

Industry Letter

To: Freddie Mac Servicers

December 12, 2011

SUBJECT: FEDERAL HOUSING FINANCE AGENCY DIRECTIVE TO FREDDIE MAC AND FANNIE MAE RELATING TO MORTGAGES SECURING PROPERTIES SUBJECT TO THE CITY OF CHICAGO, ILLINOIS'S VACANT PROPERTY ORDINANCE

By directive dated December 8, 2011 ("Directive"), the Federal Housing Finance Agency (FHFA), pursuant to the Housing and Economic Recovery Act of 2008, has directed Freddie Mac and Fannie Mae to take action relating to Sections 13-12-125, 126 and 135 of the Municipal Code of the City of Chicago, Illinois ("Ordinance"). The Ordinance was revised on July 28, 2011 to impose obligations upon "mortgagees." These obligations include imposing registration, inspection and maintenance obligations upon "mortgagees" in connection with vacant properties located in the City of Chicago that go beyond the requirements of the *Single-Family Seller/Servicer Guide* ("Guide"). The revised Ordinance became effective on September 18, 2011. A copy of the Directive is included as Attachment A to this Industry Letter.

Effective immediately, Servicers servicing Mortgages owned or guaranteed by Freddie Mac subject to the Ordinance performing services related to such Mortgages must take the following actions in preparation for additional future requirements we will issue consistent with the Directive:

- Read the Directive and assess the number of Mortgages secured by properties located within the City of Chicago that the Servicer services on behalf of Freddie Mac, their state of Delinquency and occupancy
- Separately record and track outside of Freddie Mac systems or forms and using the Servicer's discretion as to the method, all expenses incurred by the Servicer or the Servicer's vendor for filing a registration statement with the City of Chicago for vacant properties securing Mortgages from September 18, 2011 until further notice
- Perform the inspection, maintenance, repair and legal obligations required by the Ordinance for vacant properties securing Mortgages until further notice. No pre-approval from Freddie Mac for over-allowable expenses is required until further notice. Separately record and track outside of Freddie Mac systems or forms and using the Servicer's discretion as to the method, all amounts incurred by the Servicer or the Servicer's vendors for inspection, maintenance, repair and legal expenses required by the Ordinance from September 18, 2011 until further notice.
- Do not submit Ordinance-related registration, inspection, maintenance, repair and legal expenses from September 18, 2011 onward to Freddie Mac at this time. Freddie Mac will provide more specific directions on how to report these expenses and submit them for reimbursement in a future Guide Bulletin. However, Servicers should keep accurate records of these expenses so that they will be prepared to submit this information when requested.
- Continue to service Mortgages in accordance with the Guide and applicable local, State and federal law. Any further directions related to the Ordinance or similar ordinances in other localities will be communicated in a future Bulletin.

Sincerely,

A handwritten signature in cursive script that reads "Tracy Hagen Mooney". The signature is written in black ink and is positioned below the word "Sincerely,".

Tracy Hagen Mooney
Senior Vice President
Single-Family Servicing and REO



Federal Housing Finance Agency

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December 8, 2011

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RE: Mortgages on Properties Located Within the City of Chicago

Counsels:

As you know, on November 2, 2011, the City of Chicago enacted an Ordinance amending sections 13-12-125 and 135 of the Municipal Code to impose registration fees, taxes, fines, penalties, and maintenance obligations in connection with “vacant” property located within the 92 zip codes that comprise the City of Chicago. The Ordinance imposes these obligations on mortgagees and those acting on their behalf, including the Enterprises and their servicers, with regard to properties that have not been foreclosed upon.

As Conservator of Fannie Mae and Freddie Mac, the Federal Housing Finance Agency (“FHFA”) has the duty to “preserve and conserve the assets and property of the regulated entit[ies].” 12 U.S.C. § 4617(b)(2)(B)(iv). The Conservator is directed to “take such action as may be . . . necessary to put the regulated entit[ies] in a sound and solvent condition.” 12 U.S.C. § 4617(b)(2)(D)(i). The safety and soundness issues presented if the Enterprises were to submit to the kind of supervision, direction and regulation that the Ordinance establishes, as well as the taxes, fines and penalties that the Ordinance imposes, conflict with these congressionally-established mandates for the conservatorships.

The Conservator possesses broad powers to take any authorized action “which the Agency determines is in the best interests of the regulated entit[ies] or the Agency.” 12 U.S.C. § 4617(b)(2)(J)(ii). Accordingly, pursuant to 12 U.S.C. § 4617, and in furtherance of the Conservator’s duty to preserve and conserve the assets and property of the Enterprises, the Enterprises are directed to expeditiously:

1. Prepare proposed revisions to their Servicing Guidelines to provide that the Enterprises and servicers and vendors acting on their behalf, when making payments to the City of Chicago under the Ordinance with respect to properties that have not been foreclosed upon, are

doing so under protest that the Ordinance violates HERA, with full reservation of rights, pursuant to a protest letter from FHFA to the City of Chicago;

2. Establish an appropriate mechanism or procedure, with specific guidance to servicers and vendors, so that the Enterprises will accurately track and make timely periodic reports to the City of Chicago of (a) amounts paid to the City of Chicago under the Ordinance with respect to properties that have not been foreclosed upon, and (b) any payments, expenditures or other costs incurred in compliance with the Ordinance to repair, maintain, or secure properties that have not been foreclosed upon that would not have been incurred absent the Ordinance;
3. Prepare proposed alterations of pricing for future mortgage originations or refinances that occur within the City of Chicago to reflect the higher costs associated and anticipated with the Ordinance. FHFA will provide further guidance to Fannie Mae and Freddie Mac on such proposed pricing adjustments;
4. Plan and prepare for such other prudential actions that may be appropriate to preserve and conserve assets and to operate in a safe and sound manner;
5. Submit materials described in paragraphs 1-4 to FHFA for its review and consideration; and,
6. Provide servicers with a summary or copy of this conservatorship directive as soon as possible.

The Conservator will be examining whether other jurisdictions impose similar requirements in violation of the Housing and Economic Recovery Act of 2008, Pub L. No. 110-289, 122 Stat. 2654, codified at 12 U.S.C. § 4617 *et seq.* ("HERA") that should be addressed in the same manner. FHFA does not opine on the application of such ordinances to any mortgages serviced for companies other than the Enterprises, but only on the application to mortgages on which the Enterprises are mortgagees.

If you have any questions, please do not hesitate to contact me at 202-414-3788.

With all best wishes, I am

Sincerely,



Alfred M. Pollard
General Counsel