



TO: Freddie Mac Servicers

February 15, 2017 | 2017-1

SUBJECT: SERVICING UPDATES

This Guide Bulletin announces:

Obtaining and evaluating tax transcripts

- Revisions to our requirements for [obtaining and evaluating tax transcripts](#)

Mortgage modifications

- Early implementation requirements for the [Freddie Mac Flex ModificationSM](#)
- Adjustments to the Modification Loss Amount calculation used for the modification of a [Mortgage subject to an indemnification agreement](#) as announced in Bulletin 2016-5

Third-party foreclosure sales

- Updates to specify [Servicer responsibilities](#) related to property preservation and advancement of property taxes and insurance premiums after the purchase of a property by a third party at a foreclosure sale – **April 17, 2017**

Transfers of Servicing

- Requiring Servicers to use Electronic Signatures when signing [Guide Form 981, Agreement for Subsequent Transfer of Servicing of Single-Family Mortgages](#), revising our submission requirements for the form and updating the form – **June 1, 2017**

Additional Guide updates

- Further updates 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.

OBTAINING AND EVALUATING TAX TRANSCRIPTS

At the direction of the FHFA, under the Servicing Alignment Initiative (“SAI”) and jointly with Fannie Mae, we are implementing changes to our requirements related to IRS Form 4506T-EZ, *Short Form Request for Individual Tax Return Transcript*, and IRS Form 4506-T, *Request for Transcript of Tax Return*. These changes are being made in response to Servicer feedback and in an effort to provide a more flexible, streamlined process for Borrowers and Servicers.

The changes related to obtaining IRS Form 4506-T-EZ or IRS Form 4506-T, as applicable, and the circumstances in which a tax transcript must be obtained for evaluation are described below:

IRS Form 4506T-EZ and IRS Form 4506-T Requirements

Category	Requirements
<p>Circumstances in which the IRS Form 4506T-EZ or IRS Form 4506-T is required to be obtained and processed</p>	<p>Home Affordable Modification Program (HAMP®)</p> <p>Servicers must obtain a Borrower executed and completed IRS Form 4506T-EZ or IRS Form 4506-T, as applicable, in accordance with existing HAMP requirements to complete the Borrower Response Package. For evaluations conducted under HAMP, Servicers are reminded that complete Borrower Response Packages must have been submitted by December 30, 2016.</p> <p>Circumstances requiring a Borrower tax transcript</p> <p>Servicers must obtain and process IRS Form 4506T-EZ or IRS Form 4506-T, as applicable, to obtain a Borrower's tax transcript when:</p> <ul style="list-style-type: none"> • It is necessary to resolve inconsistencies between other information the Borrower provided (e.g., information the Borrower provided in Form 710, <i>Uniform Borrower Assistance Form</i>) and the income documentation; • The Borrower has income that is required to be documented by the Borrower's most-recent federal income tax return but the Borrower has not provided his or her signed federal income tax return, complete with all schedules and forms (i.e., Borrowers who are self-employed or file tax returns on a fiscal year basis). <p>Note: In this circumstance only, the Servicer must obtain and process IRS Form 4506-T because IRS Form 4506T-EZ cannot be used for self-employed Borrowers or fiscal year filers; or</p> <ul style="list-style-type: none"> • Otherwise requested by Freddie Mac <p>Note: When documenting rental income, Borrowers must submit a completed tax return and Schedule E as a tax transcript does not separately itemize rental income.</p>
<p>Borrower Solicitation Package</p>	<p>Beginning February 15, 2017, Servicers are authorized to exclude IRS Form 4506T-EZ and IRS Form 4506-T, as applicable, from the Borrower Solicitation Package.</p>
<p>Authorized Changes to Form 710</p>	<p>Servicers are authorized to edit Form 710:</p> <ul style="list-style-type: none"> • If permitted by applicable law, to exclude references to IRS Form 4506T-EZ and IRS Form 4506-T; or • To the extent required by applicable law, to indicate that such forms may be required and to state the circumstances when the forms are required to complete the application
<p>Borrower Response Package</p>	<p>For any Borrower Response Packages submitted to the Servicer on and after February 15, 2017, Freddie Mac will no longer require the IRS Form 4506T-EZ and IRS Form 4506-T, as applicable, to complete the Borrower Response Package, except when required as set forth in the Circumstances requiring a Borrower tax transcript section above.</p>

IRS Form 4506T-EZ and IRS Form 4506-T Requirements

Category	Requirements
Standard Modification or Flex Modification Trial Period Plan conversion	<p>If the Borrower was in a Trial Period Plan prior to entering into an unemployment forbearance plan, the Borrower may be re-evaluated for a new Trial Period Plan upon successful completion of the unemployment forbearance plan. If the Borrower Response Package is more than 90 days old at the time of re-evaluation, the Servicer must obtain an updated package. However, the Servicer is not required to obtain a new IRS Form 4506T-EZ or IRS Form 4506-T, as applicable, or process it except when required as set forth in the Circumstances requiring a Borrower tax transcript section above.</p>
Imminent default	<p>When evaluating for imminent default, Servicers are no longer required to obtain the Borrower's signed IRS Form 4506T-EZ or IRS Form 4506-T, or a copy of the Borrower's most-recent signed federal tax income return, except when required as set forth in the Circumstances requiring a Borrower tax transcript section above.</p>
Calculating and verifying Cash Reserves for short sales and deeds-in-lieu of foreclosure	<p>The Servicer must calculate and verify the Borrower's Cash Reserves in accordance with the following requirements:</p> <ol style="list-style-type: none"> 1. The Servicer must determine that, for every Borrower on the Mortgage, all of the Borrower's Cash Reserves have been accounted for on Form 710 and verified. 2. The Servicer must review all information provided by the Borrower to determine if the asset information stated on Form 710 is reasonably consistent with information available from all other information provided by the Borrower, including required supporting documentation and verbal information shared by the Borrower. If there are inconsistencies between the Borrower's disclosure of assets and the information provided by the Borrower, then the Servicer must obtain the Borrower's tax return or tax transcript in order to reconcile the inconsistencies. 3. If upon reviewing the Borrower's tax return or tax transcript, the Servicer observes interest, dividend income or gains/losses that, in total, could not be reasonably produced by the Borrower's disclosed Cash Reserves, and such income indicates deposits, securities holdings or other assets that could be in excess of the amounts disclosed by the Borrower on Form 710, the Servicer must reconcile the inconsistency with the Borrower. If the Servicer used a tax transcript in lieu of a tax return, the Servicer must require the Borrower to produce a signed federal tax return and all relevant schedules, along with any other relevant documentation that verifies the disposition and/or current status of those assets that produced the income or gains/losses, to resolve the inconsistency. <p>The Servicer must ensure that the Borrower's disclosure of assets is reasonably accurate despite the inconsistency between the disclosed assets and the income or gain/loss from assets reported on the tax return or tax transcript. In determining what documentation is needed to reconcile an inconsistency, the Servicer must review the detailed tax return schedules and forms, and request from the Borrower copies of recent and past statements from those asset holdings or transactions indicated on the schedules and forms that produced the income or</p>

IRS Form 4506T-EZ and IRS Form 4506-T Requirements

Category	Requirements
	<p>gain/loss (e.g., checking, savings, brokerage account statements, asset sale statements or records, etc.).</p> <p>4. If there are inconsistencies between the Borrower's disclosure of assets and the tax return information that cannot be reconciled, or the required Cash Reserves documentation cannot be obtained from the Borrower, the Servicer is not delegated to approve the short sale or the deed-in-lieu of foreclosure, as applicable.</p>

Guide impacts: Guide Sections 9101.2, 9102.4, 9102.5, 9202.3, 9206.7, 9208.3 and 9209.3

MORTGAGE MODIFICATIONS

Early implementation of the Freddie Mac Flex Modification

As announced in Bulletin 2016-22, the Flex Modification will replace the current Freddie Mac Standard and Streamlined Modifications for evaluations conducted on and after October 1, 2017.

Effective immediately, Servicers that wish to implement the Flex Modification prior to the mandatory implementation date of October 1, 2017 may begin evaluating Borrowers and generating the terms for a Flex Modification Trial Period Plan and Flex Modification using their proprietary systems.

Workout Prospector® will be updated by May 1, 2017 to process terms and settle the Flex Modification. Once Workout Prospector has been updated, Servicers may use Workout Prospector to generate the terms of Flex Modification Trial Period Plans and modifications or may continue using their proprietary systems to generate the terms. Regardless of how the terms are generated, Servicers must submit data relating to any Flex Modification Trial Period Plans to Freddie Mac via Workout Prospector beginning May 1, 2017.

Once a Borrower has entered into a Flex Modification Trial Period Plan, the Servicer must report the Trial Period Plan to Freddie Mac via EDR using the Standard Modification Trial Period Plan code "BF" whether the Servicer's offer was a streamlined offering or in response to a Borrower request for assistance. Servicers must report this code along with the Trial Period Plan Effective Date each month during the Trial Period.

Guide impacts: Sections 7101.4, 8501.3, 9102.4, 9205.5, 9205.11, 9206.13 and 9206.16, Guide Exhibits 82 and 83A and Form 981

Reminders

As stated in Bulletin 2016-22:

- Exception processing:** For situations in which a Borrower does not meet the eligibility requirements for a Flex Modification but the Servicer believes it to be the best option for addressing the Delinquency, the Servicer may submit a recommendation to Freddie Mac for review via the Standard Modification exception review path in Workout Prospector. Servicers must include a comment in Workout Prospector stating "Flex Modification exception request" and include the Flex Modification terms. Once the Flex Modification path becomes available in Workout Prospector, Servicers must submit exceptions through the Flex Modification exception review path.
- Borrower evaluations:** Once a Servicer begins to evaluate Borrowers for the Flex Modification, the Servicer must discontinue evaluations for Standard and Streamlined Modifications

Additional resources

We encourage Servicers to visit the [Flex Modification web page](#), which includes a [term sheet](#) for the modification. Additional Flex Modification resources will also be available on the [Freddie Mac Learning Center](#) by the end of the first quarter of 2017.

Modification of a Mortgage subject to an indemnification agreement

In an effort to assist more Borrowers, we announced updated Guide requirements in Bulletin 2016-5 to permit a Mortgage subject to an indemnification agreement to be eligible for a mortgage modification provided the Mortgage meets certain conditions. The Bulletin also included a Modification Loss Amount calculation example.

We are announcing adjustments to the Modification Loss Amount calculation example provided in Bulletin 2016-5. To more closely align with the calculation used to assess the impacts of mortgage modifications for Mortgages included in Structured Agency Credit Risk transactions, we are revising certain steps of the methodology used to determine the Modification Loss Amount as described below (the changes from Bulletin 2016-5 are shown in bold):

1. Calculate "Original Accrual Rate" – the lesser of (i) the pre-modified Accounting Net Yield (ANY) as of the evaluation date; and (ii) the pre-modified Note Rate MINUS 0.35%
2. Calculate "Current Accrual Rate" – the lesser of (i) the post-modified ANY as of the evaluation date; and (ii) the post-modified Note Rate MINUS 0.35%
3. Calculate "Modification Shortfall" – the excess, if any, of (i) one-twelfth of the Original Accrual Rate multiplied by the **sum of the prior month's post-modified, interest-bearing UPB and the prior month's post-modified, non-interest-bearing UPB**; over (ii) one-twelfth of the Current Accrual Rate multiplied by the **prior month's** post-modified, interest-bearing UPB
4. Calculate "Modification Excess" – the excess, if any, of (i) one-twelfth of the Current Accrual Rate multiplied by **prior month's** post-modified, interest-bearing UPB; over (ii) one-twelfth of the Original Accrual Rate multiplied by the **sum of the prior month's post-modified, interest-bearing UPB and the prior month's post-modified, non-interest-bearing UPB**
5. Calculate the Modification Loss Amount – the excess of the aggregate monthly Modification Shortfall over the aggregate monthly Modification Excess

As a reminder, Freddie Mac will calculate the Modification Loss Amounts owed to Freddie Mac on a monthly basis, and billed on an annual basis for the life of the modified Mortgage. If the Mortgage is subject to a partial indemnification, each year the Servicer will be billed the appropriate percentage of the Modification Loss Amount that corresponds with the partial indemnification agreement.

Guide impacts: Sections 9101.3, 9102.5, 9205.4 and 9206.3 through 9206.5

SERVICER RESPONSIBILITIES AFTER A THIRD-PARTY FORECLOSURE SALE

Servicers must comply with the following requirements for foreclosure sales on and after **April 17, 2017**.

In certain jurisdictions, a mortgagee's interest in the Mortgaged Premises may not be immediately extinguished with a third party's successful bid at foreclosure sale. For example, some jurisdictions require that a foreclosure sale be confirmed or ratified by the court after the sale. In such situations, the Servicer is still responsible for protecting Freddie Mac's interest, including handling certain Servicing functions, until the foreclosure action is complete and Freddie Mac's interest is extinguished in accordance with applicable law.

With this Guide update, we are specifying Servicer responsibilities related to property preservation and advancement of property taxes and insurance premiums following a third party's purchase of a property at a foreclosure sale.

During the period between the foreclosure sale date and the date the foreclosure action is completed (which might not be until the sale is confirmed or ratified), unless prohibited by applicable law:

- The Servicer must continue to order and obtain timely and accurate property inspections, as required in Section 9202.12

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- The Servicer must submit a request for pre-approval (RPA) using the RPA functionality in the Freddie Mac Reimbursement System and obtain approval of the request from Freddie Mac prior to completing any necessary property preservation or maintenance, even if the work recommended by the Servicer is within the published allowable limits in Exhibit 57. (Note that, unless deferred maintenance caused or may cause Freddie Mac to have additional responsibilities or obligations in or for the property, Servicers must not be completing maintenance work.)
 - If determined to be in Freddie Mac's best interest, the Servicer may continue to advance all property taxes and property insurance premiums that become due if the net sale proceeds from the third-party foreclosure sale did not equal or exceed the total indebtedness (e.g., the UPB, accrued interest, Escrow advances and expenses). In this situation, Freddie Mac will reimburse the Servicer for such advances to the extent those amounts are not recovered from the Borrower or purchaser. If the net sale proceeds equal or exceed the total indebtedness, the Servicer may advance property taxes and property insurance premiums that become due in its discretion but Freddie Mac will not reimburse these amounts.

Guide impacts: Sections 8403.2, 9202.12, 9301.26, 9701.7 and 9701.9

FORM 981, AGREEMENT FOR SUBSEQUENT TRANSFER OF SERVICING OF SINGLE-FAMILY MORTGAGES

Effective on and after June 1, 2017

Based on Servicer feedback and to improve operational efficiency, we are revising Form 981 to require the use of Electronic Signatures. We are also updating the form to add necessary Electronic Signature contracting language (including a reference to Guide Chapter 1401).

Effective with Subsequent Transfer of Servicing requests submitted on and after June 1, 2017, both the Transferor and Transferee Servicer must sign the updated Form 981 using an Electronic Signature and submit the form to Freddie Mac via e-mail at transferofservicing@freddiemac.com. If the Transferor and Transferee Servicer are both able to sign Form 981 with an Electronic Signature and transmit it as an Electronic Record, they may begin utilizing the new form on and after **April 3, 2017**. When signing Form 981 with an Electronic Signature, the Transferor and Transferee Servicer must follow the [Form 981 Electronic Signature Process](#).

If the Transferor or Transferee Servicer is unable to electronically sign Form 981 prior to June 1, 2017, then they must sign and submit the current [Form 981](#) to Freddie Mac through May 31, 2017 as currently required via fax at (571) 382-4886 or e-mail at tos@freddiemac.com.

Additionally, we are updating Form 981 to revise and relocate certain other provisions and no longer require specific lists of the Mortgages being transferred with certain features be submitted to Freddie Mac. The Transferor Servicer must continue to provide to the Transferee Servicer any and all data related to each Mortgage to be transferred with the form, as specified in revised Section 7101.2. Section 7101.2 is also being revised to align with the form and provide the [Form 981 Electronic Signature Process](#).

As a reminder, a list of all Mortgages to be transferred must be submitted through the Freddie Mac Service Loans application and Freddie Mac will indicate approval, if appropriate, by providing an approval letter via the Service Loans application.

The terms "Electronic," "Electronic Record" and "Electronic Signature" are defined in Section 1401.2.

Guide impacts: Sections 7101.2 and 7101.4, Directory 3 and Form 981

ADDITIONAL GUIDE UPDATES

Texas Equity Section 50(a)(6) Mortgages

In response to Servicer feedback, we are updating notification requirements for a Servicer that receives a Borrower notification asserting that a Trial Period Plan involving a Texas Equity Section 50(a)(6) Mortgage violates the Texas Constitution. If the Servicer receives such a notification, the Servicer must notify the Special Asset Unit at Freddie Mac within seven Business Days of receipt in accordance with Section 8104.1.

Servicers' notification obligations under Section 9206.13 no longer apply to Trial Period Plans and now are limited to submission of post-settlement correction requests relating to Borrower complaints involving modifications of Texas Equity Section 50(a)(6) Mortgages.

The revised notification requirements are described below:

Freddie Mac notification requirements for settled modifications (per Section 9206.13)	Freddie Mac notification requirements for a Borrower in a Trial Period Plan (per Section 8104.1)
The Servicer must complete and submit certain sections of Form 1205, <i>Post-Settlement Correction Request</i> , to Freddie Mac via e-mail at Post_settlement_correction@freddiemac.com .	The Servicer must send a copy of the notification and/or related information to the Special Asset Unit at Freddie Mac via fax at (571) 382-4933 or e-mail at Distressed_Property@freddiemac.com .

We are additionally updating the Guide to require that the Servicer must cure any curable defects related to the terms of the Trial Period Plan of such Mortgages in accordance with the provisions of, and within the specified time frame in, Section 50(a)(6) of Article XVI of the Texas Constitution, and all other requirements of Section 8104.1.

Guide impacts: Sections 8104.1 and 9206.13

Servicer reimbursement for use of a lockbox on an abandoned property

Servicers are encouraged to secure abandoned properties with knob locks or lockboxes under the terms of the Mortgage documents and applicable law. Exhibits 57 and 74 provide a maximum of \$60 reimbursement for knob locks if they are used for access to, and/or securing of an abandoned property. We are now also providing reimbursement for lockboxes. To receive reimbursement for a knob lock or lockbox up to the allowable limit of \$60, the Servicer must report expense code "090028" in the Reimbursement System. If a Servicer would like reimbursement for costs in excess of the \$60 allowable limit, the Servicer must submit an RPA using the RPA functionality in the Reimbursement System and obtain approval of the request from Freddie Mac.

Guide impacts: Exhibits 57 and 74

Foreclosure suspension

We are updating Section 9102.5 to align with the revisions to Section 9301.28 announced in Bulletin 2016-13 related to the elimination of a foreclosure suspension requirement.

Guide impact: Section 9102.5

GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2017-1 (Servicing) Guide Updates Spreadsheet available at http://www.freddiemac.com/singlefamily/guide/docs/bll1701_spreadsheet.xls.

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,

A handwritten signature in black ink, appearing to read "Yvette W. Gilmore". The signature is written in a cursive style with a long horizontal line extending to the right.

Yvette W. Gilmore
Vice President
Servicer Performance Management