



FEDERAL HOUSING FINANCE AGENCY
Office of the Director

August 28, 2014

Mr. Gene Harrington
Vice President, Government Affairs
National Pest Management Association
10460 North Street
Fairfax, VA 22030

Dear Mr. Harrington:

Thank you for your letter dated April 15th about Freddie Mac's policy on termite damage repairs to Real Estate Owned (REO) properties. I appreciate your interest and welcome your inquiry.

Freddie Mac policies require a termite inspection to be completed prior to the start of any repair work, and all termite inspections must be performed by a termite vendor. If the termite vendor performing the inspection identifies and documents that the property has an active termite infestation and fumigation is needed, the termite vendor can complete the required fumigation. The inspection may also result in the termite vendor identifying and reporting certain damages to the dwelling that relate to an active pest infestation. In this case, the termite vendor may be used to complete the "Section One" items listed on the termite report. Generally speaking, "Section One" of the termite report identifies items in the property where visible evidence of active infestation (such as termites, wood-boring beetles, carpenter ants, etc.) or infection (as evidenced by wood rot or fungi) were found. To recap, a termite vendor may be used to complete the termite inspections and fumigations and may submit bids for "Section One" repair items listed on the termite report.

Whether an REO property is to be repaired prior to sale essentially depends on the marketing strategy that Freddie Mac intends to employ on that particular property. Freddie Mac may determine that the REO property should be sold "as is," (i.e., in its current condition without repairs) or alternatively, Freddie Mac may conclude that certain repairs should be made to the property to enhance its marketability. Most often these repairs include flooring, paint and other capital repairs. If there are additional repairs (such as those included in "Section Two" of the termite report, excessive moisture conditions, plumbing, roof and shower leaks), additional steps may also be undertaken. When this is the case, it is Freddie Mac's policy to employ a Freddie Mac HomeSteps approved general contractor or preservation and maintenance vendor. This arrangement facilitates the completion of the full scope of work on the REO property by a Freddie Mac vendor and avoids a potential conflict of interest that may arise when a vendor both identifies a problem requiring repair and is relied on to fix the problem.

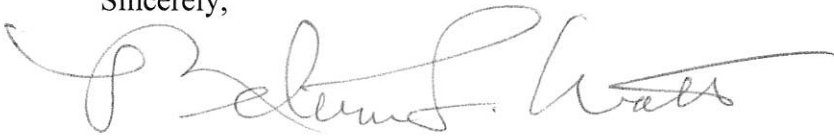
Freddie Mac's general contractor network allows them to leverage volume pricing for repairs in certain areas of the country. Therefore, when making those repairs as described above, *including repairs commonly identified in Section Two of the termite report*, Freddie Mac requires that a licensed general contractor within its network perform the work.

In summary, the policy set forth by Freddie Mac is designed to achieve the following:

- Properly inspect homes for termite damage prior to initiating any repair work on a home and disclose the result of those inspections to future buyers;
- Ensure that termite inspections and Section One repairs are completed by a licensed and qualified pest management company with appropriate authorization;
- Establish appropriate segregation of duties related to repair work beyond section one repairs; and
- Effectively manage costs.

Again, thank you for your inquiry. If you have additional questions regarding this or other matters, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Melvin L. Watt". The signature is written in dark ink and is positioned below the word "Sincerely,".

Melvin L. Watt