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**TO: Freddie Mac Servicers**

December 12, 2018 | 2018-26

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## **SUBJECT: SERVICING UPDATES**

This Guide Bulletin announces:

### **State foreclosure timelines and compensatory fees**

- Updated [State foreclosure timelines](#) for all States – **January 1, 2019**
- Changes to our State foreclosure timeline [compensatory fees](#) – **January 1, 2019**

### **Servicer Success Scorecard**

- Updates to the [Servicer Success Scorecard](#) – **January 1, 2019**

### **Mortgage Servicing Contract Rights**

- Updates to the Guide to provide detail on the requirements for obtaining financing using Freddie Mac mortgage [Servicing Contract Rights](#) as collateral (“Conveyance”)

### **Changes that impact Servicers from Bulletin 2018-24, including:**

- Revised requirements for [unaffiliated projects](#) with a master insurance policy
- Updates to our [Document Custodian](#) requirements – **January 1, 2019**
- Revisions to [Guide Form 1077, Uniform Underwriting and Transmittal Summary](#)
- A reminder on the availability of [Freddie Mac Access Manager](#) to authorized Seller/Servicers using certain Freddie Mac Systems (as defined in Guide Section 2401.1)

### **Additional Guide updates**

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

## **EFFECTIVE DATE**

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

## **STATE FORECLOSURE TIMELINES AND COMPENSATORY FEES**

### **State foreclosure timelines**

#### **Effective for all foreclosure sales completed on or after January 1, 2019**

At the direction of the FHFA, Freddie Mac and Fannie Mae are updating our State foreclosure timeline requirements to provide that all Mortgages that a Servicer services in a State for Freddie Mac will be subject to **only one** foreclosure timeline for that State. This applies to Mortgages already in foreclosure, where the foreclosure sale is held on or after January 1, 2019 as well as new foreclosure referrals. We are also revising the State foreclosure timelines in many States.

Servicers should review Guide Exhibit 83 in its entirety for the revised requirements.

Guide impact: Exhibit 83

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## Compensatory fees

### Effective for all foreclosure timeline compensatory fees assessed on foreclosure sales completed on or after January 1, 2019

To achieve a proper balance between Freddie Mac's credit loss and Servicer performance management techniques and a Servicer's financial and operational obligations, Freddie Mac is making significant changes to the way State foreclosure timeline compensatory fees are calculated, assessed, and, when applicable, billed.

#### What is not changing:

- Freddie Mac will continue to calculate loan level compensatory fees using the formula described in Exhibit 83A as shown below:

#### Loan Level Compensatory Fee Calculation

$$\left[ \left( \frac{\text{actual overall State foreclosure time line}}{\text{foreclosure time line}} \right) - \left( \frac{\text{State foreclosure time line standard}}{\text{foreclosure time line standard}} \right) - (\text{allowable delays}) \right] \times (\text{Per Diem})$$

#### Per Diem Calculation

$$\left[ \frac{(\text{Unpaid Principal Balance (UPB)} \times \text{ANY}^*)}{365 \text{ days}} \right]$$

\* ANY used in the calculation above is the Accounting Net Yield (ANY) in effect on the day of the foreclosure sale.

- To account for certain unavoidable delays in the foreclosure process, the allowable delays in Section 9301.46 and Exhibit 83A, which provide the Servicer additional time to complete the foreclosure process, will remain in place and unchanged
- Certain Mortgages (i.e., FHA, VA and RHS Mortgages, and Mortgages sold to Freddie Mac with recourse and repurchased prior to the assessment of State foreclosure timeline compensatory fees) remain excluded from State foreclosure timeline compensatory fee calculations

#### What is changing:

- Freddie Mac will no longer aggregate a Servicer's performance for determining State foreclosure timeline compensatory fees on an intra-state basis each month. **Instead, beginning with foreclosure sales on or after January 1, 2019, Freddie Mac will aggregate a Servicer's performance on a national/portfolio basis each calendar year (i.e., the performance of all Mortgages subject to foreclosure timeline compensatory fees for which a Servicer completes a foreclosure sale in a calendar year will be aggregated).**
- After a Servicer's performance is aggregated and a compensatory fee exposure balance is calculated, Freddie Mac will utilize the following steps to determine whether such balance will be billed to the Servicer:
  - **Step 1:** Freddie Mac will automatically waive a Servicer's potential State foreclosure timeline compensatory fees if its exposure amount is \$300,000 or less for that calendar year. (Note: \$300,000 equals the current monthly *de minimis* threshold of \$25,000 x 12 months.)
  - **Step 2:** For those Servicers who did not receive a waiver under Step 1, Freddie Mac will calculate the Servicer's overall Servicer Success Scorecard ranking for that calendar year against the respective rank group the Servicer belongs to on December 31 of that calendar year. If a Servicer's overall ranking for that year is in the top 75% of its rank group on December 31 (i.e., not in the bottom 25% of that rank group), its State foreclosure timeline compensatory fees will automatically be waived.

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Note: This step does not apply to a Servicer where an overall ranking is not provided, whether because no Servicers in that Servicer's rank group are provided an overall ranking (i.e., Group 4 Servicers) or the individual Servicer did not receive an overall ranking within its rank group. For more information, see rank groups and metric weighting under [Servicer Success Scorecard](#) below.

- **Step 3:** If a Servicer remains subject to the assessment of State foreclosure timeline compensatory fees after steps 1 and 2, the Servicer may be placed into an action plan. If the Servicer is placed into an action plan, the assessment of its compensatory fee exposure balance will be suspended until we determine whether the Servicer met the terms of the plan. If we determine that a Servicer complied with the required terms of the plan, its State foreclosure timeline compensatory fee assessment will be waived automatically. If the Servicer is not eligible for an action plan, the Servicer will be assessed its compensatory fee exposure balance.
- **Step 4:** If a Servicer still remains subject to the assessment of State foreclosure timeline compensatory fees after steps 1 through 3, the Servicer will be assessed its compensatory fee exposure balance if not previously assessed. The Servicer will have 90 days to submit any loan-level appeals in accordance with Section 9301.47(c). If after the appeals process is completed a Servicer continues to have a compensatory fee exposure balance of greater than \$300,000, then the Servicer will be billed for such fees in accordance with Section 9301.47(d).

Guide impacts: Section 9301.47, Exhibits 83A and 96

## SERVICER SUCCESS SCORECARD

### Effective January 1, 2019

In continuing to review Servicer performance and market conditions, we are making the following changes in the Servicer Success Scorecard:

- Revising how Servicers are segmented into rank groups, and introducing an annual ranking, as applicable
- Amending weights for the default management metrics

Unless otherwise noted, these changes will become effective on January 1, 2019 with the results and impacts reflected on the Servicer's January 2019 scorecard, which will be published at the end of February 2019.

For additional information about the Servicer Success Scorecard, refer to Sections 3501.2 and 8301.3 and the [Servicer Success Program](#) web page.

### Rank groups

The portfolio composition parameters chosen by Freddie Mac to determine rank groups are being amended. Effective January 1, 2019, the four different rank groups (Groups 1 through 4), based on the total number of Mortgages serviced for Freddie Mac, will include:

- Group 1: Servicers Servicing 200,000 or more Freddie Mac Mortgages
- Group 2: Servicers Servicing between 75,000 and 199,999 Freddie Mac Mortgages
- Group 3: Servicers Servicing between 20,000 and 74,999 Freddie Mac Mortgages
- Group 4: Servicers Servicing less than 20,000 Freddie Mac Mortgages

While Servicers in Group 4 will see their actual performance and the performance of their synthetic portfolios, as applicable, they will not receive rankings for each default management metric nor an overall ranking within their rank group.

Note: These new rank group compositions will also apply to the "Loan Level Reporting Compliance" investor reporting metric, announced in Bulletin 2018-14 and effective on July 1, 2019, which identifies a Servicer's applicable rank group based on the total number of Mortgages serviced for Freddie Mac.

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## **Annual ranking**

For a Servicer in either Group 1, 2 or 3, where an overall ranking can be determined (as described in more detail below), in addition to receiving an overall monthly ranking within its rank group, such Servicer will receive an overall ranking within its rank group for that calendar year. A Servicer's annual ranking will be calculated and updated on a monthly basis, as applicable, until finalized with December's performance for such calendar year.

While Freddie Mac will begin calculating annual rankings on January 1, 2019, annual rankings will not be reflected on the Servicer Success Scorecard until further notice. We will announce when annual rankings will be reflected on the Servicer Success Scorecard in a future Bulletin.

## **Metric weighting**

Previously, all the default management metrics required for an overall ranking were equally weighted. Effective January 1, 2019, such default management metrics will be weighted as follows:

- Group 1: Transition from 30 to 60+ (40%), Cure Efficiency (20%), Retention Efficiency (20%), Liquidation Efficiency (5%), 6-Month Modification Performance (5%) and Total Timeline Trend (10%)
- Groups 2 and 3: Transition from 30 to 60+ (40%), Cure Efficiency (30%) and Retention Efficiency (30%)

As a reminder, in the event the ranking cannot be determined for any of the above metrics, a Servicer will not receive an overall ranking within its rank group. Specifically, for a Servicer to receive an overall ranking within its rank group, all of the above default management metrics must have a ranking that can be determined.

## **MORTGAGE SERVICING CONTRACT RIGHTS**

We are updating the Guide to provide greater detail on the requirements, obligations and the processes a Servicer must follow to obtain Freddie Mac consent to use its Freddie Mac Servicing Contract Rights as collateral for a financing (i.e., a "Conveyance" as defined in new Exhibit 33). Servicers may request that Freddie Mac consent to a Conveyance by sending an e-mail to [MSRFinancingRequest@freddiemac.com](mailto:MSRFinancingRequest@freddiemac.com) containing the purpose of the Conveyance and all other information as required under Section 1101.2(c).

If the Conveyance is approved, Freddie Mac will deliver its written approval as an Acknowledgment Agreement (as defined in Exhibit 33). Each transaction will have its own Acknowledgment Agreement drafted according to the terms of the specific Conveyance. All Acknowledgment Agreements will incorporate the provisions of Section 1101.2(c)(iii) and Exhibit 33.

We are also updating the Guide to include requirements for collateral securing a Conveyance. Collateral securing any Conveyance must not include:

- Servicing advance reimbursement rights
- Borrower payments of principal, interest, or Escrow Funds
- The right to perform Servicing
- The right to designate who may perform the Servicing
- The right to terminate the Servicer or the Servicing Contract, nor
- The right to transfer any of the Collateral.

Further, no Financing (as defined in Exhibit 33) transaction shall be construed as a division of the Servicing Contract Rights.

A Servicer's grant of a security interest to a lender in the Servicing Contract Rights may be made only for allowable purposes as described in Exhibit 33. If a Servicer fails to obtain Freddie Mac's prior written consent for a Conveyance, that Conveyance is null and void.

Section 1101.2(c) and Exhibit 33 include a number of newly defined terms and use the Guide Glossary terms for "Servicing Contract" and "Servicing Contract Rights" that were first introduced in Bulletin 2018-6 and used in Guide Chapter 7101. Other sections of the Guide will be updated in the future to conform to these terms.

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Guide impacts: Section 1101.2, Exhibit 33 and Directory 1

## **CHANGES THAT IMPACT SERVICERS FROM BULLETIN 2018-24**

### **Unaffiliated projects master insurance policy**

Currently, a Mortgage is not eligible for sale to Freddie Mac if it is secured by a Condominium Unit in a Condominium Project or by a unit in a Planned Unit Development (PUD) with a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated Condominium Projects or PUDs.

In response to Seller/Servicer feedback, we are expanding our insurance requirements to accept a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated Condominium Projects and PUDs. Each covered project must have a dedicated policy limit and a specific dedicated deductible that meets certain requirements. Additionally, the policy must clearly state that each association is a named insured. Other requirements also must be met, including that the insurance policy complies with all requirements of the Guide and other Purchase Documents applicable to master or blanket insurance policies covering affiliated PUDs and Condominium Projects.

We have updated Section 8202.2 to reflect this change.

### **Document Custodian requirements**

#### **Effective January 1, 2019**

Freddie Mac permits Seller/Servicers to enter into Tri-Party Agreements with up to **two** Document Custodians per Seller/Servicer number, provided at least one of them is a Designated Custodian.

To provide flexibility, we will allow Seller/Servicers to enter into Tri-Party Agreements with up to **five** Document Custodians per Seller/Servicer number, and are removing the requirement that one be a Designated Custodian.

We have updated Section 2202.1 to reflect this change.

### **Form 1077, Uniform Underwriting and Transmittal Summary**

Freddie Mac and Fannie Mae have completed a joint review of the Uniform Underwriting and Transmittal Summary (Form 1077/1008). As a result, we have revised the form, including the removal of:

- The contact signature field
- Outdated information

When using Form 1077 to determine the eligibility for assumptions with a release of liability, Transfers of Ownership, as applicable, and workout Mortgage assumptions, Servicers must use the revised form to document the creditworthiness of the transferee.

We have updated Form 1077 to reflect these changes.

### **Freddie Mac Access Manager reminder**

In Bulletin 2018-8, we updated the Guide in preparation for the availability of Freddie Mac Access Manager. This automated and delegated administration tool allows authorized Seller/Servicers and certain Related Third Parties to create, manage and provision their user registration and access to Systems (as defined in Section 2401.1). Key benefits of Access Manager include:

- Grant fast access to Freddie Mac tools
- Control access by putting provisioning power in the Seller/Servicer's hands
- Submit information electronically, which saves time
- Eliminate most manual forms
- Reduce processing time

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- Get on-demand reporting, which improves transparency of real-time data
  - Lower risk with ability to occasionally recertify Seller/Servicer's user base to facilitate approved usage and role assignments

As announced in our [December 3, 2018 Single-Family News Center article](#), Access Manager is available to authorized Seller/Servicers using certain Freddie Mac Systems listed on our [Access Manager web page](#).

For more information, including how to register and become authorized to use Access Manager, please visit the Access Manager web page at <http://www.freddiemac.com/singlefamily/accessmanager>.

## **ADDITIONAL GUIDE UPDATES**

### **Form 1205, *Post-Settlement Correction Requests***

We are updating the definitions and modifications tabs of Form 1205 to reflect current operational requirements and delete items that are no longer applicable.

Guide impact: Form 1205

### **Property preservation**

We are allowing Servicers to maintain and execute winterization and yard maintenance without the restriction of the seasonal time frames.

The Freddie Mac Reimbursement System has been updated to reflect this change.

Guide impact: Exhibit 57

### **Servicer execution of documents**

#### **Effective November 14, 2018**

We are updating Sections 9301.9 and 9301.12 to reflect the changes announced in Bulletin 2018-22 that increase Servicer authority to execute documents when Mortgages are assigned to Freddie Mac.

Guide impacts: Sections 9301.9 and 9301.12

## **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 2018-26 (Servicing) Guide Updates Spreadsheet available at [http://www.freddiemac.com/singlefamily/guide/docs/bll1826\\_spreadsheet.xls](http://www.freddiemac.com/singlefamily/guide/docs/bll1826_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