



September 30, 2020

## Revised Aligned Delinquent Loan Buyout Policy

Freddie Mac, in alignment with Fannie Mae, will be revising our MBS<sup>1</sup> delinquent loan buyout policy.

Beginning on January 1, 2021, Freddie Mac will extend the trigger to purchase delinquent single-family loans out of MBS pools from four months of delinquency (*i.e.*, the borrower is 120 days delinquent or has missed four full monthly payments) to 24 months of delinquency (*i.e.*, the borrower has missed 24 full monthly payments). This change in delinquent loan buy-out policy will affect the February 1, 2021 factor.

The extended buyout policy to 24 months of delinquency will be subject to certain exceptions pursuant to the terms of the MBS trust agreement or applicable law, including:

- Loans that are permanently modified;
- Loans subject to a short sale or deed-in-lieu of foreclosure;
- Loans repurchased by a seller/servicer under applicable selling and servicing requirements;
- Loans that are paid in full, or for which the related lien is released and/or the note debt is satisfied or forgiven; and
- Loans referred to foreclosure. Historically, more than half of loans referred to foreclosure are referred within six months of delinquency.

We anticipate that delinquent loans will be repurchased in most cases before the 24-month deadline under one of the exceptions provided. The degree to which prepayment speeds are affected depends on delinquency levels, borrower response and referral to foreclosure timelines. We currently believe, based on prevailing assumptions and market conditions, that the change will have only a marginal impact on prepayment speeds, in aggregate. Cohort level impacts may vary.

The extended buyout policy does not change Freddie Mac's requirement that servicers only need to advance scheduled interest in the event of borrower delinquency until a loan is inactivated, which occurs at 120 days of delinquency. Freddie Mac continues to work with Fannie Mae and FHFA to align on the timing of interest and guarantee advance reimbursements. The effective date for these changes will be communicated in a future announcement.

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<sup>1</sup> MBS includes Freddie Mac MBS and/or UMBS, and Freddie Mac PCs. As a result, this change in policy will also affect securities backed by MBS and/or UMBS and/or PCs.



Once effective on January 1, 2021, any change to the delinquent loan buyout policy would not be effective for at least two years and market participants would be provided at least six months advance public notice of any such change.

Furthermore, any future policy change will be applicable only to MBS-pooled loans that are current as of the effective date of such future change. Any MBS-pooled loans that are delinquent at the effective date of a future policy change would remain subject to the 24-month loan buy-out policy, unless they subsequently cure.<sup>2</sup>

Loans within MBS pools exceeding four months of delinquency will continue to be disclosed in the 120+ Day Delinquency bucket in our pool-level disclosures, as they are today.

For questions, please contact the Freddie Mac Investor Inquiry line at 800-336-3672 or [investor\\_inquiry@freddiemac.com](mailto:investor_inquiry@freddiemac.com).

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<sup>2</sup> For example, if the 24-month delinquency buy-out trigger was changed effective January 1, 2024 to a 12-month delinquency buy-out trigger, any loan that was 30 days or more delinquent on January 1, 2024 would remain subject to the 24-month delinquency buy-out trigger. If such a loan subsequently cures, going forward, it would be subject to the 12-month delinquency buy-out trigger.