

---

To: Freddie Mac Servicers and Sellers

June 25, 2010

---

**Subject: Problem Drywall**

Freddie Mac is focused on helping Borrowers keep their homes. We continually monitor events occurring in the housing market that may cause an unexpected hardship impacting a Borrower's ability to make Mortgage payments. Through our existing Mortgage relief options in the *Single-Family Seller/Servicer Guide* ("Guide"), we provide Servicers with a number of tools to help affected Borrowers attempting to stay current on their Mortgage in difficult times.

The purpose of this Industry Letter is to remind Servicers that they may grant forbearance under the Guide on a case-by-case basis to Borrowers with Mortgages secured by single-family homes that contain "problem drywall" and where the property ownership may be in jeopardy. This relief option helps Borrowers shoulder unexpected costs of remediating problem drywall and succeed as long-term homeowners despite the impact of this adverse condition. We are also providing Servicers guidance with respect to our expectations when Servicers become aware of problem drywall.

Finally, we are reminding Sellers of our property eligibility requirements and the Guide representations and warranties related to property value, condition and marketability.

**Background**

There have been numerous reports of foul odors and corrosion of metal, such as electrical components and wiring, in homes resulting from problem drywall. A federal government study based on these reports recently found a strong correlation between certain imported drywall, elevated levels of hydrogen sulfide gas in the homes and metal corrosion. The vast majority of reported cases of problem drywall are from Gulf Coast States and Virginia.

**Forbearance options**

For Borrowers with homes that have problem drywall, Freddie Mac's forbearance policies give Servicers the discretion to suspend a Borrower's Mortgage payments for up to three months or reduce payments for up to six months.

Servicers may recommend forbearance to Freddie Mac for up to 12 months based on a Borrower's individual circumstances. Factors that Servicers must consider when determining whether to recommend forbearance for up to 12 months for Borrowers with problem drywall include, but are not limited to, the Borrower's capacity to cure the problem and whether there are other forms of financial assistance available to the Borrower to assist in the remediation of the property.

To recommend forbearance for up to 12 months for Borrowers with problem drywall, Servicers must submit a request, in accordance with [Guide Section A65.25](#) and other applicable Guide requirements, to our Special Asset Unit at [distressed\\_property@freddiemac.com](mailto:distressed_property@freddiemac.com).

Under Freddie Mac's requirements, Servicers must not accrue or collect late charges from Borrowers during forbearance or any subsequent repayment plan period if the Borrower is paying according to the forbearance agreement.

Servicers should review [Guide Chapter A65, Reinstatements and Relief](#), for additional information.

### **Additional information**

Servicers should familiarize themselves and comply, as applicable, with [Section 67.27](#), which sets forth the special Servicing requirements for distressed properties.

If a decision is made to grant forbearance to a Borrower whose home is impacted by problem drywall, the Servicer must report the forbearance via Electronic Default Reporting using default action code 09, *Forbearance Plan*, together with default reason code 015, *Other*.

### **Seller representations and warranties – Mortgaged Premises**

As a reminder, for Mortgages sold to Freddie Mac, Sellers must make the value, condition and marketability representations and warranties required by [Section 44.11\(a\)](#) as of the Settlement Date.

If a Seller cannot make these representations and warranties, the loan is not eligible for sale to us. Sellers are responsible for establishing appropriate procedures and controls to minimize the risk of future liability arising from a warranty violation.

### **More information**

While Freddie Mac is not able to help Borrowers determine if they have problem drywall or remediate a home affected by problem drywall, Borrowers can visit the U.S. Consumer Product Safety Commission's (CPSC) Drywall Information Center at <http://www.cpsc.gov/info/drywall/index.html> for guidance in identifying problem drywall and remediation. The CPSC is the lead federal agency in the Federal Interagency Task Force currently investigating problem drywall and results of its ongoing research are available on the Drywall Information Center.

### **Conclusion**

Freddie Mac shares the concerns of its Servicers about the effects problem drywall may have on Borrowers and continues to monitor the situation carefully. We will provide updated information if appropriate.

We appreciate the assistance Servicers continuously provide to Borrowers regarding options for local, State or federal assistance.

Sincerely,



Patricia J. McClung  
Vice President  
Offerings Management