

Performing Loan Repurchase Alternative Pilot Overview



Quality Control

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Table of Contents

1. Program Overview
2. QC Pilot Timing
3. Fees, Statistical Significance and Eligibility
4. Opt-In / Opt-Out Timing
5. Transfer of Servicing
6. Program Remedy Letters
7. Program Exclusions
8. Other Key Program Considerations



Pilot Summary

This pilot will replace the repurchase of most performing loans with significant defects. Instead, and depending on both loan delivery volume and overall quality, Sellers may be subject to a fee, calculated as a percentage of the total UPB sold to Freddie Mac.

Pilot Operation

The pilot does not affect the standard Quality Control (QC) process; instead, it introduces a new alternative once a significant defect is identified. This pilot replaces other alternatives, including Recourse and the new Fee-only repurchase alternative option.

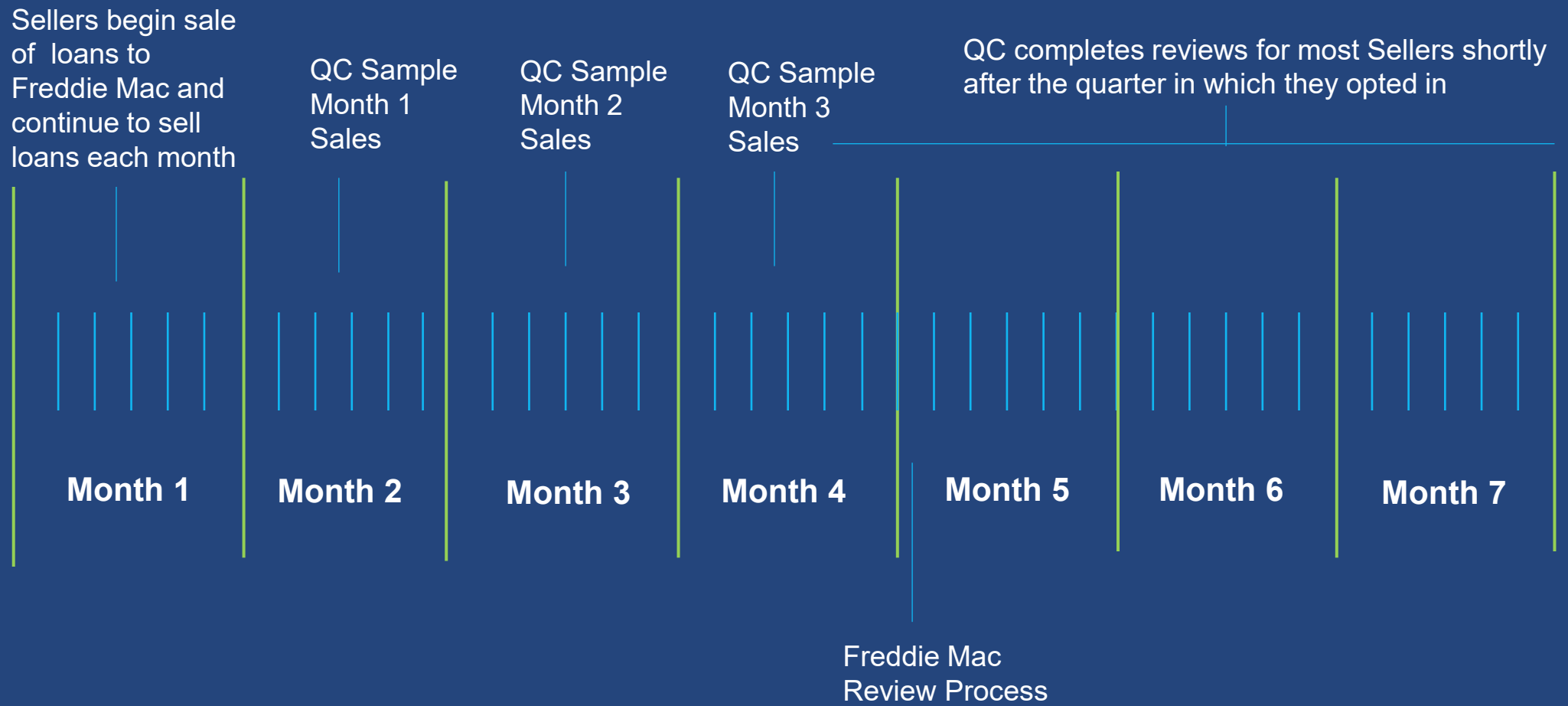
1. QC will sample loans and identify significant defects, just as we do today.
2. If a significant defect is identified, QC will determine if it is pilot-eligible.
 - If all defects in a loan are eligible, the Seller will receive a letter with the defect(s) and indicating Freddie Mac will retain the loan. Otherwise, the Seller will receive a repurchase request.
3. Sellers retain all appeal rights, regardless of pilot eligibility.
4. QC repeats that process for all sampled loans.
5. If the loans continue to perform, Freddie Mac will retain those loans; otherwise, Freddie Mac may request repurchase depending on the severity of the delinquency.
6. If the Seller participates in this pilot, they are not eligible for alternatives, except for the option to provide feedback.



QC Pilot Timing

The QC process will lag the end of the quarter due to the nature of sampling, review and appeal timelines.

Average Pilot Timeline





Fees, Statistical Significance and Eligibility

Sellers with statistically significant sampling rates are subject to a fee based on their Non Acceptable Quality (NAQ) rate and the total Unpaid Principal Balance (UPB) of loans sold to Freddie Mac.

- Fees are calculated once per quarter per Seller. NAQ rates and fees are reassessed each quarter and have no bearing on the subsequent quarter.
- Only the performing loan base sample determines a Seller's NAQ rate, however ALL performing loans are eligible for the program benefits (including targeted samples and self reports) excepting those defect categories identified in the Terms of Business (TOB) as exclusions.
- Sellers without statistically significant sample rates are not assessed a fee. Freddie Mac can share significance determinations once the quarter begins.
- Statistically significant sampling determination is an internal Freddie Mac designation based on many factors (e.g., historic volume/NAQ rate).
- While a Seller's history is a good predictor of the future, Sellers can and do change categories. Most Sellers with statistically significant sampling rates sell hundreds of loans to Freddie Mac in a quarter.

The fee is calculated using: $\text{Fee} = (\text{Fee Rate}) \times (\text{Quarterly UPB})$

Fee Table

NAQ Rate	Fee (bps)	Fee Rate
$\leq 2\%$	0	0.0
(2%, 5%]	0.25	0.000025
(5%, 8%]	0.75	0.000075
(8%, 10%]	1	0.0001
$> 10\%$	1.5	0.00015

Example

Seller originates 10,000 loans in a quarter with \$3.75B in total UPB. Freddie Mac's base sample reviews 250 loans; 9 have significant defects. Of the 9 defective loans, one is an excluded defect and is repurchased for \$375K. Of the \$3.75B in UPB, \$15M are non-agency loans.

• **NAQ:** (9 defects) / (250 samples) = 3.6% • **Fee Rate** (using table): 3.6% \rightarrow 0.000025

• **Quarterly UPB:** \$3.75B - \$15M = \$3,735,000,000

Fee: (0.000025) X (\$3,735,000,000) = \$93,375.00



Opt-In / Opt-Out Timing

- Sellers must meet the deadlines noted below.
- Each future quarter has its own opt-in deadline. Failure to meet that deadline may result in a later pilot effective date (usually the next quarter).
- Prior to the start of the eligible quarter, Sellers will be subject to all non-pilot repurchase/repurchase alternative programs.
- After opt-in, a Seller may leave the pilot effective for loans with settlement dates the subsequent calendar year, so long as that Seller participated for a minimum of two quarters prior to that new year AND the opt-out request is received no later than the 10th *business day* of November of that prior year.

Opt-In and Opt-Out Date Examples:

Pilot Eligible Settlement Dates	Opt-In Deadline	Opt-Out Eligible Settlement Dates	Opt-Out Deadline
Q1 2026 (on or after January 1, 2026)	December 15, 2025	Q1 2027	November 16, 2026
Q2 2026 (on or after April 1, 2026)	March 13, 2026	Q1 2027	November 16, 2026
Q3 2026 (on or after July 1, 2026)	June 15, 2026	Q1 2027	November 16, 2026
Q4 2026 (on or after October 1, 2026)	September 15, 2026	Q1 2028	November 15, 2027
Q1 2027 (on or after January 1, 2027)	December 15, 2026	Q1 2028	November 15, 2027



Transfer of Servicing

Excepting operational bifurcation* (e.g., CorrAdvantage or Easy D), the NAQ rate is assessed for the Seller that sold the loan to Freddie Mac.

- Loan level eligibility for the performing loan repurchase alternative pilot is based on who holds the Selling representation and warranty (R&W) which are available for review in Loan Coverage Advisor®.
- The Selling R&W holder will receive the remedy letter (i.e., repurchase request or repurchase alternative letter) if quality control (QC) finds a significant defect.
- Transfer of Servicing may impact an individual loan’s eligibility for this alternative depending on Seller pilot participation.

For all scenarios, assume Sellers A and B are in the pilot, Seller C is not in the pilot, all loans are performing, all loans have significant defects and all defects are not pilot exclusions.

Scenario	Affected NAQ Rate	Remedy Letter Recipient	Remedy Letter Type
A transfers Selling R&W to B before sale to Freddie Mac. B then sells the loan to Freddie Mac	Seller B	Seller B	Pilot letter
A transfers Selling R&W to C before sale to Freddie Mac. C then sells the loan to Freddie Mac	Seller C	Seller C	Repurchase/other alternative
C transfers Selling R&W to B before sale to Freddie Mac. B then sells the loan to Freddie Mac	Seller B	Seller B	Pilot letter
A sells loan to Freddie Mac and then transfers Selling R&W to Seller B before QC	Seller A	Seller B	Pilot letter
A sells loan to Freddie Mac and then transfers Selling R&W to C before QC	Seller A	Seller C	Repurchase/other alternative
C sells loan to Freddie Mac and then transfers Selling R&W to B before QC	Seller C	Seller B	Pilot letter
A sells loan to Freddie Mac before QC; after Remedy issuance, A transfers Selling R&W to B	Seller A	Re-sent to B	Pilot letter
A sells loan to Freddie Mac before QC; after Remedy issuance, A transfers Selling R&W to C	Seller A	Re-sent to C	Converted from pilot letter to repurchase/other alternative
C sells loan to Freddie Mac before QC; after Remedy issuance, C transfers Selling R&W to B	Seller C	Re-sent to B	Remains repurchase/other alternative (no conversion)



Program Remedy Letters

Freddie Mac will retain performing loans with eligible defects provided those loans continue to perform. Sellers will receive remedy letters documenting the nature of the defect(s) and indicating whether the defect(s) are program-eligible.

Program-Eligible Defect Letter

If all significant defects identified during the QC process are eligible for this program, Sellers will receive the remedy letter with the language below. Sellers are still entitled to the full defect appeal/impassé process.

Freddie Mac has determined that the above referenced Mortgage does not comply with our requirements and is subject to repurchase pursuant to Guide Section 3602.2. **However, under your Repurchase Alternative term of business, you are not required to repurchase the Mortgage, provided you pay the applicable fee.**

While repurchase is not required, the Mortgage defect(s) may be included in the Seller's Not Acceptable Quality (NAQ) Rate.

The remedy letter will include all relevant loan details, including specifics on the significant defect(s) and the standard appeal process.

Program-eligible loans that later meet the criteria for Freddie Mac's non-performing loan sampling criteria will be subject to repurchase.

Program-Ineligible Defect Letter

If any significant defects in a loan are not eligible, Sellers will receive a remedy letter identifying those defects and requesting repurchase. Successful appeal of the ineligible defect(s) can result in change to a program-eligible letter.

Freddie Mac has determined that the mortgage(s) do not comply with our requirements and must be repurchased pursuant to Section 3602.2 of the Guide. Attached is an explanation of why the mortgage(s) do not meet Freddie Mac's requirements.

[...]

Although you have been issued the Repurchase Alternative program term of business (where you may pay us a fee in lieu of repurchasing certain defective performing mortgages), Freddie Mac has determined that the nature of the defects cause the mortgage to be excluded from the Repurchase Alternative and the mortgage must be repurchased pursuant to Guide Section 3602.2. Below is an explanation of why the mortgage does not meet Freddie Mac's requirements.

****THIS IS A LIFE OF LOAN DEFECT OR OTHER DEFECT NOT PERMISSIBLE PER THE SELLER'S REPURCHASE ALTERNATIVE TERM OF BUSINESS.****

The remedy letter will include all relevant loan details, including specifics on the significant defect(s) and the standard appeal process. If the loan has multiple defects, the letter will specify whether each individual defect is eligible for the alternative.



Program Exclusions

This program applies solely to performing loans with significant defects. Non-performing loans and performing loans with servicing defects are excluded. Additionally, certain other performing loans may be excluded, including:

- Any loan that violates a life of loan representation and warranty, including those set forth in the *Freddie Mac Single-Family Seller/Servicer Guide* (Guide) [Section 1301.6](#).
- Any loan that does not comply with requirements related to the Freddie Mac Exclusionary List.
- Any loan with certain unacceptable appraisal practices relating to bias, unsupported or subjective terms, or discriminatory effects.
- Any loan with severe property condition issues (e.g., a property that is or should be classified as a Q6 or C6).
- Any loan secured by a condominium unit that does not comply with requirements related to ineligible projects or in a condominium project with a Not Eligible status.
- Any cooperative share loan that does not comply with the requirements related to an ineligible cooperative project.
- Any loan sold to Freddie Mac with recourse that is still subject to the recourse obligation.
- Any mortgage in which the borrower or any other party in the mortgage transaction has made any misstatement, misrepresentation or omission in conjunction with such transaction as set forth in Guide [Section 3601.1\(a\)](#).

This pilot applies to origination defects only. Servicing defects and non-performing loans will follow the traditional repurchase path.

Participation in this pilot does not alter the representation and warranty framework set forth in Guide [Section 1301.6](#). If non-excluded loans with significant defects continue to have an acceptable payment history, they will not be subject to repurchase. If a loan fails to meet the payment history requirements, Freddie Mac may require repurchase depending on the severity of the delinquency. Repurchase does not affect NAQ or fee calculations.



Other Key Program Considerations

Transfer of Service and Correspondent Loans

- In general, NAQ rate and responsibility for the fee are tied to the Seller that sold the loan to Freddie Mac with the exception of operational bifurcation.
- Freddie Mac issues repurchases or other remedies to the entity that holds the selling representation and warranties.
- During the pilot, transfer of servicing contract rights may move selling representation and warranty between participants and non-participants. Participation in this pilot does not absolve a Seller of any agreements with other counterparties; if a non-participating Seller receives a repurchase request from Freddie Mac but has an agreement with a participating Seller to repurchase the loan, the participating Seller may still be responsible for repurchase.
- At the Seller's discretion, the Seller may choose to repurchase any performing Significant Defect Mortgage originated by a correspondent, as long as the request is received in writing within 30 days. Repurchase will not alter the Seller's NAQ rate or affect the calculation of the fee.

Other Repurchase Alternatives

- This pilot will replace existing repurchase alternatives (such as Recourse) for participating Sellers.
- Sellers that do **not** participate in this pilot will have access to other repurchase alternatives on qualified loans, including a reduced recourse fee (5% down to 2.25%) and a newly announced fee-only program with immediate representation and warranty relief with payment of a 3% fee (*both alternatives are subject to eligibility requirements*).

Opt-In / Opt-Out Procedures

- The pilot will be available to all Sellers unless otherwise notified by Freddie Mac.
- Sellers must provide their intent to participate by the outlined deadlines for loans with the following quarter's settlement dates, through their Freddie Mac representative; Sellers may opt in at a later date.
- Opt-in requires participation for the duration of the calendar year; Freddie Mac determinations about statistical significance are made independent of pilot participation, but Sellers cannot change their opt-in within a year based on a changing determination.
- After opt-in, and so long as a Seller participates for a minimum of two consecutive quarters, Sellers may opt out of the pilot on an annual basis for the next year. Opt-out must be received by their Freddie Mac representative by the tenth business day of November and is effective for the entire next calendar year.