

# Multifamily Seller/Service Guide

## Chapter 45

### Real Estate Owned



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### 45.1 General REO responsibilities (10/07/08)

Freddie Mac alone will handle the marketing, sale and disposition of multifamily Real Estate Owned (REO) properties for which Freddie Mac was the successful bidder at a foreclosure sale. Freddie Mac may, from time to time, request recommendations from Servicers regarding local brokers and/or prospective purchasers for REO. The Servicer's responsibility for servicing REO may continue at Freddie Mac's request until final disposition of the REO and Freddie Mac's receipt of all proceeds.

### 45.2 Insurance (10/07/08)

Freddie Mac may require the Servicer to maintain any insurance required by the Purchase and Servicing Documents until Freddie Mac acquires title to the REO. Freddie Mac maintains liability insurance and will place hazard coverage for properties acquired in its name.

### 45.3 Reimbursement of expenses incurred by the Servicer (06/30/15)

Freddie Mac will reimburse the Servicer for reasonable expenses incurred in accordance with the guidelines provided in Section 45.3(b) and/or specifically approved by Freddie Mac, when applicable, during the foreclosure process and during the period pending disposition. The Servicer must administer all funds in a Borrower's Reserve to pay expenses, but only in accordance with the terms set forth in the Loan Documents and State and local requirements. Reimbursement of expenses by Freddie Mac will always be proportionate to Freddie Mac's interest in the Mortgage.

Reimbursement of incurred expenses will be made by Freddie Mac upon receipt of a completed [Form 104, Loan and Real Estate Owned \(REO\) Expenses and Income](#).

#### a. Form 104, Loan and Real Estate Owned (REO) Expenses and Income submission (06/30/15)

The Servicer must submit completed [Forms 104](#) via the Document Management System (DMS) using the Borrower Transactions instructions.

- The Servicer files the initial [Form 104](#) to request reimbursement of expenses incurred up to and during the foreclosure process (up to and including the date of acquisition). Freddie Mac must receive the initial [Form 104](#) within 45 days after the foreclosure sale.
- The Servicer files the final [Form 104](#) to request reimbursement of expenses incurred by the Servicer after the foreclosure sale. Freddie Mac must receive the final [Form 104](#) within 30 days following the sale of the REO.
- The Servicer may also submit a supplemental [Form 104](#) after an initial or final [Form 104](#) is filed to request reimbursement of any omission from either an initial or final [Form 104](#). These submissions must be received by Freddie Mac no later than 60 days following the sale of the REO.

Freddie Mac reserves the right to deny reimbursement if a [Form 104](#) is not received in accordance with the requirements set forth in this section.



### b. Reimbursable expenses (10/07/08)

Freddie Mac will reimburse Servicers for reasonable expenses incurred in accordance with the following guidelines.

Type of expenditure	Reimbursement guidelines
Trustee/legal/receiver fees	Reimbursement will be based on limitations established by Freddie Mac, unless the Servicer obtains prior written approval for an increased amount from Freddie Mac.
Advertising fees	Reimbursement will be made for reasonable and customary costs consistent with local foreclosure practices.
Sheriff fees	Reimbursement will be made for reasonable and customary costs consistent with local foreclosure practices.
Court costs	Reimbursement will be made for reasonable and customary costs consistent with local foreclosure practices.
Insurance premiums	Reimbursement will be made through the cancellation date of the policy.
Taxes	Reimbursement will be made for taxes assessed and paid; penalties and late charges will not be reimbursed by Freddie Mac.
Maintenance	Reimbursement will be made without prior approval up to a cumulative balance of \$1,500 per Property. If total expenditures in this category are expected to exceed \$1,500 for the Property, prior written approval from Freddie Mac is required.
Utilities	Reimbursement will be made for reasonable and customary charges based on the occupancy status and seasonal needs.
Repairs/replacement	Reimbursement will be made only for those expenditures receiving prior written approval from Freddie Mac unless the costs were incurred in an emergency situation to preserve and protect the Property and the Servicer notified Freddie Mac within 72 hours after occurrence.
Title costs	Reimbursement will be made only for title abstracts and title commitments. Reimbursement for title policies requires Freddie Mac's prior written approval.
Appraisals/broker price opinions/inspections	Reimbursement will be made only with Freddie Mac's prior written approval.
Management/leasing fees	Reimbursement will be made in accordance with contractual terms.

The Servicer must contact the assigned *Multifamily Asset Resolution Analyst* before the Seller/Servicer incurs an expense that requires Freddie Mac's prior approval. The Seller/Servicer's



failure to obtain prior approval may, in Freddie Mac's sole discretion, result in Freddie Mac's denial of the reimbursement request.

**c. Income credits (06/30/15)**

The Servicer must consult the assigned *Multifamily Asset Resolution Analyst* for direction regarding the use and application of any funds remaining in the Borrower's tax, insurance, Replacement Reserves, and other Reserves, or the proceeds of any hazard insurance claims received or rental income received by the Servicer during the foreclosure or period pending disposition.

If Freddie Mac has provided any special advance, that advance must be credited against the reimbursable expenses to which it relates and must be reflected on the final [Form 104](#) submitted with respect to the Property.

**d. Documentation requirements (06/30/15)**

Each [Form 104](#) must be accompanied by the appropriate supporting documentation:

1. Copies of the original bills and invoices with copies of the related checks evidencing payment. The Seller/Servicer must maintain the original canceled checks on the Seller/Servicer's premises for one year.
2. A copy of the approval letter received from the *Multifamily Asset Resolution Analyst*
3. When loan history copies are submitted to support expenses, the appropriate codes to interpret the loan history
4. For rehabilitation/construction work
  - Copies of the construction contract
  - Photographs of completed work for which the cost was in excess of \$25,000
  - Copies of waivers of mechanics' liens from all persons supplying labor or materials

All supporting documentation must be clearly labeled, legible and attached to [Form 104](#) in the same order as the items are listed in the expense and income sections of the form. Failure to comply with the documentation requirements will delay the reimbursement request and require resubmission of a complete and legible package by the Servicer.

**e. Form 104, Loan and Real Estate Owned (REO) Expenses and Income, audits (06/30/15)**

Freddie Mac will perform an audit of the [Form 104](#) for compliance with the reimbursement, submission and documentation guidelines. Any questionable items will be returned to the Servicer with an explanation for the denial. Servicers may appeal the denial by resubmitting the expense to Freddie Mac on an original [Form 104](#) with the appropriate documentation and explanation to justify noncompliance with the guidelines set forth in this section.