



TO: Freddie Mac Sellers and Servicers

May 20, 2015

2015-8

SUBJECT: SELLER/SERVICER ELIGIBILITY

At the direction of the Federal Housing Finance Agency (FHFA), this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin announces changes to our [financial eligibility requirements](#) including:

- Revisions to Seller/Servicer net worth requirements
- Adoption of new Seller/Servicer capital and liquidity requirements

We are also enhancing certain [Servicer operational requirements](#) to provide additional information regarding:

- Freddie Mac’s expectations for [Master Servicers and their Servicing Agents](#)
- Transferor and Transferee Servicers in connection with [Subsequent Transfers of Servicing](#) of Freddie Mac Mortgages
- [Notification of class action legal proceedings](#) or regulatory or supervisory actions, proceedings or investigations
- Servicer [quality control programs](#)

SELLER/SERVICER FINANCIAL ELIGIBILITY REQUIREMENTS

Effective December 31, 2015

We are revising our Seller/Servicer net worth requirements and implementing new Seller/Servicer capital and liquidity requirements to better manage Freddie Mac’s counterparty risk exposure.

Seller/Servicers that do not meet the new minimum financial eligibility requirements reflected in updated Guide Section 4.3 must take steps to be in, and to maintain, compliance with these requirements on and after the effective date. Such Seller/Servicers should contact their Freddie Mac representative or Customer Support at (800) FREDDIE to further discuss the requirements. We will continue to monitor Seller/Servicer financial eligibility compliance and non-compliance. In our discretion, we may provide non-compliant Seller/Servicers with additional time to remediate deficiencies on a case by case basis or take other appropriate action.

Seller/Servicers that are depository institutions

All Seller/Servicers that are depository institutions must at all times maintain an Acceptable Net Worth of \$2,500,000 plus a dollar amount equivalent to 25 basis points of the unpaid principal balance (UPB) of all Mortgages secured by 1- to 4-unit residential properties that it services directly, regardless of whether the Mortgages are owned by the Servicer or by a third-party investor. Freddie Mac will exclude from the Acceptable Net Worth calculation the UPB of any Mortgages for which a Servicer is engaged by another entity to service those Mortgages as a subservicer.

Seller/Servicers that are depository institutions must maintain compliance with their applicable capital and liquidity requirements imposed by their regulators.

Seller/Servicers that are not depository institutions

In addition to meeting the Acceptable Net Worth requirement above, Seller/Servicers that are not depository institutions must also maintain a:

- Tangible Net Worth/total assets ratio greater than or equal to 6%; and
- Liquidity equal to or exceeding 3.5 basis points times the aggregate UPB of all Mortgages secured by 1- to 4-unit residential properties serviced for Freddie Mac, Fannie Mae and Ginnie Mae (“Agency

Mortgage Servicing”) plus 200 basis points times the sum of nonperforming (90 or more days delinquent) Agency Mortgage Servicing that exceed 6% of Agency Mortgage Servicing

Seller/Servicer compliance with the new financial eligibility requirements must be maintained at all times.

Definitions for financial eligibility requirements

The following terms and definitions have been added to Section 4.3 to assist Seller/Servicers in better understanding the financial eligibility requirements:

- **Agency Mortgage Servicing:** The aggregate unpaid principal balance (UPB) of all Mortgages secured by 1- to 4-unit residential properties serviced for Freddie Mac, Fannie Mae and Ginnie Mae (a quarterly Chief Financial Officer certification of this information will be required). The UPB of any Mortgages for which a Servicer is engaged by another entity to service those Mortgages as a subservicer will be excluded.
- **Tangible Net Worth:** Total equity less receivables due from related entities, less goodwill and other intangible assets, less carrying value of pledged assets net of associated liabilities
- **Liquidity:** Cash and cash equivalents (unrestricted), certain investment grade securities that are available for sale or held for trade (including single-family mortgage-backed securities backed solely by Agency Mortgage Servicing, obligations of Government Sponsored Enterprises, and Treasury obligations), unused/available portion of committed Servicing advance lines (a quarterly Chief Financial Officer certification of this information will be required)

SERVICER OPERATIONAL REQUIREMENTS

Effective August 18, 2015

In response to Servicer requests for greater transparency and specificity, we are expanding our Guide requirements to incorporate more detail in connection with Transfers of Servicing and subservicing.

We thank our Servicers for the feedback that led to these enhancements, and encourage continued feedback to improve understanding of our requirements and facilitate implementation.

Related Glossary terms

We are adding the following terms and definitions to the Glossary:

- **Master Servicer:** A Servicer that has entered into a Subservicing Agreement with a Servicing Agent
- **Outsourced Vendor:** A third party, other than a Servicing Agent, engaged by a Servicer or a Servicing Agent to provide information and transaction processing services and other activities including, but not limited to, mailing solicitation letters, performing property inspections, property valuations or default-related legal services
- **Subservicing Agreement:** An agreement between a Servicer and its Servicing Agent whereby the Servicing Agent agrees to perform all or substantially all of the Servicing obligations of the Servicer (i.e., the Master Servicer)

We are also updating the definitions for the following Glossary terms:

- **Servicing Agent:** To state that the Servicing Agent is performing all or substantially all of the Servicer's Servicing obligations with respect to Mortgages owned or guaranteed by Freddie Mac
- **Servicing:** To reflect that Servicing is the performance of all applicable obligations

Master Servicers and Servicing Agents

Consistent with our practice to date, Freddie Mac continues to hold Master Servicers primarily responsible for the performance of their Servicing Agents. In furtherance of the obligations and agreements of the Master Servicer and Servicing Agent on Guide Form 479A, we are adding provisions to Section 51.4 and new Section 51.4.1 related to the Master Servicer and Servicing Agent's responsibilities when the Master Servicer's obligations will be undertaken by a new Servicing Agent (e.g., due to the termination or expiration of the Subservicing Agreement with a prior Servicing Agent) or performed directly by the Master Servicer itself.

The provisions also require that the **Master Servicer**:

- Disclose all relevant Purchase Documents containing Servicing requirements to its Servicing Agent prior to execution of Form 479A
- Establish an oversight and surveillance program to monitor its Servicing Agent's compliance with the Servicing requirements in the Guide and other Purchase Documents applicable to the Master Servicer. To provide additional guidance, we have developed a *Servicing Agent Oversight and Surveillance Program Best Practices* document.
- Maintain systems and processes to effectively manage and oversee its Servicing Agent

In addition, we have updated the Guide to ensure that **Servicing Agents** understand that they:

- Have no right to assume any part or the entirety of the Master Servicer's Servicing contract with Freddie Mac
- Have no right to enter into a Transfer of Servicing or other agreement to transfer any rights or obligations under the Subservicing Agreement to a third party
- Have rights under the Subservicing Agreement that are subject and subordinate in all respects to all rights, powers and prerogatives of Freddie Mac under the Purchase Documents, at law and in equity
- Are not a third-party beneficiary of any of the Purchase Documents between Freddie Mac and the Master Servicer

The requirements above are not all inclusive of Freddie Mac's expectations of Master Servicers and their Servicing Agents. Additional requirements are in revised Section 51.4 and new Section 51.4.1.

Servicing Agent Oversight and Surveillance Program Best Practices

The Servicer is responsible for compliance with all Servicing requirements under the Purchase Documents, including the actions and omissions of any Servicing Agent that has been engaged by the Servicer. Section 51.4 requires Master Servicers to develop an oversight and surveillance program to ensure compliance with our requirements.

We are providing the *Servicing Agent Oversight and Surveillance Program Best Practices* document, available at www.freddiemac.com/singlefamily/pdf/master_surveillance.pdf, to assist Master Servicers with monitoring their respective Servicing Agents' compliance with applicable Freddie Mac Servicing requirements. This best practices document provides an outline of the minimum activities that Master Servicers should perform as part of their oversight and surveillance programs. The minimum surveillance activities performed by a Master Servicer should be risk-based and therefore tailored based on the size of the subservicing relationship.

Subsequent Transfers of Servicing

We are revising the Transfer of Servicing requirements in Sections 56.3, 56.4 and 56.5 to:

- Require the Transferor Servicer to evaluate whether or not the proposed transfer will in any way impair its ability to demonstrate to Freddie Mac's satisfaction that it has sufficient capitalization, profitability, liquidity and funding sources to support its ongoing operations and its commitments to Freddie Mac following the transfer, and require the Transferee Servicer to conduct the same evaluation of itself
- State that Freddie Mac may perform a post-transfer review of any approved Transfer of Servicing, which may include onsite visits, to assess how well the Transferor and Transferee Servicers complied with the Servicing requirements of the Guide and applicable Purchase Documents, and to discuss best practices
- Require the Transferor Servicer to participate with the Transferee Servicer in a due diligence review of the transferred Mortgages
- State that the Transferor and Transferee Servicer should consider adopting the best practices set forth in the *Servicing Transfer Best Practices* document

Servicing Transfer Best Practices

Freddie Mac is providing the *Servicing Transfer Best Practices* document, available at www.freddiemac.com/singlefamily/pdf/tos_best_practices.pdf, to provide additional instructions to Transferor and Transferee Servicers on how to better manage their Transfer of Servicing activities.

This best practices document includes:

- Activities required pre- and post-Transfer of Servicing
- A description of Freddie Mac's activities pre-, during and post-transfer
- Best practices for Servicer monitoring and testing
- Examples of poor Servicing transfer activities that Servicers should avoid

Notification of legal proceedings or regulatory actions

In our October 28, 2014 Industry Letter, we reminded Seller/Servicers that if a Seller/Servicer becomes subject to any judgment, order, finding or regulatory action that would adversely affect the Seller/Servicer's ability to comply with the terms and conditions of the Purchase Documents, the Seller/Servicer must notify Freddie Mac within seven Business Days. We are revising our Guide to ensure Servicers undertaking a proposed Transfer of Servicing or subservicing relationship are similarly aware of such items.

Specifically, we are revising Section 4.11, Form 479A and Form 981 to require that the Master Servicer, Servicing Agents, Transferor Servicers and Transferee Servicers, respectively, notify Freddie Mac if the Master Servicer, Servicing Agent, Transferor Servicer or Transferee Servicer become subject to an active or threatened (overtly and in writing) class action legal proceeding or regulatory or supervisory action, proceeding or investigation, including, without limitation, any judgment, order, finding or settlement agreement that could adversely affect the Seller/Servicer's ability to comply with the terms and conditions of the Purchase Documents or otherwise potentially adversely impact Freddie Mac.

After August 18, 2015, Freddie Mac will no longer accept prior versions of the Forms 479A and 981.

Seller/Servicers are reminded that they are to complete and submit such change notifications in the applicable sections of Form 1107SF in accordance with the requirements in Section 4.11.

Servicer quality control programs

Each Servicer must implement a quality control program with respect to its Servicing of Mortgages for Freddie Mac, and, in implementing this program, may leverage its existing quality control processes. Freddie Mac may review and require changes to a Servicer's quality control program. Servicers must have written policies and procedures documenting their quality control program requirements and must consistently monitor compliance with these policies and procedures as part of a prudent risk management framework.

Various Guide sections currently include requirements that would be appropriate components of a Servicer's quality control program. Freddie Mac has created new Section 51.29, *Servicer's Quality Control Program*, which consolidates, by reference, the Guide's Servicing quality control requirements and enables Servicers to access all of them in one place. We have also provided minimum requirements for what must be included in a Servicer's quality control program.

CONCLUSION

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

Sincerely,



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