

# Bulletin

NUMBER: 99-7

TO: All Freddie Mac Sellers and Servicers

September 30, 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
October 1, 1999	Change of requirements and reimbursement amounts under the nonjudicial foreclosure process in the State of Hawaii
	Authorization for designated counsel/trustee to: <ul style="list-style-type: none"><li>■ Order property valuations for foreclosure bidding instructions</li><li>■ Prepare bids for a foreclosure on our Mortgaged Premises</li></ul>
November 1, 1999	Charging off low balance delinquent Mortgages
October 14, 2000	Mandatory use of an Escrow Custodial Account reconciliation form

In this bulletin we are also including an updated, shorter Form 1126, Borrower Financial Statement, in both English and Spanish, and updates to Chapters 23, 27 and 61 providing additional explanatory provisions relating to mortgage insurance cancellation.

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

### **Change of requirements and reimbursement amounts under the nonjudicial foreclosure process in the State of Hawaii**

In recent months, our Nonperforming Loans department worked with many of you who service Mortgages for us to test the nonjudicial foreclosure process in the State of Hawaii. Historically, foreclosure actions in Hawaii have been conducted under the judicial process. Our analysis has confirmed that the nonjudicial foreclosure process is quicker, easier and less costly than the judicial process. Under the judicial foreclosure process, the average foreclosure takes from 8 to 10 months to conclude and costs have reached as high as \$1,850. The nonjudicial process reduces the foreclosure process to as little as 4 months in time and to \$1,200 in costs.

As a result, effective October 1, 1999, when you refer to one of our Mortgages for foreclosure in the State of Hawaii, you must instruct your attorney or trustee that he or she must use the nonjudicial process. We have reduced each of the foreclosure time lines for Hawaii by 30 days to:

- 137 days from the initiation of foreclosure, or
- 287 days from the Due Date of the Last Paid Installment for first-lien Mortgages, and
- 242 days for Second Mortgages and Home Improvement Loans (HIL).

In addition, we are amending the amounts we will reimburse for foreclosures in Hawaii as follows:

- Attorney fees - \$1,200
- Eviction costs - \$500

We are amending Exhibits 57 and 83 to reflect these changes.

### **Mortgage insurance cancellation**

We have added some explanatory provisions to our mortgage insurance cancellation requirements to simplify that aspect of Servicing Mortgages for us.

### **Authorizations for designated counsel/trustee**

Since December 26, 1996, when we announced the designated counsel/trustee program (hereafter referred to as designated counsel) in Bulletin 96-7, there have been a number of successes from which we have all benefited. The reductions of delays, costs and time lines to reach foreclosure have created savings and efficiencies not readily available prior to implementation of this program.

Not having a property valuation to set the opening bid at the foreclosure sale is one of the most common delays in the foreclosure process that results in a postponement of sale. Therefore, to reduce these types of sale postponements, we are pleased to announce that effective October 1, 1999, our designated counsel will prepare bids for each sale based on our instructions. This applies to the beginning bid and final bid at a foreclosure of Mortgaged Premises securing a Freddie Mac Mortgage. The Mortgaged Premises must be located in a State where we have designated counsel to process foreclosures, and you use designated counsel to process the foreclosure.

As a result of these changes, designated counsel will order the valuation via our current process for the purpose of establishing the opening bid. The vendor will send a copy of the valuation to you or the designated counsel (whichever is indicated in the BPO order). If you have ordered a valuation via our process that will still be valid at the time of the foreclosure sale, then designated counsel will use that valuation to establish the bid. Also, designated counsel will order the valuation when needed to accompany a motion for relief of stay of a bankruptcy petition.

We believe that these changes will decrease the number of delays at foreclosure sales, streamline the foreclosure process for you and us, and help you to improve your Servicing performance.

#### **Charging off low balance delinquent Mortgages**

Effective November 1, 1999, we will charge off a delinquent Mortgage when the debt is deemed to be uncollectible according to our amended requirements. Changes to Chapter B65 of the *Single-Family Seller/Servicer Guide* (Guide) reflect the requirements detailed below.

We will honor your recommendation to charge off a low balance, delinquent Mortgage when:

- The total payoff amount is \$1,000 or less, regardless of loan type or amount of Borrower equity in the Mortgaged Premises, or
- It is a conventional Mortgage with a total payoff amount of \$1,001 up to and including \$5,000, and there is not sufficient Borrower equity in the Mortgaged Premises to cover the total indebtedness that would result from the sale of the real estate owned (REO) as calculated via Workout Prospector using the “as-is” value with a 90-day marketing time frame from a current broker’s price opinion (BPO) which you must order via our network.

Before recommending a chargeoff on a low balance delinquent Mortgage, you must have taken the following actions prior to the Mortgage becoming 90 days or more delinquent:

- Solicited a payoff, or some form of workout with the Borrower
- Ensured that payments have been correctly applied to the Mortgage
- Modeled the Mortgage through Workout Prospector®, if available
- Submitted a Form 105, Multipurpose Loan Servicing Transmittal, to us with a copy of a current payoff statement and the collection records for the previous 12 months.

In certain circumstances we may request that you provide documentation to validate the application of payments.

### **Mandatory use of an Escrow Custodial Account reconciliation form**

In Bulletin 97-8, dated December 15, 1997, we mandated the use of Form 59, Principal and Interest Custodial Account Reconciliation Worksheet - Monthly Account Statement. The results of converting the previous Exhibit 59 and requiring its use have been most positive for you and us.

Effective with the reporting cycle ending October 13, 2000, we are requiring the use of a new form, Form 59E, Escrow Custodial Account Reconciliation Worksheet. As with the required use of Form 59, you may use a facsimile or automated version of Form 59E as long as you are able to reproduce a paper copy in the required format upon our request. Any facsimile or automated Form 59E must contain all of the same required information in the same order as our new Form 59E. At your option, you may begin using this new form immediately.

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

We are including the following new or updated Guide pages:

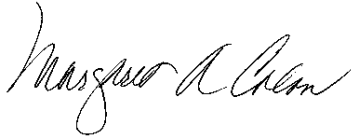
- Revisions to Chapters 5, 23, 27, 61, B65, 66, 79 and 83
- Exhibits 10, 14, 57, 80, 83 and 84
- Forms 59, 59E, 1126 and 1126SP
- Glossary
- Directories 10 and 17

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 are overall positive changes that support our campaign to strengthen ties with you. If you have any questions about the changes, please call (800) FREDDIE.

Cordially,

A handwritten signature in cursive script that reads "Margaret A. Colon".

Margaret A. Colon  
Senior Vice President  
Servicer Division