchase alternative must satisfactorily expire or terminate by its terms in order for the affected

Mortgage to be eligible for relief from the selling representations and warranties under Version 2 of the framework.

DIFFERENCES BETWEEN VERSION 1 AND VERSION 2 OF THE FRAMEWORK

The following chart summarizes the differences between Version 1 and Version 2 of the framework for non-Relief Refinance Mortgages:

Representation and Warranty Framework – Non-Relief Refinance Mortgages		
Relief Criteria	Version 1 – Bulletin 2012-18	Version 2 – Bulletin 2014-8
Effective dates	Effective for Mortgages sold on and after January 1, 2013 and before July 1, 2014	Effective for Mortgages sold on and after July 1, 2014
Number of required consecutive monthly payments after the Freddie Mac Settlement Date	36	36
Number of Delinquencies permitted during first 36 monthly payments after the Freddie Mac Settlement Date in order to be eligible for relief after the 36th monthly payment	0 x 30	2 x 30 and 36 th monthly payment is not delinquent
Opportunity to re-establish acceptable payment history if there were Delinquencies in the first 36 monthly payments after the Freddie Mac Settlement Date?	Yes, as of the 60 th monthly payment, provided no more than 2 x 30 Delinquencies in first 36 monthly payments and 60 th monthly payment is not delinquent	Not applicable
Eligible for relief after satisfactory conclusion of quality control review?	No	Yes

The following chart summarizes the differences between Version 1 and Version 2 of the framework for Relief Refinance Mortgages:

Representation and Warranty Framework - Relief Refinance Mortgages		
Relief Criteria	Version 1 – Bulletin 2012-18	Version 2 – Bulletin 2014-8
Effective dates	Effective for Mortgages sold on and after January 1, 2013 and before July 1, 2014	Effective for Mortgages sold on and after July 1, 2014
Number of required consecutive monthly payments after the Freddie Mac Settlement Date	12	12
Number of Delinquencies permitted during first 12 monthly payments after the Freddie Mac Settlement Date in order to be eligible for relief after the 12th monthly payment	0 x 30	0 x 30
Opportunity to re-establish acceptable payment history if there were Delinquencies in the first 12 monthly payments after the Freddie Mac Settlement Date?	Yes, as of the 60 th monthly payment, provided no more than 2 x 30 Delinquencies in first 36 monthly payments and 60 th monthly payment is not delinquent	Yes, as of the 36 th monthly payment, provided no more than 2 x 30 Delinquencies in first 36 monthly payments and 36 th monthly payment is not delinquent
Eligible for relief after satisfactory conclusion of quality control review?	No	Yes

Note: Other provisions of the selling representation and warranty framework described in Section 6.14, *Enforcement of Representations and Warranties Related to Underwriting of the Borrower, Mortgaged Premises and Project*, have not changed and remain applicable under both versions of the framework.

QUALITY CONTROL PROCESSES SUPPORTING THE FRAMEWORK

With the implementation of Version 2 of the framework, Freddie Mac's quality control review process becomes an integral part of the relief framework. Our quality control review practices and processes not only help ascertain the quality of Mortgages sold to Freddie Mac, they also aid in determining whether the Mortgages sold to Freddie Mac are eligible for relief from selling representations and warranties.

In the October 19, 2012 Industry Letter, we provided a detailed description of our quality control review principles, sample processes, file request and review time lines, review practices and enforcement practices and time lines. Those policies and practices remain generally unchanged and in effect for Version 2 of the framework. However, the sections titled "Subsequent Mortgage file review process" and "Repurchase and appeal process" do not anticipate that a satisfactory conclusion of a quality control review will provide a Mortgage with relief from the selling representations and warranties. As those paragraphs relate to Version 2 of the framework, they are amended by the provisions of this Bulletin describing the satisfactory conclusion of quality control review.

As we have in the past, Freddie Mac will continue to refine our sampling methodology based on loan quality and ongoing industry changes.

ONGOING COMMUNICATION WITH SELLER/SERVICERS ABOUT MORTGAGE QUALITY

Freddie Mac's goal is to continue engaging in frequent, meaningful exchanges of information with its Seller/Service providers on quality trend analyses and significant underwriting deficiencies identified through the quality control review process. Freddie Mac believes such communications strengthen the alignment between Freddie Mac and its Seller/Service providers on what constitutes a significant deficiency, and provides both parties with a clear understanding of underwriting philosophy and how it applies to loan-level findings. Freddie Mac requires that Seller/Service providers implement and enforce strong underwriting processes and, if necessary, will work with Seller/Service providers to develop action plans to improve origination quality.

Refer to our [quality control web page](#) for additional quality control information and reference materials.

NOTIFICATION OF RELIEF UNDER VERSION 1 AND VERSION 2 OF THE FRAMEWORK

Beginning in the third quarter 2014, Freddie Mac will provide Sellers with reports listing those Mortgages that meet the criteria for representation and warranty relief under both Version 1 and Version 2 of the framework. The reports will be provided to the entity responsible for the selling representations and warranties. Prior to their availability, we will provide information on when and how Sellers will receive the reports.

As this new process is implemented, we will continue to work with Seller/Service providers to ensure they receive the necessary information to reconcile their portfolios' representation and warranty status with Freddie Mac.

NEW ALTERNATIVE TO REPURCHASE – MI STAND-IN

Freddie Mac will not automatically require repurchase when notified that primary mortgage insurance has been rescinded on a Mortgage. For Mortgages with Freddie Mac Settlement Dates on or after July 1, 2014, we have developed a new alternative to repurchase that will be available in cases where the primary mortgage insurance for a particular Mortgage has been rescinded. In these cases, the Seller/Service provider will pay Freddie Mac the full mortgage insurance claim amount that would have been payable under the original mortgage insurance policy ("MI stand-in"). The Seller/Service provider will be required to pay the MI stand-in amount at the time the primary mortgage insurance claim would have been paid had the mortgage insurance coverage remained in place.

If Freddie Mac receives notice that primary mortgage insurance for a particular Mortgage has been rescinded, Freddie Mac will call in the Mortgage file for a quality control review. If, after a quality control review, Freddie Mac determines that (1) the primary mortgage insurance was in effect at the time Freddie Mac purchased the Mortgage, (2) the Mortgage is otherwise acceptable, and (3) the Seller/Service provider is in good standing, Freddie Mac will provide the Seller/Service provider with information on how to initiate a discussion on repurchase alternatives. If the Seller/Service provider meets Freddie Mac's financial requirements, Freddie Mac will offer the MI stand-in alternative. If the Seller/Service provider does not meet Freddie Mac's financial requirements, Freddie Mac will work with the Seller/Service provider to find an alternative solution.

MI stand-ins will be available for Mortgages subject to Version 2 of the framework, and the list of alternatives to repurchase in the October 19, 2012 Industry Letter is amended accordingly.

TRAINING

To help Seller/Service providers understand the changes announced in this Bulletin, we encourage registration in our new webinar, [**Selling Representation and Warranty Framework, Version 2.**](#)

Seller/Service providers should visit [**Freddie Mac's Learning Center**](#) and the [**Freddie Mac Representation and Warranty web page**](#) for additional reference information and tools in support of the selling representation and warranty framework.

REVISIONS TO THE GUIDE

Section 6.14 has been updated to reflect the changes to Version 1 of the framework and the requirements for Version 2 of the framework.

CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely,

A handwritten signature in cursive script that reads "Laurie A. Redmond". The signature is written in black ink on a white background.

Laurie Redmond
Vice President
Offerings Effectiveness