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**TO: Freddie Mac Servicers**

September 18, 2018 | 2018-14

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## **SUBJECT: SERVICING UPDATES**

This Guide Bulletin announces:

### **Borrower evaluation and solicitation**

- Updates to our [Borrower evaluation notices and solicitation letters](#) – **January 1, 2019**

### **Property inspections related to insurance loss settlements**

- A new temporary reimbursement process for property inspections related to [insurance loss settlements](#)

### **Investor Reporting Change Initiative**

- Updates to the [Servicer Success Scorecard](#) – **July 1, 2019**
- We will not settle [mortgage modifications](#) on the first Business Day of the month – **May 1, 2019**

### **Reporting third-party foreclosure sale redemptions**

- Updates to our reporting requirements for [third-party foreclosure sale redemptions](#) – **December 1, 2018**

### **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.

## **BORROWER EVALUATION NOTICES AND SOLICITATION LETTERS**

**Servicers are encouraged to begin using the revised evaluation notices and solicitation letters immediately, but must implement these updates by January 1, 2019.**

At the direction of the FHFA, under the Servicing Alignment Initiative and jointly with Fannie Mae, we are announcing revisions to our evaluation notices in Guide Exhibit 93 as well as our Borrower solicitation letters in Exhibits 1145, 1191, 1191A and 1191B. In response to industry feedback and to promote a better Borrower experience, we are improving the solicitation and evaluation processes by:

- Reducing the content for ease of Borrower consumption
  - Simplifying and clarifying content and titles
  - Reformatting for improved Borrower readability and understanding
  - Removing redundancies and ambiguity
  - Consolidating:
    - Evaluation notices related to the same workout option (i.e., forbearance plans and modifications)
    - Non-approval evaluation notices
  - Adding housing counseling resources for Borrowers and information on how Borrowers can avoid foreclosure, including help for military servicemembers
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- Retiring the Home Affordable Modification Program<sup>SM</sup> (HAMP<sup>®</sup>) evaluation notices

As a reminder, use of the evaluation notices and solicitation letters is optional; however, they illustrate the level of specificity that is deemed to be in compliance with the requirements of Guide Section 9201.2. The evaluation notices and solicitation letters may be altered in the Servicer’s discretion as it deems necessary to meet the requirements of Guide Chapters 9203, 9206, 9208 and 9209, and to comply with disclosure and other requirements under applicable federal, State or local law.

Guide impacts: Sections 8404.6, 9101.2, 9101.3, 9102.4, 9102.5, 9203.5, 9203.9, 9203.12, 9206.11, Exhibits 93, 1145, 1191, 1191A and 1191B

## PROPERTY INSPECTIONS RELATED TO INSURANCE LOSS SETTLEMENTS

### Effective for all property inspections related to insurance loss settlements conducted on and after September 1, 2018

In Bulletin 2017-21, we announced a temporary process that Freddie Mac uses to reimburse Servicers for property inspections related to insurance loss settlements in Eligible Disaster Areas.

We are announcing a new [temporary process](#) (see below) that Freddie Mac will use to reimburse Servicers for expenses incurred for any property inspection related to insurance loss settlements (“Insurance-Related Property Inspection”) as required in Section 8202.11, including those in Eligible Disaster Areas.

With this change:

- Servicers must discontinue using the temporary reimbursement process announced in Bulletin 2017-21 for inspections ordered in accordance with Section 8202.11. The process announced in Bulletin 2017-21 must only be utilized for disaster-related exterior property inspections completed in accordance with Section 8404.2.
- We will reimburse Servicers for actual expenses incurred not to exceed \$40 per required property inspection, including those in Eligible Disaster Areas and regardless of whether the property inspection is internal or external. Servicers may request reimbursement of expenses incurred for Insurance-Related Property Inspections above \$40, but must provide documentation as to the reason for the additional expense.
- We will reimburse Servicers for expenses incurred for Insurance-Related Property Inspections completed on both current and delinquent Mortgages. For delinquent Mortgages, Servicers should use the new [temporary process](#) for reimbursement requests for expenses incurred for Insurance-Related Property Inspections in lieu of the Expense Reimbursement system’s request for pre-approval (RPA) functionality.

### Required Insurance-Related Property Inspections

In accordance with Section 8202.11, a Servicer is only required to complete an Insurance-Related Property Inspection under the following scenarios:

| Mortgaged Premises <u>not located</u> in an Eligible Disaster Area |                                                                    |                                                                   |
|--------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------|
| If...                                                              | ...And the Mortgage is current...                                  | ...And the Mortgage is delinquent...                              |
| <b>Total insurance proceeds are less than or equal to \$10,000</b> | The Servicer does not need to complete a final property inspection | The Servicer must complete at least one final property inspection |

| <b>Mortgaged Premises <u>not located</u> in an Eligible Disaster Area</b>                    |                                                                                                                                                                                          |                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>If...</b>                                                                                 | <b>...And the Mortgage is current...</b>                                                                                                                                                 | <b>...And the Mortgage is delinquent...</b>                                                                                                                                              |
| <b>Total insurance proceeds are greater than \$10,000 but less than or equal to \$40,000</b> | The Servicer must complete one final property inspection                                                                                                                                 | The Servicer must complete at least one final inspection + additional inspections each time additional funds are disbursed beyond the initial insurance loss draft distribution          |
| <b>Total insurance proceeds are greater than \$40,000</b>                                    | The Servicer must complete at least one final property inspection + additional inspections each time additional funds are disbursed beyond the initial insurance loss draft distribution | The Servicer must complete at least one final property inspection + additional inspections each time additional funds are disbursed beyond the initial insurance loss draft distribution |

| <b>Mortgaged Premises <u>located</u> in an Eligible Disaster Area</b>                        |                                                                                                                                                                                          |                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>If...</b>                                                                                 | <b>...And the Mortgage is current...</b>                                                                                                                                                 | <b>...And the Mortgage is delinquent...</b>                                                                                                                                              |
| <b>Total insurance proceeds are less than or equal to \$20,000</b>                           | The Servicer does not need to complete a final property inspection                                                                                                                       | The Servicer must complete at least one final property inspection                                                                                                                        |
| <b>Total insurance proceeds are greater than \$20,000 but less than or equal to \$40,000</b> | The Servicer must complete one final property inspection                                                                                                                                 | The Servicer must complete at least one final property inspection + additional inspections each time additional funds are disbursed beyond the initial insurance loss draft distribution |
| <b>Total insurance proceeds are greater than \$40,000</b>                                    | The Servicer must complete at least one final property inspection + additional inspections each time additional funds are disbursed beyond the initial insurance loss draft distribution | The Servicer must complete at least one final property inspection + additional inspections each time additional funds are disbursed beyond the initial insurance loss draft distribution |

### **New temporary reimbursement process**

The new temporary process for reimbursement of expenses incurred for required Insurance-Related Property Inspections is as follows:

Servicers may temporarily submit reimbursement requests for expenses incurred for Insurance-Related Property Inspections once per month via an Excel® spreadsheet to [NPL\\_Invoices@freddiemac.com](mailto:NPL_Invoices@freddiemac.com). The e-mail subject line should reference "Insurance-Related Property Inspection expense reimbursement request," and the spreadsheet must include the following information for all Mortgages that the Servicer is seeking property inspection expense reimbursement for that month:

- Freddie Mac loan number
- Seller/Servicer payee code

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- Expense code 404007 (Interior Property Inspection)
  - Amount of Total Insurance Proceeds
  - Reimbursement request amount
  - Property inspection expense date paid
  - Vendor name

If a Servicer is unsure of its Seller/Servicer Payee code, it may request that code by sending an e-mail to [104\\_Expense@freddiemac.com](mailto:104_Expense@freddiemac.com).

## INVESTOR REPORTING CHANGE INITIATIVE

### Servicer Success Scorecard

#### Effective July 1, 2019

In previous Bulletins, we announced the Investor Reporting Change Initiative (“Initiative”) will convert our Single-Family investor reporting requirements to be closer to an industry standard and update our remittance cycles. Through the Initiative, Servicers will be encouraged, but not required, to report daily and Freddie Mac will draft principal and interest as well as payoff proceeds, via Automated Clearing House (ACH) transactions, directly from a Servicer’s designated Custodial Account.

With the implementation of the Initiative in May 2019, we will rename one of the existing metrics in the “Investor Reporting” section of the Servicer Success Scorecard and add a new metric. These changes will become effective on July 1, 2019 with the results and impacts reflected on the Servicer’s July 2019 scorecard, which will be published at the end of August 2019.

The “Investor Reporting” section of the Servicer Success scorecard will be suppressed on the June 2019 and July 2019 scorecards, which reflect the Servicer’s May 2019 and June 2019 performance, respectively.

Refer to Sections 3501.2 and 8301.3 and the [Servicing Success Program](#) web page for additional information about the Servicer Success Scorecard.

#### ***“Loan Level Reporting Compliance” metric***

Although we believe the introduction of daily reporting will streamline investor reporting and increase operational efficiencies, we must have full reporting prior to drafting principal and interest due to Freddie Mac each month. To this end, we are introducing the “Loan Level Reporting Compliance” metric to the Servicer Success Scorecard.

This pass/fail metric will measure the number of loans not reported as of the last loan level reporting on the P&I Determination Date divided by the number of total loans serviced. Any loans with outstanding edits will be excluded.

The Servicer will receive a PASS or FAIL on this metric based on the following:

- Rank group 1 ( $\geq 100,000$  loans serviced): less than 1% not reported, then **PASS**; equal to or greater than 1% not reported, then **FAIL**
- Rank group 2 (20,000-99,999 loans serviced): less than 2% not reported, then **PASS**; equal to or greater than 2% not reported, then **FAIL**
- Rank group 3 (10,000-19,999 loans serviced): less than 3% not reported, then **PASS**; equal to or greater than 3% not reported, then **FAIL**
- Rank group 4 ( $\leq 10,000$  loans serviced): less than 4% not reported, then **PASS**; equal to or greater than 4% not reported, then **FAIL**

#### ***“Cash Deficiency” metric***

Beginning in June 2019, Freddie Mac will draft monthly principal and interest payments and payoff proceeds directly from the Servicer’s designated Custodial Account on the P&I Draft Date or Payoff Draft Date. In

recognition of the transition from Servicers remitting funds to Freddie Mac drafting, we are renaming the “Cash Shortage” metric as “Cash Deficiency.” Servicers should be mindful that notwithstanding the Cash Shortage metric on the Servicer Success Scorecard, they are still subject to the Draft Delay compensatory fee described in Section 8303.42 when they fail to have sufficient funds available for Freddie Mac to draft on the P&I Draft Date or the Payoff Draft Date.

The pass/fail rules for the renamed metric are not changing. The pass/fail metric will measure the worst failed draft event in the current month as follows:

- If an attempted draft fails due to insufficient funds for more than two consecutive Business Days AND the draft amount is > \$2,500, then **FAIL**
- If an attempted draft fails due to insufficient funds for more than two consecutive Business Days AND the draft amount is ≤ \$2,500, then **PASS**
- If an attempted draft fails due to insufficient funds for less than two consecutive Business Days, regardless of the draft amount, then **PASS**

This table summarizes the Investor Reporting metrics that will be included in the Servicer Success Scorecard after the Initiative is implemented:

| Current Metrics                          | Future Metrics                           | Changes                                                                                                                                            |
|------------------------------------------|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Cash Shortage                            | Cash Deficiency                          | <ul style="list-style-type: none"> <li>• Renamed to reflect the change from remittance to draft</li> <li>• No change to pass/fail rules</li> </ul> |
| Average Number of Days to Report Payoffs | Average Number of Days to Report Payoffs | No change                                                                                                                                          |
| Aged Edits Past 30+ Days                 | Aged Edits Past 30+ Days                 | Exclude loan modifications with loan level reporting edits that settled in the current Accounting Cycle                                            |
|                                          | Loan Level Reporting Compliance          | New metric introduced                                                                                                                              |

#### **Additional resources**

Prior to implementation of the Initiative, the [Freddie Mac Servicing Success Program Reference Guide](#) will be updated to reflect these changes as well as other minor changes to other Investor Reporting Metrics due to the Initiative.

#### **Daily processing and settlement of mortgage modifications**

##### **Effective May 1, 2019**

When the Initiative is implemented, Freddie Mac will process and settle mortgage modifications daily, except on the first Business Day of each month. We are updating the Guide to reflect this exception. However, Servicers will still have the ability to report daily, including on the first Business Day of the month.

Guide impact: Section 9206.18

#### **REPORTING THIRD-PARTY FORECLOSURE SALE REDEMPTIONS**

##### **Effective December 1, 2018**

As result of the automation of settlement for third-party foreclosure sale transactions via Workout Prospector®, we are removing the requirement that Servicers report a third-party foreclosure sale redemption transaction via

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Guide Form 105. The Servicer will no longer be required to report these transactions to Freddie Mac and the following mailboxes will be retired:

- [NPL\\_Third\\_Party\\_Sales@freddiemac.com](mailto:NPL_Third_Party_Sales@freddiemac.com)
- [NPL\\_File\\_Management@freddiemac.com](mailto:NPL_File_Management@freddiemac.com)

Guide impacts: Section 9301.42 and Directory 5

## **ADDITIONAL GUIDE UPDATES AND REMINDERS**

### **Form 479A, *Single-Family Servicing Agent Certification and Agreement***

With the increase in market adoption of eMortgages, they will become a larger portion of a Servicer's portfolio. Therefore, we are updating Form 479A to incorporate references to eMortgages and the eMortgage Guide.

We are additionally:

- Changing the title of Form 479A to add "Agreement" to emphasize that a Master Servicer and its certified Servicing Agent are agreeing to various terms and conditions set forth in the form
- Updating the language governing the agreement's expiration date

Guide impacts: Sections 2404.7, 7101.2, 8102.1, 8102.2 and Form 479A

### **Instructions for payment of fees from insurance loss proceeds to public adjusters or other third parties**

To align our requirements with uniform security instruments, we are updating the Guide to expressly prohibit payment of fees out of the insurance loss proceeds to any public adjuster or other third party retained by the Borrower to assist with the recovery of those proceeds, unless agreed to by Freddie Mac in writing.

Guide impact: Section 8202.11

### **Condominium Project insurance updates from Bulletin 2018-13**

We are notifying Servicers of the following Condominium Project insurance changes announced in Bulletin 2018-13. Servicers may apply these changes to all Mortgages that they currently service for Freddie Mac, including those purchased prior to the effective date of Bulletin 2018-13.

#### ***Property, flood, liability or employee dishonesty insurance***

In response to Seller/Servicer inquiries, we have updated our requirements for property, flood, liability and fidelity or employee dishonesty insurance in Sections 8202.2, 8202.3, 8202.5 and 8202.6 to:

- Allow a Condominium Unit, including a Condominium Unit in a 2- to 4-unit Condominium Project, to be insured through an individual property insurance policy, in lieu of the condominium homeowners association (HOA) policy, if the condominium governing documents require. Common elements must be covered through the condominium HOA policy.
- Allow a Condominium Unit in a 2- to 4-unit Condominium Project to be insured through an individual policy, in lieu of the condominium HOA policy, for flood insurance, if the condominium governing documents require
- Waive the liability insurance requirements for:
  - Condominium Projects reviewed under the streamlined project review type
  - Detached Condominium Unit Mortgages reviewed under the Detached Condominium Project review type
  - Freddie Mac-owned "no cash-out" refinance Condominium Unit Mortgages meeting the requirements of Section 5701.2(c)

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- 2- to 4-Unit Condominium Projects that meet certain requirements
  - Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Same Servicer, Freddie Mac Relief Refinance Mortgages<sup>SM</sup> – Open Access and Freddie Mac Enhanced Relief Refinance<sup>®</sup> Mortgages
  - Waive the fidelity or employee dishonesty insurance requirements for:
    - Condominium Projects reviewed under the streamlined project review type
    - Detached Condominium Unit Mortgages reviewed under the Detached Condominium Project review type
    - Freddie Mac-owned “no cash-out” refinance Condominium Unit Mortgages meeting the requirements of Section 5701.2(c)
    - Freddie Mac Relief Refinance Mortgages – Same Servicer, Freddie Mac Relief Refinance Mortgages – Open Access and Freddie Mac Enhanced Relief Refinance Mortgages

### ***Increased deductible for Condominium Projects***

Previously, the condominium homeowners association’s policy deductible for damage due to fire, water (not caused by flooding) or wind could not exceed 5% of the limit maintained for building coverage. We have updated Section 8202.2 to allow Condominium Projects to have a higher deductible if it exceeds 5% due to a per unit deductible for named perils specific to a geographic area provided that the unit owner’s HO-6 policy meets certain requirements.

## **GUIDE UPDATES SPREADSHEET**

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, refer to the Bulletin 2018-14 (Servicing) Guide Updates Spreadsheet available at [http://www.freddiemac.com/singlefamily/guide/docs/bl1814\\_spreadsheet.xls](http://www.freddiemac.com/singlefamily/guide/docs/bl1814_spreadsheet.xls).

## **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,



Yvette W. Gilmore  
Vice President  
Servicer Relationship and Performance Management