

Bulletin

NUMBER: 2011-16

TO: Freddie Mac Servicers

September 12, 2011

SUBJECTS

With this *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin, we are announcing complete requirements related to the Freddie Mac Standard Modification (“Standard Modification”), which was previewed in a Servicer communication on August 16, 2011. The Standard Modification is part of the Servicing Alignment Initiative (SAI) and designed to serve as a workout option for Borrowers who are ineligible for the Home Affordable Modification Program (HAMP) or who have previously defaulted on a HAMP or other modification.

We are also pleased to announce that effective October 1, 2011, we are retiring MIDANET® for the PC (“MIDANET”) for Servicing functions and removing references to it from Volume 2 of the Guide. In conjunction with the MIDANET retirement, effective October 1, 2011, we are reorganizing Guide Chapters 76 through 79 and replacing existing Chapter 83, *Additional Servicing Requirements for Maturing Balloon/Reset Mortgages*, with new and reorganized Chapter A83.

Other changes

With this Bulletin, we are also making the following changes to our **Servicing requirements**:

- In conjunction with the retirement of MIDANET, discontinuing the automated conversion process for Convertible ARMs
- Updating our SAI requirements related to the suspension of foreclosure actions, Borrower contact and the verification of occupancy for non-Borrowers
- Providing guidance on foreclosure suspension for Borrowers approved for assistance under the Hardest Hit Fund initiative and the Department of Housing and Urban Development’s (HUD) Emergency Homeowners’ Loan Program (EHLP)
- Requiring Servicers to use Kentucky and Minnesota designated counsel for foreclosure and bankruptcy referrals on Mortgages secured by 2- to 4-unit properties and Manufactured Homes located in those States

STANDARD MODIFICATION

As a follow up to Bulletin 2011-11 announcing the SAI, and the information published on August 16, 2011 regarding preliminary requirements, we are providing complete requirements for the Standard Modification. Servicers must comply with the requirements announced in this Bulletin and should not depend on the previously announced preliminary requirements, which were intended only as a preview of the Standard Modification. The Standard Modification will replace the Debt Coverage Ratio modification currently offered in Chapter B65, *Workout Options*, and Workout Prospector®, which will be hereafter referred to as Freddie Mac’s “Classic Modification.”

Guide Sections B65.11 through B65.26 have been substantially revised to incorporate the requirements related to the Standard Modification, including:

- Borrower eligibility, property eligibility and Mortgage eligibility and ineligibility
- Evaluating a Borrower for imminent default
- Borrower documentation requirements
- Property valuation requirements
- Determining the modification terms
- Trial Period Plan requirements
- Processing and closing the modification
- Reporting requirements

In addition to the changes to Sections B65.11 through B65.26:

- A model letter has been developed for the Standard Modification Trial Period Plan Borrower Evaluation Notice, which is a template of the terms Servicers must send to Borrowers approved for a Standard Modification Trial Period Plan, and is available in Guide Exhibit 93, *Evaluation Model Clauses*
- Guide Form 1128, *Loss Mitigation Transmittal Worksheet*, (“LMTW”) has been revised to provide specific instructions for submitting data for the Standard Modification and to eliminate the requirement that Servicers sign and date the LMTW prior to submitting it to Freddie Mac
- We have provided Exhibit 95, *Freddie Mac Standard Modification Exception Transmittal*, a template that contains the information we require for exception requests submitted to Freddie Mac in connection with the Standard Modification that Servicers may use temporarily until Workout Prospector is available to process such requests. Once Workout Prospector is updated to process the Standard Modification including associated exception requests, Servicers may no longer use Exhibit 95. Servicers may access the transmittal on our Standard Modification web page at http://www.freddie.com/singlefamily/service/standard_modification.html
- Exhibit 82, *EDR Transmission Code List*, has been updated to reflect required Standard Modification specific default action codes. Servicers must report Standard Modification activity using the following codes as applicable by the third Business Day of each month for the previous month’s activity:
 - “HD” to notify Freddie Mac that the Borrower is being evaluated for the Standard Modification
 - “HE” to notify Freddie Mac that the Borrower is ineligible for a Standard Modification
 - “BF” to notify Freddie Mac that the Borrower has entered a Trial Period for the Standard Modification
- Section 65.42, *Compensation Program*, has been updated to reflect tiered Servicer incentives related to Standard Modifications

Effective date

For all modification evaluations conducted on or after **January 1, 2012**, Servicers must evaluate Borrowers for a Standard Modification Trial Period Plan in accordance with the Guide’s evaluation hierarchy for alternatives to foreclosure.

Servicers may begin evaluating Borrowers for Standard Modifications prior to January 1, 2012, provided that:

- Trial Period Plans do not start earlier than October 1, 2011
- The Servicer has the capability to report the Trial Period Plan to Freddie Mac in accordance with the Guide. If a Servicer's system is not updated to report the Trial Period Plan, it may manually report the data to Freddie Mac using the Freddie Mac Service Loans application ("Service Loans application") in the interim.
- The permanent Standard Modification has a first modified payment due date on or after January 1, 2012

Once a Servicer begins evaluating Borrowers for Standard Modifications, it may no longer evaluate Borrowers for Classic Modifications.

Evaluations being conducted for Classic Modifications must be completed and approved by December 31, 2011. **All Classic Modifications approved prior to December 31, 2011 must settle no later than February 28, 2012 and Servicers must submit the LMTW for such settlements in accordance with the Guide no later than March 6, 2012.**

Delegation

All Servicers are delegated to approve Standard Modifications in accordance with the Guide requirements.

Section B65.4, *Approval Authority*, has been updated to reflect this delegation of authority.

Workout Prospector

Unless otherwise directed by Freddie Mac, Servicers must use Workout Prospector once it is available to process Standard Modifications. Workout Prospector will be updated and available to process Standard Modifications by January 1, 2012. If a Servicer implements the Standard Modification prior to January 1, 2012, it should manually underwrite or process the terms of the modification using its proprietary system (or a third-party system) and submit those terms into Workout Prospector once it becomes available.

Transfers of Servicing

When a Transfer of Servicing includes Mortgages in a Standard Modification Trial Period, the Transferor Servicer must advise the Transferee Servicer that Mortgages in a Trial Period are part of the portfolio being transferred and must confirm that the Transferee Servicer is aware of and agrees to assume the additional responsibilities associated with the Servicing of such Mortgages.

Form 981, *Agreement for Subsequent Transfer of Servicing of Single-Family Mortgages*, and Section 56.5, *Additional Requirements for Transfers of Servicing*, have been updated to reflect these changes.

FREDDIE MAC SERVICE LOANS APPLICATION REPLACES MIDANET FOR THE PC FOR SERVICING FUNCTIONS

Effective October 1, 2011

In Bulletin 2011-1, we introduced the Service Loans application, a web-based application that replaces MIDANET for the PC for Servicing functions. Migration to the Service Loans application began in April 2011, with Freddie Mac contacting Servicers to schedule a specific migration date. Terms and conditions for application use were announced in Bulletin 2011-3.

Since all Servicers will be migrated to the Service Loans application by September 30, 2011, we are announcing the retirement of MIDANET for Servicing functions and removing all references to MIDANET from applicable sections of Volume 2 of the Guide effective October 1, 2011.

Rewrite of Chapters 76 through 79

We have taken this opportunity to reorganize Chapters 76, *Basics of Investor Accounting*, 77, *Establishing Investor Accounting Functions*, 78, *Reporting and Remitting Requirements*, and 79, *Managing Custodial Accounts*, to improve readability and eliminate redundancies. These changes do not affect the requirements in these chapters.

New Chapter A83 and deletion of Exhibit 85

We are also updating and reorganizing the provisions of Chapter 83, but again we are not changing any requirements in that chapter. However, because the MIDANET changes are so extensive, we are retiring existing Chapter 83, and replacing it with new Chapter A83, *Additional Servicing Requirements for Maturing Balloon/Reset Mortgages*, effective October 1, 2011, the effective date of the retirement of MIDANET for Servicing functions.

Related to this update, effective October 1, 2011, we have deleted Exhibit 85, *Special Reset Mortgage Title Insurance Information*. This exhibit included outdated information about specific Reset Mortgage title insurance that was previously only offered by a limited number of title insurers, and is now more widely available.

Servicing Balloon/Reset Mortgages manual and Document Custody Procedures Handbook updates

We are in the process of updating the Servicing Balloon/Reset Mortgages manual (“Balloon/Reset Manual”) to reflect the retirement of MIDANET, the implementation of the Service Loans application and the new Chapter A83 references. We expect to have the updated Balloon/Reset Manual posted in advance of the October 1, 2011 MIDANET retirement effective date.

The Document Custody Procedures Handbook will also be updated to reflect the revised Guide references related to certification of Reset Mortgage documentation.

Form 59 and Form 59E reminder

We are reminding Servicers that in connection with Form 59, *Principal and Interest Custodial Account Reconciliation – Monthly Account Statement*, and Form 59E, *Escrow Custodial Reconciliation Worksheet – Monthly Account Statement*, the Servicer’s employee who prepared the form may not also approve the form. The instructions to these forms have been revised to highlight this requirement.

Additional revisions to forms and exhibits related to MIDANET retirement

In addition to the changes highlighted above, Exhibit 61, *Interest and Principal Due Freddie Mac*, has been updated to reflect the retirement of MIDANET for Servicing, as have the following forms: Form 479A, *Single-Family Servicing Agent Certification*; Form 1034B, *Custodial Certification Schedule – Balloon Loan Modification*; Form 1128; and Form 1130, *Balloon/Reset Mortgage Exception Transmittal*.

Discontinuation of automated conversion process for Convertible ARMs

Effective October 1, 2011, we are discontinuing the automated conversion process for convertible ARMs. This process was available only through MIDANET and is not currently available with the Service Loans application. Until further notice, Servicers will be required to process the conversion of all Convertible ARMs through the repurchase/resale process.

Section 30.10, *Conversion Process for Convertible ARMs*, and Chapter 80, *Special Servicing and Reporting Requirements for ARMs*, have been updated to reflect this change.

SERVICING ALIGNMENT INITIATIVE UPDATES

Effective October 1, 2011

In Bulletin 2011-11, Freddie Mac announced its implementation of the SAI to streamline and simplify Servicing requirements and processes, in accordance with the Federal Housing Finance Agency (FHFA) directive to Freddie Mac and Fannie Mae.

With this Bulletin, we are updating our SAI requirements related to the suspension of foreclosure actions, Borrower contact and the verification of occupancy for non-Borrowers. Additionally, we updated Section 65.17, *Verifying a Borrower's Hardship*, to provide an example of an eligible distant employment transfer hardship to include service members who receive Permanent Change of Station orders.

Suspension of foreclosure actions

We are updating our foreclosure suspension requirements to provide the following:

- Servicers may postpone referral to foreclosure up to 10 days to provide additional time for the Borrower to submit a complete Borrower Response Package if it has received a Borrower Response Package that is only missing the hardship documentation (“substantially complete Borrower Response Package”). If the Borrower submits the missing hardship documentation within this 10-day period, the Servicer must postpone referral to foreclosure for up to an additional 30 days to complete its evaluation of the Borrower Response Package.
- If the Mortgage is subject to judicial proceedings and the Servicer receives a complete Borrower Response Package no later than 30 days after the Post-Referral to Foreclosure Solicitation Letter is sent, then the Servicer must delay filing a motion for judgment, or if the motion has been filed, must file a request that the court delay a hearing or ruling on that motion as permitted under State or local law, for up to an additional 30 days to allow the Servicer to review the complete Borrower Response Package and notify the Borrower and the court of the decision.
- If the Servicer makes an alternative to foreclosure offer to the Borrower, and the expiration of the 14-day Borrower response period will occur on or after a scheduled foreclosure sale date, it must not provide the certification to the foreclosure attorney/trustee and must make every effort to suspend the foreclosure sale up to 14 days where permitted under applicable federal, State or local law.
- Servicers must obtain Freddie Mac’s approval to postpone a foreclosure sale for any Mortgage that is greater than 12 months delinquent. In the event a foreclosure sale occurs, the Servicer’s performance will be measured against Freddie Mac’s State foreclosure time lines without consideration given to the Servicer’s postponement of the foreclosure sale.

We have also updated the Guide to include the acceptable methods a Borrower may use to demonstrate his or her intent to accept an alternative to foreclosure offer, and to indicate that a Borrower’s verbal intent to accept an offer is not effective if the offer for an alternative to foreclosure is made less than 37 days prior to a scheduled foreclosure sale. Servicers should make appropriate changes to the Model Evaluation Clauses to delete the reference to verbal intent to accept if an offer is made less than 37 days prior to a scheduled foreclosure sale.

We currently require Servicers to instruct the foreclosure attorney/trustee to send the post-referral to foreclosure solicitation letter within five Business Days following the referral to foreclosure, but no later than the 125th day of delinquency. As a result of the updated requirements for postponing a referral to foreclosure, we have revised the post-referral to foreclosure solicitation requirement to provide that Servicers must instruct the foreclosure attorney/trustee to send the post-referral to foreclosure solicitation letter within five Business Days following the referral to foreclosure.

Sections 64.6, *Evaluation Hierarchy, Borrower Solicitation and Communication*, 66.9.1, *When to Initiate Foreclosure on a First-Lien or a Second Mortgage/Home Improvement Loan (HIL)*, 66.32.1, *Foreclosure Sale Postponement*, and 66.41, *Complete Borrower Response Packages Received after the Foreclosure Sale has been Scheduled*, have been updated to reflect these changes.

Borrower contact

We are updating Sections 64.5, *Collection Efforts*, and 64.6, to provide updated requirements related to Borrower contact, including the requirement that, once an offer for an alternative to foreclosure is sent to the Borrower, the Servicer must make a follow-up call to the Borrower at least every third day until contact is made during the 14-day Borrower response period. If the 14-day response period to an offer has expired without a Borrower response, the Servicer must continue with follow-up calls every three days until the Borrower:

- Acknowledges an intent to accept the offer; or
- Enters into a repayment plan, forbearance agreement or Trial Period Plan; or
- Indicates that he or she is no longer interested in pursuing an alternative to foreclosure

Verification of occupancy for non-Borrowers

The Guide requires a standard set of income documentation that Borrowers must provide in order to be considered for a modification or other workout option. Non-Borrower income is considered an acceptable source of income subject to certain conditions, including the requirement that the non-Borrower occupies the property as a Primary Residence. With this Bulletin, we are revising our requirements to provide greater flexibility on the documentation that may be used to verify the occupancy of a non-Borrower. Effective October 1, 2011, Servicers may verify that the non-Borrower occupies the property as a Primary Residence based on a review of a credit report or other documentation (e.g., utility bills, pay stubs, benefits statements).

FORECLOSURE SUSPENSION

Effective immediately

State Housing Finance Agencies

In Bulletin 2010-25, we provided requirements that direct Servicers to suspend foreclosure actions (foreclosure referral and sale) for a period of 45 days once the Servicer is notified that a Borrower is conditionally approved for mortgage assistance under a Housing Finance Agency's (HFA) unemployment or reinstatement mortgage assistance program. Foreclosure actions are suspended unless the HFA notifies the Servicer that the Borrower has been determined ineligible for assistance.

With this Bulletin, we are reminding Servicers that if State law requires suspension of foreclosure for a period that exceeds 45 days, Servicers must comply with State law. Further, we are amending our requirements to permit Servicers to suspend foreclosure actions (referral and sale) for a period exceeding 45 days, as necessary, to facilitate the processing of mortgage assistance and receipt of funds, provided that the Servicer follows up with the HFA on a regular basis to determine (i) whether the Borrower is still eligible for mortgage assistance and (ii) when such funds will be received.

Department of Housing and Urban Development's Emergency Homeowners' Loan Program

In Bulletin 2011-12, Freddie Mac provided foreclosure suspension requirements in connection with Servicer participation in HUD's EHLP. We required Servicers to suspend foreclosure proceedings once notified that a Borrower has been approved for EHLP assistance. With this Bulletin, we are amending this requirement to permit Servicers to suspend foreclosure actions (referral and sale) prior to notification of approval, if necessary, to comply with State law, or to comply with its Memorandum of Understanding (MOU) between HUD and the Servicer to participate in EHLP.

DESIGNATED COUNSEL FOR KENTUCKY AND MINNESOTA

We have expanded our Designated Counsel Program to include Kentucky and Minnesota.

Servicers must use the Kentucky and Minnesota designated counsel for new foreclosure and bankruptcy referrals initiated on or after **October 1, 2011**, for Mortgages secured by 2- to 4-unit properties and Manufactured Homes located in those States. Although the requirement goes into effect on

October 1, 2011, Servicers may refer new foreclosures and bankruptcies to our Kentucky and Minnesota designated counsel immediately.

We have revised Sections 66.15, *How to Select Foreclosure Counsel or Trustee*, and 67.15, *Selecting Bankruptcy Counsel*, as well as Exhibits 57A, *Approved Attorney Fees and Title Expenses*, and 79, *Designated Counsel/Trustee*, to reflect this change.

REVISIONS TO THE GUIDE

The revisions included in this Bulletin impact the following:

- Chapters 18, 30, 33, 50, A50, 51, 55, 56, 61, 64, 65, B65, C65, D65, 66, 67, 70, 71, A71, 72, 76, 77, 78, 79, 80 and A83
- Forms 59, 59E, 479A, 981, 1034B, 1074, 1128 and 1130
- Exhibits 57A, 61, 79, 82, 85, 93 and 95
- Glossary
- Directories 3, 5, 7 and 9

TRAINING

A suite of training materials and reference documents are available to support the SAI requirements. To further that goal, we are offering webinar training to help ensure our Servicers understand the requirements announced in this Bulletin. Servicers are highly encouraged to enroll in our new webinar, *Freddie Mac's Standard Modification*, through Freddie Mac's Learning Center. Information is available at

http://www.freddiemac.com/ontrack/html/LearningCenter/ClassDescription.jsp?crsNum=SAI_FMSM

Servicers should continue to visit the Learning Center web page at <http://www.freddiemac.com/learn/service/> for additional Servicing training information resources.

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 and REO