

# Bulletin

NUMBER: 99-6

TO: All Freddie Mac Sellers and Servicers

July 15, 1999

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## SUBJECTS AND EFFECTIVE DATES

This bulletin announces the following changes and improvements to our Servicing processes and requirements effective as shown below.

Effective Dates	Subjects
July 15, 1999	<ul style="list-style-type: none"><li>■ Additional option for types of Custodial Accounts</li><li>■ Updates regarding various requirements</li><li>■ Submission of a request for reimbursement via online Form 104SF</li></ul>
April 1, 2000	Payment of fees and penalties using Automated Clearing House (ACH) drafts
July 1, 2000	Servicing eligibility based on Servicer performance tier ratings

## WHY WE'RE MAKING THESE CHANGES AND HOW THEY AFFECT YOU

### Additional option for types of Custodial Accounts

Some of you have requested our approval to use accounts other than the Demand Deposit Account as defined in the *Single-Family Seller/Servicer Guide (Guide)* for our Custodial Accounts. Therefore, we are making additions to the types of Custodial Accounts that you may open on our behalf.

Effective with the publication of this bulletin, you may deposit Principal and Interest, Escrow and buydown funds into Interest-Bearing Deposit Accounts, such as money market deposit accounts or savings accounts, as our Custodial Accounts. These accounts must comply with our amended requirements in Section 77.8. You must not deposit or invest our Custodial Account funds into money market mutual funds.

### **Updates regarding various requirements**

#### **Additional criterion for Servicing eligibility on certain products**

When we established our Servicing Tier levels of performance for default management, we recognized that those of you servicing relatively small portfolios for us may not have the same levels of Mortgages 90 or more days delinquent as those servicing larger portfolios. Therefore, for those servicing from 1-25 Mortgages that were 90 or more days delinquent, we gave you a Tier rating of "V". If no Mortgages in your portfolio were 90 days or more delinquent, we gave you a Tier rating of "X".

Since we first established the Servicer performance measurements, we have refined our ability to measure the impacts of delinquency on your performance. Therefore, we are amending our definition of Servicing eligibility for certain products to provide that, in certain circumstances based on our review of your delinquency ratios, we may determine that some of you with a Tier rating of V or X as not being eligible to service certain products, such as, but not limited to, Affordable Gold® 97, Texas first-lien cash-out.

**Removal of a requirement in the closing, reporting and remittance requirements for a short payoff**

We currently require you to send us a copy of the sales contract after the closing on a short payoff. We have determined that this is no longer necessary unless the terms of the contract have changed since you submitted them for approval. We have amended the requirements listed in Section 65.41 to state that you must send us a copy of any addenda to the sales contract executed after our approval of the short payoff.

**Update to our requirements for reporting foreclosure sales results to us**

We are updating Section 66.56 to specify that you must follow up on the motion for relief of stay that you must file to validate the foreclosure sale. You must then report to us via Form 105, Multipurpose Loan Servicing Transmittal, within 5 calendar days of the date the judge signs the order validating the foreclosure sale and enters it on the court docket.

**Changes to our policy for partial reinstatement of Mortgages in foreclosure and the addition of Servicer compensation for partial reinstatements**

We have updated our requirements in Section A65.9 to encourage partial reinstatements for a Borrower whose Mortgage is in foreclosure. Changes include a reduction from 50% of the payments due, to at a minimum, the first payment due under the plan. If the Mortgage did not previously have an Escrow account, you must establish one, but then may extend the repayment period up to 18 months. Finally, you must not refuse to accept either a full or partial reinstatement if the Borrower offers to pay all amounts due except for inspection fees, and as previously established, the costs of broker's price opinion and accrued late charges.

We have added a Servicer compensation amount of \$250 for each partial reinstatement from foreclosure when the Borrower has complied with the revised requirements of Section A65.9 and adheres to the plan for a minimum of 4 months after the first payment under the plan, if not brought current sooner. In addition, the Mortgage must have been at least 150 days delinquent at the time you accepted the partial reinstatement.

**Update to Exhibit 74**

In Bulletin 99-2, dated March 31, 1999, we informed you of our change in policy to reimburse you for the first tax penalty on delinquent taxes for a nonescrowed Mortgage. As specified in that bulletin, we are updating Exhibit 74, Expense and Income Codes for Form 104SF in this bulletin. We are adding Expense Code 074005 for this purpose.

**Submission of a request for reimbursement via on-line Form 104SF**

In an effort to improve processes and control costs for you and us, we developed an on-line submission capability for you to request reimbursement of expenses. This paperless submission, which we are calling the on-line Form 104SF, is available via a daily transmission process in GoldWorks®. There is no special fee or licensing requirement for the on-line submission of your request for reimbursement of expenses.

Effective July 15, 1999, you may access the on-line Form 104SF via Gold Connection® for Servicing on GoldWorks. The processing interface is a result of our business relationship with First American Real Estate Services as identified on the display screen for the on-line Form 104SF submission. The information you must enter for the on-line Form 104SF is the same as for the paper Form 104SF, Statement of Loan, Workout and REO Expenses and Income. A downloadable user's guide will be available from an on-line interface to assist you with the completion and transmission of your on-line request for reimbursement.

Use of the on-line Form 104SF is optional. You may still submit the paper Form 104SF to us via our established process as you do today. Even if you use the on-line submission process, you must continue to use the paper Form 104SF for credit transactions and for resolving any discrepancies on a Form 104SF or on-line Form 104SF you previously submitted. To request reimbursement of designated counsel/trustee fees, you must use Form 104DC, Designated Counsel/Trustee.

Due to the nature of the paperless, on-line submission of your request for reimbursement, we will not generally require you to submit substantiating documentation for the expenses for which you are requesting reimbursement. We may, however, request supporting documentation for specific expenses that we cannot readily process through our expense reimbursement system. In order to avoid any delay in the payment of your on-line Form 104SF, you must fax us a copy of any requested documentation within 1 Business Day of our request in order to complete the processing. Any delay beyond the 1 Business Day may result in the rejection of the on-line Form 104SF and require subsequent manual processing.

As with the paper Form 104SF, we will also select for postsubmission audit, a sample of on-line Form 104SF requests for reimbursement that you transmit via the on-line procedure. You must submit any documentation that supports the requested reimbursement within 10 Business Days of our request. If, as a result of the postsubmission audit:

- We request a reimbursement of an expense, or correction of an error we identified, you must remit the funds to us within 15 calendar days of our request for reimbursement.
- We discover that we owe funds to you, we will remit the funds to you within 15 calendar days of the date we notify you of the short payment.

Finally, we reserve the right to net from a future expense reimbursement request, whether transmitted on-line or submitted on paper, any amount you owe us from the expense reimbursement process that you have not remitted to us.

We have updated several sections of Chapter 71 and Exhibits 74 and 75 to reflect our requirements in this regard.

**Payment of fees and penalties using Automated Clearinghouse drafts**

In Bulletin 98-4, dated June 30, 1998, we announced a number of changes regarding the billing and remittance of fees and penalties from our Performing Loans and Document Custodial Services (DCS) operations. The changes included:

- The consolidation of all Performing Loans and DCS fees and penalties (including Balloon Reset fees) into one Performing Loans monthly Servicer Billing Statement, and
- Payment for the consolidated Performing Loans monthly Servicer Billing Statement must be from an account other than one of our Custodial Accounts.

About the same time we announced the changes regarding the billing and remittance for the Performing Loans monthly Servicer Billing Statement, we offered the ACH payment option for your Performing Loans monthly Servicer Billing Statement remittance. Many of you have taken advantage of this payment option that eliminates the need to write checks or send wires, and reduces costs and time involved in remitting your Servicer invoice payments to us.

As a result of the effectiveness of the ACH payment option, effective April 1, 2000, we will require you to remit payment of the Performing Loans monthly Servicer Billing Statement to us via ACH. When you receive your Performing Loans monthly Servicer Billing Statement, you should review it immediately and promptly contact your Performing Loans portfolio representative if you have any questions. We will submit the ACH draft on the last Business Day of each month for the total amount on the billing statement. You must ensure that you fund the draft account each month to cover the remittance due on the Performing Loans monthly Servicer Billing Statement.

While our requirement for payment of the Performing Loans monthly Servicer Billing Statement via ACH is not effective until April 1, 2000, we strongly encourage you to enroll for this payment option immediately. To enroll, if you have not already done so, no later than April 1, 2000, you must:

- Complete and return to us Form 1132S, Authorization for Payment of Servicing Invoices through the Automated Clearinghouse
- Designate a bank account other than our Custodial Accounts from which we will draft your payment

**Servicing Eligibility based on Servicer performance tier ratings**

Our Servicer Performance Profiles are confidential reports that detail how well your performance meets our Servicing requirements. Our goals when we created the Servicer Performance Profiles were to establish clear expectations of what constitutes quality servicing and to help reduce the costs of Servicing Mortgages for us.

The results that we've seen since their introduction in 1996 have been remarkable. For instance, at the end of 1998, Tier 1 and Tier 2 Servicers managed 97% of our unpaid principal balance in the investor reporting and accounting, or Performing Loans, category. Results in default management have been impressive as well, as Tier 1 or Tier 2 Servicers managed 81% of our portfolio of nonperforming Mortgages based on unpaid principal balance at the end of last year.

These results provide tangible evidence of your outstanding commitment to create and maintain a culture of quality. During the past few years we have proudly worked with many of you to help attain these terrific results. We remain committed to your continued success and look forward to working with you as we partner to manage the ever-changing mortgage industry.

After we made the profiles available to you, we began to work with you to use the profiles practically. In Bulletin 96-7, dated December 23, 1996, we tied our workout compensation structure for short payoffs to your default tiering. This resulted in you receiving additional compensation for the costs and efforts associated with your endeavors when you attained superior default management performance levels. More recently, we announced a whole package of incentives for those of you that reach and maintain the highest tiering levels. In this bulletin, we are announcing an addition to our compensation for short payoffs and a new compensation for partial reinstatements of Mortgages in foreclosure.

We are also announcing our plans for the future use of the tier ratings in determining eligibility for Transfers of Servicing, as well as restrictions on Tier 4 Servicers. We developed this policy after conferring with many representatives of the mortgage industry, including Freddie Mac's Servicer Advisory Board and Default Advisory Group, as well as many of you individually.

Effective with the calendar quarter beginning July 1, 2000, we will administer the Servicing eligibility policies detailed below based on your tier ratings. We feel that a year's advance notice allows substantial time for those of you that may be affected by these policies to take steps necessary to plan for our new requirements. Based on the effective date, the earliest that any of you may experience an impact is February 2001 if you consistently maintain a Tier 4 rating, or August 2001 if you similarly maintain a Tier 3 rating and did not improve. Most importantly, we remain committed to working with those of you who may be affected to help you improve your tier ratings.

The following requirements are effective with the Servicer Performance Profiles for the last two quarters of 2000.

### **Tier 3**

If you have maintained a Tier 3 rating in either the investor reporting or default management categories for two consecutive calendar quarters, we will allow an additional two 2 calendar quarters for you to achieve a Tier 2 rating in both categories. This means that if either of your tier ratings is a Tier 3 for the third and fourth calendar quarters of 2000 (profiles available in the first weeks of November 2000 and February 2001, respectively), you would have through the end of the next two calendar quarters to improve your performance (second calendar quarter tier ratings released in August 2001).

If you are unable to improve your performance to the Tier 2 ratings, we may take the following actions:

- If you are a Tier 3 in either investor reporting or default management, we may not approve any Transfer of Servicing request for you to acquire additional Servicing from another Servicer.
- If you are a Tier 3 in default management, we may condition our approval of your request to acquire additional Servicing from another Servicer on your use of an alternative Servicing method for all delinquent Mortgages you will be Servicing for us, including but not limited to, the use of special subservicing arrangements or outsourcing vendors that are acceptable to us.

### **Tier 4**

If you have maintained a Tier 4 rating in investor reporting for two consecutive calendar quarters, we will not approve your acquisition of additional Servicing, either from a Transfer of Servicing or for new Mortgages you may deliver to us.

If you have maintained a Tier 4 rating in default management for 2 consecutive calendar quarters, we will not approve a Transfer of Servicing request for you to acquire additional Servicing from another Servicer. In addition, if you fail to improve your ratings as described below, we will require you, at our option, to:

- Use an alternative servicing arrangement for all delinquent Mortgages you service for us, including but not limited to, the use of special subservicing arrangements or outsourcing vendors that are acceptable to us, or
- Transfer the entire portfolio you service for us to a Tier 1 or 2 Servicer

If either of your ratings have been a Tier 4 for two consecutive calendar quarters, you will have two additional calendar quarters to improve your rating to Tier 3 or better. This means, for example, that if either or both of your tier ratings is a Tier 4 for the third and fourth calendar quarters of 2000 (profiles available in the first weeks of November 2000 and February 2001, respectively), you would have through the end of the next two calendar quarters to improve your performance to at least a Tier 3 in both categories (second calendar quarter tier ratings released in August 2001.)

We may consider approving your request to acquire Servicing once you have improved your Servicer Performance Profile tier ratings to Tier 2 in both categories for two consecutive calendar quarters.

We have made changes to Sections 5.2, 51.11 and 73.1 to reflect these changes.

### **REVISIONS TO THE SINGLE-FAMILY SELLER/SERVICER GUIDE**

We are including the following new or updated pages to the Guide:


- Revisions to Chapters 5, 18, 51, 53, 61, 65, A65, B65, 66, 71, 73, 76, 77 and 78
- Exhibits 74 and 75
- Directory 10
- Forms 1057SF, 1058SF, 1059SF, 1060SF and 1132S
- Changes to the Glossary

We have highlighted the changes on each Guide page by placing arrows in the margin and double underlining the revised text. Please follow the instructions on the page preceding the replacement pages to update your Guide.

### **CONCLUSION**

We believe that the changes contained in this bulletin will result in positive results that will make servicing Mortgages for us more efficient and less costly. If you have any questions about the changes, please call (800) FREDDIE.

Cordially,



Paul T. Peterson  
Senior Vice President  
Servicer Division