SUBJECT: FREDDIE MAC PROPERTY AND APPRAISAL REQUIREMENTS FOR PROPERTIES LOCATED IN RURAL MARKET AREAS

This Single-Family Seller/Servicer Guide (“Guide”) Bulletin is being issued in response to a Federal Housing Finance Agency directive to Freddie Mac to provide certain clarifications and guidance regarding property and appraisal requirements for properties located in rural market areas.

Freddie Mac purchases Mortgages secured by residential properties in all market areas: rural, urban and suburban. Freddie Mac recognizes that the appraisal and underwriting of properties located in rural market areas may be challenging and may present issues that do not arise with properties located in suburban and urban areas. This Bulletin reinforces Freddie Mac’s ongoing commitment to purchase eligible Mortgages secured by properties in rural locations, addresses certain misconceptions and provides additional guidance regarding Freddie Mac requirements on:

- Appraiser selection
- Property eligibility and unique properties
- Selection of comparable sales and analysis

APPRAISER SELECTION

The Seller may select an appraiser for any appraisal assignment, but the Seller must ensure that the selected appraiser has the appropriate local market knowledge and experience necessary to produce an accurate opinion of the market value of the property. Appraisers, like Sellers, face unique challenges in the appraisal of properties located in rural market areas, which makes appraiser selection an important consideration for the Seller. Our property appraisal requirements enable appraisers to exercise prudent judgment in developing an opinion of the property's market value. The Seller is responsible for determining the eligibility of the property and the acceptability of the appraisal report.

Appraisal management companies and other third-party vendors

A common misconception is that the Appraiser Independence Requirements, as specified in Guide Exhibit 35, require Sellers to use third-party vendors such as appraisal management companies (AMCs) to order appraisals. In fact, Sellers are not required to use an AMC or any other third-party vendor to order appraisals.

We require Sellers to obtain appraisals in a manner consistent with the Appraiser Independence Requirements. The Appraiser Independence Requirements allow the use of staff or in-house appraisers and independent fee appraisers.

The Appraiser Independence Requirements allow Sellers to select any of the following:

- In-house or staff appraisers whose function is separate and independent of loan production staff influence and interference
- Independent fee appraisers
- Third-party vendors
- AMCs
Smaller Seller exception to Appraiser Independence Requirements

Many smaller Sellers perceive the use of an AMC as a requirement to achieve separation between Mortgage production functions and the appraisal ordering and quality assurance functions. Many Sellers have chosen to use AMCs to ensure compliance with the Appraiser Independence Requirements. This is particularly true for smaller Sellers who do not have sufficient staff to allow for a distinct separation between Mortgage production and quality assurance functions.

The Appraiser Independence Requirements, however, provide an exception for smaller Sellers in situations where the Seller’s small size and limited staff do not permit the separation of these functions. In such cases, the Seller must be able to clearly demonstrate that it has prudent safeguards in place to isolate its appraisal ordering and collateral review functions from influence or interference from its Mortgage production process. While Sellers must ensure that the individuals ordering appraisal reports, reviewing appraisal reports and underwriting the property based on appraisal reports are independent of the Mortgage production staff, they are not required to use AMCs in order to achieve separation.

Guide Section 44.3, General Appraisal Requirements, has been updated to include more guidance about these requirements.

PROPERTY ELIGIBILITY AND UNIQUE PROPERTIES

Determining property eligibility may be challenging in rural market areas. When determining property eligibility for rural properties, zoning, land use, property type, property condition, marketability and other influences must be considered, just as they are when considering urban and suburban properties. However, rural properties may have mixed uses and unique characteristics that can make determining property eligibility challenging. Rural locations may be relatively undeveloped market areas that consist of a variety of different property types and land uses, such as agricultural properties, undeveloped land and land development properties.

A common misconception is that Freddie Mac does not purchase Mortgages secured by properties in market areas that contain non-residential property uses such as agricultural properties, undeveloped land and land development properties. To be eligible for sale to Freddie Mac, the Mortgage must be secured by Mortgaged Premises that is residential based on the property characteristics, zoning and land use. The existence of non-residential property types or land uses within the market area is a characteristic that the appraiser considers when performing the market area analysis, but non-residential properties or land uses in the market area do not make the residential properties in those locations ineligible. Neighborhood or market area characteristics and market conditions tend to vary based on property location. Characteristics that are typical in certain locations may not exist in other locations; therefore, they must be viewed in context with the type of property location.

In the underwriting process, Sellers must determine whether properties with outbuildings, such as a barn or stable, are residential or non-residential. A property with a small barn or stable may be acceptable if the contributory value of the outbuilding(s) is minimal and the appraiser demonstrates, through the use of comparable sales with similar characteristics, that it is typical for residential properties in the market area. However, if the property has a large outbuilding, such as a large barn or multiple outbuildings, it may indicate that the property is agricultural or non-residential and ineligible for securing a Freddie Mac Mortgage.

Another misconception is that we do not purchase Mortgages secured by unique properties. When the subject property does not conform to its neighborhood in terms of type, design, age, or the materials and techniques used in its construction, the appraiser must evaluate and report on the effect of the nonconformity on the property's value and marketability. The appraiser may use more traditional homes as comparable sales for unique properties as long as the appraiser determines and adjusts for any differences between the subject property and the comparable sales, and justifies and supports the use of the comparable sales in the appraisal report.

Section 44.2, General Property Eligibility Requirements, has been updated to include more guidance about these requirements.
SELECTION OF COMPARABLE SALES AND ANALYSIS

Rural areas often have much less real estate sales activity than more populated locations and the property sales in rural locations often involve a wide variety of properties. Given the potential challenges with appraising properties in these market areas, the appraiser must be knowledgeable about the varying conditions that characterize properties in a particular geographic area.

Properties in rural locations also often have relatively large sites as compared to other locations, and there may be a lack of truly comparable sales due to the relatively low number of recent sales transactions in the market area. In such cases, appraisers may have to use comparable sales that are located a considerable distance from the subject property or comparable sales that are not similar to the subject property.

A common misconception is that for rural market areas, Freddie Mac does not allow the appraiser to use older comparable sales, comparable sales that are distant from the subject property and comparable sales that are not similar to the subject property. In areas with less real estate activity such as rural market areas, Freddie Mac allows the appraiser to use older comparable sales, comparable sales that are farther from the subject property, and comparable sales that have differing degrees of comparability to the subject property as long as the appraiser can justify and support such use in the appraisal report. Freddie Mac’s property and appraisal requirements:

- Allow appraisers to use comparable sales that are older than 12 months
- Do not require comparable sales to be any particular distance from the subject property. This is especially relevant in rural areas due to lack of housing density. For example, appraisers may have to use comparable sales that are farther than comparable sales used in an appraisal of a property in a suburban location.
- Allow appraisers to use comparable sales that may not appear to be similar to the subject property. This is particularly important in rural market areas due to the relatively low sales volume and the wide variety of properties often found in these market areas.

Section 44.15, *Property Description and Analysis*, has been updated to include more guidance about these requirements.

CONCLUSION

Freddie Mac remains committed to purchasing eligible Mortgages secured by properties in rural locations. We have provided additional guidance and addressed misconceptions relating to appraiser selection, property eligibility and unique properties, and selection of comparable sales and analysis in order to assist Sellers in their appraisal and underwriting processes.

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

Sincerely,

Laurie Redmond
Vice President
Offerings Effectiveness
SUBJECTS

Selling and Servicing
This Single-Family Seller/Servicer Guide ("Guide") Bulletin updates and revises our selling and Servicing requirements as follows:

- Requiring Seller/Servicers to notify Freddie Mac immediately when they are notified of a guilty plea indicating lack of integrity or when they are notified that law enforcement or another governmental authority is investigating or prosecuting a Seller/Servicer's board member, officer, employee or contractor for fraud

- Updating Guide Exhibit 13, Standard Flood Hazard Determination Form, to incorporate the latest version of Federal Emergency Management Agency (FEMA) Form 81-93, Standard Flood Hazard Determination Form, and updating our flood insurance requirements

- Adding specificity about Document Custodian functions and duties and Servicer requests for constructive possession of Notes

- Removing the requirement that the Borrower maintain rent loss insurance for a 2- to 4-unit Primary Residence

- Revising Exhibits 4, Single-Family Uniform Instruments, and 5, Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application, to incorporate recent Uniform Instrument updates

- Announcing new Guide-related enhancements and reminding Seller/Servicers of existing resources for Freddie Mac news

Selling
This Bulletin clarifies our selling requirements related to:

- Unemployment compensation as an eligible source of income for Freddie Mac Relief Refinance MortgagesSM

- The applicability of certain resale restrictions

EFFECTIVE DATE
All of the changes announced in this Bulletin are effective immediately unless otherwise noted.

SELLING AND SERVICING

Immediate reporting of fraud or possible fraud
We are modifying Guide Sections 7.3 and 57.3, each titled Reporting Requirements, to require Seller/Servicers to notify Freddie Mac immediately when they are notified of the entry of a guilty plea indicating lack of integrity and relating to a participant in a Mortgage or related real estate transaction, or relating to a board member, officer, employee or contractor of the Seller/Servicer. Prior to this Bulletin, Seller/Servicers were required to notify Freddie Mac only when they were notified of a civil judgment or criminal conviction. We are adding "guilty plea" to cover the period between a defendant's guilty plea and the date on which the defendant is convicted.

We also are modifying these sections to require Seller/Servicers to notify Freddie Mac immediately when they are notified by law enforcement or another governmental authority that such authority is conducting an investigation or prosecution of fraud relating to a Seller/Servicer’s board member, officer, employee or contractor.
Flood insurance

FEMA revised the Standard Flood Hazard Determination Form (SFHDF), which changed FEMA Form 81-93 to FEMA Form 086-0-032. We are updating Exhibit 13 to reflect FEMA Form 086-0-032, which requires parcel number in addition to the property address to identify real estate collateral.

To allow time to transition to Form 086-0-032, FEMA allowed users a three-year transition period so user systems can be changed before final adoption of the form is required on May 30, 2015. The prior FEMA Form 81-93 may be used for flood zone determinations made on or before May 30, 2015.

The Freddie Mac Implementation Guide for Loan Delivery Data will reflect in the next quarterly update of Appendix A, Freddie Mac XML Data Requirements V.3.1.0, the change to the FEMA Standard Flood Hazard Determination Form.

We are also revising Section 58.3, Flood Insurance, to clarify that when the SFHDF identifies the insurable improvements on the Mortgaged Premises as being located in an area that has been identified as a Special Flood Hazard Area (SFHA), the designated zone contains the letter “A” or “V” rather than being designated as Zone “A” or “V” as the Guide previously stated.

We will also allow the date in the “Date of Determination” field on the SFHDF to be more than 120 days before the Note Date of the Mortgage or, if applicable, the Note Date of the refinance Mortgage, when certain requirements are met. This will allow a Seller/Servicer to use the same SFHDF more than 120 days from the time of the initial request for a Flood Zone Determination (FZD) if the third party providing the FZD provides a “life of loan” certificate that assures ongoing monitoring.

Obtaining constructive or physical possession of the Note

Servicers may be required to be in physical or constructive possession of the Note when taking legal action, such as a Freddie Mac Default Legal Matter, when Servicing a Freddie Mac Mortgage. To enhance Seller/Servicers’ ability to assert their authority to undertake such legal action, we are updating Sections 18.4, Seller/Servicer Responsibilities, and 18.6, Document Custodian’s Functions and Duties, to include requirements outlining:

- When a Servicer is deemed by Freddie Mac to be in constructive possession of the Note
- How the Servicer is to notify the Document Custodian of the commencement and cessation of such possession
- The obligations of the Document Custodian to the Servicer and Freddie Mac during such possession, and
- How the Servicer is to request physical possession of the Note from the Document Custodian when the Servicer determines physical possession to be the more appropriate form of possession for a specific legal action

As a part of this update we are also:

- Revising Guide Form 1036, Request for Release of Documents, to allow for its use in requesting physical possession of the Note from the Document Custodian or notifying the Document Custodian of the commencement and/or cessation of the Servicer’s constructive possession of the Note. To reflect its new content and purpose, Form 1036 has been renamed Request for Physical or Constructive Possession of Documents and all applicable Guide references to the form name have been updated. Also, Form 1036 is now a fillable form for Seller/Servicer convenience.

- Clarifying the functions of the Document Custodian to state that the Document Custodian maintains physical custody of the Note, in trust, for the benefit of the Seller/Servicer when the Seller/Servicer determines it is in need of constructive possession and, in trust, for the benefit of Freddie Mac at all other times. Prior to this update, the Document Custodian was described as holding the Note for the sole benefit of Freddie Mac.

We are making additional clarifications to the requirements in Sections 18.4 and 18.6 and to the Glossary terms “Document Custodian” and “Note.” Seller/Servicers are encouraged to review the updated sections for more detailed information.

The Document Custody Procedures Handbook has also been updated to reflect these changes.
Rent loss insurance for 2- to 4-unit Primary Residences

Prior to this Bulletin, the Guide required that the Borrower maintain six months’ rent loss insurance for a 2- to 4-unit Primary Residence when rental income is used in qualifying. We are removing the requirement for rent loss insurance when the property is a 2- to 4-unit Primary Residence. Sections 22.19, General Property Insurance Requirements, and 58.3.2, Rent Loss Insurance, have been updated to reflect this change.

As a result of this change, we are adding a permitted change to the 1-4 Family Rider, Form 3170. If the Mortgaged Premises is a 2- to 4-unit Primary Residence, originators must delete Paragraph D (Rent Loss Coverage) from the 1-4 Family Rider.

As a reminder, the Borrower must maintain six months’ rent loss insurance for an Investment Property when rental income is used in qualifying, as required in Section 22.22.1, Investment Property Mortgages.

Uniform Instrument updates

Effective October 15, 2014

Updates to Exhibit 4

Freddie Mac and Fannie Mae have created a new joint MERS® Rider (Form 3158), available as a Uniform Instrument. Due to recent legal developments in the States of Montana, Oregon and Washington, we are requiring MERS Rider (Form 3158) be attached to the Security Instruments in these States for newly originated Mortgages that will be registered with MERS. The new MERS Rider must be used in the three States no later than October 15, 2014, but may be used immediately.

Note: In Montana, Oregon and Washington, subsequent assignment into MERS is prohibited.

Exhibit 4 has been revised to incorporate Form 3158. In addition, MERS Rider (Form 3158) has been posted on our Uniform Instruments web page at http://www.freddiemac.com/singlefamily/guide/.

Updates to Exhibit 5

Exhibit 5 has been updated to include authorized changes to Security Instruments related to use of the MERS Rider (Form 3158). In addition we are removing the previous MERS as Original Mortgagee of Record (OMR) authorized change for Montana, Oregon and Washington because the MERS Rider (Form 3158) replaces it. The new MERS Rider must be used in the three States no later than October 15, 2014, but may be used immediately. However, until originators begin to use the MERS Rider (Form 3158), they must continue to follow the requirements set forth in paragraphs V.(F) and (W) of Exhibit 5.

We are also updating Exhibit 5 as it relates to Mortgage Loan Originators and Mortgage Licensing System and Registry Identification Numbers for consistency with our Uniform Instrument web page at http://www.freddiemac.com/singlefamily/guide/.

Enhancements and resources

Guide table of contents on AllRegs®

A document listing the full table of contents for the Guide is now posted on AllRegs. This document features links directly to each chapter, section, form and exhibit (each a “provision”). Effective with this Bulletin, once a provision is updated with a Bulletin, the provision’s title in the table of contents will be highlighted for 60 days. This separate table of contents document allows users to see all provision titles and determine which provisions have been recently updated in one view.

Historical Guide Snapshots

Freddie Mac recently published the March 28, 2014 Historical Guide Snapshot, which reflects Guide requirements as of that date in a Portable Document Format (PDF) file. The snapshot includes two comprehensive files:

- A PDF file of the entire Guide, including a table of contents, easy-to-use navigational bookmarks and highlighting designating updates made to the Guide since the date of the last Guide snapshot
● A PDF file containing all of the Bulletins and Industry Letters issued since the date of the last Guide snapshot

All Guide snapshots are available at http://www.freddiemac.com/singlefamily/guide/bulletins/snapshot.html. Freddie Mac provides these snapshots as a convenience to our Seller/Servicers; they are not official versions of the Guide.

**Single-Family Business News Subscription Center**

Seller/Servicers are encouraged to visit our Single-Family Business News Subscription Center to ensure they are receiving the latest e-mails on single-family selling and Servicing news, alerts and new training and education opportunities. Seller/Servicers can subscribe to specific categories based on individual responsibilities and interests, or update their current subscription.

**SELLING**

**Income source eligibility for Relief Refinance Mortgages**

In response to customer inquiries, we are clarifying that unemployment compensation is an eligible source of income for Relief Refinance Mortgages. For these Mortgages, Sellers are not required to make a determination that income, including public assistance, is expected to continue for at least three years. Therefore, unemployment compensation, which is a type of public assistance, is an eligible income source under Sections A24.3, Requirements for Freddie Mac Relief Refinance MortgagesSM – Same Servicer, and B24.3, Requirements for Freddie Mac Relief Refinance MortgagesSM – Open Access.

**Clarification on resale restrictions**

We have updated the language in Section 22.23, Purchase Requirements for Mortgages Secured by Properties with Resale Restrictions, to clarify the applicability of resale restrictions.

**REVISIONS TO THE GUIDE**

The revisions included in this Bulletin impact the following:

- Chapters 7, 18, 22, 57, 58, A65 and 66
- Exhibits 4, 5 and 13
- Form 1036
- Glossary


**CONCLUSION**

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

Sincerely,

Laurie Redmond
Vice President
Offerings Effectiveness
TO: Freddie Mac Servicers

April 29, 2014

SUBJECT: CHICAGO, ILLINOIS VACANT PROPERTY ORDINANCE UPDATES

Since late 2011 Freddie Mac has required Servicers to register vacant properties and pay registration fees under protest pursuant to a directive from the Federal Housing Finance Agency (FHFA) relating to Sections 13-12-125, 126, 127 and 135 of the Municipal Code of the City of Chicago, Illinois (“Ordinance”). This Single-Family Seller/Servicer Guide (“Guide”) Bulletin revises requirements associated with Servicing Mortgages subject to the Ordinance and is being issued in response to a directive issued by FHFA to Freddie Mac and Fannie Mae (“GSEs”) on April 3, 2014.

COMPLIANCE WITH THE MEMORANDUM OF UNDERSTANDING

FHFA and the City of Chicago, Illinois (“City”) entered into a Memorandum of Understanding (MOU) dated March 28, 2014 that specifies certain agreed upon actions by both the City and FHFA, including that each GSE will voluntarily register vacant properties in which it holds a mortgage interest.

Effective May 12, 2014, Servicers must comply with the requirements of the MOU, which is included with an Agreed Order of Dismissal as Attachment A to this Bulletin, when Servicing Mortgages secured by Mortgaged Premises in the City.

Servicers must voluntarily register vacant properties with the City, but must no longer pay any fees associated with the registration of a vacant property securing a Mortgage that is owned or guaranteed by Freddie Mac.

Furthermore, the payment of any fees, fines or penalties when associated with the enforcement of the Ordinance requirements is strictly prohibited. In the event any such amount is levied against a Mortgaged Premises related to the enforcement of the Ordinance, the Servicer must notify the City that Freddie Mac is the owner of the Mortgage secured by the subject property and send a written request that the City dismiss any enforcement actions. If the City refuses the request, the Servicer must report the incident to Freddie Mac by contacting its Freddie Mac representative or calling (800) FREDDIE.

REIMBURSEMENT OF ORDINANCE-RELATED EXPENSES

Servicers may continue to submit claim requests for expenses listed in Guide Exhibit 59, City of Chicago, Illinois Vacant Property Ordinance Expense Codes, via the Freddie Mac Reimbursement System as provided in Guide Section 71.13, Claim Submission Types and Time Frames, but the claims submitted must be only for advances made prior to May 12, 2014. Advances made for the expenses listed in Exhibit 59 on or after May 12, 2014 are not permitted and must not be submitted to Freddie Mac for review.

REMINDER: SERVICING MORTGAGES ON ABANDONED PROPERTIES

Servicers are reminded that they are responsible for acting without delay and in accordance with the requirements provided in Section 67.28, Servicing Mortgages on Abandoned Properties, to secure and maintain a Mortgaged Premises abandoned by the Borrower. This includes utilizing the delegation provided in Exhibit 57, 1- to 4- Unit Property Approved Expense Amounts, to secure and maintain the Mortgaged Premises up to the allowable expense limits without obtaining Freddie Mac’s pre-approval. In the event a Servicer requires approval for an expense in excess of the limits set forth in Exhibit 57 to preserve or repair the Mortgaged Premises, the Servicer should submit a request for pre-approval (RPA) using the RPA functionality via the Reimbursement System.

REVISIONS TO THE GUIDE

Section 71.11, Expense Amounts Requiring a Servicer Request for Pre-Approval (RPA), and Exhibits 57 and 59 have been updated as a result of the changes announced in this Bulletin.
CONCLUSION
If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE and select “Servicing.”

Sincerely,

Tracy Hagen Mooney
Senior Vice President
Single-Family Servicing
IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

FEDERAL HOUSING FINANCE AGENCY,
on its own behalf and as conservator of Fannie
Mae and Freddie Mac,

Plaintiff,

v.

CITY OF CHICAGO,
a municipal corporation,

Defendant.

No. 11-Cv-08795
Hon. Thomas M. Durkin

AGREED ORDER OF DISMISSAL

Upon the agreement of the parties

IT IS HEREBY ORDERED THAT:

1. For as long as the Federal Housing Finance Agency ("FHFA") continues as
   Conservator of the Federal National Mortgage Association ("Fannie Mae") and the Federal
   Home Loan Mortgage Corporation ("Freddie Mac"), the City of Chicago ("City") will not
   enforce sections 13-12-126 through -128 of the Municipal Code of Chicago ("Code Sections")
   against FHFA, in its capacity as Conservator, or Fannie Mae or Freddie Mac as Mortgagees, or
   any entity acting on their behalf as Mortgagees. The City, however, will not be deemed to have
   violated this Order if it in good faith seeks to enforce the Code Sections against an entity without
   knowledge that the entity is, or is acting on behalf of, FHFA, in its capacity as Conservator, or
   Fannie Mae or Freddie Mac as Mortgagee.

2. The City and FHFA desire to work together to achieve their joint goals of
   preserving and protecting neighborhoods and preserving and enhancing property values,
   including properties in which Fannie Mae or Freddie Mac have an ownership or security interest,
by ensuring that vacant residential buildings are appropriately addressed, as provided in the Memorandum of Understanding between the City and FHFA dated March 28, 2014, that is attached to this Order as an Exhibit and that is hereby incorporated by reference in its entirety and made a part of this Order as if fully set forth in this Order.

3. For as long as FHFA remains Conservator, FHFA agrees that Fannie Mae and Freddie Mac will voluntarily register vacant properties in which it holds a mortgage interest and which would otherwise be subject to the Code Sections and the City will waive all fees for such registrations. Further, for as long as FHFA remains Conservator, Fannie Mae and Freddie Mac shall not be subject to any penalties or enforcement measures by the City in connection with such properties, including for failure to register such properties, under the Code Sections. The City will provide the registrant with all of the notices provided to other registered mortgagees (e.g. notice of all 3-1-1 and 9-1-1 communications involving the property and dangerous conditions observed by building inspectors).

4. FHFA, on behalf of itself and as Conservator for Fannie Mae and Freddie Mac, knowingly and voluntarily waives any and all rights it may have to monetary damages or to otherwise recover any registration fee, fine, or penalty paid to the City pursuant to the Code Sections prior to the date of this Order.

5. The City knowingly and voluntarily waives its right to appeal any decision, order, or judgment entered in this case.

6. Each party to bear its own costs and fees.

7. This case is dismissed with prejudice, by agreement of the parties, subject to the terms of this Order.
SO ORDERED THIS 3 DAY OF April, 2014.

Thomas M. Durkin
United States District Judge
EXHIBIT
(INCORPORATED BY REFERENCE INTO ATTACHED ORDER)

Memorandum of Understanding Between
Federal Housing Finance Agency on its own behalf and as Conservator of
Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac")
and the City of Chicago,
Dated March 28, 2014
MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding ("MOU") by and between the Federal Housing Finance Agency ("Agency"), on its own behalf and as conservator for the Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"), and the City of Chicago ("City") (collectively the "Parties") is made on this 28th day of March, 2014 (the "Effective Date").

WHEREAS, in 2011 the City enacted an amendment to its vacant and abandoned buildings ordinance, codified at §§ 13-12-126 through -128 of the Municipal Code of Chicago ("Ordinance"), which requires mortgagees of certain improperly-maintained vacant residential properties to register, secure, and maintain those properties during the foreclosure process; and

WHEREAS, on December 12, 2011, the Agency sued the City in the United States District Court for the Northern District of Illinois ("Lawsuit"), alleging that the Ordinance, as applied to the Agency, Fannie Mae, and Freddie Mac, and those acting on their behalf, is preempted by provisions of the Housing and Economic Recovery Act of Economic Recovery Act of 2008 ("HERA"), Pub. L. No. 110-289, 122 Stat. 2654, codified at 12 U.S.C. § 4511, et seq.; and

WHEREAS, on August 23, 2013, after extensive briefing and argument, the United States District Court for the Northern District of Illinois granted the Agency’s motion for a summary judgment that the Ordinance, as applied to the Agency, Fannie Mae, and Freddie Mac, is preempted by HERA; and

WHEREAS, the City intends to comply with that ruling and to cease enforcing the Ordinance as to the Agency, Fannie Mae, and Freddie Mac and those acting on their behalf unless and until the Agency ceases to act as conservator of Fannie Mae and Freddie Mac; and

WHEREAS, under the direction and supervision of the Agency, Fannie Mae and Freddie Mac have each maintained guidelines for the inspection, maintenance, and securing of vacant residential buildings during the foreclosure process ("Guidelines") with which the companies that service their mortgages ("Servicers") are required to comply; and
WHEREAS, the Agency, Fannie Mae, and Freddie Mac intend to continue to enforce and require that their Servicers comply with their Guidelines; and

WHEREAS, the Agency, on its own behalf and as Conservator for Fannie Mae and Freddie Mac and the City desire to work together to achieve their joint goals of preserving and protecting neighborhoods and preserving and enhancing property values, including properties in which Fannie Mac or Freddie Mac have an ownership or security interest, by ensuring that vacant residential buildings are appropriately addressed; and

WHEREAS, the Agency and the City intend to seek an Agreed Order of Dismissal of the Lawsuit.

NOW, THEREFORE, the Parties memorialize their agreement with the following terms:

Definitions

1. **FHFA Defined.** As used in this MOU, “FHFA” means the Agency, Fannie Mae, Freddie Mac, and any person or entity acting on any of their behalf.

2. **Code Sections Defined.** As used in this MOU, “Code Sections” means all ordinances of the City which would require FHFA, when acting as mortgagee, to register, insure, inspect, patrol, secure, or otherwise maintain a property prior to the completion of mortgage foreclosure proceedings, including but not limited to Sections 13-12-126 through 128 and 13-12-140 of the Municipal Code of Chicago.

Non-Enforcement of Code Sections Against FHFA

3. **Voluntary No-Cost Registration of FHFA Properties.** FHFA will voluntarily register vacant properties in which it holds a mortgage interest and which would otherwise be subject to the Code Sections and the City will waive all fees for such registrations. Further, FHFA shall be subject to any penalties or enforcement measures by the City in connection with such properties, including for failure to register such properties, under the Code Sections. The City will provide the registrant with all of the notices provided to other registered mortgagees (e.g. notice of all 3-1-1 and 9-1-1 communications involving the property and dangerous conditions observed by building inspectors).

4. **Proceedings Under Code Sections.** When FHFA is acting as mortgagee in the name of the Agency, Fannie Mae or Freddie Mac, the City shall not:
a. Initiate proceedings to enforce the Code Sections against FHFA in the City’s Department of Administrative Hearings, or if such proceedings are inadvertently initiated, shall promptly move to dismiss FHFA from such proceedings; or

b. Seek any remedy against FHFA under the Code Sections in any proceeding in any other forum, and shall dismiss FHFA from such proceeding unless FHFA is a necessary party for purposes of other counts or claims raised in the proceeding.

This MOU shall not limit the City’s ability to obtain any remedy authorized by Illinois law which may result in a priority lien on a property of which FHFA is mortgagee, including but not limited to court orders authorizing the City to demolish, repair, enclose, or clean up a property or appointing a receiver to demolish, repair, enclose, or cleanup a property.

5. **Notification of Unintentional Violations.** If the City brings an action under the Code Sections against FHFA, the provisions of this MOU shall not apply unless and until FHFA notifies the City in writing that FHFA is the mortgagee of the property in question, as provided in paragraph 12, below, or provides similar written notification to an attorney handling that action on behalf of the City. Upon receipt of such notice, with respect to a particular action, the City shall proceed as provided in paragraph 4, above.

6. **MOU as Defense.** FHFA may assert this MOU as a defense to any enforcement proceeding brought or pursued by the City under the Code Sections but which should not have been brought or pursued as provided in paragraph 4 or 5 of this MOU.

7. **Expiration Date.** The provisions of paragraphs 3 through 6 of this MOU shall remain in force unless and until the Agency ceases to act as conservator for Fannie Mae and/or Freddie Mac (the “Expiration Date”), unless the Parties agree in writing to extend such rights and obligations beyond the Expiration Date.

**Joint Initiatives**

8. **Micro Market Recovery Program.** The Parties shall work together in good faith to further the City’s Micro Market Recovery Program ("MMRP") by identifying properties which Fannie Mae or Freddie Mac own and which are located in MMRP geographic areas ("MMRP Properties"). Such cooperation and collaboration shall include the following:
a. **First Look.** Fannie Mae and Freddie Mac will work with the National Community Stabilization Trust ("NCST") to offer the City the opportunity to purchase MMRP Properties before listing such properties for sale.

b. **Property Donation.** FHFA may donate MMRP Properties to the City or its not-for-profit partners in order to facilitate rehabilitation and reuse of such properties. Any such donation shall only occur upon the agreement of FHFA and the City, and the City shall not be obligated to accept donation of any property offered by FHFA. When the City agrees to accept donation of an MMRP Property: such donation shall be accepted subject to any lien of unbilled real property taxes; the conveyance shall be irrevocable and the recipient shall accept the property as-is and without recourse to FHFA for any preexisting condition; and the City will waive any fines or fees with respect to City municipal code violations during FHFA’s period of ownership, and, to the fullest extent allowed by existing law, any fees due to the City (such as permit or inspection fees) in connection with conveyance of such property to the City.

c. **Normal Disposition/Sale.** With respect to all other MMRP Properties, FHFA shall follow its normal procedures for marketing and disposing of the property. For MMRP Properties, FHFA may consult the City’s MMRP program administrator to better understand what marketing strategy might be appropriate based on a property’s location. FHFA will make appropriate, economically-justified repairs to MMRP Properties as part of the marketing process.

d. **Demolition.** If FHFA determines that an FHFA-owned MMRP Property presents health and/or safety issues that cannot be remediated for resale or has no intrinsic value, FHFA may consider demolition of the property. FHFA shall obtain all necessary permits and government approvals before performing demolition activity. FHFA may consult the City on demolitions identified by FHFA or desired by the City to determine if the City is able to demolish the structure(s) for a lower cost than FHFA. If the City is able to provide demolition at a lower cost than FHFA, FHFA may request that the City demolish the structure, subject to reimbursement by FHFA. Any such arrangement shall be documented in a separate written agreement and shall be subject to approval by the City. FHFA shall promptly reimburse demolition costs incurred by the
City under any such agreement. The City shall not take title to real property under any such agreement. In no case shall FHFA convey title to real property or grant a consensual lien on real property to the City in lieu of reimbursement.

e. **Vacant MMRP Property Inspections and Affidavits.** Upon request by FHFA, the City will inspect specified MMRP Properties and, when appropriate, prepare suitable affidavits to allow FHFA to utilize the expedited judgment and sale procedure for abandoned residential property authorized by 735 ILCS 5/15-1505.8. The City will give priority to such inspections and affidavits and work with FHFA to meet other judicial or legal requirements that will expedite action in furtherance of this MOU.

9. Either the City or FHFA may propose that one or more of the joint initiatives with respect to MMRP Properties, as set forth in Paragraph 8, above, apply to other property in the City which Fannie Mae or Freddie Mac own. Any such joint initiative as to other property shall be subject to the agreement of the City and Fannie Mae or Freddie Mac.

10. **Other participants.** The City and FHFA will make good faith efforts to engage other private and governmental partners to further the goals of the MMRP program and enhance the value of properties donated pursuant to this MOU.

11. **Commitment of Funds.** The City shall commit to spend at least $475,000 in support of the MMRP program in FY2014, which is FHFA’s good faith estimate of the amount of registration fees that FHFA has paid to the City pursuant to the Code Sections prior to this MOU.

**Communications**

12. **Designated Contacts.** Each party to this MOU shall designate and maintain a person to receive communications made pursuant to this MOU. Any party may change its designated contact by written notice to all other Parties. The initial designated contacts under this MOU shall be:

For the City
Judith Frydland
Deputy Corporation Counsel
30 N. LaSalle Street, 7th Floor
Chicago, IL 60602

- Page 5 of 8 -
judith.frydland@cityofchicago.org
(312) 744-6998

For the City (MMRP-related communications)
Anthony Simpkins
Deputy Commissioner
121 N. LaSalle Street, 10th Floor
Chicago, IL 60602
anthony.simpkins@cityofchicago.org
(312) 744-9777

For FHFA
Alfred Pollard, General Counsel, or such other person as the Agency may designate,
FHFA
400 Seventh St., SW
Washington, DC 20024
(202) 649-3800

For Fannie Mae
P.J. McCarthy
VP for Alternative Dispositions, Real Estate Asset Mgmt (REAM)
Fannie Mae
3900 Wisconsin Avenue
Mailstop: 81H-309
patrick_j_mccarthy@fannie Mae.com
202-752-7551

For Freddie Mac
Robert R. Lawrence
Associate General Counsel
General Litigation & Investigations
Legal Division
8200 Jones Branch Drive
McLean, VA 22102
(703) 903-2487

Dispute Resolution

13. Dispute Resolution. If any dispute arises under this MOU, the aggrieved party shall first notify the other party or parties involved, in writing, as provided in paragraph 12. If
such efforts fail to resolve the dispute, the Agency’s General Counsel and the City’s Corporation Counsel shall confer by telephone in a good faith attempt to resolve the dispute.

**Liability**

14. **Release and Waiver of Potential Liability.** In consideration for this MOU, the City releases and waives any claims it has or may have against FHFA under the Code Sections for any time period prior to the Expiration Date. FHFA releases and waives any claim it has or may have related to the Code Sections, including recovery of payments made under them, at any time prior to the Expiration Date.

15. **No Liability for Officials or Employees.** The Parties agree that no member, official, or employee of any party shall be individually or personally responsible to any other party in the event of the failure to perform any obligation or understanding under this MOU.

16. **Not for Benefit of Any Third Parties.** This MOU and all activities under this MOU are solely for the benefit of FHFA and the City and are not for the benefit of any other person.

**Agreed Order of Dismissal**

17. **Agreed Order of Dismissal.** Upon execution of this MOU, the City and the Agency shall jointly seek entry of an Agreed Order of Dismissal in the Lawsuit which shall fully incorporate this MOU. The Agreed Order of Dismissal shall incorporate the following stipulations:

a. That the Agency, Fannie Mae, and Freddie Mac knowingly and voluntarily waive any and all rights they may have to monetary damages in the Lawsuit or to otherwise recover any registration fee, fine, or penalty paid to the City pursuant to the Code Sections prior to the date of the Agreed Order of Dismissal.

b. That the City knowingly and voluntarily waives its right to appeal any decision, order, or judgment entered in the Lawsuit.

**Other Matters**

18. **Direction to Fannie Mae and Freddie Mac.** The Agency shall promptly give direction to Fannie Mae and Freddie Mac to comply with all applicable terms of this MOU. The
Agency, as necessary, shall issue further direction to Fannie Mae and Freddie Mac to insure that the terms of this MOU are fully and timely implemented.

19. Amendment. No amendment of this MOU shall be valid unless in writing and signed by the Parties.

20. Counterparts. This Agreement may be executed by each of the Parties to this Agreement in identical original counterparts, with the same effect as if all of the Parties had signed the same copy and with each counterpart constituting the entire Agreement. Facsimile or PDF signatures will be deemed to have the same force and effect as original signatures.

IN WITNESS WHEREOF, the City, FHFA on its own behalf and as conservator for Fannie Mae and Freddie Mac, have caused this MOU to be duly executed as of the date written above.

Federal Housing Finance Agency

[Signature]
Alfred Pollard, General Counsel

City of Chicago

[Signature]
Stephen R. Patton, Corporation Counsel

Date 3/28/2014

Date 3/28/14
SUBJECT: SELLING REPRESENTATION AND WARRANTY FRAMEWORK UPDATES

Freddie Mac, jointly with Fannie Mae and at the direction of the Federal Housing Finance Agency, is pleased to announce that it is making a number of significant enhancements to the selling representation and warranty framework introduced in 2012. These changes, including revisions related to how a Mortgage becomes eligible for relief from certain specified selling representations and warranties as described in Single-Family Seller/Servicer Guide (“Guide”) Section 6.14(a), Representatives and Warranties, include:

- Relaxing the acceptable payment history requirement for determining when a Mortgage is eligible for relief from the selling representations and warranties
- Introducing an additional path for eligible Mortgages to obtain relief from the selling representations and warranties. In addition to the payment history path, Sellers will also obtain relief from the selling representations and warranties if there is a satisfactory conclusion of a Freddie Mac quality control review of the Mortgage.
- Providing Sellers with written notice of Mortgages that have met the eligibility requirements for relief from the selling representations and warranties
- Implementing an alternative to repurchase that may allow a Seller to “stand-in” in lieu of repurchasing the Mortgage. We will not automatically require repurchase when notified that primary mortgage insurance has been rescinded on a Mortgage.

The selling representation and warranty framework that was announced in Guide Bulletin 2012-18 is referred to as Version 1 of the framework. The selling representation and warranty framework announced in Bulletin 2012-18 as modified by the changes described in this Bulletin is referred to as Version 2 of the framework.

EFFECTIVE DATES

Version 1 of the framework is effective for Mortgages with Freddie Mac Settlement Dates on and after January 1, 2013 and before July 1, 2014. Version 2 of the framework, as announced in this Bulletin, is effective for Mortgages with Freddie Mac Settlement Dates on and after July 1, 2014.

REQUIREMENTS UNDER VERSION 2 OF THE FRAMEWORK

Under Version 2 of the framework, there are two separate, independent paths through which a Seller/Servicer may obtain relief from the selling representations and warranties. Relief will either be based on:

- The Borrower’s acceptable payment history, or
- A satisfactory conclusion of a Freddie Mac quality control review

Details and timing of relief related to these paths are described below.

Relief based on acceptable payment history

Under Version 2 of the framework, we are relaxing our requirements for relief based on an acceptable payment history so that Mortgages that would previously have obtained relief upon the Borrower’s 60th monthly payment will now receive relief upon the Borrower’s 36th monthly payment.
If the relief is based on the Borrower's acceptable payment history, the relief will occur either:

- For Mortgages other than Freddie Mac Relief Refinance MortgagesSM (“Non-Relief Refinance Mortgage”), upon payment by the Borrower of the first 36 monthly payments due following the Freddie Mac Settlement Date, provided that the Borrower:
  - Had no more than two 30-day Delinquencies
  - Had no 60-day or greater Delinquencies, and
  - Is not 30 or more days delinquent with respect to the 36th monthly payment, or

- For a Relief Refinance Mortgage, the earlier of:
  - Upon payment by the Borrower of the first 12 monthly payments due following the Freddie Mac Settlement Date, provided the Borrower had no 30-day or greater Delinquencies, or
  - Upon payment by the Borrower of the first 36 monthly payments due following the Freddie Mac Settlement Date, provided the Borrower:
    - Had no more than two 30-day Delinquencies and no 60-day or greater Delinquencies, and
    - Is not 30 or more days delinquent with respect to the 36th monthly payment

**Note:** We are clarifying that the acceptable payment history begins on the date of the first monthly payment due from the Borrower after the Freddie Mac Settlement Date. This clarification applies to Version 1 and Version 2 of the framework.

**Relief based on a Freddie Mac quality control review**

Under Version 2 of the framework, we are adding an additional path through which Mortgages may qualify for relief of the selling representations and warranties: a satisfactory conclusion of a quality control review. These requirements for obtaining relief apply both to performing loans and non-performing loans. Relief will be obtained under the quality control review path regardless of whether the Mortgage met the acceptable payment history criteria.

Quality control reviews will be conducted in accordance with our current quality control review practices as described in our October 19, 2012 Industry Letter.

Each of the situations described in the bullets below is considered to be a satisfactory conclusion of a quality control review. If the relief is based on a Freddie Mac quality control review, the relief will occur when one of the following takes place:

- Freddie Mac completes the quality control review of the loan file, which includes a review of the credit underwriting and eligibility of the Borrower, the Mortgaged Premises (including its value), and the project in which the Mortgaged Premises is located, if applicable (“the quality control review”), and determines that the Mortgage is acceptable (that is, it is not subject to a repurchase request)

- Freddie Mac completes the quality control review and determines the Mortgage is not acceptable because of a loan deficiency that is curable, and the Seller/Servicer cures the deficiency to Freddie Mac's satisfaction. This process is more fully described in the October 19, 2012 Industry Letter and will be further clarified with future communications as needed. Relief will be effective upon the correction of the loan deficiency. For example, if the Mortgage file delivered to Freddie Mac did not contain the required verification of income, the loan deficiency would be deemed to be corrected if the Seller/Servicer provided the missing documentation within the time frame specified. Another example of an action taken to correct a loan deficiency is rectifying a prior lien by producing evidence of a recorded satisfaction or release of such prior lien within the time frame specified.

- Freddie Mac completes the quality control review and determines the Mortgage is not acceptable, but may be eligible for a repurchase alternative that expires or terminates by its terms. In this case, relief will be provided on the date of expiration or termination of the repurchase alternative. For example, if Freddie Mac determined a Mortgage was not acceptable and, as a repurchase alternative, Freddie Mac and the Seller/Servicer agreed that the Mortgage would be subject to recourse for five years, then the Seller/Servicer would be relieved of the selling representations and warranties at the end of the five-year period. Other possible repurchase alternatives include indemnification, make-whole arrangements, and certain split-loss agreements; in each case, the repurchase alternative must satisfactorily expire or terminate by its terms in order for the affected
Mortgage to be eligible for relief from the selling representations and warranties under Version 2 of the framework.

DIFFERENCES BETWEEN VERSION 1 AND VERSION 2 OF THE FRAMEWORK

The following chart summarizes the differences between Version 1 and Version 2 of the framework for non-Relief Refinance Mortgages:

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<thead>
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<tbody>
<tr>
<td>Relief Criteria</td>
<td>Effective dates</td>
<td>Effective dates</td>
</tr>
<tr>
<td>Effective dates</td>
<td>Effective for Mortgages sold on and after January 1, 2013 and before July 1, 2014</td>
<td>Effective for Mortgages sold on and after July 1, 2014</td>
</tr>
<tr>
<td>Number of required consecutive monthly payments after the Freddie Mac Settlement Date</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Number of Delinquencies permitted during first 36 monthly payments after the Freddie Mac Settlement Date in order to be eligible for relief after the 36th monthly payment</td>
<td>0 x 30</td>
<td>2 x 30 and 36th monthly payment is not delinquent</td>
</tr>
<tr>
<td>Opportunity to re-establish acceptable payment history if there were Delinquencies in the first 36 monthly payments after the Freddie Mac Settlement Date?</td>
<td>Yes, as of the 60th monthly payment, provided no more than 2 x 30 Delinquencies in first 36 monthly payments and 60th monthly payment is not delinquent</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Eligible for relief after satisfactory conclusion of quality control review?</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The following chart summarizes the differences between Version 1 and Version 2 of the framework for Relief Refinance Mortgages:

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Relief Criteria</td>
<td>Effective dates</td>
<td>Effective dates</td>
</tr>
<tr>
<td>Effective dates</td>
<td>Effective for Mortgages sold on and after January 1, 2013 and before July 1, 2014</td>
<td>Effective for Mortgages sold on and after July 1, 2014</td>
</tr>
<tr>
<td>Number of required consecutive monthly payments after the Freddie Mac Settlement Date</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Number of Delinquencies permitted during first 12 monthly payments after the Freddie Mac Settlement Date in order to be eligible for relief after the 12th monthly payment</td>
<td>0 x 30</td>
<td>0 x 30</td>
</tr>
<tr>
<td>Opportunity to re-establish acceptable payment history if there were Delinquencies in the first 12 monthly payments after the Freddie Mac Settlement Date?</td>
<td>Yes, as of the 60th monthly payment, provided no more than 2 x 30 Delinquencies in first 36 monthly payments and 60th monthly payment is not delinquent</td>
<td>Yes, as of the 36th monthly payment, provided no more than 2 x 30 Delinquencies in first 36 monthly payments and 36th monthly payment is not delinquent</td>
</tr>
<tr>
<td>Eligible for relief after satisfactory conclusion of quality control review?</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Note: Other provisions of the selling representation and warranty framework described in Section 6.14, Enforcement of Representations and Warranties Related to Underwriting of the Borrower, Mortgaged Premises and Project, have not changed and remain applicable under both versions of the framework.
QUALITY CONTROL PROCESSES SUPPORTING THE FRAMEWORK

With the implementation of Version 2 of the framework, Freddie Mac's quality control review process becomes an integral part of the relief framework. Our quality control review practices and processes not only help ascertain the quality of Mortgages sold to Freddie Mac, they also aid in determining whether the Mortgages sold to Freddie Mac are eligible for relief from selling representations and warranties.

In the October 19, 2012 Industry Letter, we provided a detailed description of our quality control review principles, sample processes, file request and review time lines, review practices and enforcement practices and time lines. Those policies and practices remain generally unchanged and in effect for Version 2 of the framework. However, the sections titled “Subsequent Mortgage file review process” and “Repurchase and appeal process” do not anticipate that a satisfactory conclusion of a quality control review will provide a Mortgage with relief from the selling representations and warranties. As those paragraphs relate to Version 2 of the framework, they are amended by the provisions of this Bulletin describing the satisfactory conclusion of quality control review.

As we have in the past, Freddie Mac will continue to refine our sampling methodology based on loan quality and ongoing industry changes.

ONGOING COMMUNICATION WITH SELLER/SERVICERS ABOUT MORTGAGE QUALITY

Freddie Mac’s goal is to continue engaging in frequent, meaningful exchanges of information with its Seller/Servicers on quality trend analyses and significant underwriting deficiencies identified through the quality control review process. Freddie Mac believes such communications strengthen the alignment between Freddie Mac and its Seller/Servicers on what constitutes a significant deficiency, and provides both parties with a clear understanding of underwriting philosophy and how it applies to loan-level findings. Freddie Mac requires that Seller/Servicers implement and enforce strong underwriting processes and, if necessary, will work with Seller/Servicers to develop action plans to improve origination quality.

Refer to our quality control web page for additional quality control information and reference materials.

NOTIFICATION OF RELIEF UNDER VERSION 1 AND VERSION 2 OF THE FRAMEWORK

Beginning in the third quarter 2014, Freddie Mac will provide Sellers with reports listing those Mortgages that meet the criteria for representation and warranty relief under both Version 1 and Version 2 of the framework. The reports will be provided to the entity responsible for the selling representations and warranties. Prior to their availability, we will provide information on when and how Sellers will receive the reports.

As this new process is implemented, we will continue to work with Seller/Servicers to ensure they receive the necessary information to reconcile their portfolios’ representation and warranty status with Freddie Mac.

NEW ALTERNATIVE TO REPURCHASE – MI STAND-IN

Freddie Mac will not automatically require repurchase when notified that primary mortgage insurance has been rescinded on a Mortgage. For Mortgages with Freddie Mac Settlement Dates on or after July 1, 2014, we have developed a new alternative to repurchase that will be available in cases where the primary mortgage insurance for a particular Mortgage has been rescinded. In these cases, the Seller/Servicer will pay Freddie Mac the full mortgage insurance claim amount that would have been payable under the original mortgage insurance policy (“MI stand-in”). The Seller/Servicer will be required to pay the MI stand-in amount at the time the primary mortgage insurance claim would have been paid had the mortgage insurance coverage remained in place.

If Freddie Mac receives notice that primary mortgage insurance for a particular Mortgage has been rescinded, Freddie Mac will call in the Mortgage file for a quality control review. If, after a quality control review, Freddie Mac determines that (1) the primary mortgage insurance was in effect at the time Freddie Mac purchased the Mortgage, (2) the Mortgage is otherwise acceptable, and (3) the Seller/Servicer is in good standing, Freddie Mac will provide the Seller/Servicer with information on how to initiate a discussion on repurchase alternatives. If the Seller/Servicer meets Freddie Mac’s financial requirements, Freddie Mac will offer the MI stand-in alternative. If the Seller/Servicer does not meet Freddie Mac's financial requirements, Freddie Mac will work with the Seller/Servicer to find an alternative solution.

MI stand-ins will be available for Mortgages subject to Version 2 of the framework, and the list of alternatives to repurchase in the October 19, 2012 Industry Letter is amended accordingly.
TRAINING
To help Seller/Servicers understand the changes announced in this Bulletin, we encourage registration in our new webinar, Selling Representation and Warranty Framework, Version 2.

Seller/Servicers should visit Freddie Mac’s Learning Center and the Freddie Mac Representation and Warranty web page for additional reference information and tools in support of the selling representation and warranty framework.

REVISIONS TO THE GUIDE
Section 6.14 has been updated to reflect the changes to Version 1 of the framework and the requirements for Version 2 of the framework.

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

Sincerely,

Laurie Redmond
Vice President
Offerings Effectiveness
SUBJECTS

This Single-Family Seller/Servicer Guide ("Guide") Bulletin updates and revises our Servicing requirements, including:

- Updating our foreclosure requirements as follows:
  - Permitting Servicers to begin utilizing the New York Foreclosure Inquest Program as an alternative foreclosure process to accelerate foreclosure actions in New York
  - Providing Servicers with greater flexibility on when to refer a Mortgage secured by a Primary Residence to foreclosure
  - Revising our foreclosure sale bidding requirements in States with the right of redemption
- Updating our expense reimbursement requirements as follows:
  - Adding six new income codes for submitting expense reimbursement claims in the Freddie Mac Reimbursement System
  - Allowing permitted vendors access to the Reimbursement System for the purpose of submitting claims for Servicer reimbursement using the expense and income codes listed in Guide Exhibit 74, Expense and Income Codes for Expense Reimbursement Claims
- Updating our submission requirements for Guide Form 105, Multipurpose Loan Transmittal
- Extending our submission time frame for subsequent Transfers of Servicing requests and submission of a fully executed Form 981, Agreement for Subsequent Transfer of Servicing of Single-Family Mortgages
- Revising the contact information for notifying Freddie Mac of a proposed or confirmed reorganization plan that includes a bankruptcy cramdown
- Updating Exhibit 88, Servicing Tools, to include the Freddie Mac Service Loans application

EFFECTIVE DATE

All of the changes announced in this Bulletin are effective immediately unless otherwise noted.

FORECLOSURE

New York Foreclosure Inquest Program

Effective May 19, 2014

We have added new Guide Section A66.10, Expedited Foreclosures – New York, to enable Servicers to expedite Freddie Mac Default Legal Matters in New York. This section provides that Servicers may begin utilizing the New York Foreclosure Inquest Program as an alternative foreclosure process to accelerate foreclosure actions in New York. Similar to the bulk-trial foreclosure process in Florida, the New York Foreclosure Inquest Program allows for a hearing with live testimony that is followed by a judgment on the foreclosure petition.

Servicers and their counsel must use their discretion to determine if the use of the New York Foreclosure Inquest Program is in Freddie Mac’s best interest based on the local jurisdiction, the Mortgage and the Mortgaged Premises that is the subject of the foreclosure. Additionally, the foreclosure action must meet the eligibility criteria for inclusion in the New York Foreclosure Inquest Program as determined by the participating county or judge.

This option can be used for new Freddie Mac Default Legal Matter referrals to law firms, and for previous Freddie Mac Default Legal Matter referrals where a motion for final judgment has not been filed or final judgment of foreclosure has not been entered.
Foreclosure time line requirements set forth in Section 66.30, *State Foreclosure Time Lines*, will not be waived as a result of using the New York Foreclosure Inquest Program, and will remain in effect.

**Reimbursement of expenses**

Servicers will be reimbursed for additional attorney fees associated with the New York Foreclosure Inquest Program up to a maximum of $1,750 for claims submitted through the Reimbursement System. This is the maximum legal fee for all work necessary to complete an inquest, including, but not limited to:

- Identification of New York Foreclosure Inquest Program candidates
- Pre-trial preparation and correspondence
- Preparation of trial orders
- Witness preparation
- All necessary court appearances

This fee is in addition to the approved routine foreclosure attorney fee. The Servicer must use expense code 010009 (Pre-Trial Preparation Attorney Fee) when submitting a claim request in the Reimbursement System for the additional trial fees associated with a Servicer’s use of the New York Foreclosure Inquest Program. Legal expenses paid by the Servicer must match or exceed the reimbursement request.

Exhibits 57A, *Approved Attorney Fees and Title Expenses*, and 74 have been updated to reflect these changes.

**Foreclosure referral on a Primary Residence**

**Effective July 1, 2014**

We have updated Sections 63.2 and 64.5, each titled *Collection Efforts*, and Section 66.9.1(a), *When to Refer a Mortgage to Foreclosure*, to remove the requirement that a foreclosure referral on a Primary Residence must be made no later than five Business Days after the 121st day of Delinquency (i.e., 151 days from Due Date of Last Paid Installment (DDLPI)).

Servicers are reminded that, under Section 51.1, *Servicers’ General Responsibilities*, they must act in the most timely, efficient and responsible manner to protect Freddie Mac’s interests. As a result, absent a delay of the foreclosure referral that is beyond the Servicer’s control or other allowable delay, the Servicer’s performance will be measured against Freddie Mac’s State foreclosure time lines (refer to Exhibit 83, *Freddie Mac State Foreclosure Time Lines*).

**Foreclosure sale bidding**

We have updated Section 66.43, *First-Lien Mortgages Not Covered by Mortgage Insurance or Subject to Credit Enhancements*, to provide that in the event State law gives the Borrower a post-foreclosure sale right of redemption and the Borrower can redeem the property for the successful foreclosure sale price, the Servicer must start its bid at an amount equal to the lesser of:

- 100% of the credit bid obtained from the Service Loans application,
- Total indebtedness, which includes the unpaid principal balance, accrued interest, Escrow advances and expenses (see Exhibit 57A for the applicable expense limits), or
- Such other amount as may be required by applicable State law (e.g., amount of the judgment)

As a reminder, in the event a third party enters a bid, the Servicer must bid up to, but not exceed, an amount equal to the lowest amount listed above.

**Mortgages subject to credit enhancements**

Credit bids provided to Servicers through the Service Loans application are applicable for First-Lien Mortgages that are not covered by mortgage insurance, not insured by the Federal Housing Administration (FHA), not guaranteed by the Department of Veteran Affairs (VA) or the Rural Housing Service (RHS), or not otherwise subject to a credit enhancement.
As stated in Bulletin 2013-27, if the Mortgage is covered by mortgage insurance, insured by FHA, guaranteed by VA or the RHS or otherwise is subject to a credit enhancement, then the Servicer must bid an amount approved by the responsible party, unless Freddie Mac has delegations of authority with the applicable party. If conditions exist that would require the Servicer to establish bids for foreclosure sales outside of the requirements provided in Sections 66.43 through 66.45, FHA, VA and Rural Housing Service (RHS) Mortgages, then the Servicer must follow the directions outlined in Section 66.42, Delegated Bidding.

We have updated Sections 66.43 and 66.44, Mortgages not Covered by Mortgage Insurance or Subject to Credit Enhancements, to include these requirements for a Mortgage subject to a credit enhancement.

EXPENSE REIMBURSEMENT

New income codes

Effective August 15, 2014; Servicers may begin using May 19, 2014

We are adding six new income codes to the Reimbursement System to provide Servicers specific codes for certain income paid to Freddie Mac.

The six new income codes are:

- 815075 (Suspense Payments)
- 815077 (Payments after DDLPI)
- 815078 (Homeowners Association (HOA) Refunds)
- 815079 (Utility Refunds)
- 815081 (Attorney Refunds)
- 815064 (Supplemental Windstorm Coverage)

Exhibit 74 has been updated to reflect these new income codes.

Use of the Reimbursement System by permitted vendors

As a reminder, Servicers have administrative rights to delegate or assign access to the Reimbursement System to vendors for purposes of requesting pre-approvals or submitting reimbursement claims using the expense codes and limits in Exhibits 57, 1- to 4-Unit Property Approved Expense Amounts, and 57A on their behalf, as provided in Section 71.8, Use of Reimbursement System by Permitted Vendors.

We have expanded Section 71.8 to also allow Servicers to delegate authority to permitted vendors to access the Reimbursement System for the purpose of submitting claims for Servicer reimbursement using the expense and income codes listed in Exhibit 74.

As an additional reminder, for any permitted vendor, the Servicer must maintain a completed and signed Exhibit 92, Reimbursement System User Agreement – Permitted Vendor, and make it available to Freddie Mac upon request.

FORM 105, MULTIPURPOSE LOAN SERVICING TRANSMITTAL

We have updated applicable Guide sections to remove the requirement for Servicers to submit Form 105 to report disaster information pertaining to distressed properties; risk of ownership issues; changes to the Mortgaged Premises; notification of non-compliance with Texas Equity Section 50(a)(6) Mortgages; Bankruptcy Cramdowns and post eviction requests to approve storage of an occupant's personal belongings. Servicers must continue to submit disaster information pertaining to distressed properties, risk of ownership issues and changes to the Mortgaged Premises as indicated in the applicable Guide sections; however, they no longer need to report the information via Form 105.

In addition to removing options from Part C, Reason for Transmittal, of Form 105 that relate to distressed properties, risk of ownership issues and changes to the Mortgaged Premises, we have updated Form 105 to:

- Add a selection in Part C to document information on long-term repayment plans
• Add fields to capture the date the form is submitted and the Servicer’s e-mail address as well as functionality to automatically calculate total indebtedness and pending unpaid expenses

**SUBSEQUENT TRANSFERS OF SERVICING**

Freddie Mac is extending the submission time frame from 30 days to 45 days prior to the requested Effective Date of Transfer for subsequent Transfers of Servicing requests and for submissions of a fully executed Form 981. The additional 15 days are needed to provide the Servicer with enough time to notify the Borrower of a transfer following Freddie Mac’s approval, in accordance with Section 56.11, *Notice to Borrowers*, and applicable laws and regulations including, but not limited to, the Real Estate Settlement Procedures Act.

Section 56.3, *Submitting Requests for Transfers of Servicing*, and Form 981 have been updated to reflect this change.

**BANKRUPTCY CRAMDOWNS**

We have updated Directory 5 to provide that Servicers must notify Freddie Mac of a proposed or confirmed reorganization plan that includes a bankruptcy cramdown via e-mail at NPL_File_Prepare@freddiemac.com or fax at (571) 382-4914.

**EXHIBIT 88, SERVICING TOOLS**

We have updated Exhibit 88 to include the Service Loans application to the list of tools and applications that are available to Servicers to assist them in the monitoring and Servicing of Mortgages for Freddie Mac.

**REVISIONS TO THE GUIDE**

The revisions included in this Bulletin impact the following:

- Chapters 51, 56, 58, 60, 63, 64, 65, B65, 66, A66, 68, 70 and 71
- Forms 105 and 981
- Exhibits 57A, 74 and 88
- Directory 5


**CONCLUSION**

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE and select “Servicing.”

Sincerely,

Tracy Hagen Mooney
Senior Vice President
Single-Family Servicing
TO: Freddie Mac Servicers

June 3, 2014 | 2014-10

SUBJECT: SERVICING UPDATES

This Single-Family Seller/Servicer Guide ("Guide") Bulletin updates and revises the following:

- Certain requirements for Freddie Mac Standard Short Sales ("short sales") and Standard Deeds-in-Lieu of Foreclosure ("DILs")
- Certain requirements announced in Bulletin 2013-21 in response to the Consumer Financial Protection Bureau (CFPB) final rules implementing the Mortgage Servicing provisions of the Real Estate Settlement Procedures Act and the Truth-in-Lending Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (collectively, the "Mortgage Servicing final rule")
- Certain unemployment forbearance requirements
- Guide Exhibit 93, Evaluation Model Clauses
- Acceptable Borrower documentation for the hardship "Distant Employment Transfer/Relocation"
- Eligibility for a simultaneous assumption and modification to include the Home Affordable Mortgage Program (HAMP) as an additional modification option

SHORT SALES AND DEEDS-IN-LIEU OF FORECLOSURE

Unless otherwise noted, the changes below are effective for new short sale and DIL evaluations conducted on and after August 1, 2014. However, Servicers may implement these changes earlier if they are operationally able to do so.

Eligibility for service members with Permanent Change of Station (PCS) orders

We are expanding short sale and DIL eligibility to permit a service member to qualify for a short sale or DIL provided the Mortgaged Premises is or was previously the Borrower’s Primary Residence. This change assists service members who may have moved to a new Primary Residence as a result of having received PCS orders and later decided to sell the former residence. In order to be eligible, the service member must have purchased the Mortgaged Premises on or before June 30, 2012.

When a short sale or DIL is approved for a service member as provided above, the service member will receive the existing benefits afforded to a service member with PCS orders: exemption from making a Borrower contribution and exemption from the requirement that the Borrower’s current monthly debt payment-to-income ratio must be greater than 55% if the Borrower is current or less than 31 days delinquent.

Guide Sections B65.36, Short Sale Eligibility Requirements and Servicer Approval Authority, B65.37, Borrower Documentation, B65.37.1, Borrower Contributions and Relocation Assistance, B65.43, Deed-in-Lieu of Foreclosure Eligibility Requirements and Servicer Approval Authority, B65.44, Borrower Documentation, and B65.44.1, Borrower Contributions and Relocation Assistance, have been updated to reflect these changes.

Borrower ineligibility due to a new Mortgage

We are revising our requirement regarding the period of time during which a Borrower seeking a short sale or DIL must not have obtained a new Mortgage. Under the revised requirement, the Servicer must review the Borrower’s credit report to determine that the Borrower did not obtain a new Mortgage in the six months preceding the Borrower’s Delinquency or, in the case of a Borrower who is current, in the six months preceding the evaluation of the Borrower for a short sale or DIL. If the Borrower obtained a new Mortgage during that time and the Borrower’s hardship was other than distant employment transfer, the Borrower is not
eligible for a short sale or DIL. We are implementing this new lookback period as data indicates a correlation between a Borrower obtaining a new Mortgage and subsequent default on an existing Mortgage.

In a related change, Servicers are now required to investigate any inquiries by mortgage creditors that appear on the Borrower’s credit report as it may take a new Mortgage several months to appear on the Borrower’s credit report.

If the Servicer’s review of the credit report indicates that a mortgage creditor has made an inquiry within the previous four-month period, the Servicer must contact the Borrower to determine:

- The address of the property to which the inquiry pertained,
- The purpose of the inquiry (e.g., refinance or purchase Mortgage) and
- The result of the inquiry (e.g., refinance or purchase Mortgage is pending, closed or canceled)

If the Servicer determines that a new Mortgage was obtained for the purchase of another property, then the Servicer is not delegated to approve the short sale and the file must be sent to Freddie Mac.

Sections B65.36, B65.37, B65.43 and B65.44 have been updated to reflect these changes.

**Borrower contribution requirements**

The Guide requires that for a short sale and DIL, the Servicer (i) conduct Borrower contribution evaluations using the Borrower's Cash Reserves and the Borrower's Promissory Note Payment Capacity formulae provided in the Guide and (ii) determine subjectively if the Borrower has the capacity to make a cash and/or promissory note contribution.

Effective August 1, 2014, we will require the Servicer to rely solely upon the results of the Cash Reserves and Promissory Note Payment Capacity formulae to determine when to request a Borrower contribution from a Borrower who is 31 days or more delinquent, thereby removing subjectivity from the process. In terms of a cash contribution, the Servicer will make an initial request for a cash contribution of 20% of the Borrower’s Cash Reserves when the Borrower’s Cash Reserves exceed the greater of $10,000 or six times the Borrower’s total monthly payment on the Mortgage (as defined in Sections B65.37.1 and B65.44.1). In determining a promissory note contribution, the Servicer must request the promissory note amount calculated using the Borrower’s Promissory Note Payment Capacity formula. If the Borrower indicates financial circumstances that limit the Borrower’s ability to meet the cash and/or promissory note contribution requested, then the Servicer may accept a lower level of contribution. In this event, the Servicer must document the specifics of the Borrower’s financial limitations in the Mortgage file.

We are also adding a requirement that if a Borrower is unwilling to make a contribution that the Servicer deems acceptable based on the Borrower’s financial situation, then the short sale or DIL must be submitted to Freddie Mac for approval.

Our requirements for determining a cash contribution from a Borrower who is current or less than 31 days delinquent remain unchanged. A Borrower who is current or less than 31 days delinquent is required to contribute 20% of his or her Cash Reserves unless the Borrower’s financial hardship is due to the death of a Borrower or death of either the primary or secondary wage earner in the household. The Servicer must continue to submit to Freddie Mac any short sale or DIL request for a Borrower who is current or less than 31 days delinquent and cannot or will not contribute 20% of his or her Cash Reserves (with the exception of the financial hardship of death of a Borrower or death of either the primary or secondary wage earner in the household).

Currently, there is no minimum requirement for cash contributions from the Borrower. Effective August 1, 2014, we are establishing a minimum cash contribution amount of $500. If, after requesting the initial contribution amount, the Servicer determines the Borrower is unable to contribute at least $500 towards the deficiency, then the Servicer must not collect a cash contribution.

Sections B65.37.1 and B65.44.1 have been revised to reflect these changes.

**Borrower communication**

Sections B65.39, **Communication Time Lines**, and B65.46, **Borrower Communication and Execution Time Lines**, require the Servicer to maintain either in the Mortgage file or in the Servicer’s servicing systems documentation of all communications to the Borrower, whether verbal or written, including status updates.
This Bulletin expands the requirement in Sections B65.39 and B65.46 to provide that Servicers must also maintain documentation of all communication from the Borrower, whether verbal or written, when a Borrower has communicated an acceptance of a short sale or DIL offer, either in the Mortgage file or in the Servicer’s servicing systems. In addition, the Servicer must provide the information to Freddie Mac for review upon request.

**Eligibility for Borrower relocation assistance**

We have updated eligibility for Borrower relocation assistance to provide that if the Cash Reserves and/or Promissory Note Payment Capacity formulae indicate that the Borrower has the means to make a contribution, the Borrower is not eligible for relocation assistance, regardless of whether the Borrower ultimately makes a contribution. If the formulae indicate that the Borrower has the means to make a contribution, but the Servicer still thinks the Borrower should receive the relocation assistance, the Servicer may send the file to Freddie Mac for review.

Sections B65.37.1 and B65.44.1 have been updated to reflect this change.

**Payments to subordinate mortgage lien holders**

We have updated Sections B65.40, Short Sale Transaction and Processing Requirements, and B65.47, Deed-in-Lieu of Foreclosure Transaction and Processing Requirements, for subordinate lien payments to restrict those payments to subordinate Mortgages only. Any subordinate lien that is not a Mortgage, deed of trust or security deed, such as a mechanic’s lien, is not eligible for the subordinate mortgage payment.

**Mortgage debt discharged in a Chapter 7 Bankruptcy**

In Bulletin 2013-24, we revised eligibility requirements to allow a Borrower who is 90 days or more delinquent and whose mortgage debt has been discharged in a Chapter 7 Bankruptcy to be eligible for a Freddie Mac Streamlined Short Sale or a Streamlined DIL. We have updated Sections B65.37 and B65.44 to specify that the Servicer must retain a copy of the order and accompanying documents showing that the debt was discharged in a Chapter 7 Bankruptcy in the Mortgage file.

**Use of Workout Prospector® for DILs**

**Effective immediately**

The Guide currently requires Servicers to submit short sale transactions to Freddie Mac via Workout Prospector. However, Bulletin 2012-27, which introduced requirements for the Standard Deed-in-Lieu of Foreclosure, did not address the mandatory use of Workout Prospector for DIL transactions. This Bulletin updates the Guide to reflect that Servicers must also submit DIL transactions through Workout Prospector. In addition, Servicers must report the DIL transaction to Freddie Mac via the Freddie Mac Service Loans application within one Business Day of receiving the executed deed.

We have updated Section B65.47 to reflect this system requirement.

**Exhibit 97, Short Sale Affidavit**

We have updated Exhibit 97, Short Sale Affidavit, to require the listing agent to attest that all purchase offers were presented to the Borrower and that no offers have been held, concealed or delayed due to action or inaction by a real estate agent.

Section B65.40 has also been updated to reflect this change.

**Borrower prohibited from acting as listing agent on short sale**

To deter potential conflicts of interest, we are updating Section B65.36 to prohibit the Borrower from acting as the listing agent or selling a property without a licensed real estate professional.

**Effective date for re-sale deed restriction provision**

We have updated Section B65.40(ii) to clarify that the re-sale deed restriction provision takes effect on the date of the short sale closing, regardless of when the deed is recorded.
REQUIREMENTS IN RESPONSE TO THE CFPB MORTGAGE SERVICING FINAL RULE

Effective August 1, 2014

In Bulletin 2013-21, we introduced requirements in response to the CFPB Mortgage Servicing final rule. Certain requirements were specific only to Mortgages secured by Primary Residences while other changes applied to all Mortgages, regardless of occupancy type. In response to suggestions Freddie Mac and Fannie Mae have received from Servicers, we are announcing revisions to the following requirements.

Trial Period payment adjustments after Borrower exercises right to appeal

Currently, Section 63.3, Evaluation Requirements and Appeals Process in Response to the First Complete Borrower Response Package, provides that if the Borrower accepts the original Trial Period Plan offer after receiving the appeal decision and remains eligible for such offer, the Servicer may, but is not required to, revise the Trial Period payment amount.

We have updated Section 63.3 to provide that a Servicer may either revise the Trial Period payment amount or leave it the same provided it does so consistently for all Mortgages that it services on behalf of Freddie Mac.

Delay in referral to foreclosure or proceeding with the next legal action

We have revised our foreclosure suspension requirements to address situations where a payment is required under the terms of an alternative to foreclosure offer (e.g., Trial Period Plan) and the Borrower does not communicate a verbal or written intent to reject the offer.

Currently, the Guide provides that if a Borrower communicates a verbal or written intent to accept an alternative to foreclosure offer where a payment is required under the terms of that offer, the Servicer must postpone the referral to foreclosure until the last day of the month in which the first payment is due under the terms of the offer.

We have revised the requirements to provide that regardless of whether a Borrower communicates a verbal or written intent to reject an alternative to foreclosure, the Servicer must postpone the referral to foreclosure, where legally permitted, at least through the last day of the month in which the first payment is due under the terms of the offer based on receipt of a complete Borrower Response Package.

Additionally, we have expanded the foreclosure suspension requirements to provide that Servicers who make a counteroffer on a short sale must provide a date by which the Borrower must respond based on the evaluation of the First Complete Borrower Response Package received more than 37 days prior to a scheduled foreclosure sale date.

Sections 63.4, Foreclosure Suspension Obligations and Additional Short Sale and Deed-in-Lieu of Foreclosure Requirements once the First Complete Borrower Response Package is Received, 66.9.1, When to Refer a Mortgage to Foreclosure, and 66.41, Complete Borrower Response Packages Received after Referral to Foreclosure, and Exhibit 93 have been updated to reflect these changes.

Foreclosure sale date timing

To ensure consistency with Regulation X, we have updated the Guide to revise the foreclosure sale date timing statement from “less than 37 days prior to a scheduled foreclosure sale” to “37 days or less prior to a scheduled foreclosure sale.”

Sections 63.3, 63.4, 64.6, Evaluation Hierarchy, Borrower Solicitation and Communication, and C65.7.1, Foreclosure Actions and Borrowers in Bankruptcy, have been revised to reflect this change.

Borrower Solicitation Letters

We are updating Exhibits 1131, Borrower Solicitation Letter – 31 Days Delinquent, and 1161, Borrower Solicitation Letter – 61 Days Delinquent, to distinguish the home retention options available to Borrowers who are experiencing temporary hardships from the options available to Borrowers whose hardships are long-term or permanent in nature.

Borrowers experiencing long-term or permanent hardships and who wish to transition out of their homes must indicate their intent to vacate or sell the property on Guide Form 710, Uniform Borrower Assistance Form, to be evaluated for a short sale or DIL. In these circumstances, the Borrower may still be considered for a modification evaluation.
In addition, the exhibits now state that Servicers are required to acknowledge to the Borrower receipt of a Borrower Response Package within five Business Days of its receipt and the acknowledgement must indicate whether the package is complete or incomplete. Further, the exhibits remind the Borrower that the Mortgage may be referred to foreclosure if he or she does not respond to the solicitation letter.

We are also clarifying the potential impact to a Borrower’s credit when the Borrower accepts a foreclosure prevention option under a reduced payment plan. We have additionally included language to inform Borrowers that bringing their loan current through a reinstatement, repayment plan or loan modification and making continuous timely payments may improve their credit score over time.

UNEMPLOYMENT FORBEARANCE

Background

In Bulletin 2012-2, we introduced the unemployment forbearance relief option for Servicers to use to assist Borrowers who were experiencing financial hardships due to unemployment. The short-term unemployment forbearance was developed as a temporary relief option in which Servicers have delegated authority to suspend or reduce monthly payments for up to six months for eligible Borrowers who are unable to make their mortgage payments due to unemployment.

In addition, we introduced the extended unemployment forbearance relief option which extends the forbearance period up to an additional six months if a Borrower has not regained employment after the initial short-term unemployment forbearance period has ended.

Revisions

These changes are effective September 1, 2014; however Servicers are encouraged to implement them sooner if they are operationally able to do so.

This Bulletin revises our short-term and extended unemployment forbearance requirements as follows:

- Servicers have delegated authority to approve eligible Borrowers for extended unemployment forbearance and are no longer required to obtain prior written authorization from Freddie Mac
- For a Borrower to be eligible for short-term unemployment forbearance, the Delinquency must not exceed 12 months of the Borrower’s scheduled contractual monthly mortgage payment, including taxes and insurance if the Servicer is collecting Escrow for those expenses
- Retires Form 1206, Freddie Mac Extended Unemployment Forbearance Request, and eliminates the requirement to obtain a credit report and tax transcript to evaluate Borrowers for extended unemployment forbearance. However, Servicers may be required to process Internal Revenue Service (IRS) Form 4506-T/EZ:
  - To verify income that is required to be documented by the Borrower’s most recent federal income tax return if the Borrower has not provided his or her signed income tax return with all schedules and forms
  - To reconcile inconsistencies between other information the Borrower provided
  - As otherwise required by Freddie Mac

Sections A65.26, Unemployment Forbearance, A65.27, Short-Term Unemployment Forbearance, and A65.28, Extended Unemployment Forbearance, have been revised to reflect these changes.

EXHIBIT 93, EVALUATION MODEL CLAUSES

In addition to updates made to Exhibit 93 to reflect the revisions announced under the “Delay in Referral to Foreclosure or Proceeding with the Next Legal Action” section of this Bulletin, we have made the following updates to the exhibit.
New Standard Modification and Streamlined Modification Trial Period Plan Notices

Effective immediately

In Bulletin 2014-4, we announced revisions to our modification requirements, including changes to processing requirements for Freddie Mac Standard Modifications and Freddie Mac Streamlined Modifications for Mortgages with pre-modification mark-to-market loan-to-value (MTMLTV) ratios less than 80%.

This Bulletin provides two new evaluation model clauses in Exhibit 93 for Servicers to use when they offer a Standard or Streamlined Modification to a Borrower whose Mortgage has a pre-modification MTMLTV ratio less than 80%. These model clauses provide qualified Borrowers with the option to receive a 40-year term and corresponding monthly payment for the Trial Period. In addition, the model clauses provide language to be provided to Borrowers who are eligible for a 30-year and possibly a 20-year term and corresponding monthly payment for the Trial Period. Once a Borrower selects the term for the Trial Period and submits the first Trial Period payment, the Borrower will be obligated to make the corresponding monthly payment, plus applicable Escrow amounts, for the remainder of the Trial Period. Servicers may not permit Borrowers to change the term during the Trial Period. Upon successful completion of the Trial Period, the Borrower’s mortgage modification will reflect a principal and interest payment based on the term selected for the Trial Period.

Escrows for taxes and insurance

Effective immediately

We have updated our repayment plan and forbearance plan offers in Exhibit 93 to reflect our current Guide requirements regarding Borrower monthly mortgage payments that do not include Escrows for taxes and insurance.

DISTANT EMPLOYMENT TRANSFER/RELOCATION BORROWER HARDSHIP

Effective immediately

We are limiting the hardship documentation for the eligible hardship of “Distant Employment Transfer/Relocation” to either a:

- Signed offer letter or notice from the employer showing the transfer to a new employment location, or
- Paystub from the new employer

Previously, Form 710 had permitted a Borrower to provide a written explanation in lieu of a letter from the employer or the paystub documentation. We are revising the documentation requirements to clarify that this hardship is limited to circumstances where the Borrower has already obtained employment in the new location or the Borrower’s job is being transferred to a new location. A Borrower who relocates without a verifiable job offer or job transfer must identify the hardship reason that resulted in the Borrower’s decision to relocate, as applicable.

Section 65.17, Verifying a Borrower’s Hardship, and Form 710 have been updated to reflect this change.

SIMULTANEOUS ASSUMPTION AND MODIFICATION

Effective immediately

In Bulletin 2013-3, we updated the Guide to permit a non-Borrower applicant to be evaluated for a simultaneous assumption and modification when all Borrowers on the Mortgage are deceased and the non-Borrower applicant is not eligible to assume the Mortgage under the requirements of Guide Chapter 60, Transfers of Ownership (Assumptions), or Freddie Mac’s workout mortgage assumption requirements in Chapter B65, Workout Options.

We are updating the Guide to include HAMP as an additional modification option that Servicers may consider when evaluating a non-Borrower applicant for a simultaneous assumption and modification.

In addition, we are including a requirement that Servicers provide appropriate adverse action notices to non-Borrower applicants on behalf of Freddie Mac when non-Borrower applicants are determined by Freddie Mac not to be eligible for a simultaneous assumption and modification. Servicers are reminded that the language in Exhibit 93 related to notices of denial of a mortgage modification or the right of appeal is limited to the First Complete Borrower Response Package submitted by a Borrower and is not applicable to non-Borrower applicants. Under Section 53.8, Compliance with Applicable Law, Servicers must comply with the
Truth-in-Lending Act (TILA), the Equal Credit Opportunity Act (ECOA) and the Fair Credit Reporting Act (FCRA) and their implementing regulations, when applicable, with respect to the provision of disclosures and adverse action notices to non-Borrower applicants.

Sections B65.12, When to Consider a Freddie Mac Standard Modification, and B65.28, When to Consider a Workout Mortgage Assumption, and Directory 5 have been updated to reflect this change.

TRAINING
Servicers should visit the Freddie Mac Learning Center web page for Servicing training information and training resources.

REVISIONS TO THE GUIDE
The revisions included in this Bulletin impact the following:

- Chapters 63, 64, 65, A65, B65, C65 and 66
- Forms 710 and 1206
- Exhibits 93, 97, 1131 and 1161
- Directory 5


CONCLUSION
If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE and select “Servicing.”

Sincerely,

Tracy Hagen Mooney
Senior Vice President
Single-Family Servicing
SUBJECT: NEIGHBORHOOD STABILIZATION INITIATIVE – MYCITY MODIFICATION FOR THE CITY OF DETROIT, MICHIGAN

This Single-Family Seller/Servicer Guide ("Guide") Bulletin introduces the Freddie Mac MyCity Modification, a temporary offering designed specifically to assist eligible Borrowers whose Mortgaged Premises are located in the City of Detroit, Michigan. The MyCity Modification is a component of the Neighborhood Stabilization Initiative that is being developed by Freddie Mac and Fannie Mae at the direction of the Federal Housing Finance Agency in an effort to help stabilize communities that have been hardest hit by the housing crisis.

This Bulletin contains instructions to our Servicers for how to conduct an initial assessment to determine a Borrower’s potential eligibility for the MyCity Modification. Servicers must submit requests for further evaluation to Freddie Mac for all Mortgages that meet the criteria provided in this Bulletin. Freddie Mac will provide a final eligibility decision and, for each eligible Borrower, the Trial Period Plan terms that the Servicer must offer to the Borrower.

This Bulletin contains the requirements for the MyCity Modification, including those related to initial assessment of eligibility, documentation, evaluation hierarchy and processing.

EFFECTIVE DATE

Servicers must implement all requirements set forth in this Bulletin along with any additional instructions provided by Freddie Mac for all evaluations conducted on or after September 1, 2014. However, if feasible, Servicers are encouraged to implement these changes immediately.

The MyCity Modification Trial Period Plan Effective Date must be no later than December 1, 2015.

ELIGIBILITY AND BORROWER DOCUMENTATION REQUIREMENTS

In order for a Mortgage to be eligible for the MyCity Modification, the Servicer must achieve quality right party contact with the Borrower and the following additional requirements must be met:

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<th>Freddie Mac MyCity Modification Requirements</th>
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<tr>
<td>Category</td>
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<tr>
<td>Borrower eligibility</td>
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## Freddie Mac MyCity Modification Requirements

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<th>Category</th>
<th>Requirements</th>
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<tbody>
<tr>
<td><strong>Mortgage eligibility</strong></td>
<td>The Mortgage must be a conventional First-Lien Mortgage currently owned or guaranteed in whole or in part by Freddie Mac.</td>
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</table>
| **Exclusions**                 | The following Mortgages are ineligible for a MyCity Modification:  
• FHA, VA and Section 502 GRH Mortgages  
• Mortgages subject to recourse or indemnification agreements  
• Mortgages subject to active non-routine litigation, except that this ineligibility criterion does not apply to those Borrowers who, in good faith, are exercising a right under the federal Consumer Credit Protection Act  
Mortgages that meet any of the following criteria are also ineligible for the MyCity Modification. However, if the Servicer believes a MyCity Modification is appropriate based on the Borrower’s individual circumstances, the Servicer should submit a request to Freddie Mac for further review by transmitting an exception request via Workout Prospector®. In such instances, the Servicer must clearly communicate in the comments section that the Borrower is ineligible for a MyCity Modification, describe the reason(s) that the Borrower is ineligible, and provide a justification for the exception request.  
• Mortgages in an active Trial Period Plan  
• Mortgages subject to an approved short sale or deed-in-lieu of foreclosure  
• Except for a Freddie Mac Streamlined Modification offer, Mortgages currently subject to an unexpired offer to the Borrower for another modification |
| **Borrower documentation**     | The Borrower must provide a complete Borrower Response Package if any of the following circumstances apply:  
• The Borrower is less than 90 days delinquent as of the date of the Servicer’s evaluation, OR  
• The Mortgage was originated less than 12 months prior to the evaluation date, OR  
• The Borrower has all of the following characteristics:  
  ➢ The Borrower was current on his or her Mortgage for each of the five months prior to the Due Date of the Last Paid Installment (DDLPI) and never made a payment after becoming delinquent, AND  
  ➢ The Borrower has not provided a reason for default or, if quality right party contact has been made, the Borrower’s reason for default is not an eligible hardship as specified under Section 65.17, Verifying a Borrower’s Hardship, AND  
  ➢ The Borrower’s current FICO® score is 750 or greater, determined in accordance with Section B65.12.1(b), Determining the FICO Score for Streamlined Modification Eligibility |
| **Incomplete Borrower Response Package** | The Servicer may, but is not required to, send an Incomplete Information Notice to a Borrower who submits incomplete documentation less than 37 days prior to a scheduled foreclosure sale.                                                                                           |
EVALUATION HIERARCHY

Borrower is current or less than 90 days delinquent

Within 15 calendar days of receiving a complete Borrower Response Package, the Servicer must:

- Evaluate the Borrower in accordance with the evaluation hierarchy set forth in Section 64.6(a), Evaluation Hierarchy
- Complete an initial assessment of the Borrower based on the MyCity Modification requirements contained in this Bulletin. (Note: As required above, a Borrower who is current or less than 60 days delinquent must first be determined to be in imminent default.), and
- Submit a recommendation via Workout Prospector for further evaluation by Freddie Mac if the Servicer determines the Borrower meets the initial eligibility criteria for the MyCity Modification provided above

The Servicer must request a final eligibility determination and modification terms for a MyCity Modification from Freddie Mac even if it has determined the Borrower is eligible for another alternative to foreclosure.

Freddie Mac will further evaluate the Borrower for the MyCity Modification and communicate its decision back to the Servicer. If the Borrower is eligible for a MyCity Modification, Freddie Mac will provide the terms of the Trial Period Plan.

Borrower is 90 or more days delinquent

If the Borrower is 90 or more days delinquent and submits a complete Borrower Response Package, the Servicer must follow the same requirements provided above for Borrowers who are less than 90 days delinquent.

If a Borrower is 90 or more days delinquent and has not provided a complete Borrower Response Package, the Servicer must, within 15 calendar days of achieving quality right party contact with the Borrower:

- Conduct the initial assessment for the MyCity Modification, and
- Submit a recommendation via Workout Prospector for further evaluation by Freddie Mac, if the Servicer determines the Borrower meets the initial eligibility criteria for the MyCity Modification provided above

If the Servicer establishes quality right party contact prior to day 90 of the Delinquency, but is unable to collect a complete Borrower Response Package by day 90 of the Delinquency, and a complete Borrower Response Package is not otherwise required for the MyCity Modification, the Servicer must conduct an initial assessment for the MyCity Modification. The Servicer must submit all cases that meet the initial eligibility criteria for the MyCity Modification to Freddie Mac by the 105th day of the Delinquency in lieu of sending the Borrower a Streamlined Modification offer.

Freddie Mac will further evaluate the Borrower for the MyCity Modification and communicate its decision back to the Servicer. If the Borrower is eligible for a MyCity Modification, Freddie Mac will provide the terms of the Trial Period Plan.

If quality right party contact is not established with the Borrower, the Servicer must follow existing Guide requirements.

PROCESSING AND REPORTING

Workout Prospector

The Servicer will not determine the terms of a MyCity Modification Trial Period Plan. Once the Servicer has determined that the Borrower, Mortgage and Mortgaged Premises meet all eligibility requirements provided in this Bulletin, the Servicer must transmit an exception request to Freddie Mac via the Freddie Mac Standard Modification exception path in Workout Prospector. The Servicer must clearly communicate in the comments section of Workout Prospector that it is requesting a decision on the MyCity Modification. Freddie Mac will complete the evaluation of the Borrower for the MyCity Modification and communicate a final decision back to the Servicer. If the Borrower is eligible for a MyCity Modification, Freddie Mac will provide the terms of the Trial Period Plan.
In the event that the Servicer has evaluated a complete Borrower Response Package and determined that the Borrower meets all eligibility requirements for a Home Affordable Modification Program (HAMP) modification or a Standard Modification, the Servicer must include the estimated modified principal and interest payment amount for that modification option in the comments section of its Workout Prospector submission. In such cases, Freddie Mac will inform the Servicer which modification program to offer the Borrower.

Refer to Section B65.18, *Determining the Terms of a Freddie Mac Standard Modification and Freddie Mac Streamlined Modification*.

**Reporting**

The Servicer must report MyCity Modification Trial Period Plan activity using default action code BF – “Standard Modification Trial Period” in accordance with the requirements in Section B65.21(a), *EDR*.

**SENDING AN OFFER TO THE BORROWER**

Within seven Business Days of receiving notification from Freddie Mac that the Borrower is eligible for the MyCity Modification, but no later than 30 days after receiving a complete Borrower Response Package, the Servicer must send the Borrower a Trial Period Plan. Freddie Mac recommends that the Servicer send the Trial Period Plan to the Borrower via overnight or express mail.

If the Borrower does not accept the MyCity Modification, indicates that he or she cannot afford the MyCity Modification payment, or is denied for the MyCity Modification as a result of Freddie Mac's evaluation, the Servicer must offer the solution that best meets the Borrower's needs in accordance with the evaluation hierarchy pursuant to the requirements in Section 64.6.

If Freddie Mac denies the MyCity Modification request, Freddie Mac will provide the Servicer with the reason for denial. The Servicer must refer to Section 53.8(e), *Adverse Action Notices*, for more information on adverse action notices that must be provided to the Borrower on behalf of Freddie Mac under certain circumstances.

**Special requirements for Borrowers who are 90 or more days delinquent**

If the Servicer receives a complete Borrower Response Package after the date the MyCity Modification Trial Period Plan is sent to the Borrower, and prior to sending the modification agreement, the Servicer must acknowledge receipt of the package and review it as follows:

<table>
<thead>
<tr>
<th>If the Borrower…</th>
<th>…then the Servicer must:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accepted the MyCity Modification Trial Period Plan</td>
<td>Evaluate the Borrower for a HAMP modification pursuant to Guide Chapter C65, <em>Home Affordable Modification Program</em>. If the Borrower is ineligible for HAMP, the Servicer must evaluate the Borrower for a Standard Modification as set forth in Chapter B65, <em>Workout Options</em>. If the Borrower qualifies for a HAMP modification or a Standard Modification and the monthly principal and interest payment for the eligible modification is less than the monthly principal and interest payment for the MyCity Modification, the Servicer must offer the Borrower the modification option that results in the lower post-modified monthly principal and interest payment. To communicate the offer to the Borrower, the Servicer must edit the modification offer letter to indicate that a restart of the Trial Period is not required and if the Borrower complies with the terms of the MyCity Modification Trial Period Plan and executes the applicable modification agreement, he or she will receive the modification terms with the lower monthly principal and interest payment amount.</td>
</tr>
</tbody>
</table>

Has not accepted the MyCity Modification Trial Period Plan | Determine whether the Borrower is eligible for an alternative to foreclosure in accordance with the Guide. |
OTHER REQUIREMENTS
The following additional requirements apply to MyCity Modifications:

- The Servicer must order an exterior Broker’s Price Opinion (BPO) through BPOdirect® for all Mortgages that meet the eligibility criteria for the MyCity Modification prior to submitting the Servicer’s recommendation to Freddie Mac.

- If the Mortgage is covered by mortgage insurance, the Servicer must obtain approval of the MyCity Modification on a case-by-case basis from the MI after Freddie Mac has given notice to the Servicer that the Borrower is eligible for the MyCity Modification but prior to offering the Borrower a Trial Period Plan.

- Except as otherwise provided in this Bulletin, Servicers must process a MyCity Modification in accordance with the requirements set forth in Sections B65.19, Trial Period Plan Requirements, through B65.26, Reporting and Remittance Requirements, that are otherwise applicable to processing a Standard Modification.

- The Servicer will be eligible to receive an incentive payment in accordance with the Standard Modification tiered payment structure described in Guide Exhibit 96, Servicing Incentives and Compensatory Fees.

REVISIONS TO THE GUIDE
The Guide will not be updated to include these temporary requirements. Servicers should refer to this Bulletin to ensure compliance with these requirements.

CONCLUSION
If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE and select “Servicing.”

Sincerely,

Tracy Hagen Mooney
Senior Vice President
Single-Family Servicing
SUBJECTS

This Single-Family Seller/Servicer Guide ("Guide") Bulletin updates and revises our selling and Servicing requirements as follows:

- Announces the retirement of ARMs with Lookback Periods less than 45 days
- Updates certain MERS® requirements
- Updates and clarifies our requirements for fraud training and reporting fraud

In addition to the changes listed above, we are making further updates and revisions to our selling and Servicing requirements, as described in the "Additional Guide updates" section of this Bulletin.

This Bulletin also updates and revises our selling requirements as follows:

- Updates certain Freddie Mac Relief Refinance MortgageSM – Same Servicer and Open Access requirements, including:
  - Revising the maximum amount of Mortgage proceeds that can be used to pay related Closing Costs, Financing Costs, Prepaids and Escrows
  - Permitting the refinancing of a fixed-rate Mortgage into an ARM
- Updates monthly debt payment-to-income ratio requirements
- Updates requirements for verification of large deposits
- Provides the area median income estimates for 2014
- Clarifies when Freddie Mac will accept loan origination documents that were executed on behalf of a Borrower using a power of attorney (POA)
- Revises Guide Exhibit 37, Loan Quality AdvisorSM Agreement
- Updates Guide Section 17.7, Loan Data Required for All Mortgages, to include a Phase 2 ULDD Data Point

EFFECTIVE DATE

All of the changes announced in this Bulletin are effective immediately unless otherwise noted.

SELLING AND SERVICING

ARMs with Lookback Periods less than 45 days

Freddie Mac is reminding Seller/Servicers of their responsibility to provide Borrowers with payment adjustment notices for ARMs in accordance with revisions to the regulations implementing the Truth-in-Lending Act, 12 CFR Sections 1026.19 and 1026.20, promulgated by the Consumer Financial Protection Bureau in January 2013.

The revised Borrower notification requirements are effective for ARMs originated on and after January 10, 2015, and require Seller/Servicers to provide Borrowers with certain information about an interest rate adjustment at least 60 (but no more than 120) calendar days before the Payment Change Date of an ARM.
Freddie Mac has determined that Seller/Servicers will not be able to comply with the revised Borrower notification requirements for ARMs with Lookback Periods of the First Business Day of the month immediately preceding the month in which the Interest Change Date occurs (FBD), and will have difficulty complying with the notification requirements for ARMs with Lookback Periods less than 45 days.

Accordingly, effective January 1, 2015, Freddie Mac will no longer purchase ARMs with Lookback Periods less than 45 days; this includes ARMs with Lookback Periods of FBD (i.e., 6-month, 7/6 and 10/6 ARMs and some 1-year, 3/1, 5/1, 7/1 and 10/1 ARMs). On and after October 20, 2014, Sellers will not be able to take out contracts in the Freddie Mac Selling System for ARMs with Lookback Periods less than 45 days. Any contract for such an ARM entered into before October 20, 2014 must have a Freddie Mac Settlement Date before January 1, 2015.

Pursuant to Section 12.3(d), negotiated provisions that are in Master Agreements and/or Master Commitments and allow for the sale of ARMs with Lookback Periods less than 45 days are hereby amended to incorporate the provisions stated in the second sentence of the immediately preceding paragraph.

Guide Chapter 30, Special Eligibility Requirements for ARMs, Exhibit 17S, Available Mortgage Products, other applicable Guide sections and the Document Custody Procedures Handbook have been updated to reflect this change.

**MERS®**

**Effective immediately, unless otherwise noted**

**Legal compliance**

**Effective October 15, 2014**

Due to recent legal developments, Mortgages in the States of Montana, Oregon and Washington where MERS is not the original mortgagee of record, but is a subsequent assignee, are not eligible for sale to Freddie Mac. Seller/Servicers should refer to Bulletin 2014-6 regarding the use of the MERS Rider (Form 3158) for Mortgages where MERS is the original mortgagee of record in the above States.

**Updates and clarifications**

We are updating the Glossary to include the term “MERS Governing Documents.” Seller/Servicers are reminded that in the event any requirements of the MERS Governing Documents conflict with the requirements of the Guide, the requirements stipulated within the Guide will prevail.

We are also announcing the following updates and clarifications for MERS-registered Mortgages:

Effective September 16, 2014, we are requiring Seller/Servicers, who sell and/or service Mortgages for which MERS is the mortgagee, to:

- Register the Mortgage(s) with MERS prior to loan delivery to Freddie Mac
- Update the MERS System to reflect a MERS-registered Mortgage status as “Paid in Full” within two Business Days after the Payoff Date

Effective immediately, we are clarifying that Seller/Servicers must:

- Reflect a Concurrent Transfer of Servicing on the MERS System
- Prepare and execute an assignment of the Security Instrument to themselves prior to initiating the first legal action in a foreclosure proceeding
- Prepare and execute an assignment of the Security Instrument to themselves prior to filing any bankruptcy proof of claim or motion for relief from stay and record the assignment where required by State law

**Reminders**

For MERS-registered Mortgages, we are reminding Servicers of the need to:

- Reconcile Mortgage data in accordance with obligations set forth in the MERS Governing Documents
- Promptly notify Freddie Mac if their membership with MERS is terminated for any reason
Comply with all MERS-registered Mortgage loan data reconciliation requirements set forth in the MERS Governing Documents

Ensure that only their duly authorized officers or employees, as appointed by MERS pursuant to a MERS corporate resolution, are permitted to act as MERS signing officers

Freddie Mac may review a Servicer's compliance with MERS requirements periodically.

Guide updates

Sections 4.14, MERS® Membership, 22.14, Assignment of Security Instrument, 53.15, MERS®, 66.17, Foreclosing in the Servicer's Name, 67.7, Bankruptcy General Requirements, and 78.15, Payoff – Matured or Prepaid, and the Glossary have been updated to reflect the changes referenced above.

Fraud requirements

Training

Effective January 1, 2015

We are updating Sections 7.2 and 57.2, each titled Prevention and Detection, to require that Seller/Servicers ensure that fraud training is received by individuals and entities engaged to perform functions typically handled by employees, and in a position to notice or report fraud and suspected fraud. Seller/Servicers are not required to provide the training directly. They may instead hire another party to provide the training, or obtain an annual written verification from the engaged individuals or entities confirming that training has already been received in accordance with our Guide requirements.

Reporting requirements

In response to Seller/Servicer feedback, we are modifying Sections 7.3 and 57.3, each titled Reporting Requirements, to require the Seller/Servicer to report fraud and suspected fraud to Freddie Mac when the Seller/Servicer has a reasonable belief that certain actions occurred during origination or Servicing of a Mortgage. This change allows Seller/Servicers time to consider information they receive relating to suspected fraud.

Due to feedback that indicated additional time was required to research and report incidents of fraud and suspected fraud to Freddie Mac, we are also revising Sections 7.3 and 57.3 to extend the number of days in which Seller/Servicers must report fraud and suspected fraud to Freddie Mac from 30 to 60 days.

Additional Guide updates

Form 1036, Request for Physical or Constructive Possession of Documents

In response to operational questions and comments provided by industry participants, Freddie Mac is updating Form 1036 to add fields for:

- The identification of the Document Custodian Number
- The date of the Document Custodian's release of physical or constructive possession of documents
- The Servicer's return of the documents or termination of its constructive possession

Form 960, Agreement for Concurrent Transfer of Servicing of Single-Family Mortgages

To facilitate the processing of a Concurrent Transfer of Servicing, we are adding a field to Form 960 to allow Seller/Servicers to provide the aggregate unpaid principal balance (UPB) of Mortgages that are being delivered and are subject to the Concurrent Transfer of Servicing, if that amount is not the Master Commitment dollar amount. In addition, Form 960 is now a fillable form for Seller/Servicer convenience.

Uniform Instruments updates

Exhibit 4, Single-Family Uniform Instruments, has been updated to reflect changes that are included on Freddie Mac’s Uniform Instruments web page for West Virginia and Louisiana.
We have also updated Exhibit 5, *Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application*, to be consistent with the April 24, 2014 effective date for the rent loss insurance coverage for a 2- to 4-unit Primary Residence permitted change to the 1-4 Family Rider, Form 3170 announced in Bulletin 2014-6.

**SELLING UPDATES**

**Relief Refinance Mortgages**

*Mortgage proceeds*

We are revising our requirements for the use of Mortgage proceeds to permit the maximum of $5,000 to be used to pay related Closing Costs, Financing Costs, Prepaids, and Escrows in lieu of the lesser of 4% of the current UPB of the Mortgage being refinanced or $5,000.

Sections A24.3, *Requirements for Freddie Mac Relief Refinance MortgagesSM – Same Servicer*, and B24.3, *Requirements for Freddie Mac Relief Refinance MortgagesSM – Open Access*, have been updated to reflect this change.

For Relief Refinance Mortgages – Open Access, Loan Prospector® feedback messages will be updated by June 23, 2014 to reflect this change.

*Refinancing from a fixed-rate Mortgage into an ARM*

We are permitting a fixed-rate Mortgage to be refinanced into an ARM, provided that it results in a reduction in the monthly principal and interest payment of the First Lien Mortgage. Eligible Relief Refinance Mortgages that are ARMs are limited to conventional nonconvertible 5/1, 7/1 or 10/1 ARMs.

However, because an ARM is a riskier product, Sellers should urge Borrowers to refinance into fixed-rate Mortgages whenever possible.

Sections A24.3 and B24.2, *Eligibility Requirements, Eligible Mortgages and Ineligible Mortgages*, have been updated to reflect this change.

*Unemployment income clarification*

In Bulletin 2014-6, we clarified that unemployment compensation is an eligible source of income for Relief Refinance Mortgages because Sellers are not required to make a determination that income is expected to continue for at least three years.

We are now removing requirements for unemployment compensation that is coupled with seasonal employment from Sections A24.3 and B24.3. Unemployment compensation continues to be an eligible source of income for Relief Refinance Mortgages, including when verification of income is required, subject to the requirements described under the “public assistance” income source in both sections.

*Monthly debt payment-to-income ratio requirements*

Section 37.16, *Monthly Debt Payment-to-Income Ratio*, has been updated to reflect the following changes. Loan Prospector feedback messages will be updated by June 23, 2014 to reflect these changes.

*Student loans*

We are amending our requirements for student loans that are deferred or are in forbearance to permit the use of a minimum of 2% of the outstanding balance as the monthly payment for qualifying purposes if no monthly payment is reported on the credit report.

*Open-end accounts*

We are clarifying that open-end accounts (accounts that require the balance to be paid in full monthly) are not required to be included in the monthly debt payment-to-income ratio if the Borrower has sufficient verified funds to pay off the outstanding balance. The verified funds must be in addition to any funds required for the transaction.
**Pay off or pay down existing debts**

We are clarifying that debts can be paid off or paid down using sources other than Mortgage proceeds and adding that the Seller must document the source of funds used to pay off or pay down the debt(s).

**Requirements for verification of large deposits**

We are amending our requirements regarding verification of large deposits when using account statements to verify assets. Prior to this Bulletin, a Seller was required to document a single deposit exceeding 25% of the total monthly qualifying income for the Mortgage. We are increasing the threshold from 25% to 50% of the total monthly qualifying income for the Mortgage. In addition, we are limiting the requirement to instances when the Mortgage is a purchase transaction and the deposit is needed to meet the requirements for Borrower Funds and/or reserves.

Sellers are reminded that they remain responsible for ensuring that any liabilities resulting from any borrowed funds are considered when qualifying the Borrower and that all Borrower Funds and reserves used in the evaluation of the Mortgage are from eligible sources.

Sellers should review Sections 37.22, Streamlined Accept Documentation Requirements and 37.23, Standard Documentation Requirements, for complete requirements.

Loan Prospector feedback messages will be updated at a later date. Until then, Sellers may disregard the feedback messages that contradict these revised requirements.

**Area median income estimates**

**Effective June 22, 2014**

As announced in our Single-Family Update e-mail on June 11, 2014, the Federal Housing Finance Agency has issued the area median income estimates for 2014. Both Loan Prospector and the Affordable Income & Property Eligibility tool will be updated by June 23, 2014 to reflect the 2014 area median income estimates. The 2014 area median income estimates will apply to Home Possible® Mortgages submitted or resubmitted through Loan Prospector on or after June 22, 2014.

**Borrower documents executed using power of attorney**

**Effective for Mortgages with Application Received Dates on or after July 1, 2014**

We are revising our requirements for Mortgages with loan origination documents signed on behalf of a Borrower using a POA. Section 16.5, Power of Attorney, is being updated to state that use of a POA is acceptable if the Seller determines that applicable law requires it and documents that determination with a written statement to be delivered to the Document Custodian with the Note. In addition, we are clarifying that the person acting as attorney-in-fact should not be affiliated with any party to the loan transaction other than the Borrower.

The Document Custody Procedures Handbook has also been updated to reflect this change.

**Loan Quality Advisor (LQA) agreement**

We are making several changes to Exhibit 37, including:

- Using the Merged Credit Reference Number to obtain a copy of the credit report used in underwriting
- Reflecting that loans evaluated in Loan Prospector but submitted to LQA without the Key Number and processed through Risk Assessment will not use the credit information previously obtained in Loan Prospector
Phase 2 ULDD Data Point requirements

Effective for Mortgages with Application Received Dates on or after March 1, 2014 and Delivery Dates on or after August 25, 2014

In Bulletin 2014-2, Chapter 17, Mortgage Delivery Instructions, was updated to incorporate the Phase 2 ULDD Data Point requirements. We are updating Section 17.7 to expand the applicability of ULDD Data Point Current UPB Amount (Sort ID 442) to all Mortgages. This requirement is reflected in the Phase 2 Uniform Loan Delivery Dataset specification.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 4, 7, 16, 17, 22, A24, B24, 30, F33, 37, 53, 57, 66, 67 and 78
- Forms 960 and 1036
- Exhibits 4, 5, 17S and 37
- Glossary


CONCLUSION

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

Sincerely,

Laurie Redmond
Vice President
Offerings Effectiveness
TO: Freddie Mac Sellers and Servicers

June 24, 2014 | 2014-13

SUBJECT: PRIVATE MORTGAGE INSURANCE MASTER POLICY UPDATES

This Single-Family Seller/Servicer Guide (“Guide”) Bulletin announces the effective date and requirements for the new private mortgage insurance master policies announced in a Federal Housing Finance Agency (FHFA) press release on December 2, 2013.

BACKGROUND

Freddie Mac, under the direction of FHFA and in conjunction with Fannie Mae, has worked closely with its approved private MIs to update and approve their master primary policies, related endorsements and other forms (“Master Policies”). These new Master Policies, which are contracts executed between Seller/Servicers and MIs, provide the terms of mortgage insurance coverage on individual Mortgages sold to Freddie Mac. Through the revision process, the new Master Policies were improved in a number of key areas. The key enhancements increase clarity, reduce ambiguity and enhance the insurance protection provided to policyholders. Listed in the following table are several major elements in the master policies that were enhanced as a result of this process.

<table>
<thead>
<tr>
<th>Area of Improvement</th>
<th>Issue to be Resolved</th>
<th>Enhancement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certainty of coverage</td>
<td>No time limits on rescissions due to origination defects and backend underwriting file reviews</td>
<td>Ability to rescind sunsets at 36 months subject to certain conditions, with earlier sunset time frame available for independent upfront validation by the MI</td>
</tr>
<tr>
<td>Claims processing and management</td>
<td>Claims perfection standards, processing time lines and appeals processes are not consistent across industry</td>
<td>Claims process aligned and streamlined, and time lines specified; appeals process clearly defined</td>
</tr>
<tr>
<td>Loss mitigation</td>
<td>Loss mitigation provisions had not been brought current to incorporate existing practices; lack of clearly defined time lines and responsibilities</td>
<td>Incorporated loss mitigation strategies and practices developed during housing crisis; clear decision time lines established</td>
</tr>
</tbody>
</table>

EFFECTIVE DATE AND REQUIREMENTS FOR THE NEW MASTER POLICIES

Any Mortgage sold to Freddie Mac that requires private mortgage insurance and has an Application Received Date on or after October 1, 2014 must be insured under one of the new Master Policies. If such Mortgage is insured under any pre-existing master policies, the Mortgage will not be eligible for sale to Freddie Mac.

Any Mortgage sold to Freddie Mac that requires private mortgage insurance and has an Application Received Date prior to October 1, 2014 may be insured under either:

- The new Master Policies, or
- Any pre-existing master policies between Seller/Servicers and private MIs, as long as the Seller/Servicer first confirms with the MI that such policies were approved by Freddie Mac for use at the time of the Application Received Date

In addition to requiring mortgage insurance to be issued by a Freddie Mac-approved MI, we are amending Guide Section 27.1, Mortgage Insurance, to require Seller/Servicers to ensure that the insurance coverage is issued under a Freddie Mac-approved Master Policy. Guide Exhibit 10, Freddie Mac-Approved Mortgage Insurers, has been updated to include the new private mortgage insurance Master Policy form numbers.
EXCEPTION FOR FREDDIE MAC RELIEF REFINANCE MORTGAGES℠

Relief Refinance Mortgages may continue to be insured under their original master policies regardless of the new Mortgage’s Application Received Date subject to the following conditions:

- The new Mortgage must be insured pursuant to a modification of the existing mortgage insurance certificate, which may or may not involve the assignment of a new certificate number by the MI
- The MI did not issue an entirely new mortgage insurance certificate

CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE. If you have any questions specific to the new Master Policies, please contact your MI directly.

Sincerely,

Laurie Redmond
Vice President
Offerings Effectiveness