

Background:

Per Guide Section 9701.19, eligible expenses paid to the Servicer and then recovered from the borrower must be returned to Freddie Mac.

Servicers must follow the Recovery of Freddie Mac Advances process for providing reimbursement to Freddie Mac when Freddie Mac has paid the Servicer for eligible expenses and the Servicer has subsequently recovered funds or partial funds from the borrower or sales proceeds. This process would apply in the following circumstances:

- during delinquency
- after a reinstatement event (i.e., Payoff, Loan Modification / Payment Deferral, Reinstatement)
- after a third party sale with excess proceeds
- while the loan is current

PAID evaluates and pays the Servicer for eligible advances at the expense level. This recovery process allows Servicers to reimburse expenses to Freddie Mac at the loan level. Sometimes, Freddie Mac pays the Servicer for an eligible expense, but the Servicer is unable to recover those expenses from the borrower. In those instances, the amounts being reimbursed to Freddie Mac will be insufficient to cover the advances that Freddie Mac paid to the Servicer. The servicer should make all feasible efforts to recover eligible expenses and document such efforts for audit purposes

Process:

Servicers must use the Expense Entry functionality in PAID (either via bulk upload or via Expense Builder) to reimburse Freddie Mac when Freddie Mac has paid the Servicer for an eligible expense and the Servicer subsequently recovers full or partial funds from the borrower or sale proceeds. The Servicer may reimburse Freddie Mac in a single payment or in multiple payments over time, as expenses are recovered. Reimbursement for tax and insurance advances may occur at the loan level if a Servicer is unable to allocate funds to specific advances.

If expenses need to be reimbursed to Freddie Mac, this advance recovery process must be completed at least 1x per month. Generally, any amounts recovered in the current month should be reported to Freddie Mac using the income codes and made available for drafting in the same month. If expenses are recovered from borrowers after the advance recovery process has already been run for the month, it is acceptable for the Servicer to report the expenses and submit them to be drafted in the following month. Servicers must ensure their account is funded with adequate cash to cover amounts submitted for processing. Amounts recovered and submitted to Freddie Mac for drafting should never exceed 45 days from the date received by the Servicer.

Income Code		Submit When...
817200	Advance Credit for Tax	<ul style="list-style-type: none">• Servicer has received reimbursement from Freddie Mac for advanced taxes and has recovered the full amount from the borrower or sales proceeds<ul style="list-style-type: none">○ Ex.: Freddie Mac reimbursed Servicer for a single annual tax disbursement and the Servicer returns expenses to Freddie Mac in single payment.



Income Code		Submit When...
		<ul style="list-style-type: none"> ○ Ex.: Freddie Mac reimbursed the Servicer in two disbursements (for biannual tax payments) and the Servicer returns expenses to Freddie Mac in a single payment. • Servicer has received reimbursement from Freddie Mac for advanced taxes and has recovered a partial amount from the borrower or sales proceeds; however, the amount received is insufficient to allocate specifically to tax or insurance disbursements. Reimbursement to Freddie Mac can be combined and submitted using the 'tax' income code. • Servicer has received reimbursement from Freddie Mac for advanced insurance and has recovered a partial amount from the borrower or sales proceeds. The amount is insufficient to allocate specifically to tax or insurance disbursements so reimbursement to Freddie Mac is submitted as using the 'tax' income code.
817201	Advance Credit for Insurance	<ul style="list-style-type: none"> • Servicer has received reimbursement from Freddie Mac for advanced insurance and has recovered the full amount from the borrower or sales proceeds. • Servicer has received reimbursement from Freddie Mac for advanced insurance and has recovered a partial amount from the borrower or sales proceeds.
817202	Advance Credit for Corporate Advances	<ul style="list-style-type: none"> • Servicer has received reimbursement from Freddie Mac for corporate advances and has recovered full or partial expenses from the borrower or sale proceeds. <ul style="list-style-type: none"> ○ If some expenses are deemed as 'unrecoverable', the amount will be insufficient to reimburse Freddie Mac.

Examples

Scenario 1: Full Funds Recovered from the Borrower or Sales Proceeds

1. The Servicer received reimbursement from Freddie Mac for eligible taxes, insurance, and corporate advances for an aggregate of \$1000, with the following allocation:
 - Taxes: \$500
 - Insurance: \$150
 - Corporate Advances: \$350
2. The Servicer recovers \$1000 (one or more payments received).
3. The Servicer initiates reimbursement(s) to Freddie Mac.
 - The Servicer submits applicable income codes in PAID to reimburse Freddie Mac for advances.



Income Code		Amount
817200	Advance Credit for tax	\$500
817201	Advance Credit for Insurance	\$150
817202	Advance Credit for Corporate Advances	\$350

- The Expense status progresses to 'Approved for Payment'.
4. Freddie Mac initiates the ACH transaction and drafts the Servicer's account for the full \$1000.
 5. The balance due from the Servicer is \$0 and is tracked by Freddie Mac.

Scenario 2A: Partial Funds Recovered – Reimbursement to Freddie Mac at the Expense Level

1. The Servicer received reimbursement from Freddie Mac for eligible taxes, insurance, and corporate advances for an aggregate of \$1000, with the following allocation:
 - Taxes: \$500
 - Insurance: \$150
 - Corporate Advances: \$350
2. The Servicer recovers \$750.
3. The Servicer initiates a reimbursement(s) to Freddie Mac.
 - The Servicer submits applicable income codes in PAID to reimburse Freddie Mac for advances.

Income Code		Amount
817200	Advance Credit for Tax	\$500
817201	Advance Credit for Insurance	\$100
817202	Advance Credit for Corporate Advances	\$150

- The Expense status progresses to 'Approved for Payment'.
4. Freddie Mac initiates the ACH transaction and drafts the Servicer's account for \$750.
 5. The balance due from the Servicer is \$250 (\$50 for Insurance and \$200 for Corporate Advances). If the Servicer does not subsequently, at a later date, submit the outstanding amount, reconciliation upon payoff or reinstatement will determine resolution to the unpaid balance.

Scenario 2B: Partial Funds Recovered – Tax and Insurance Reimbursement to Freddie Mac Combined Under the 'Tax' Income Code

1. The Servicer received reimbursement from Freddie Mac for taxes, insurance, and corporate advances for an aggregate of \$1000, with the following allocation:
 - a. Taxes: \$500



- b. Insurance: \$150
 - c. Corporate Advances: \$350
2. The Servicer recovers \$750
 3. The Servicer initiates reimbursement(s) to Freddie Mac.
 - The Servicer submits applicable income codes in PAID to reimburse Freddie Mac for advances.

Income Code		Amount
817200	Advance Credit for Tax	\$650
817202	Advance Credit for Insurance	\$0
817202	Advance Credit for Corporate Advances	\$100

- The Expense status moves to 'Approved for Payment.'
5. Freddie Mac initiates the ACH transaction and drafts the servicer's account for \$750.
 6. The balance due from the Servicer is \$250 (Corporate Advances). If the Servicer does not subsequently, at a later date, submit the outstanding amount, reconciliation upon payoff or reinstatement will determine resolution to the unpaid balance.

This information is not a replacement or substitute for the requirements in the Freddie Mac *Single-Family Seller/Servicer Guide* and your other Purchase Documents.

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