
To: Freddie Mac Sellers and Servicers

September 11, 2012

SUBJECT: FREDDIE MAC'S QUALITY CONTROL PROCESS

Today Freddie Mac issued *Single-Family Seller/Servicer Guide* ("Guide") Bulletin 2012-18 announcing that it will implement a new selling representation and warranty framework effective for Mortgages with Freddie Mac Settlement Dates on and after **January 1, 2013**, provided the Mortgages meet an acceptable payment history and meet certain other conditions and requirements. Under the new framework, Freddie Mac will not pursue enforcement of its remedies in connection with the Seller's breach of certain enumerated representations and warranties that generally relate to the underwriting of the Borrower, the Mortgaged Premises and the projects in which the Mortgaged Premises are located.

Integral to the new selling representation and warranty framework is the quality control review process and enforcement in connection with violations through issuance of repurchase requests or other remedies. In recognition of our continuing need to ensure that the Mortgages we purchase are originated in accordance with applicable underwriting standards, as well as our Seller/Servicers' desire for enforcement transparency and predictability, we are reinforcing our commitment to:

- Viewing loans on a comprehensive basis by evaluating the entirety of the loan file with a primary focus of identifying significant underwriting deficiencies
- Providing Sellers with detailed and timely feedback on their origination process with the emphasis on significant/systemic origination deficiencies
- Providing Sellers the opportunity to resolve loan repurchase requests through an appeal process

QUALITY CONTROL SAMPLING AND SAMPLING METHODOLOGY

Under our core performing loan sample process and strategy, we select a random sample of new loan deliveries that ensures statistical validity. This random sample is augmented with targeted sampling.

■ **Random sampling**

Based on the current quality of the Mortgages sold to us, the tools we have developed for assessing loan eligibility, and our desire to minimize operational obstacles for our Sellers, we do not anticipate any material change to our quality control random sampling and review strategy in the near future.

■ **Targeted sampling**

We expect to increase our performing loan targeted samples as we implement new technology and data-gathering tools to analyze loan-level data. As a matter of practice, Freddie Mac makes adjustments to its sampling based on the risk characteristics of the Mortgages it purchases and anticipates continuing to do so under the new representation and warranty framework. Our targeted sample consists of two categories: loan-level and lender-level.

- **Loan-level:** Tools such as Loan Prospector®, the recently-implemented Uniform Loan Delivery Dataset (ULDD), and the electronic appraisal submission of the Uniform Appraisal Dataset (UAD) through the Uniform Collateral Data Portal® (UCDP®) will enable Freddie Mac to identify loans with characteristics that merit further scrutiny
- **Lender-level:** The quality of the loans delivered by a particular Seller/Servicer to Freddie Mac will impact the size of that Seller/Servicer's targeted sample

We anticipate that our non-performing loan sample process and review strategy will remain as currently communicated. However, as Freddie Mac consumes and analyzes more loan data, Sellers can expect to see adjustments in the level of quality control files requested and reviewed by Freddie Mac for performing loans as early as April 2013.

REVIEW PROCESS

The loan samples are reviewed by quality control underwriters who analyze loans on a comprehensive basis by evaluating the entirety of the loan file and the applicable Purchase Documents. The primary focus of the review is to identify significant underwriting deficiencies.

Freddie Mac's comprehensive review includes consideration of the Borrower's ability to repay the loan and an in-depth analysis of the credit and capacity of the Borrower, as well as the underlying collateral. When reviewing loans in their entirety, there may be instances where certain characteristics may be deemed deficient, but when considered with other loan features, the loan may be considered overall to be acceptable quality.

If, in connection with a quality control review of a performing Mortgage that is undertaken prior to the Borrower meeting the payment history requirements of the new representation and warranty framework, it is concluded that the Mortgage is not acceptable quality (i.e., does not meet the requirements of the Seller's Purchase Documents), Freddie Mac will communicate to the Seller/Servicer whether the Mortgage will require action on the part of the Seller/Servicer and/or will continue to be eligible for representation and warranty relief going forward.

QUALITY CONTROL REVIEW RESULTS AND REPURCHASE PROCESS

Based on the quality control review, Seller/Servicers can expect Freddie Mac to follow the request and appeal process described below with respect to defective loans.

■ Repurchase requests

When Freddie Mac identifies a defective Mortgage, it issues a repurchase letter, which describes the defects that render the Mortgage ineligible for purchase by Freddie Mac. The defects that would give rise to a repurchase request consist of errors or failures that would have resulted in Freddie Mac's refusal to purchase the loan at the time of delivery. Some individual defects are significant in and of themselves; in other cases, a Mortgage file may present a layering of deficiencies that, when considered comprehensively, make the Mortgage unacceptable.

■ Appeal process

Freddie Mac will continue to maintain a process for Sellers to appeal repurchase requests. Under the appeal process, when Freddie Mac issues a repurchase letter for a particular Mortgage, the Seller is entitled to review and respond to the loan-level findings and to provide any required documentation to address the deficiencies identified in the repurchase letter, with the goal of resolving significant deficiencies. If Freddie Mac does not accept the initial appeal and the Seller discovers new information to support its contention that the Mortgage complies with the Purchase Documents, a second appeal will be permitted.

Freddie Mac, under the direction of the Federal Housing Finance Agency (FHFA), is collaborating with Fannie Mae to develop a consistent approach for the following, which will be announced in a future Bulletin:

- The new supporting documentation that must be submitted to Freddie Mac in connection with an initial or second repurchase appeal
- The types of remedies, as alternatives to repurchase, available to Freddie Mac in connection with defective Mortgages; the types of alternative remedies may include, but are not limited to, make-whole, recourse or share loss

TIMING

Freddie Mac time lines

Freddie Mac will perform certain quality control functions within the time frames described below.

- **Requesting the file:** Mortgages are generally selected for performing loan review from the loans that were sold to us during the previous month, and we anticipate requesting Mortgage files between 30 and 120 days after loan purchase
- **Completing the review:** Our goal is to complete performing loan file reviews and provide Sellers/Serviceicers with notice of any deficiencies within 90 days of our receipt of the entire Mortgage file

Seller/Serviceicer time lines

Freddie Mac, under the direction of FHFA, is collaborating with Fannie Mae to develop consistent time lines for the following, which will be announced in a future Bulletin:

- The time frame within which a Seller/Serviceicer must provide the complete Mortgage file requested by Freddie Mac (likely to be 30 days after the first file request is made and 60 days after the second file request is made)
- The time frame within which a Seller/Serviceicer is entitled to appeal a repurchase (likely to be 60 days after the repurchase request)
- The time frame after denial of a repurchase appeal within which a Seller/Serviceicer must either repurchase the loan or file a second appeal with new supporting documentation (likely to be 15 days after repurchase appeal denial)

ONGOING COMMUNICATIONS AND CALIBRATION

Freddie Mac will continue to provide Sellers with ongoing communication about their overall quality control performance, including identifying repurchases by defect types and reporting frequent or common defects. This information is provided through a variety of methods that range from regular e-mailed reports to more formal periodic discussions. Our goal is to engage our Sellers in frequent, meaningful exchanges of information on quality trend analyses and significant underwriting deficiencies we have identified through our review process.

Freddie Mac requires that Sellers have strong underwriting processes and, as necessary, will help develop action plans to improve underwriting quality.

For its larger Sellers, Freddie Mac developed and administers a quality control calibration pursuant to which Freddie Mac and the particular Seller each perform a quality control review of a sample of loans and compare their respective results. The goal of this effort is to strengthen the alignment between Freddie Mac and its larger Sellers on what constitutes a significant underwriting deficiency, and to ensure both parties have a clear understanding of underwriting philosophy and how this applies to loan-level findings.

QUALITY CONTROL TRACKING AND MONITORING

Freddie Mac will continue to enhance its internal quality control tracking and monitoring processes. This will enable Freddie Mac to review repurchase events and to make appropriate adjustments to policies and practices if it is determined that the quality control process is not consistent with its established policies and practices.

Freddie Mac also monitors the performance of its underwriters by auditing a monthly sample of their underwriting decisions to ensure strong governance of the quality control process and to reinforce the focus on finding significant loan deficiencies. The auditing of Freddie Mac's underwriters is administered and managed by a stand-alone unit that is managed outside of the quality control organization.

CONCLUSION

Seller/Service providers that have questions about this announcement should contact their Freddie Mac representative or call (800) FREDDIE.

Sincerely,

A handwritten signature in cursive script that reads "Laurie A. Redmond". The signature is written in dark ink on a light-colored background.

Laurie A. Redmond
Vice President
Offerings Effectiveness