

# Performing Loan Repurchase Alternative Pilot Expansion

November 2024 Opt in Instructions and Resources

**Freddie Mac is expanding access to the performing loan repurchase alternative pilot. The pilot replaces repurchases for most performing loans with significant defects. Please find instructions on opting into the pilot at the bottom of this document.**

## How to opt-in to the Performing Loan Repurchase Alternative Program pilot

The performing loan repurchase alternative pilot will be available to all Sellers unless otherwise notified by Freddie Mac. To request participation in the pilot, please send an email to [PL\\_RA\\_Pilot\\_Opt\\_In@freddiemac.com](mailto:PL_RA_Pilot_Opt_In@freddiemac.com) **no later than December 20, 2024**, to guarantee participation for loans with Q1 2025 settlement dates. Participation requests received after that date may result in a later start date. Please include the Seller legal name and 'Participation in Performing Loan Repurchase Alternative Pilot' in the email subject line and include the following in the body of the email:

- Seller/Servicer Legal Name
- Seller/Servicer Number
- Full Legal Name of Individual Authorized to Accept Terms
- Email Address of Individual Authorized to Accept Terms

Upon receipt of the email, Freddie Mac will notify Sellers of next steps on contract execution. Sellers who choose to participate in the pilot must remain in the pilot for at least the remainder of the contracted year.

## Please use the template below to opt in

To: [PL\\_RA\\_Pilot\\_Opt\\_In@freddiemac.com](mailto:PL_RA_Pilot_Opt_In@freddiemac.com)

Subject Line: Participation in PL Repurchase Alternative Pilot- **[Seller Name]**

I am writing to request my company's participation in the Performing Loan Repurchase Alternative Pilot (the "Pilot"). I agree with and understand the terms of the pilot as described below under "Sample Term of Business," and the accuracy of the key contact information provided below:

- Seller/Servicer Legal Name (please include the full name): **[Seller Name]**
- Freddie Mac Seller/Servicer Family or Brand ID: **[Family/Branch ID]**
- Legal Name of Seller Individual Authorized to Accept Contract Terms: **[Individual Name]**
- Email Address of Seller Individual Authorized to Accept Contract Terms: **[Individual Email Address]**

I understand that Freddie Mac will provide the terms of the Pilot to the email address provided above, and that these terms will be deemed a "Purchase Document" as defined in the *Single-Family Seller/Servicer Guide*.

**[Sender Name]**

## Sample Term of Business (Subject to Change)

Performing Loan Repurchase Alternative Pilot		
<b>Guide Reference:</b> 3602.2	<b>Effective Date:</b>	<b>Expiration Date:</b>



Guide Section 3602.2 states that Freddie Mac may require a Seller to repurchase a Mortgage if Freddie Mac has designated any loan-level deficiency that breaches a term contained in the Purchase Documents at the time of Mortgage purchase that results in a Significant Defect as defined in Guide Section 3401.1(a) (a “Significant Defect Mortgage”). In addition, Guide Section 3602.2 states “Freddie Mac may, at its sole discretion, provide the Seller/Servicer with a Repurchase Alternative (as such term is defined in Guide Section 3401.1(a)) of the identified Mortgage in accordance with Guide Section 3401.1(f). In each such case, Freddie Mac will notify the Seller/Servicer of the type and terms of the Repurchase Alternative.”

For Mortgages with a Settlement Date as described in paragraph (h) below, Freddie Mac may require the payment of a fee in lieu of requiring Seller/Servicer to repurchase performing Mortgages determined by Freddie Mac’s quality control review to have one or more Significant Defects subject to the following conditions:

- (a) Defined terms. The following terms in this provision have the meanings ascribed to them below:
  - (i) “Non Acceptable Quality (NAQ) Rate” means the ratio of Mortgages with one or more Significant Defects compared to the total number of Mortgages included in the Performing Loan Base Sample for a quarter at the conclusion of the appeal process (as describe in Guide Section 3602.8).
  - (ii) “Performing Loan Base Sample” means the Mortgages sampled on a random basis by Freddie Mac for quality control review and used to determine the NAQ Rate.
  - (iii) “Statistically Significant NAQ Rate” means the NAQ Rate for a quarter for a Seller who has delivered a volume of loans that allows Freddie Mac, at Freddie Mac’s discretion, to generate a statistically representative NAQ Rate.
- (b) Payment of fee. Sellers with a Statistically Significant NAQ Rate will not be required to repurchase eligible performing Mortgages with one or more Significant Defects. However, Sellers may be subject to a fee based on the total UPB of all funded Mortgages and their NAQ Rate for the applicable quarter as determined by Freddie Mac quality control reviews. The fee rate is determined using the chart below:

<b>SELLERS FEE RATE</b>	
Seller’s NAQ Rate During the Applicable Quarter	Fee Rate (in basis points)
0.0% ≤ 2.0%	0.00
> 2.0% ≤ 5.0%	0.25
> 5.0% ≤ 8.0%	0.75
> 8.0% ≤ 10.0%	1.00
> 10.0%	1.50

Sellers without a Statistically Significant NAQ Rate will not be subject to a fee and will not be required to repurchase eligible performing Mortgages with one or more Significant Defects.

- (c) Calculation of fee. The fee, when applicable, will be calculated as follows:



- (i) Monthly UPB is the total original UPB on the Note for all Mortgages sold to Freddie Mac during a month that remain outstanding at the time of Freddie Mac's Quality Control Performing Loan Base Sampling for that month.
- (ii) Quarterly UPB is the sum of each monthly UPB for that quarter.
- (iii) The fee for the quarter will be the fee rate multiplied by the quarterly UPB.

When applicable, Seller agrees to pay Freddie Mac a fee each quarter in lieu of repurchasing or providing another repurchase alternative (e.g., recourse) for any performing Mortgage with one or more Significant Defects. The fee will be set forth as a debit on the Seller's monthly invoice once Freddie Mac completes the post-funding quality control review for the Mortgages with a Settlement Date in that quarter.

(d) Excluded Mortgages. Nonperforming loans and performing loans with Servicing Defects (as defined in Guide Section 3602.1) are excluded from this provision. Certain performing Mortgages with Significant Defects will still be subject to Repurchase, including any of the following:

- (i) Any Mortgage that violates a life of loan representation and warranty, including those set forth in Guide Section 1301.11.
- (ii) Any Mortgage that does not comply with requirements related to the Freddie Mac Exclusionary List in Guide Section 3101.1.
- (iii) Any Mortgage with the following unacceptable appraisal practices as provided in Guide Section 5603.4:
  - (A) consideration of the race, color, religion, sex, sexual orientation, gender identity, age, marital status, disability, familial status, exercise of any federally protected civil right, receipt of income derived from any public assistance program, birthplaces of residents at the property or in the neighborhood, national origin of the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property (see also Guide Section 1301.2 for equal opportunity compliance requirements);
  - (B) use of unsupported or subjective terms or statements to assess or rate, such as, but not limited to, "high," "low," "good," "bad," "fair," "poor," "strong," "weak," "rapid," "slow," "fast" or "average" without providing a foundation for analysis and contextual information;
  - (C) incorporating terminology or veiled language that could indicate underlying bias, including but not limited to, "pride of ownership," "crime-ridden area," "desirable neighborhood or location" or "undesirable neighborhood or location," "gentrified," "working class," "inner city," "preferred community," "up and coming," predominantly Hispanic or Black neighborhood, substantial amount of Black or Hispanic residents at the property, diverse school system, amenities specifically geared to a race, ethnic or religious group or using terms such as Millennials, Generation X or Baby Boomers;
  - (D) inclusion of references, statements or comparisons about crime rates or crime statistics, whether objective or subjective, in the appraisal analysis or report;
  - (E) consideration of the age or location of a dwelling or the age of the neighborhood or census tract where the dwelling is located in a manner that has a discriminatory effect; or
  - (F) basing the development of an opinion of value on factors that local, State or federal law designates as discriminatory.
- (iv) Any Mortgage with severe property quality or conditions issues (such as a property that is or should be classified as a Q6, C5 or C6 rating per Guide Section 5605.5 and Guide Exhibit 36, *Condition and Quality Ratings and Level of Updating Definitions*) as determined by Freddie Mac in its sole and absolute discretion.



- (v) Any Mortgage secured by a Condominium Unit with certain issues, including:
  - (A) any Mortgage that does not comply with the requirements related to Ineligible Projects in Guide Section 5701.3(n) or Guide Section 5701.3(o); or
  - (B) any Mortgage secured by a Condominium Unit in a Condominium Project with a Not Eligible status as provided in Guide Section 5701.10(d)(v).
- (vi) Any Cooperative Share Loan that does not comply with the requirements related to an ineligible Cooperative Project in Guide Section 5705.3(q) or Guide Section 5705.3(r).
- (vii) Any Mortgage sold to Freddie Mac with recourse (as defined in Guide Section 6201.7(a)) provided such Mortgage is still subject to the recourse obligation when Freddie Mac determines the Mortgage is ineligible for sale to Freddie Mac.
- (e) Representation and Warranty Framework. This section does not alter in any manner the representation and warranty framework set forth in Guide Section 1301.11.
- (f) Mortgage Insurance. The Performing Loan Repurchase Alternative Pilot does not amend, alter or waive any obligation that Seller/Servicer may have with respect to mortgage insurance, whether such obligation arises under its Purchase Documents or otherwise, including without limitation, repurchase reporting obligations under any applicable mortgage guaranty insurance policy.
- (g) Correspondent Loan Repurchase and Agreements with Other Counterparties. At the Seller's discretion, Seller may choose to repurchase any performing Significant Defect Mortgage which was originated by a Correspondent. The Seller must submit all such repurchase requests in writing within 30 days of the initial defect notification (Remedy letter), or within 30 days of the conclusion of the appeal process if the Remedy letter is appealed. Repurchase of these loans will not alter the Seller's NAQ Rate or affect the calculation of the fee.
 

Acceptance of this provision does not absolve the Seller of repurchase responsibility as established by agreements with other counterparties. Freddie Mac may issue a Repurchase Demand to non-participating counterparties, at which point the non-participating counterparty may issue a repurchase demand to the participating Seller due to other agreements.
- (h) Mortgages subject to this provision. Mortgages subject to this provision are described in the table below, unless otherwise notified by Freddie Mac:

<b>Applicable Mortgages Subject to this Provision</b>	
<b>Effective Date of this Provision</b>	<b>Mortgages with Settlement Dates on or after</b>
September 16 – December 15	The following January 1
December 16 – March 15	The following April 1
March 16 – June 15	The following July 1
June 16 – September 15	The following October 1

- (i) Termination.
  - (A) Any Seller request to terminate this provision must be provided to the Seller's Freddie Mac representative, the Customer Support Contact Center at 800-FREDDIE, or [PL\\_RA\\_Pilot\\_Opt\\_In@freddiemac.com](mailto:PL_RA_Pilot_Opt_In@freddiemac.com) no later than the tenth business day of November of the year preceding the year for which Seller is requesting termination.



- (B) Termination of this provision will be effective for Settlement Dates on or after January 1 of the calendar year following Seller's request for termination, and will be effective for the entire calendar year.
- (C) Seller's request to terminate this provision may not occur during the first six months following the effective date of this provision.

## Performing Loan Repurchase Alternative Pilot Process Overview

Sellers that join this pilot will no longer be required to repurchase *most* performing loans with significant defects. Instead, and depending on Seller delivery volume, Sellers may be subject to a fee schedule. **We are pleased to announce the broad expansion of the performing loan repurchase alternative pilot available beginning with loans with a Settlement Date of January 1, 2025 for all Sellers that opt in on or before December 20, 2024.**

- Larger Sellers for whom Freddie Mac can generate a statistically significant sampling volume will be subject to a fee each quarter as a percentage of their total UPB of loans sold to Freddie Mac and based on their Non Acceptable Quality (NAQ) rate. Sellers with an NAQ rate under 2% in a given quarter will not be required to pay a fee for that quarter.
- Smaller Sellers for whom Freddie Mac Quality Control (QC) sampling volume is insufficient to generate a statistically significant NAQ rate will not be assessed a fee.

In either case, Sellers will not be subject to most performing loan repurchases. Statistical significance may change over time, but if you have any question on your historical status please contact your Freddie Mac Representative or the Customer Support Contact Center (800-FREDDIE).

This fact sheet describes the updated performing loan repurchase alternative pilot, including the fee overview, program exclusions, and participation requirements. Participating Sellers will be subject to Terms of Business (TOB) governing the pilot. **Please review the sample TOB above and the template on how to opt in to the pilot.**

Participation in this pilot does not affect the normal quality control process of identifying significant defects. Instead, this pilot introduces a new repurchase alternative if a defect is identified. At a high level:

1. Freddie Mac QC will continue to sample loans and identify Significant Defects, just as we do today.
2. If a significant defect is identified, Freddie Mac will determine if it is pilot-eligible (see pilot exclusion details).
  - If all significant defects in a loan are eligible for the pilot, the Seller will receive a remedy letter explaining the defect(s) and indicating Freddie Mac will retain the loan under the terms of the pilot.
  - If any significant defects in a loan are not eligible for the pilot, the Seller will receive a repurchase request explaining the defect(s).
3. The Seller retains all rights to appeal Freddie Mac's finding of a significant defect, regardless of pilot eligibility. Once the Seller and Freddie Mac agree on the significant defect for the loan, or at the resolution of impasse, the loan is closed.
4. Freddie Mac will repeat that process for all sampled loans. For Smaller sellers, that concludes the process.
5. For Sellers for whom Freddie Mac can determine a statistically significant NAQ rate, Freddie Mac will calculate the fee for the quarter at the conclusion of Freddie Mac's PL base sample (see fee details below). Note: while all performing loans, including self-reports and targeted samples, are eligible for consideration for this pilot, only the PL base sample determines the NAQ rate.



6. If applicable, the Seller will be assessed a one-time fee for the quarter. The fee is not per-loan; instead, one fee is assessed per quarter per Seller. NAQ rate resets each quarter.
- If loans with Significant Defects continue to perform per the terms of the R&W Framework, Freddie Mac will retain those loans.
  - If not, Freddie Mac may request repurchase depending on the severity of the delinquency.

### Determining the fee for the PL Repurchase Alternative Program

Under the pilot, Freddie Mac may require the payment of a fee by Sellers for whom we can determine a statistically significant NAQ rate based on the total UPB of funded loans and the Seller's NAQ rate for the applicable quarter. The fee rate is determined using the chart below:

Seller's NAQ Rate during the applicable quarter	Fee Rate (in basis points)
0.0% ≤ 2.0%	0.00
> 2.0% ≤ 5.0%	0.25
> 5.0% ≤ 8.0%	0.75
> 8.0% ≤ 10.0%	1.00

