

# Bulletin

Confidential Until Publication

TO: Freddie Mac Servicers

July 15, 2020 | 2020-29

## SUBJECT: SERVICING UPDATES

This Guide Bulletin announces:

- Updates to [insurance loss settlement](#) requirements
- Document Custody
  - [Original Security Instrument](#) requirement removal – **August 5, 2020**
  - Addition of [lost note affidavit \(LNA\)](#) provisions – **November 1, 2020**
  - Clarification on [insurance coverage](#) – **November 1, 2020**

### Additional Guide updates and reminders

- Further updates and reminders as described in the [Additional Guide updates and reminders](#) section of this Bulletin

## EFFECTIVE DATE

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

## INSURANCE LOSS SETTLEMENTS

Based on Servicer feedback, at the direction of the FHFA and in alignment with Fannie Mae, we are updating certain provisions of our insurance loss settlement requirements to expedite the disbursement of insurance proceeds and streamline the inspection process. With this update, Servicers are no longer required to:

- Disburse insurance proceeds via check made payable jointly to the Borrower and the contractor
- Validate that the contractor performing the repairs is licensed or bonded and insured. These updates apply to Mortgages that were current as well as delinquent at the time of loss.
- Perform a final inspection to validate completion of repairs when the Mortgage was current at the time of loss

Additionally, to facilitate Servicer oversight of property repairs and to help overcome scheduling conflicts that may delay the disbursement of proceeds, we are introducing new requirements authorizing the completion of remote loss-settlement inspections\* when the Mortgage was current at the time of loss, using borrower-submitted photos or video or servicer-directed video calls with the borrower. Such “remote inspections” may be employed by the Servicer, in lieu of physical inspections, to confirm the progress or completion of repairs at the property.

\*These remote inspection requirements do not extend to inspections required to confirm the status of the property after a disaster (Section 8404.2) or inspections triggered by the delinquency of the Mortgage (Section 9202.12).

	Current Requirements		New Requirements	
<b>Insurance Loss draft</b>	<b>Mortgages current or less than 31 days delinquent at the time of Loss</b>	<b>Mortgages 31 or more days delinquent at the time of Loss</b>	<b>Mortgages current or less than 31 days delinquent at the time of Loss</b>	<b>Mortgages 31 or more days delinquent at the time of Loss</b>
<b>Funds Payable</b>	<p>If the proceeds are less than or equal to \$40,000, the Servicer may release such proceeds directly to the Borrower.</p> <p>If the proceeds are greater than \$40,000, the Servicer must release such proceeds by check made payable jointly to the Borrower and contractor.</p>	All checks must be made payable jointly to the Borrower and a licensed contractor.	The servicer may issue insurance proceeds via check payable only to the Borrower.	
	If the Borrower advanced payments to the contractor, then the check may be made to the Borrower for such payments advanced provided the Servicer obtains documentation of the materials and services paid by the Borrower.			
<b>Licensed Contractor</b>	<p>For proceeds of \$40,000 or less, the Servicer must have policies and procedures to determine when a licensed contractor is required to repair or reconstruct the residence.</p> <p>For proceeds greater than \$40,000 The Servicer must ensure that a licensed contractor is used to repair or reconstruct the residence.</p>	The Servicer must ensure that a licensed contractor is used to repair or reconstruct the residence.	Servicer is no longer required to validate that the contractor is licensed or bonded and insured.	

	In the event that a State or jurisdiction does not require licensing of contractors, the Servicer may satisfy the requirement by ensuring the contractor is bonded and insured for an amount higher than the insurance proceeds.			
<b>Final Inspection</b>	<p>For proceeds of \$20,000 or less, a final inspection is not required.</p> <p>For proceeds greater than \$20,000 A final inspection is required to ensure all repairs are completed. If cosmetic/non-structural work items totaling less than \$5,000 are outstanding at the time of final inspection, the inspection can be considered final and the inspector must note any unfinished items with estimated completion dates.</p>	A final inspection is always required to ensure all repairs are completed.	Not required.	<p>A final inspection is always required to ensure all repairs are completed.</p> <p>No change.</p>
<b>Remote Inspections</b>	Not allowed under current requirements.	Not allowed under current requirements.	Permitted, provided the new requirements outlined in Section 8202.11 are met.	Not permitted.

Guide impact: [Section 8202.11](#)

## DOCUMENT CUSTODY

### Original Security Instrument requirements

**Effective August 5, 2020**

In response to Seller/Servicers feedback, we are updating Section 3302.2(b) to remove the requirement that, when a Security Instrument is stored as an Electronic document, the Servicer represents and warrants to, and covenants with, Freddie Mac that all Security Instruments that have been recorded have been delivered to the Document Custodian as original paper documents showing their recoring information.

Guide impact: Section 3302.2

## Lost Note Affidavits

### Effective November 1, 2020

We are updating the Guide to include policies related to lost note affidavits (LNAs) due in part to certain State case law that has made it difficult to enforce Notes represented by LNAs. This addition clarifies and makes explicit Servicers' responsibilities to:

- Obtain Freddie Mac's approval to submit an LNA to Freddie Mac as a replacement for an original Note and to transfer Servicing of a Mortgage represented by an LNA
- Create and deliver LNAs that meet Freddie Mac and State requirements
- Maintain records regarding LNAs in the Servicer's portfolio
- Inform Transferee Servicers and Document Custodians regarding Mortgages represented by LNAs
- Act in support of the LNAs they created when such support is required in State foreclosure actions or otherwise

Addition of these standards and procedures will strengthen foreclosure cases, support Transferee Servicers, and clearly establish Freddie Mac's expectations related to LNAs. The Guide change also sets forth Document Custodians' responsibilities relating to LNAs. Finally, the update clarifies certain Guide language.

Guide impacts: Sections 7101.4, 7101.6, 7101.9, 8107.1, 8107.2, Directory 9 and Glossary

## Insurance coverage

### Effective November 1, 2020

We are updating Sections 2202.2 and 2202.5 to clarify requirements for Document Custodians and Servicers covered under their parents' insurance programs. Section 2202.5 reiterates that Servicers are always responsible for physical Notes and incorporates reference to LNAs. It also requires a written agreement for Servicers relying on their Document Custodians to provide insurance coverage for our Notes while in-transit.

In addition, we have updated the titles of Section 2202.6 and subsections 2202.6(a) through 2202.6(c) to accurately reflect their contents.

Guide impacts: Sections 2202.2, 2202.5 and 2202.6

## ADDITIONAL GUIDE UPDATES AND REMINDERS

### REO taxing authority/HOA remitter's name change

We are updating our requirements to notify the tax authority and homeowner association when a property becomes an REO to clarify that the Servicer must notify the appropriate organizations to update the remitter's name to reflect our REO vendor, Radian Real Estate Management LLC, so that statements are sent to the appropriate location.

Guide impacts: Sections 8601.32 and 9603.10

## EDR reporting updates from previous Bulletins

### Reporting Mortgages impacted by COVID-19

We have converted default reason code 032 from "Contaminated Drywall" to "National Emergency Declaration", as announced in Bulletin 2020-7. Exhibit 82, *Electronic Default Reporting Transmission Code List* has been updated to reflect this change.

Guide Impact: Exhibit 82

### Current Mortgages

#### Effective October 1, 2020, but Servicers are encouraged to implement the changes immediately

In Bulletin 2020-25, we announced that Servicers are required to report all Mortgages that are approved for forbearance plans (including those that are not delinquent) via monthly EDR submissions.

We are clarifying that the Servicer must report the default reason code; default action code, and default action date in its EDR submission immediately following the date the Borrower was approved for a forbearance plan.

In the example provided in Bulletin 2020-25, where the Borrower who contacted his/her Servicer on June 24, 2020 and requested a forbearance plan beginning with his/her July 1, 2020 payment due to a COVID-19 related hardship, the Servicer would report the following in their July 2020 EDR reporting no later than the third Business Day of July 2020:

- Default reason code: 032 (National Emergency Declaration)
- Default action code: 09 (Forbearance)
- Default action date: 7/1/2020 (Due Date of the first payment due under the forbearance plan)

However, due to temporary system constraints, Servicers are currently unable to submit a future date when reporting the default action date. Therefore, if a Borrower has prepaid on future payments, or otherwise requests a forbearance plan with a future effective date that would begin later than the Servicers next EDR submission, the Servicer must delay reporting until the earlier of the month the forbearance plan begins (i.e. the expected first missed payment under the forbearance plan), or Freddie Mac's system updates have been completed on October 1, 2020. For example, if a Borrower contacts his/her Servicer on June 24, 2020 to request a forbearance plan beginning with his/her August 1, 2020 payment due to a COVID-19 related hardship, the Servicer would report the following in its August 2020 EDR reporting no later than the third Business Day of August 2020:

- Default reason code: 032 (National Emergency Declaration)
- Default action code: 09 (Forbearance)
- Default action date: 8/1/2020 (Due Date of the first payment due under the forbearance plan)

Freddie Mac will update its system by October 1, 2020 to remove this constraint. Beginning with October 2020 EDR submissions, which reflect September 2020 activity, Servicers must report all forbearance plans to Freddie Mac in the EDR submission immediately following the date the Borrower was approved for a forbearance plan.

Guide Impact: Section 9102.7

## GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, access the Bulletin 2020-29 (Servicing) Guide Updates Spreadsheet via the Download drop-down available at <https://guide.freddiemac.com/app/guide/bulletin/2020-29>.

## CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

Sincerely,



Bill Maguire  
Vice President, Servicing Portfolio Management