Freddie Mac Expands Repurchase Alternative Pilot for Performing Loans

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Company also offers fee-only remedy under traditional program, commits to greater transparency and reporting on repurchases

MCLEAN, Va., Oct. 28, 2024 (GLOBE NEWSWIRE) -- Freddie Mac (OTCQB: FMCC) today announced it will expand its performing loan repurchase alternative pilot to lenders nationwide beginning in the first quarter of 2025. The company also announced a new fee-only option for performing loans. Under that option, lenders can obtain immediate representations and warranties (R&W) relief in lieu of repurchasing a defective loan under the company's traditional performing loan remedies framework. Finally, Freddie Mac committed to greater transparency and reporting on repurchases.

"In today's challenging housing market, Freddie Mac is committed to enhancing our processes and reducing costs," said Sonu Mittal, SVP and head of Single-Family Acquisitions at Freddie Mac. "Today's announcements are part of making good on our commitment to be part of the solution and build upon the progress we already made with lenders and industry partners over the past year. We know lenders will continue doing their part to keep improving loan quality."

Broad Expansion of Performing Loan Repurchase Alternative Pilot
The optional repurchase alternative pilot uses a fee-based structure that is more efficient, transparent and rewards lenders that deliver high-quality loans. The company began piloting this new fee-based structure with lender input earlier this year.

Currently, loan repurchase is the primary remedy for all loans with significant defects identified during quality control reviews, regardless of performance status. Under the pilot expansion, lenders will no longer be subject to repurchases on most performing loans and will rather be subject to a fee-based structure that incents quality loan origination. Additionally, the fee structure helps offset Freddie Mac's credit risk for loans with significant defects that default after the 36-month R&W period.

This new structure provides an alternative to the decades-old single loan repurchase remedy approach. Specifically:

- Lenders with a Non-Acceptable Quality (NAQ) rate above 2% will be charged a fee in a step-up approach based on the unpaid principal balance of loans delivered for the quarter.
- The fee will be assessed on lenders who deliver enough loan volume to generate statistically significant sampling.
- Lenders will not be required to repurchase most performing loans with significant defects and Freddie Mac will waive fees for small lenders that do not have a statistically significant NAQ rate.
- Because the new pilot is optional, on an annual basis, lenders can determine which path they want for performing loan repurchases for the upcoming year.
- The process for lenders to appeal and/or correct loans with defects as defined in the Seller/Servicer Guide will remain unchanged.
- This pilot remains within the R&W framework and loans that default within the R&W relief period are still subject to repurchase.
- Freddie Mac has enhanced its Seller risk monitoring program to apply remedies, such as restriction on business, that will trigger if a lender consistently has high NAQ rates.

New Fee-Only Option with Immediate R&W Relief
For lenders who choose to stay on the traditional performing loan repurchase path, the company will now offer a new fee-only remedy for eligible loans. This starts with loans purchased in Q1 2025.

Enhanced Transparency and Reporting on Repurchases
Finally, Freddie Mac is committed to publishing a quarterly report of repurchase data beginning next year. Through this offering, lenders will ultimately be better able to assess their own proprietary data against broader industry manufacturing quality.

Freddie Mac has seen a definitive declining trend in performing loan repurchase requests over the past two years. In fact, NAQ rates on incoming loans to the company are approximately 28% lower than their peak in the third quarter of 2022. With it, repurchase requests are trending down to approximately 55% lower than their peak in the first quarter of 2023. Within that 55%, repurchase requests to vitally important small and community lenders are even lower, down 80%.

Mittal added, "We will continue to improve our quality control review process to ensure outcomes are consistent, reasons for defects are well-defined and feedback to lenders is clear. Today we also are committing to enhancing the repurchase data we report in the coming year, so lenders are better able to assess their own proprietary data against broader industry manufacturing quality."

Freddie Mac's mission is to make home possible for families across the nation. We promote liquidity, stability, affordability and equity in the housing market throughout all economic cycles. Since 1970, we have helped tens of millions of families buy, rent or keep their home. Learn More: Website | Consumers | X LinkedIn | Facebook | Instagram | YouTube

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