

Bulletin

NUMBER: 2003-7



TO: All Freddie Mac Sellers and Servicers

December 5, 2003

SUBJECTS

Requirements amended in this Bulletin:

■ Selling and Servicing

Freddie Mac is:

- Increasing the maximum original loan amounts for Home Mortgages eligible for sale to Freddie Mac
- Revising the documentation delivery requirements for Mortgages secured by property located in New York State originated using a New York Consolidation, Extension and Modification Agreement (NY CEMA) and incorporating those revised requirements into the *Single-Family Seller/Servicer Guide* (Guide)
- Adding a description of rent loss insurance to the Guide and removing rent loss insurance requirements for owner-occupied 2–4 unit properties if the rental income is not used to qualify the Borrower and, for Borrowers owning more than one financed Investment Property, for properties other than the subject property
- Stating, for the purpose of determining the requirements for submission/resubmission of a Mortgage to Loan Prospector[®], that the monthly debt payment includes the monthly housing expense
- Making enhancements related to the delivery and certification of the four data elements for adjustable-rate Mortgages (ARMs) announced in Bulletin 2003-4 (June 6, 2003) and Bulletin 2003-5 (August 7, 2003). We are also reminding Seller/Servicers that delivery and certification of these data elements is required beginning January 1, 2004.
- Reminding Seller/Servicers that the changes announced in Bulletin 2003-4 (June 6, 2003) and Bulletin 2003-5 (August 7, 2003) to accommodate the Home Mortgage Disclosure Act (HMDA) and the USA Patriot Act become effective January 1, 2004. We are also making additional changes to the instructions for the Date of Birth and Age fields on Form 11, Mortgage Submission Schedule, and Form 13SF, Mortgage Submission Voucher.
- Revising the Texas Home Equity Uniform Instruments in response to changes in Article XVI of the Texas Constitution

- Introducing designated counsel/trustee in the State of Indiana
- Updating the Servicing requirements for maturing Balloon/Reset Mortgages

EFFECTIVE DATES:

All of these changes are effective immediately except:

■ **January 1, 2004**

- After this date, Seller/Servicers may deliver Mortgages up to the new loan limits to us.
- Freddie Mac's revised documentation delivery requirements for Mortgages secured by property located in New York documented with NY CEMAs are effective on and after this date.
- Delivery and certification of the four data elements for ARMs announced in Bulletins 2003-4 and 2003-5 are required on and after this date.
- Requirements related to the HMDA and USA Patriot Act announced in Bulletins 2003-4 and 2003-5 are effective both for Mortgages *delivered* on and after this date and for *Mortgage applications taken* on and after this date, as applicable. The newly revised Forms 11 and 13SF, as well as the revised Form 65, Uniform Residential Loan Application, and the revised Form 65A, Statement of Assets and Liabilities, must be used on and after this date and *may not be used prior to this date*.
- Use of designated counsel/trustee in the State of Indiana is mandatory for certain Mortgages for all Servicers for referrals to foreclosure and bankruptcies on and after this date.

■ **January 15, 2004**

- Use of the revised Texas Home Equity Uniform Instruments is required on and after this date.

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

Selling Changes

New Loan Limits

The new loan limits are tied to an increase in the average purchase price of one-family, conventionally financed homes as reported by the Federal Housing Finance Board (FHFB). The index rose 3.4 percent this year, so we increased our loan limits by that percentage. The higher loan limits will make lower-cost Mortgages available to more homebuyers, particularly those purchasing homes in high-cost areas.

Seller/Servicers may begin originating Mortgages with these new loan limits immediately and enter into commitments to sell these Mortgages to Freddie Mac. However, these Mortgages may not be delivered to Freddie Mac until after January 1, 2004. Mortgages with the new loan limits may be submitted to Loan Prospector beginning December 1, 2003.

We have revised Chapter 23 to reflect the new loan limits.

New York Consolidation, Extension and Modification Agreements

In our Industry Letter dated April 5, 2002, Freddie Mac stated the documentation delivery requirements for Mortgages secured by property located in New York originated using a New York Consolidation, Extension and Modification Agreement (NY CEMA). The complete NY CEMA delivery package included all Original Old Money Notes (and NY CEMAs from prior consolidations), the Original New Money (Gap) Note (if new funds were advanced to the Borrower at the time of the consolidation), a separate, originally executed Consolidated Note, and the NY CEMA (original or certified copy of original submitted for recordation) with a complete set of NY CEMA Exhibits A through D.

Freddie Mac is incorporating its NY CEMA documentation delivery requirements into the Guide and is also revising those requirements for Mortgages delivered to Freddie Mac on or after January 1, 2004, that are documented with NY CEMAs originated on the FNMA/Freddie Mac Single Family Consolidation, Extension and Modification Agreement Form 3172, 1/01 or 1/01 (rev. 5/01). For those Mortgages only, the complete NY CEMA delivery package will consist of all of the following documents:

- Separate, originally executed Consolidated Note,
- The NY CEMA (original or certified copy of original submitted for recordation), and
- A complete set of NY CEMA Exhibits A through D

Although Freddie Mac will no longer require that Seller deliver the Original Old Money Notes and NY CEMAs from prior consolidations and, if applicable, the Original New Money (Gap) Note to Freddie Mac's Document Custodial Services Department or its Freddie Mac-approved document custodian, the Seller must obtain and retain all of these original Notes and any prior NY CEMAs in the Mortgage file.

For Mortgages originated prior to January 1, 2001, on the FNMA/Freddie Mac Single Family New York Consolidation, Extension and Modification Agreement Form 3172 (7/86), the documentation delivery requirements have not been changed. Sellers must continue to deliver all of the Original Old Money Notes and NY CEMAs from prior consolidations as well as the Original New Money (Gap) Note and the Original Consolidated Note from prior consolidations, if applicable.

We have revised Chapters 6, 16, 46, 47 and 52 to reflect these changes.

Rent loss insurance

Freddie Mac is updating the Guide to add a description of rent loss insurance. We are also revising our rent loss insurance requirements as follows:

- We are removing the rent loss insurance requirement for 2-4 unit owner-occupied properties if rental income is not used to qualify the Borrower; and
- We are removing the requirement that Borrowers who own more than one financed Investment Property have rent loss insurance coverage on all Investment Properties they own; instead, we will require that those Borrowers have rent loss insurance coverage only on the subject property if rental income is used in qualifying.

We have updated Chapters 6, 22 and 58 and Exhibits 4 and 5 to reflect these changes.

Changes to requirements for submission/resubmission of a Mortgage to Loan Prospector

To enable Sellers to more easily determine the requirements for submission/resubmission of a Mortgage to Loan Prospector, Freddie Mac is adding a statement that the monthly debt payment includes the monthly housing expense (as described in Section 37.15). This change could decrease the number of times a Seller is required to submit a Mortgage to Loan Prospector.

We have revised Chapter 2 to reflect this change.

Enhancements related to the four data elements for adjustable-rate Mortgages (ARMs) required beginning January 1, 2004

In Bulletin 2003-4 (June 6, 2003) and Bulletin 2003-5 (August 7, 2003), Freddie Mac revised the Guide to require delivery and certification of four new data elements (Index Source Code, Index Lookback Days, First Rate Adjustment Min Rate and First Rate Adjustment Max Rate) for adjustable-rate Mortgages (ARMs) effective for Mortgages delivered on and after January 1, 2004.

To assist Seller/Service providers with the delivery and certification of these data elements, we are:

- Enhancing Exhibit 17, Offer Product and Program Numbers, by:
 - Adding the applicable Offer Program Number for Guide-eligible fixed-rate Guarantor Offer Products and Guide-eligible WAC ARM Guarantor Offer Products
 - Adding the Index Source Code, Index description, Index Lookback Days, Convertible (Yes or No) Initial Cap, Periodic Cap, Life Cap, Initial Period and Subsequent Adjustment Period for Guide-eligible ARM Cash and the Guide-eligible WAC ARM Guarantor Offer Product Offer Program
- Adding special delivery instructions to the Form 13SF, Mortgage Submission Voucher, for Index Lookback Days for Sellers delivering Mortgages with ARM Index Source Code 007 (Offer Product 292 Offer Program 002)
- Moving the Index and Lookback fields from the delivery level to loan level on the Form 1034A, ARM Custodial Certification Schedule, and prepopulating those fields with the information you deliver on the Form 13SF

Custodians have been required to certify the Index and Lookback for each ARM in a delivery and the Form 1034A change will make it easier for them to complete that required certification.

As a reminder, delivery and certification of these four data elements is required on and after January 1, 2004. Refer to Bulletins 2003-4 and 2003-5 for complete details relating to these requirements.

Reminder of January 1, 2004, effective date of the revised Form 65, Uniform Residential Loan Application, Form 65A, Statement of Assets and Liabilities, and delivery requirements that accommodate changes to the Home Mortgage and Disclosure Act (HMDA) and USA Patriot Act

As announced in Bulletin 2003-4 (June 6, 2003), Freddie Mac and Fannie Mae completed their joint effort to revise the Uniform Residential Loan Application and Statement of Assets and Liabilities (Forms 65/1003 and 65A/1003A) to accommodate the Home Mortgage Disclosure Act (HMDA) and USA Patriot Act.

In Bulletin 2003-5 (August 7, 2003), we announced revisions to our delivery requirements for Forms 11 and 13SF related to HMDA and the USA Patriot Act.

We are reminding Seller/Servicers that:

- Use of the revised Forms 65 and 65A is required for applications taken on or after January 1, 2004. The revised forms cannot be used prior to this date.
- The revised HMDA-related delivery requirements for Forms 11 and 13SF apply to Mortgages delivered on or after January 1, 2004.

Additional revisions—Forms 11 and 13SF instructions for date of birth and age fields

We are making additional revisions to the instructions for delivering the Date of Birth and Age fields on Forms 11 and 13SF. These revisions are also effective for Mortgages delivered on and after January 1, 2004.

In addition to Bulletins 2003-4 and 2003-5, Seller/Servicers can visit our website at <http://www.freddiemac.com/sell/secmktg/hmdapatriot.html> for additional information about these changes.

Texas Home Equity Uniform Instruments

Pursuant to changes in Article XVI of the Texas Constitution, Freddie Mac and Fannie Mae have jointly revised the Texas Home Equity Uniform Instruments. The following revised forms are available on the Freddie Mac Uniform Instrument website at <http://www.freddiemac.com/uniform/>:

- Texas Home Equity Security Instrument (First Lien), Form 3044.1, dated 1/01 (rev. 10/03)
- Texas Home Equity Affidavit and Agreement (First Lien), Form 3185, dated 1/01 (rev. 10/03)
- Texas Home Equity Note (Fixed Rate-First Lien), Form 3244.1, dated 1/01 (rev. 10/03)

After careful review, Freddie Mac and Fannie Mae have determined that no changes were necessary for the Texas Home Equity PUD and Condominium Riders; therefore, those two instruments (Form 3140.44 and 3150.44) will continue to remain the same with a version date of 1/01.

Use of the revised Texas Home Equity Uniform Instruments is required beginning January 15, 2004; however, originators are encouraged to start using the new forms effective immediately, if possible.

We have revised Exhibit 4 to reflect these changes.

Freddie Mac purchases Texas Equity First Lien Refinance Mortgages originated under Section 50(a)(6) of Article XVI of the Texas Constitution under negotiated contracts only. We are in the process of revising the contract language for Texas Equity First Lien Refinance Mortgages with respect to the use of the revised Texas Home Equity Uniform Instruments and related matters. Seller/Servicers should anticipate receiving revised contract language shortly.

Servicing Changes

Designated counsel for State of Indiana

Indiana

Our designated counsel/trustee program continues to be successful for Servicers and Freddie Mac. Due to this success and based on statistical data, we are adding designated counsel/trustees in the State of Indiana. All Servicers must use the Indiana designated counsel/trustees for new foreclosure and bankruptcy referrals initiated on or after January 1, 2004, on all 2–4 unit properties and Manufactured Homes foreclosures and bankruptcies. Though the requirement goes into effect on January 1, 2004, Servicers may refer new foreclosures and bankruptcies to our Indiana designated counsel immediately.

We have revised Chapters 66 and 67 and Exhibit 57 to reflect this change. Refer to the Designated Counsel/Trustee webpage on our website at http://www.freddiemac.com/service/msp/desig_counsel.html for contact information for these new designated counsel/trustees.

North Carolina

We have added a new designated counsel in the State of North Carolina. We have also revised the Designated Counsel/Trustee webpage on our website to reflect the new firm's information.

Revisions related to Balloon/Reset Mortgages

Freddie Mac is updating some of its Servicing requirements for Balloon/Reset Mortgages, as well as the contact, cost and State-specific information associated with Reset Mortgage title insurance in various exhibits and forms.

We have updated Chapter 83, Exhibit 85 and Forms 1034B and 1074 to reflect these changes.

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

Descriptions of revised Guide text are located in Exhibit A of this Bulletin. The revisions include:

- Chapters 1, 2, 6, 11, 16, 19, 22, 23, D33, H33, 46, 47, 52, 55, 58, 66, 67 and 83
- Exhibits 4, 5, 17, 57 and 85
- Forms 11, 13SF, 1034A, 1034B, 1065, 1071, 1074 and 1100
- Directory

At the end of this Bulletin, you'll find replacement pages for the Guide.

CONCLUSION

We believe that these changes support Freddie Mac's commitment to making the mortgage finance process simpler and more efficient. If you have any questions about the changes announced in this Bulletin, please call your Freddie Mac Account Manager or (800) FREDDIE.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael C. May". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael C. May
Senior Vice President
Mortgage Sourcing, Operations & Funding

Exhibit A

Highlights of Revisions in this Package

Bulletin 2003-7 incorporates changes to the following chapters of the *Single-Family Seller/Servicer Guide* (Guide):

- **Chapter 1**—Introduction—Revises language related to fax transmissions.
- **Chapter 2**—General Freddie Mac Policies—Revises language regarding submission/resubmission of a Mortgage to Loan Prospector®.
- **Chapter 6**—General Warranties and Responsibilities of the Seller/Servicer—Adds documentation delivery requirements for Mortgages secured by New York property originated using a NY CEMA.
- **Chapter 11**—Home Mortgage Guarantor and MultiLender Swap Programs—Revises contact information for Freddie Mac's commitment offer line for the Guarantor and MultiLender Swap programs.
- **Chapter 16**—Documentation Delivery—Adds cross-reference to Chapter 6 for additional documentation delivery requirements for Mortgages originated using a NY CEMA.
- **Chapter 19**—Warehouse Lending Arrangements—Among other things, adds language recognizing use of Form 996E by Sellers approved to sell using the Freddie Mac Selling System.
- **Chapter 22**—General Mortgage Eligibility—Adds language regarding rent loss insurance requirements for Mortgages secured by 2–4 unit owner-occupied properties and Investment Property Mortgages if rental income is used to qualify the Borrower.
- **Chapter 23**—Maximum Loan Amounts and LTV, TLTV and HTLTV Ratios—Revises loan limit amounts.
- **Chapter 46**—Freddie Mac's Postfunding Quality Control Review—Adds Mortgage file requirements for Mortgages originated using a NY CEMA.
- **Chapter 47**—Mortgage File Contents—Adds Mortgage file requirements for Mortgages originated using a NY CEMA.
- **Chapter 52**—Mortgage File Retention—Adds requirements for Mortgages originated using a NY CEMA. Revises Mortgage file retention requirements for Mortgages secured by property located in Illinois, New Jersey and New Mexico.
- **Chapter 55**—Servicing Reports—Updates language concerning the means by which a Servicer may obtain a copy of the IRS publication containing IRS requirements for filing Forms 1098 and 1099.
- **Chapter 58**—Property Insurance—Adds language regarding rent loss insurance.
- **Chapter 66**—Foreclosure—Adds language regarding designated counsel in the State of Indiana.
- **Chapter 67**—Adverse Matters—Adds language regarding designated counsel in the State of Indiana.
- **Chapter 83**—Additional Servicing Requirements for Maturing Balloon/Reset Mortgages—Updates Servicing requirements for maturing Balloon/Reset Mortgages and revises language concerning the ownership reset condition, among other things.

Exhibits

We've revised the following Exhibits:

- **Exhibit 4**—Currently Acceptable Single-Family Mortgage Documents
- **Exhibit 5**—Authorized Changes to Notes, Riders and Security Instruments
- **Exhibit 17**—Offer Product and Program Numbers
- **Exhibit 57**—1-4 Unit Property Approved Expense Amounts
- **Exhibit 85**—Special Reset Mortgage Title Insurance Information

Forms

We've revised the following Forms:

- **Form 11**—Mortgage Submission Schedule
- **Form 13SF**—Mortgage Submission Voucher
- **Form 1034A**—ARM Custodial Certification Schedule
- **Form 1034B**—Custodial Certification Schedule-Balloon Loan Modification
- **Form 1065**—Report of IRS Form 1099-A Filing
- **Form 1071**—Supplemental Accounting Report of SSCRA Mortgages
- **Form 1074**—Freddie Mac Reset Mortgage Confirmation
- **Form 1100**—Supplemental Report of Curtailments for Super ARC

Directory

We've revised the following Directory:

- **Directory 9**